# Faraday

# Sales and margin outlook largely unchanged; valuation remains stretched

**Reiterate Rating: UNDERPERFORM | PO: 120.00 TWD | Price: 185.50 TWD**

28 July 2026

Equity

## 2Q26 sales beat on strong mass production revenue

Faraday's 2Q26 sales was +28% QoQ, far above BofAe/street estimates of +6%/+10% QoQ and its guidance of +high-single digit % QoQ, mainly driven by significant growth in MP revenue (+48% QoQ) from both ASIC/MCU product ramps and solid IP revenue contribution offsetting slowdown in NRE revenue recognition. 2Q26 GM dropped by 210 bps to 45.2% due to product mix. Stronger sales and improving operating leverage bring 2Q26 EPS to NT$0.76. (BofAe/street of NT$0.49/0.44)

## Better sales mix support resilient margin in 2H26

Following customer pull-ins ahead of anticipated supply chain price increase in 2Q26, 3Q26 sales is guided to decline by single digit % QoQ, as sustained strength in IP revenue more than offset by NRE/MP revenue softness. With revenue mix shift toward higher margin IP segment, GM in 2H26 should remain resilient at 44-45% levels.

## MCU support '26 growth; advanced projects ramp in '27

We now forecast Faraday's 2026/2027 sales to -32%/+48% YoY. Health demand across robotic, drone, and energy applications for high-end MCU, coupled with higher manufacturing costs pass through, will serve as the key growth catalyst for Faraday's MP segment, while part of advanced packaging/advanced nodes related revenue should see push-out from 2026 into 2027 due to verification and supply uncertainties. With advanced packaging/nodes projects ramping through 2027, GM should decline slightly from 45.4% in 2026 to 41.5% in 2027.

## Reiterate Underperform with unchanged NT$120 PO

We lift our 2026 EPS slightly from NT$3.31 to NT$4.05 on better GM assumption, and only fine tune 2027/28 EPS from NT$7.25/8.53 to NT$7.07/8.77. We reiterate Underperform rating with unchanged PO of NT$120 on 17x 2027E P/E, as current valuation appears stretched with shares trading at 26x/21x '27/'28E P/E (vs. historical range of 13-42x). We believe a discount to historical average P/E should be more reasonable given declining margin trend and potential further delay in advanced packaging/nodes revenue contribution.

| Estimates (Dec) (NT$) | 2024A | 2025A | 2026E | 2027E | 2028E |
|---|---|---|---|---|---|
| Net Income (Adjusted - mn) | 1,041 | 731 | 1,056 | 1,842 | 2,286 |
| EPS | 4.18 | 2.81 | 4.05 | 7.07 | 8.77 |
| EPS Change (YoY) | -34.6% | -32.9% | 44.4% | 74.4% | 24.1% |
| Dividend / Share | 3.00 | 1.80 | 2.84 | 4.95 | 6.14 |
| Free Cash Flow / Share | 11.06 | 2.95 | 8.45 | 8.74 | 12.02 |
| **Valuation (Dec)** | | | | | |
| P/E | 44.34x | 66.09x | 45.78x | 26.24x | 21.14x |
| Dividend Yield | 1.62% | 0.970% | 1.53% | 2.67% | 3.31% |
| EV / EBITDA* | 21.60x | 27.42x | 18.86x | 13.09x | 11.02x |
| Free Cash Flow Yield* | 5.69% | 1.59% | 4.56% | 4.71% | 6.48% |

* For full definitions of *iQmethod* SM measures, see page 6.

### Key Changes

| (NT$) | Previous | Current |
|---|---|---|
| 2026E EPS | 3.31 | 4.05 |
| 2027E EPS | 7.25 | 7.07 |
| 2028E EPS | 8.53 | 8.77 |
| 2026E EBITDA (m) | 1,814.1 | 2,153.4 |
| 2027E EBITDA (m) | 3,156.2 | 3,101.9 |
| 2028E EBITDA (m) | 3,596.6 | 3,683.9 |

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### Stock Data

| | |
|---|---|
| Price | 185.50 TWD |
| Price Objective | 120.00 TWD |
| Date Established | 13-Mar-2026 |
| Investment Opinion | C-3-7 |
| 52-Week Range | 139.00 TWD-245.00 TWD |
| Mrkt Val / Shares Out (mn) | 1,497 USD / 260.6 |
| Market Value (mn) | 48,332 TWD |
| Average Daily Value (mn) | 50.95 USD |
| Free Float | 81.7% |
| BofA Ticker / Exchange | FDYTF / TAI |
| Bloomberg / Reuters | 3035 TT / 3035.TW |
| ROE (2026E) | 6.6% |
| Net Dbt to Eqty (Dec-2025A) | -49.5% |

IP: Intellectual property

MP: Mass Production

NRE: Non-Recurring Engineering

MCU: Microcontroller Unit

# *iQprofile*SM Faraday

| Key Income Statement Data (Dec) | 2024A | 2025A | 2026E | 2027E | 2028E |
|---|---|---|---|---|---|
| **(NT$ Millions)** | | | | | |
| Sales | 11,065 | 17,993 | 12,275 | 18,155 | 21,959 |
| Gross Profit | 5,051 | 4,857 | 5,567 | 7,532 | 9,159 |
| Sell General & Admin Expense | (1,024) | (1,094) | (1,349) | (1,361) | (1,620) |
| Operating Profit | 1,071 | 552 | 1,176 | 2,125 | 2,707 |
| Net Interest & Other Income | 272 | 449 | 475 | 507 | 513 |
| Associates | NA | NA | NA | NA | NA |
| Pretax Income | 1,343 | 1,002 | 1,651 | 2,632 | 3,220 |
| Tax (expense) / Benefit | (271) | (229) | (405) | (645) | (789) |
| Net Income (Adjusted) | 1,041 | 731 | 1,056 | 1,842 | 2,286 |
| Average Fully Diluted Shares Outstanding | 258 | 261 | 261 | 261 | 261 |
| **Key Cash Flow Statement Data** | | | | | |
| Net Income | 1,041 | 731 | 1,056 | 1,842 | 2,286 |
| Depreciation & Amortization | 810 | 929 | 977 | 977 | 977 |
| Change in Working Capital | 1,295 | (580) | (209) | (506) | (56) |
| Deferred Taxation Charge | NA | NA | NA | NA | NA |
| Other Adjustments, Net | (246) | (151) | 543 | 145 | 145 |
| Cash Flow from Operations | 2,901 | 930 | 2,367 | 2,458 | 3,352 |
| Capital Expenditure | (148) | (162) | (165) | (182) | (220) |
| (Acquisition) / Disposal of Investments | (911) | (755) | (276) | 0 | 0 |
| Other Cash Inflow / (Outflow) | (1,503) | (183) | 360 | (800) | (800) |
| Cash Flow from Investing | (2,562) | (1,100) | (81) | (982) | (1,020) |
| Shares Issue / (Repurchase) | 3,720 | 0 | 0 | 0 | 0 |
| Cost of Dividends Paid | (1,118) | (782) | (469) | (739) | (1,289) |
| Cash Flow from Financing | 2,178 | (832) | 251 | (739) | (1,289) |
| Free Cash Flow | 2,752 | 768 | 2,202 | 2,276 | 3,133 |
| Net Debt | (7,886) | (6,697) | (9,388) | (10,125) | (11,168) |
| Change in Net Debt | (2,418) | 1,171 | (2,677) | (737) | (1,043) |
| **Key Balance Sheet Data** | | | | | |
| Property, Plant & Equipment | 582 | 617 | 651 | 651 | 651 |
| Other Non-Current Assets | 6,724 | 7,115 | 11,294 | 12,727 | 14,468 |
| Trade Receivables | 1,054 | 1,726 | 1,596 | 2,829 | 2,614 |
| Cash & Equivalents | 8,334 | 7,286 | 9,894 | 10,631 | 11,675 |
| Other Current Assets | 1,636 | 2,188 | 3,206 | 4,723 | 4,886 |
| Total Assets | 18,330 | 18,932 | 26,641 | 31,560 | 34,294 |
| Long-Term Debt | 0 | 0 | 0 | 0 | 0 |
| Other Non-Current Liabilities | 984 | 719 | 751 | 751 | 751 |
| Short-Term Debt | 448 | 589 | 506 | 506 | 506 |
| Other Current Liabilities | 3,425 | 4,096 | 5,412 | 8,231 | 8,869 |
| Total Liabilities | 4,857 | 5,403 | 6,670 | 9,488 | 10,127 |
| Total Equity | 13,473 | 13,529 | 19,971 | 22,072 | 24,168 |
| Total Equity & Liabilities | 18,330 | 18,932 | 26,641 | 31,560 | 34,294 |
| ***iQ*method SM - Bus Performance*** | | | | | |
| Return On Capital Employed | 7.4% | 3.3% | 5.3% | 7.5% | 8.7% |
| Return On Equity | 9.2% | 5.6% | 6.6% | 9.2% | 10.4% |
| Operating Margin | 9.7% | 3.1% | 9.6% | 11.7% | 12.3% |
| EBITDA Margin | 17.0% | 8.2% | 17.5% | 17.1% | 16.8% |
| ***iQ*method SM - Quality of Earnings*** | | | | | |
| Cash Realization Ratio | 2.8x | 1.3x | 2.2x | 1.3x | 1.5x |
| Asset Replacement Ratio | 1.0x | 0.8x | 0.8x | 0.9x | 1.0x |
| Tax Rate (Reported) | 20.2% | 22.8% | 24.5% | 24.5% | 24.5% |
| Net Debt-to-Equity Ratio | -58.5% | -49.5% | -47.0% | -45.9% | -46.2% |
| Interest Cover | NM | NM | NM | NM | NM |

**Key Metrics**

* For full definitions of *iQmethod*SM measures, see page 6.

## Company Sector

Semiconductors

## Company Description

Faraday Technology Corp. was established in 1993 and listed in 1999. The company is an affiliate of the second biggest semiconductor logic foundry (UMC) in Taiwan, and has been the main provider to UMC's IP library. Faraday is also known for its total solution in ASIC (customized chips) which includes chip-design and turnkey mass production, on top of its IP offering. The company has a diversified end-market exposure, including internet of things, factory automation, solar, microcontrollers etc.

## Investment Rationale

We have an Underperform rating on Faraday, as we are wary of the slower for longer business outlook in mature node projects, while its collaboration with non-TSMC foundries bears the uncertainty.

## Stock Data

| | |
|---|---|
| Price to Book Value | 2.5x |

# Focus table

**Exhibit 1: Faraday 2Q26-3Q26 and 2026-27 estimates BofAe vs. street**
Our EPS estimates for '26/27 is now NT$4.05/7.07

| | 2Q26E | | | 3Q26E | | | 2026E | | | 2027E | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Actual** | **Old** | **Street** | **BofAe** | **Old** | **Street** | **BofAe** | **Old** | **Street** | **BofAe** | **Old** | **Street** |
| **Sales (NT$mn)** | $3,314 | $2,748 | $2,836 | $3,079 | $2,951 | $3,594 | $12,275 | $12,162 | $13,624 | $18,155 | $18,180 | $16,863 |
| **Sales QoQ / YoY (%)** | 28.0% | 6.2% | 9.6% | -7.1% | 7.4% | 26.7% | -31.8% | -32.4% | -24.3% | 47.9% | 49.5% | 23.8% |
| **Gross profit (NT$mn)** | $1,499 | $1,239 | $1,276 | $1,387 | $1,242 | $1,559 | $5,567 | $5,272 | $5,984 | $7,532 | $7,550 | $7,156 |
| **GMs (%)** | 45.2% | 45.1% | 45.0% | 45.1% | 42.1% | 43.4% | 45.4% | 43.3% | 43.9% | 41.5% | 41.5% | 42.4% |
| **Operating profit (NT$mn)** | $271 | $98 | $129 | $340 | $239 | $306 | $1,176 | $849 | $1,099 | $2,125 | $2,191 | $2,038 |
| **OpMs (%)** | 8.2% | 3.6% | 4.6% | 11.1% | 8.1% | 8.5% | 9.6% | 7.0% | 8.1% | 11.7% | 12.1% | 12.1% |
| **Pretax profit (NT$mn)** | $382 | $210 | $192 | $485 | $383 | $369 | $1,651 | $1,326 | $1,539 | $2,632 | $2,700 | $2,348 |
| **Pretax margins (%)** | 11.5% | 7.6% | 6.8% | 15.7% | 13.0% | 10.3% | 13.5% | 10.9% | 11.3% | 14.5% | 14.9% | 13.9% |
| **Tax expense (NT$mn)** | -$184 | -$82 | -$47 | -$153 | -$126 | -$88 | -$595 | -$464 | -$518 | -$790 | -$811 | -$619 |
| **Tax rate (%)** | 48.2% | 38.9% | 24.7% | 31.5% | 33.0% | 23.8% | 36.1% | 35.0% | 33.7% | 30.0% | 30.0% | 26.4% |
| **Net profit (NT$mn)** | $198 | $128 | $145 | $332 | $257 | $282 | $1,056 | $862 | $1,021 | $1,842 | $1,889 | $1,729 |
| **Net margins (%)** | 6.0% | 4.7% | 5.1% | 10.8% | 8.7% | 7.8% | 8.6% | 7.1% | 7.5% | 10.1% | 10.4% | 10.3% |
| **EPS (NT$)** | $0.76 | $0.49 | $0.44 | $1.27 | $0.99 | $1.16 | $4.05 | $3.31 | $4.09 | $7.07 | $7.25 | $6.48 |

**Source:** BofA Global Research estimates, Bloomberg

BofA GLOBAL RESEARCH

# Price objective basis & risk

**Faraday (FDYTF)**

Our PO NT$120 is derived from 17x 2027E P/E, which is at low-to-mid-end of the company's historical valuation range. In our view, the multiple is backed by gross margin expansion from 27% in 2025 to over 40% in 2026/27 while revenue would slow down from a peak in 2025.

Upside risks: (1) faster-than-expected progress in new businesses including advanced nodes and advanced packaging, and (2) a better margin profile thanks to more stringent opex and enhanced value-add to customers

Downside risks: (1) downturn in foundry business cycle, given that the firm adopts a cost-plus model for turnkey (mass production) business, and (2) slower qualification and ramp-up of the yield rate for advanced packaging business

# Analyst Certification

I, Haas Liu, 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.

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**APR - Semiconductor Coverage Cluster**

| Investment rating | Company | BofA Ticker | Bloomberg symbol | Analyst |
|---|---|---|---|---|
| **BUY** | | | | |
| | Alchip | ALCPF | 3661 TT | Haas Liu |
| | All Ring | XNQNF | 6187 TT | Haas Liu |
| | AMEC | XRTOF | 688012 CH | Dai Shen |
| | ASE Technology Holding | XSRIF | 3711 TT | Haas Liu |
| | ASE Technology Holding -ADR | ASX | ASX US | Haas Liu |
| | ASMPT | ASMVF | 522 HK | Simon Woo, CFA |
| | Aspeed | XLKMF | 5274 TT | Mike Yang |

**APR - Semiconductor Coverage Cluster**

| Investment rating | Company | BofA Ticker | Bloomberg symbol | Analyst |
|---|---|---|---|---|
| | Chroma ATE | CRMJF | 2360 TT | Haas Liu |
| | eMemory | XYLWF | 3529 TT | Mike Yang |
| | GigaDevice | XGXIF | 603986 CH | Daley Li, CFA |
| | Global Unichip Corp. | GBUHF | 3443 TT | Haas Liu |
| | Grand Process Technology Corp | XZOWF | 3131 TT | Haas Liu |
| | Hanmi Semiconductor | HNSIF | 042700 KS | Simon Woo, CFA |
| | Hon Precision | XXPIF | 7769 TT | Haas Liu |
| | Horizon Robotics | HRZRF | 9660 HK | Daley Li, CFA |
| | Iluvatar CoreX | XSIBF | 9903 HK | Daley Li, CFA |
| | Ingenic | XISCF | 300223 CH | Dai Shen |
| | InnoScience Technology | XSCHF | 2577 HK | Daley Li, CFA |
| | JCET Group Co Ltd | XJIEF | 600584 CH | Dai Shen |
| | King Yuan Electronics Corp. | KYUFF | 2449 TT | Haas Liu |
| | Kinik | KIKCF | 1560 TT | Haas Liu |
| | MediaTek | MDTKF | 2454 TT | Haas Liu |
| | Montage Technology | XRDFF | 688008 CH | Daley Li, CFA |
| | MPI Corporation | XMJCF | 6223 TT | Mike Yang |
| | Nanya Technology | NNYAF | 2408 TT | Simon Woo, CFA |
| | NCE Power | XVFFF | 605111 CH | Daley Li, CFA |
| | OmniVision | XXHQF | 603501 CH | Dai Shen |
| | Phison Electronics | PISNF | 8299 TT | Simon Woo, CFA |
| | Powerchip Semiconductor Manufacturing Co | XCHPF | 6770 TT | Haas Liu |
| | Powertech Technology | PWOGF | 6239 TT | Simon Woo, CFA |
| | Rockchip | XRPXF | 603893 CH | Daley Li, CFA |
| | Samsung C&T | XCDTF | 028260 KS | Simon Woo, CFA |
| | Samsung Elec -G | SSNHZ | SMSN LI | Simon Woo, CFA |
| | Samsung Electronics | SSNLF | 005930 KS | Simon Woo, CFA |
| | Samsung Electronics Preferred | SSNNF | 005935 KS | Simon Woo, CFA |
| | Silergy Corp. | SLEGF | 6415 TT | Mike Yang |
| | Silicon Motion | SIMO | SIMO US | Simon Woo, CFA |
| | SK Square | SKSQF | 402340 KS | Simon Woo, CFA |
| | Taiwan Semiconductor Manufacturing Co. | TSM | TSM US | Haas Liu |
| | Taiwan Semiconductor Manufacturing Co. | TSMWF | 2330 TT | Haas Liu |
| | Vanguard International Semiconductor Co | VGILF | 5347 TT | Haas Liu |
| | Winbond Electronics | WBEKF | 2344 TT | Dai Shen |
| | WinWay Technology | XWCLF | 6515 TT | Mike Yang |
| | WT Microelectronics | XZOPF | 3036 TT | Mike Yang |
| **NEUTRAL** | | | | |
| | ASMedia Technology Inc. | XZSFF | 5269 TT | Mike Yang |
| | Black Sesame Intl Holding | BSIHF | 2533 HK | Daley Li, CFA |
| | Hangzhou Silan Microelectronics | XDFRF | 600460 CH | Daley Li, CFA |
| | Lion Electronics | XDHFF | 605358 CH | Dai Shen |
| | MetaX | XMEZF | 688802 CH | Daley Li, CFA |
| | Novatek | NVKMF | 3034 TT | Mike Yang |
| | Realtek | RLTKF | 2379 TT | Mike Yang |
| | Shenzhen Goodix | XQPLF | 603160 CH | Daley Li, CFA |
| **UNDERPERFORM** | | | | |
| | Crystal Clear | XPPTF | 300655 CH | Dai Shen |
| | Faraday | FDYTF | 3035 TT | Haas Liu |
| | GlobalWafers | XWLFF | 6488 TT | Mike Yang |
| | Hua Hong Semi | HHUSF | 1347 HK | Dai Shen |
| | LX Semicon | XLXSF | 108320 KS | Simon Woo, CFA |
| | M31 Technology | XMTZF | 6643 TT | Mike Yang |
| | Macronix International | MXICF | 2337 TT | Dai Shen |
| | Maxscend | XMXSF | 300782 CH | Daley Li, CFA |
| | Parade | PRDWF | 4966 TT | Mike Yang |
| | Soulbrain | XSBOF | 357780 KS | Simon Woo, CFA |
| | United Microelectronics Corp. | XUMIF | 2303 TT | Haas Liu |
| | United Microelectronics Corp. | UMC | UMC US | Haas Liu |
| | VeriSilicon | XMLZF | 688521 CH | Daley Li, CFA |
| | Win Semiconductors | WSMIF | 3105 TT | Haas Liu |
| | Wonik IPS | XRHQF | 240810 KS | Simon Woo, CFA |
| **RSTR** | | | | |
| | SK Hynix | HXSCF | 000660 KS | Simon Woo, CFA |

**APR - Semiconductor Coverage Cluster**

| Investment rating | Company | BofA Ticker | Bloomberg symbol | Analyst |
|---|---|---|---|---|

## *iQ*method[SM] 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 |

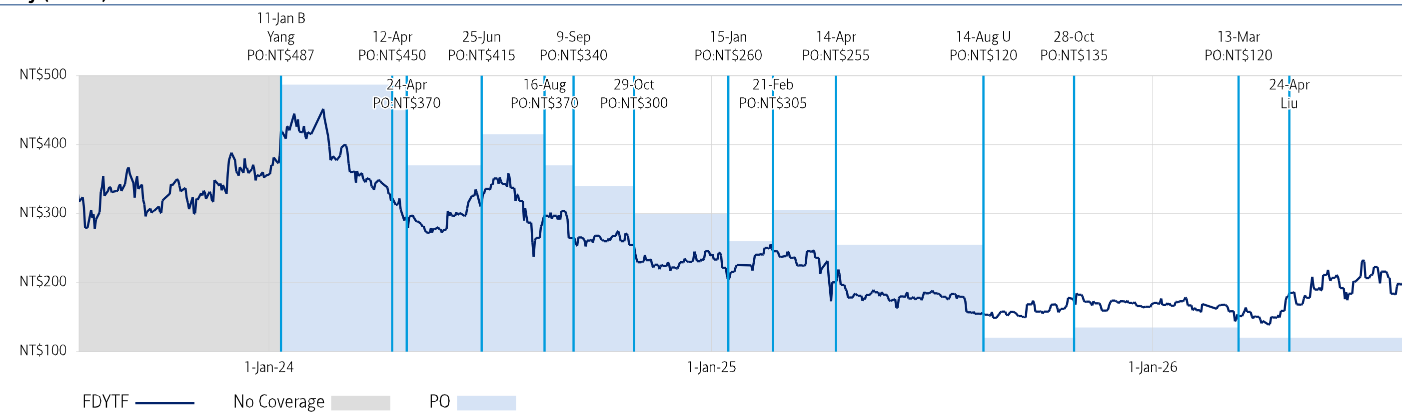
*iQmethod*[SM] is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines 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.

# Disclosures

## Important Disclosures

**Faraday (FDYTF) 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: 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% |

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