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US Public Policy

## CARES Act: A Primer

MORGAN STANLEY RESEARCH  
North America

Public Policy

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Summary | **Four Major Areas Targeted in the CARES Act**

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- 1. Aid to Households**
- 2. Aid to Small Business**
- 3. Aid to Business & Markets**
- 4. Aid to Governments**

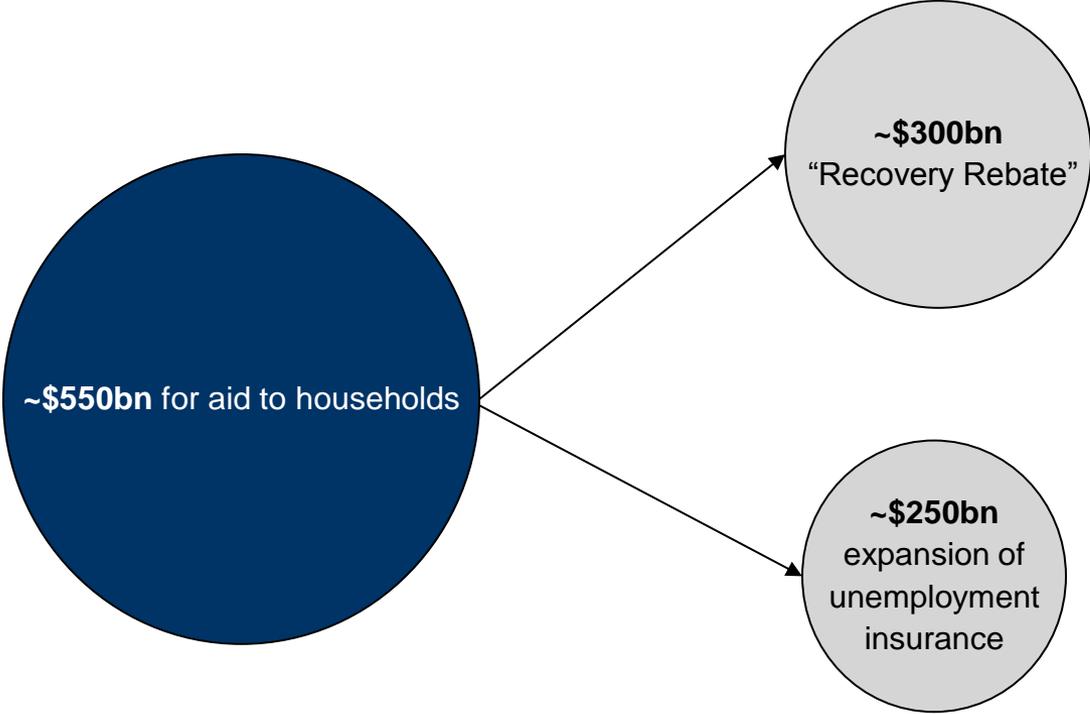
Summary | **Four Major Areas Targeted in the CARES Act**

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## **1. Aid to Households**

Aid to Households | **Summary**

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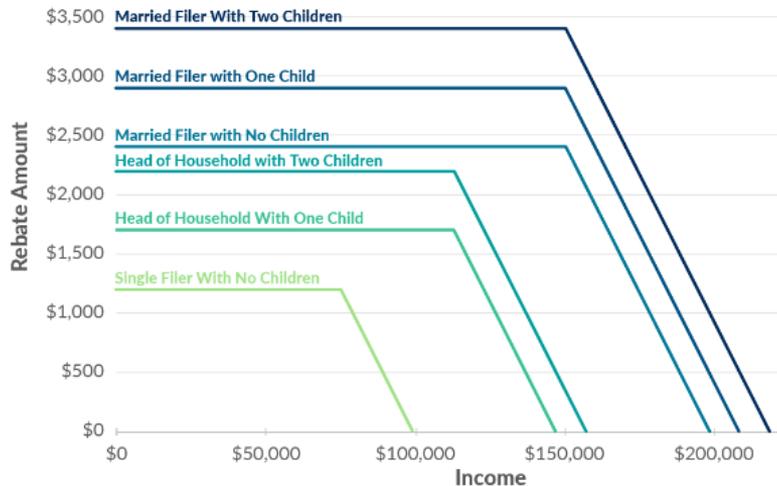


Aid to Households | **Rebate Checks**

**Section 6428: 2020 Recovery Rebates for Individuals**

- Individuals making less than \$75,000 would receive \$1,200 and a couple making less than \$150,000 would receive \$2,400.
- Additional \$500 payments per child.
- Payments are gradually reduced as income levels increase, up to individuals making \$99,000 or couples with no children earning \$198,000.

**Rebate Amount Phase Out**



Source: TaxFoundation.org

FAQs:

**How many rounds of rebate checks should the public expect?**

Although earlier versions of the bill had discussed two rounds of checks, the CARES Act provides for just one.

**Which year of income is the check based on?**

2019, assuming the individual has prepared a tax return. If that is not the case, 2018 income is used.

**When should the public expect these checks to arrive?**

As of last week, Secretary Mnuchin stated that most people should expect to receive their checks within three weeks.

**Do individuals have to apply to receive payments?**

No.

**Will someone receiving unemployment insurance also receive a rebate check?**

Yes.

Aid to Households | **Unemployment Insurance****Section 2102: Pandemic Unemployment Assistance**

- Extends coverage of unemployment assistance to include independent contractors, part-time workers, and gig economy employees.
- The act also allocates \$600 per week per unemployment insurance applicant over the next four months in addition to state benefits.

**Median Weekly Earnings, 4Q19**

Source: Bureau of Labor Statistics, Morgan Stanley Research

## FAQs:

**What is the average timeframe for unemployment benefits?**

States currently provide an average of 26 weeks of benefits. The CARES Act provides all eligible workers with an additional 13 weeks, and the total amount cannot exceed 39 weeks.

**Can unemployment benefits be claimed retroactively?**

Depending on the state, some individuals who are newly eligible may be able to claim state-level benefits back to January 27. People who are already receiving unemployment will not get any retroactive benefits.

**When do states have to start giving out these enhanced unemployment benefits?**

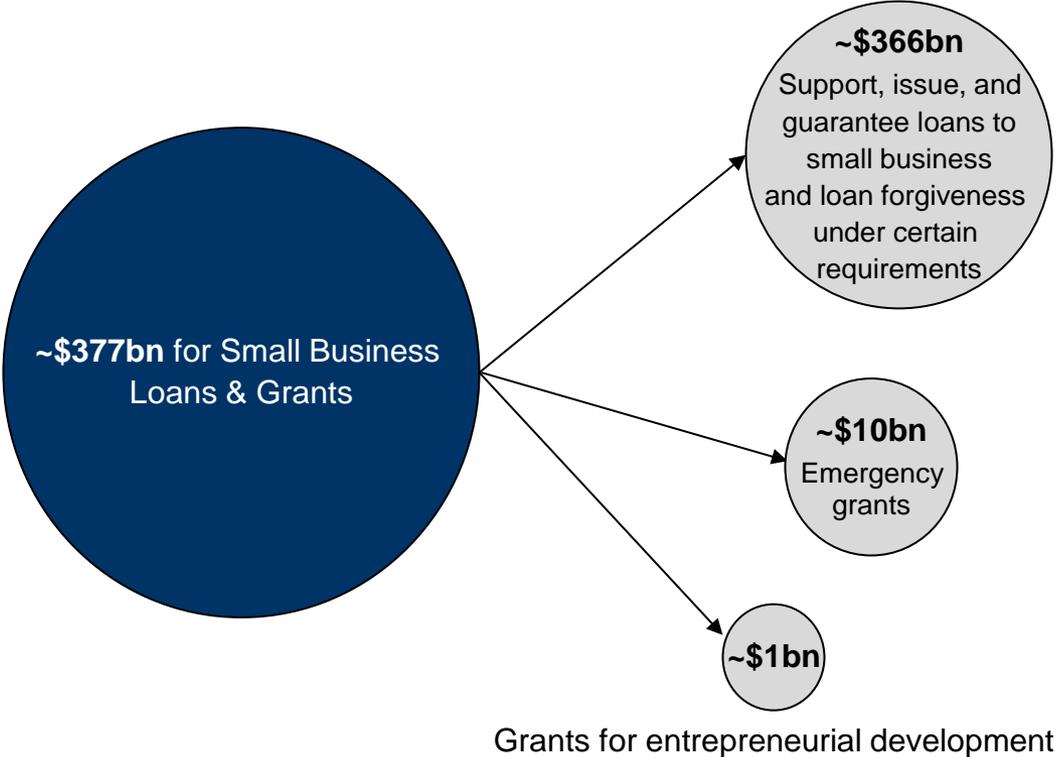
The federal government is fully refunding the first week of unemployment insurance for states that suspend “waiting weeks,” which typically prevent unemployed workers from getting benefits as soon as they are laid off.

Summary | **Four Major Areas Targeted in the CARES Act**

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## **2. Aid to Small Business**

Aid to Small Business | **Summary**



## Aid to Small Business | **Forgivable Loans Through SBA**

### **Section 1102: Paycheck Protection Program**

- The loans are to be distributed using the existing framework of the SBA's 7(a) program, which permits private financial lenders to issue SBA-guaranteed loans. The act allows the Treasury Department to give additional lenders outside of the SBA's approved lender network the authority to issue the loans.
- The entirety of the loan can be forgiven if businesses retain their employees. The forgiveness will be reduced proportionally by the number of employees laid off during the eight-week period beginning on the date of the origination of the covered loan relative to the borrower's prior employment levels for one of two time periods: (1) Feb. 15, 2019 through June 30, 2019, or (2) Jan. 1, 2020 through Feb. 29, 2020.\*

#### **Additional conditions or terms on these loans:**

- The maximum amount of a 7(a) loan is \$10m vs. \$5m prior.
- The amount of the loan cannot exceed the sum of 2.5x the average monthly payroll cost during the year prior to the loan.
- The maximum interest rate is 4%.

#### **FAQs:**

##### **When will these loans become available?**

Treasury Secretary Steve Mnuchin said that he expects the small business loan program to be up and running the week of March 30, with loans beginning to be available Friday (4/3).

##### **Where can small businesses apply?**

Through any lending institution that is approved to participate through the existing SBA 7(a) lending program, as well as any additional lenders approved by the Department of the Treasury.

##### **REITS: can they access SBA loans through their sub-entities?**

We await further guidance on this point, but our initial reading suggests that "business concerns" in the hotel industry are eligible if each location has 500 or fewer employees. Businesses in the Accommodation and Food Services industries with 500 employees or less in each physical location must be classified in a NAICS code starting with 72 at the time of disbursement to be eligible.

## Aid to Small Business | **Emergency EIDL Loan Program**

### **Section 1110: Emergency EIDL Grants**

- The stimulus package also relaxes limitations on qualifying for EIDLs – low-interest working capital loans – which now may be available to small businesses and private non-profit organizations that are suffering substantial economic damage as a result of COVID-19.
- Applicants may waive certain requirements, including: (1) applicants must have been in business for one year, (2) the credit-elsewhere test, and (3) personal guarantees on advances and loans under \$200,000.
- The CARES Act also establishes an Emergency Grant to allow an eligible entity who has applied for an EIDL loan to request an advance on that loan. This advance must be under \$10,000 and the SBA must distribute it within three days of the request.

#### FAQs:

#### **How does the SBA determine EIDL loan eligibility without these requirements?**

The SBA approves and offers EIDL loans during the covered period (Jan 31, 2020 - Dec 31, 2020) based solely on an applicant's credit score.

#### **Is there a maximum amount for EIDLs?**

EIDLs can be up to \$2 million.

#### **Does the advance need to be repaid if the business is subsequently denied for an EIDL loan?**

No.

#### **Are there any provisions for businesses that currently have SBA loans?**

The CARES Act includes a subsidy program that subsidizes the principal, interest, and any associated fees that are owed on existing covered loans for a six-month period. This program is allocated approximately \$17bn.

Summary | **Four Major Areas Targeted in the CARES Act**

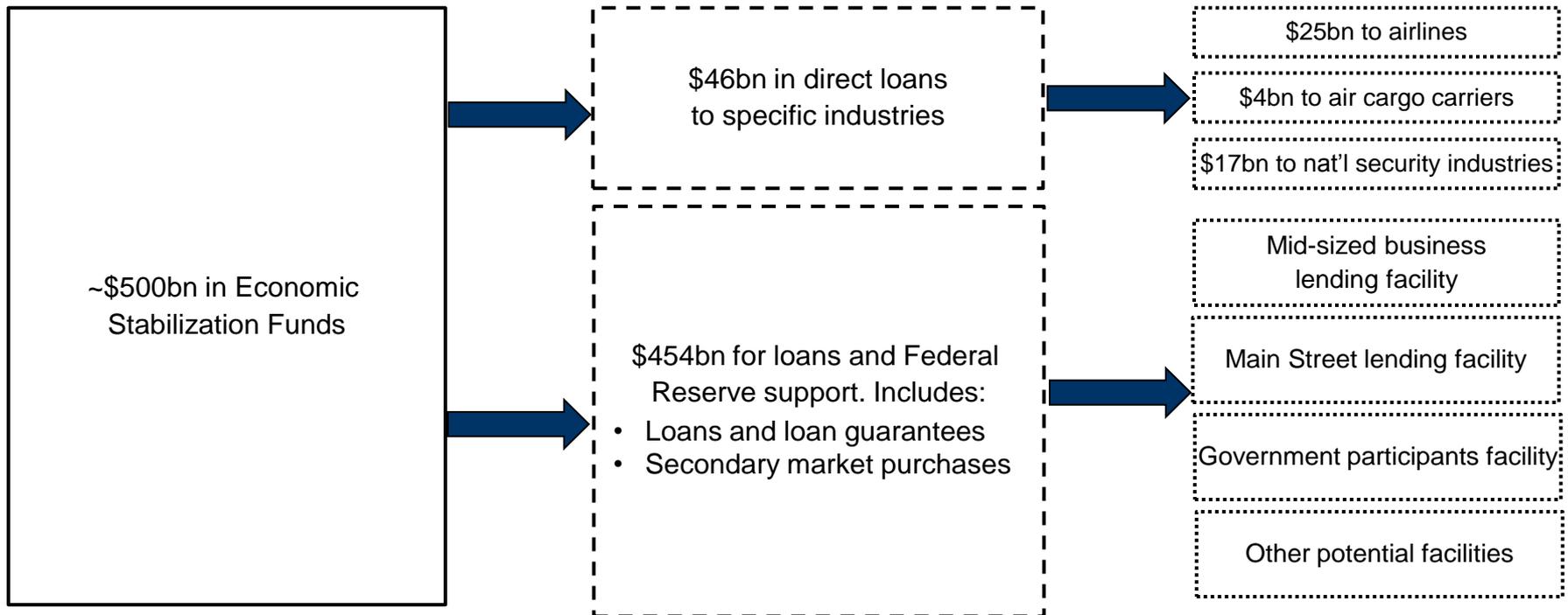
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### **3. Aid to Business & Markets**

Aid to Business & Markets | **Summary**

Certain provisions of the package also ease credit markets, thus mitigating the risk of a liquidity crisis in markets turning into a credit crisis for the economy.

The CARES Act outlines ~\$500bn for aid to eligible businesses, states, and municipalities, with limitations on executive compensation and buybacks. About \$450bn of the money allocated to this loan program can also be used to support credit market liquidity: it can be used to invest in Federal Reserve facilities, which can level the initial investment multiple times, to buy primary and/or secondary market loans and securities of corporations and municipalities.

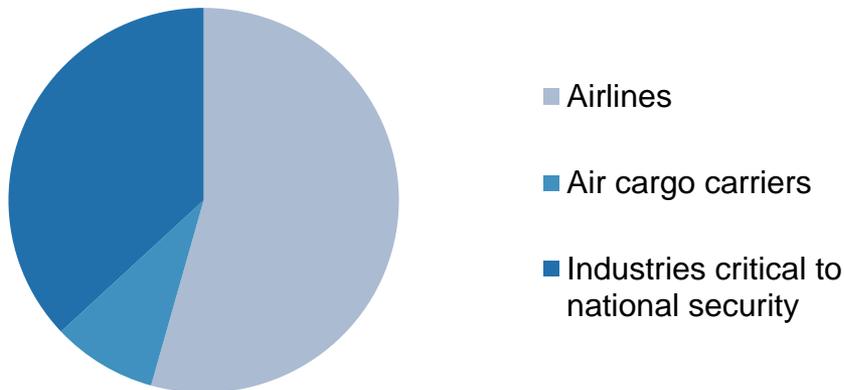


## Aid to Business & Markets | Direct Loans & Loan Guarantees to Specific Industries

### Section 4003: Emergency Relief and Taxpayer Protections

- The Secretary of the Treasury is authorized to make loans, loan guarantees, and other investments in support of eligible businesses, states, and municipalities.

### Industry as a % of Total Direct Loans



### FAQs:

#### What are the requirements on the loans?

- Borrowers are prohibited from engaging in stock buybacks or paying dividends until one year after the loan is no longer outstanding.
- Businesses must maintain at least 90% of the work force as of March 24, 2020, to the extent practicable, until September 30, 2020.
- Businesses may not increase the compensation of any employee receiving more than \$425,000 and executives whose compensation exceeded \$3m in 2019 cannot receive compensation greater than \$3m plus 50 percent of the amount over \$3m that the individual received in 2019.
- The CARES Act also establishes an Oversight Commission of five members and a Special Inspector General within the Department of the Treasury tasked with overseeing and auditing the loans, as well as preparing reports on a quarterly basis.

## Aid to Business & Markets | **Mid-Sized Business Facility**

### **Section 4003: Emergency Relief and Taxpayer Protections**

- The CARES Act gives the Secretary of the Treasury the responsibility to seek the implementation of a program or facility that provides financing to banks and other lenders that make direct loans to eligible businesses.
- For the first six months of the loan, no principal or interest is required.
- Eligible businesses in this category have between 500 and 10,000 employees.
- What We're Watching: We expect specific guidance to be issued by the Fed within a week.

### FAQs:

#### **What are the conditions on these direct loans?**

The annualized interest rate on these loans is capped at 2%, and the conditions are very similar to the ones laid out for the direct loans to specific sectors. These include retention of 90% of the workforce, limitations on dividends, the recipient will not outsource or offshore jobs for the team of the loan plus two years following repayment, and the recipient may not abrogate existing collective bargaining agreements for the term of the loan plus two years following repayment.

#### **What requirements do businesses need to meet to be eligible?**

Applicants must certify that:

- The ongoing pandemic makes the loan necessary
- Loan proceeds will be used to retain at least 90% of the workforce as of February 1, 2020
- The applicant is domiciled and created or organized in the United States
- The applicant is not a debtor or in a bankruptcy proceeding

## Aid to Business & Markets | **Main Street Lending Facility**

### **Section 4003: Emergency Relief and Taxpayer Protections**

- The Main Street lending facility is intended to support lending to small and mid-sized businesses by serving as a conduit to funnel capital to firms so that they can maintain short-term financing (payroll expenses, for example) and stay in business. The facility – separately announced by the Fed prior to the release of the CARES Act – is intended to be a complementary effort to get capital to small and mid-sized businesses in addition to other measures described in the aid package.
- Details on this facility are still unclear, as the Fed has only at this point mentioned that it intends to announce a Main Street lending facility soon.
- What We're Watching: We expect specific guidance to be issued by the Fed within a week.

### FAQs:

#### **What are the details around this provision and how is it distinct from the Mid Sized Business Facility?**

The Fed on March 23 announced that it expects to introduce “soon” the establishment of a Main Street Business Lending Program to support lending to eligible small and medium-sized businesses, complementing efforts by the SBA.

The CARES Act itself does not establish this facility, rather states that other provisions in the act must not limit the discretion of the Fed to establish it.

#### **What conditions come with the loans under this facility?**

According to the Act, the requirements are “such terms and conditions as the Board may set consistent with section 13(3) of the Federal Reserve Act” (p. 524).

Aid to Business & Markets | **Government Participants Facility****Section 4003: Emergency Relief and Taxpayer Protections**

- The CARES Act states that the Secretary of the Treasury “shall endeavor to seek the implementation of a program or facility...that provides liquidity to the financial system that supports lending to States and municipalities” (p. 524).
- What We're Watching: We expect specific guidance to be issued by the Fed within a week.

## FAQs:

**What types of bonds could the Fed buy under this provision?**

It's still unclear as we lack the specifics surrounding this provision.

**What are the conditions on lending under this facility?**

There were no specific terms defined according to the legislation, but we assume these loans would be subject to similar requirements as the other lending facilities.

## Aid to Business & Markets | **Other Potential Facilities**

### **Section 4003: Emergency Relief and Taxpayer Protections**

- The CARES Act authorizes the Department of the Treasury to support programs through the Federal Reserve for the purpose of providing liquidity to the financial system by (1) purchasing obligations or other interests directly from issuers of such obligations or interests, (2) purchasing obligations in secondary markets, or (3) making loans, including loans or other advances secured by collateral.
- The Fed has created six credit facilities in the last two weeks and has announced its intention to create more in an effort to provide short-term financing to US businesses. We expect more details to emerge on these programs as the Fed announces their establishment.

#### FAQs:

#### **How much could the funds dedicated through these facilities support in Fed lending?**

According to Senate Banking Chairman Michael Crapo, the funds would support approximately \$4 trillion in Fed lending.

#### **Would the loans under these facilities also be subject to the same requirements as those involved in the direct loan program?**

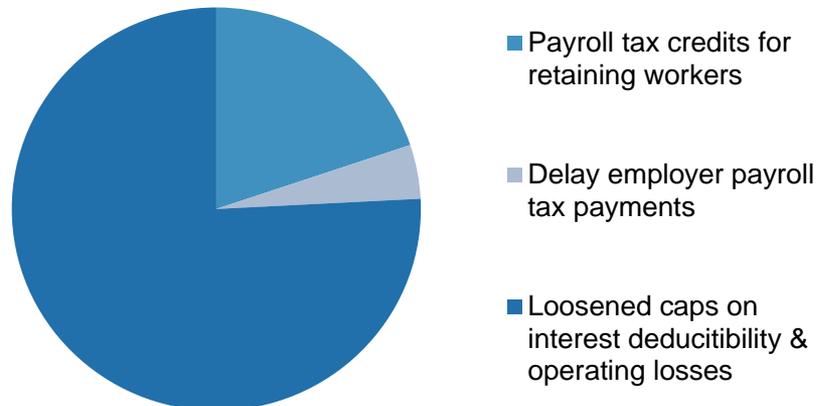
Yes – the Treasury places restrictions on buying back stock or paying out dividends until a year after the loan is repaid, as well as executive compensation limitations.

#### **Could these conditions ever be waived?**

The act states that Treasury Secretary Steve Mnuchin could waive those restrictions “upon a determination that such waiver is necessary to protect the interests of the Federal Government” (p. 519).

Aid to Business & Markets | **Business Tax Provisions****Section 2301-2307: Business Provisions**

- The CARES Act also outlines some business and individual tax provisions to soften the economic blow of the coronavirus. Notably, (1) employers are eligible for a 50% refundable payroll tax credit on wages paid up to \$10,000 during the crisis, (2) employer-side social security payroll tax payments may be delayed until January 1, 2021, (3) relaxed limitations on a company's use of losses, (4) companies can more quickly recover AMT credits as part of the TCJA, and (5) businesses are temporarily allowed to increase the amount of interest expense deducted on their tax returns.

**Cost as a % of Total Business Provisions****FAQs:****How much do these business provisions add to the legislation?**

The Committee for a Responsible Federal Budget estimates the cost of these provisions at ~\$280bn.

**Which employers qualify for the payroll tax credit?**

The credit is available to employers whose (1) operations were fully or partially suspended due to a COVID-19-related shutdown orders, or (2) gross receipts declined by more than 50% when compared to the same quarter in the prior year.

**What time period does the text define as the “crisis”?**

The period covered is March 13, 2020 through December 31, 2020.

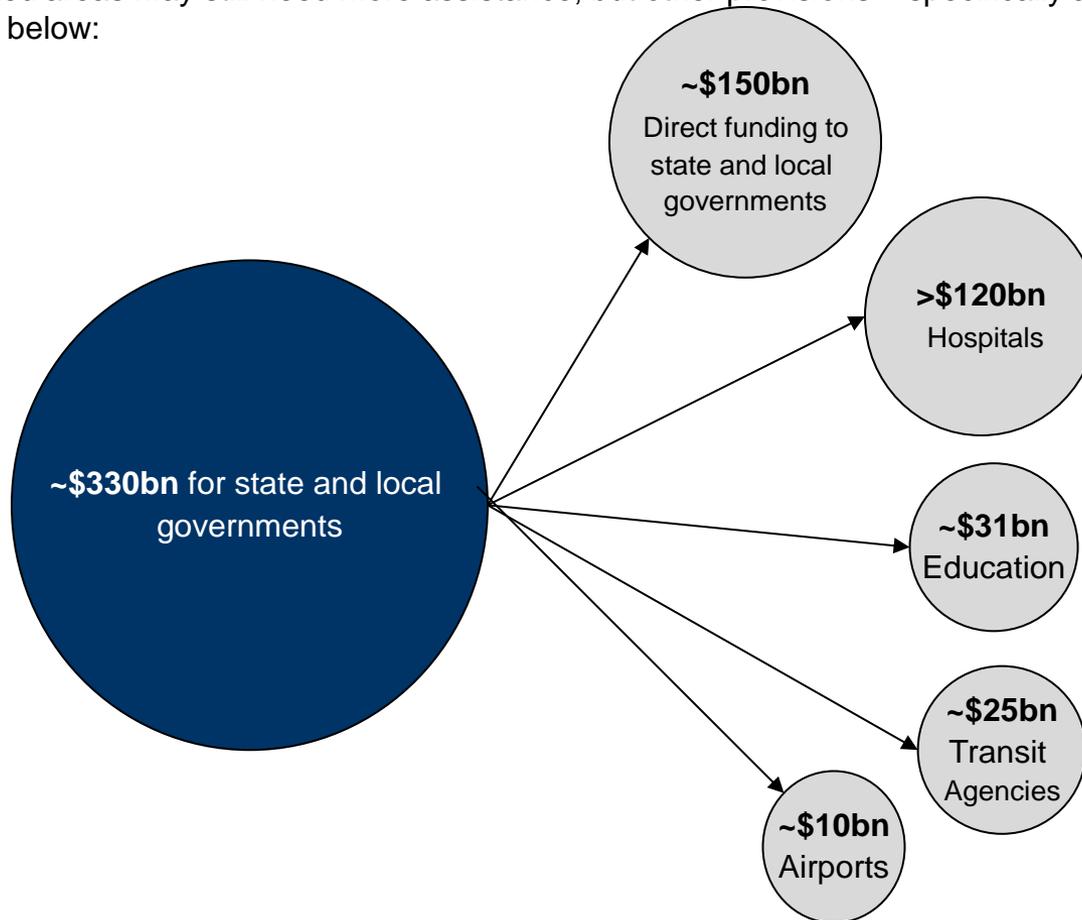
Summary | **Four Major Areas Targeted in the CARES Act**

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## **4. Aid to Governments**

Aid to Governments | **Summary**

Roughly ~\$330bn in the CARES Act is allocated toward state and local governments, through (1) direct funding, (2) aid to hospitals and public health initiatives, (3) grants to airports, (4) aid to transit agencies, and (5) the establishment of an education stabilization fund. Based on our estimates of the state-by-state allocation of \$150bn of aid, we believe the most affected areas may still need more assistance, but other provisions – specifically airport grants – are sufficient. Allocations below:



Aid to Governments | **Appropriations to State & Local Governments**

**Section 5001: Coronavirus Relief Fund**

- The CARES act appropriates \$150 billion to state and local governments to reimburse them for costs of dealing with COVID-19. The act defines this timeline to be from March 1, 2020 to December 30, 2020. \$3 billion is reserved for Washington, DC, Puerto Rico, the US Virgin Islands, Guam, and the Northern Mariana Islands. \$8 billion is reserved for Tribal governments. The rest is apportioned by population to states, with a local share set aside for those that apply for it.

**Top five states receiving most federal aid**

State	Population (millions)	% of Total US 50 states	\$Total Relief Allocation (B)	Minimum Allocation to State (55%)	Minimum Allocation as % of State Revenue
CA	39.51	12.1%	15.30	8.41	3%
TX	29.00	8.9%	11.23	6.17	4%
FL	21.48	6.6%	8.31	4.57	5%
NY	19.45	5.9%	7.53	4.14	2%
PA	12.80	3.9%	4.96	2.73	3%

Source: Morgan Stanley Research

**FAQs:**

**Are there restrictions on what the funds can be used for?**  
 The text states that the funds must be used for necessary expenditures incurred due to the public health emergency with respect to COVID-19 and that were not accounted for in the budget most recently approved.

**Is there a minimum requirement that states are set to receive?**  
 Each of the 50 states will receive a minimum of \$1.25 billion in funding and local governments may request up to 45% of respective state allocations.

**Which oversight authority exists with this provision?**  
 The Inspector General of the Department of the Treasury will be responsible for conducting monitoring and oversight of the receipt, disbursement, and use of funds made available under this program.

## Aid to Governments | **Funding for Hospitals**

### **Title VIII: Department of Health and Human Services (p. 750)**

- The package provides for a largely undefined, \$100 billion Public Health and Social Services Emergency Fund, which will have wide authority to distribute grants to health care providers and hospitals (p. 750 of the act).
- The fund provides aid over several years to: "public entities, Medicare or Medicaid enrolled suppliers and providers, and such for-profit entities and not-for-profit entities not otherwise described in this proviso as the Secretary may specify, within the United States (including territories)." Conceivably, this includes a variety of providers, including hospitals and nursing homes.

### FAQs:

#### **Are there any guidelines on what the funds should be used for?**

The funds could be used to construct temporary structures, lease properties, purchase equipment, increase staffing, and more. In general, think tanks note a lack of clarity on how the money will be spent.

#### **Is the contribution to the Strategic National Stockpile included in the \$100bn fund?**

No. In addition to the ~\$100bn in grants, the act establishes \$16bn for the Strategic National Stockpile. The stockpile funding for procurement of personal protective equipment, ventilators, and other medical supplies.

#### **What are other notable health provisions?**

The fiscal aid package also provides ~\$4bn to the CDC for efforts on public health preparedness and response, as well as \$11bn to vaccine, diagnostic and other medical needs with \$3.5bn specifically dedicated to advancing construction, manufacturing and purchasing of vaccines and therapeutic delivery.

## Aid to Governments | **Funding for Airports**

### **Title XII. Department of Transportation (p. 835)**

- The act allows \$10bn in grants for airport authorities: \$3.7bn is allotted based on the percentage of 2018 enplanements for all commercial service airports, and another \$3.7 billion is allotted based on "an equal combination of each sponsor's fiscal year 2018 debt service as a percentage of the combined debt service for all commercial airports and each sponsor's ratio of unrestricted reserves to their respective debt service." Presumably this means that sponsors with lower unrestricted reserves to debt service would receive a higher allocation, but it is not clear to us exactly from the language. The remaining ~\$2bn is apportioned using the existing formula set out in 49 USC 47114 (p. 834). That provides: \$7.80 per passenger for the first 50,000 boardings; \$5.20 per passenger for the next 50,000; \$2.60 for the 400,000 boardings after that, \$0.65 for the 500,000 after that, and \$0.50 for each additional boarding over that amount.

### FAQs:

#### **Do these grants expire?**

The act states that the \$10bn is "to prevent, prepare for, and respond to coronavirus, to remain available until expended" (p. 835).

#### **What are the requirements on commercial airports receiving grants?**

These airports would have to maintain employment levels of at least 90% based on the bill's day of enactment to be eligible for grants.

#### **Is this a sufficient amount for airports?**

We consider the aid in this section to be a major lifeline. It infuses substantial amounts of cash to a system whose most prominent airports already had ample reserves to cope with an extended disruption of air travel. Total grants of \$10bn exceed total airport sector debt service of \$7.6bn.

Aid to Governments | **Funding for Mass Transit****Title XII: Department of Transportation (p. 842)**

- The bill provides \$25 billion for Transit Infrastructure Grants. The bill directs \$25 billion to be allocated as if it were part of FY2020 appropriations for formulas including section 5307 (Urbanized Area Formula Grants) and 5311 (Formula Grants for Rural Areas).

**Potential Transit Aid for Metro Areas**

Metropolitan Area	Percent of FY 2019 Section 5307 & 5340 Urbanized Area Apportionments	Pro-rata share of 85% of \$25B, or \$21B total	75%					65%		55%		45%		35%	
New York-Newark, NY-NJ-CT	18%	3.83	3.38	2.93	2.48	2.03	1.58								
Los Angeles-Long Beach-Anaheim, CA	6%	1.26	1.11	0.96	0.82	0.67	0.52								
Chicago, IL-IN	5%	1.05	0.93	0.80	0.68	0.56	0.43								
Washington, DC-VA-MD	4%	0.77	0.68	0.59	0.50	0.41	0.32								
Boston, MA-NH-RI	3%	0.67	0.59	0.51	0.44	0.36	0.28								
Philadelphia, PA-NJ-DE-MD	3%	0.66	0.58	0.50	0.43	0.35	0.27								
San Francisco-Oakland, CA	3%	0.57	0.51	0.44	0.37	0.30	0.24								
Miami, FL	2%	0.46	0.41	0.35	0.30	0.24	0.19								
Seattle, WA	2%	0.44	0.39	0.34	0.28	0.23	0.18								
Houston, TX	2%	0.33	0.29	0.25	0.22	0.18	0.14								
Dallas-Fort Worth-Arlington, TX	2%	0.32	0.28	0.25	0.21	0.17	0.13								
Atlanta, GA	1%	0.30	0.26	0.23	0.19	0.16	0.12								
Baltimore, MD	1%	0.30	0.26	0.23	0.19	0.16	0.12								
San Diego, CA	1%	0.28	0.25	0.22	0.18	0.15	0.12								
Denver-Aurora, CO	1%	0.24	0.21	0.18	0.15	0.12	0.10								
Minneapolis-St. Paul, MN-WI	1%	0.23	0.20	0.18	0.15	0.12	0.10								
Phoenix-Mesa, AZ	1%	0.23	0.20	0.18	0.15	0.12	0.09								
Portland, OR-WA	1%	0.19	0.17	0.15	0.12	0.10	0.08								
Detroit, MI	1%	0.18	0.16	0.14	0.12	0.09	0.07								

Source: Morgan Stanley Research estimates, based on historical Department of Transportation data

Source: Morgan Stanley Research, Congress.gov

## FAQs:

**Is this supplemental aid enough?**

Although the total \$25bn is close to what the agencies were requesting, for transit systems with high farebox recovery ratios, it may not be enough to fully offset lost revenue. MTA ridership is down 60-94%, depending on line, according to an EMMA disclosure. BART ridership is down 90%. CTA ridership is down 70%. The New York MTA takes in about \$6 billion from fareboxes, for example.

**How much did transit systems request in federal aid?**

While the bill was still being contemplated, transit systems nationwide asked for different levels of federal aid. The MTA, for example, requested more than \$4bn as a result of the lost revenue from low ridership.

Aid to Governments | **Funding for Education**

**Section 3501 Subtitle B**

- The Act allocates ~\$31bn for an Education Stabilization Fund for states, school districts and institutions of higher education for costs related to COVID-19. This includes (1) ~\$14bn in formula grants for elementary and secondary education, (2) \$3bn for emergency support grants to local educational agencies and institutions of higher education, to be allocated by governors at their discretion, and (3) ~\$14bn for a higher education emergency relief fund. The Department of Education would make apportionments based primarily on full-time, in-person FTE Pell Grant recipients.

Purpose	Amount (\$B)
Local Educational Agencies (LEAs) - Elementary and Secondary Education	12.15
State Education Agencies - Emergency Needs	1.35
Governors- Emergency support to highly impacted LEAs and Higher Education Institutions	3.00
Higher Education Institutions	14.25
<b>Total Addition to Education Stabilization Fund</b>	<b>30.75</b>

Source: Morgan Stanley Research, NCSL

FAQs:

**How is the ~\$14bn in elementary and secondary education divided among states?**

This component is available based on the same proportion that each state receives under ESEA Title-IA. States will then distribute 90% of funds to local educational agencies based on their proportional allocation of ESEA Title I-A funds.

**What additional student loan relief is included in the act, and how are those provisions different from the federal government’s previous actions on student loan relief?**

The US Department of Education previously waived two months of payments and interest for many student loan borrowers. Under the CARES Act, until September 30, there will be automatic payment suspensions for any student loan held by the federal government.

**Does interest still apply during this six-month period?**

According to the legislative text, there shall be no interest accrual over the suspension period.

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### Global Stock Ratings Distribution

(as of March 31, 2020)

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## Disclosure Section (Cont.)

Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)			Other Material Investment Services Clients (MISC)	
	Count	% of Total	Count	% of Total IBC	% of Rating Category	Count	% of Total Other MISC
<b>Overweight/Buy</b>	<b>1228</b>	<b>38%</b>	<b>306</b>	<b>44%</b>	<b>25%</b>	<b>543</b>	<b>37%</b>
<b>Equal-weight/Hold</b>	<b>1437</b>	<b>45%</b>	<b>322</b>	<b>46%</b>	<b>22%</b>	<b>702</b>	<b>48%</b>
<b>Not-Rated/Hold</b>	<b>2</b>	<b>0%</b>	<b>0</b>	<b>0%</b>	<b>0%</b>	<b>2</b>	<b>0%</b>
<b>Underweight/Sell</b>	<b>543</b>	<b>17%</b>	<b>72</b>	<b>10%</b>	<b>13%</b>	<b>212</b>	<b>15%</b>
<b>Total</b>	<b>3,210</b>		<b>700</b>			<b>1459</b>	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

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Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Equal-weight (E). The stock's total return is expected to be in line with the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Not-Rated (NR). Currently the analyst does not have adequate conviction about the stock's total return relative to the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Underweight (U). The stock's total return is expected to be below the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

### Analyst Industry Views

Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.

Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.

Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.

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## Disclosure Section (Cont.)

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