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Europe

Investment Grade Credit

European Insurers

Deleveraging Aegon to Improve Financial Strength

In anticipation of June deleveraging announcements, we dig into Aegon's balance sheet to assess how much debt needs to be retired and to identify which instruments may feature highly in group plans.

Looking to Aegon's June Investor Day for debt deleveraging announcements: Comments at 1Q13 suggest that addressing the group's gross financial leverage position has become a higher management priority on the back of rating agency pressure.

How much gross debt does Aegon need to retire? In our view, were the group to reduce by €1.1 billion its gross debt stock by YE14, it would meet the minimum expectations of Fitch, for whom this issue seems most pressing. Yet the group could decide to go further so as to take leverage off the table as a ratings issue for good.

Which debt instruments could Aegon retire? We have assessed the group's outstanding debt against five metrics, including regulatory capital value and interest costs.

The most obvious bonds to retire for us are seniors maturing over the next couple of years, namely the $750 million 4.75% 2013s and €500 million 4.125% 2014s.

And if Aegon wants to expand its debt-reduction ambitions? We believe it should look to tender for the €3.0% 2017 seniors (offered at B+100bp) and call the $7.25% perpetuals, which are currently trading at around $25.57 (we would be selling these on near-term call risk).

Fresh supply to come? With other capital securities callable quarterly, we believe that Aegon may also look at replacing expensive instruments with newly issued, lower-cost Solvency II-compliant bonds.

Efforts to delever, improve fixed charge coverage and remove risks of a negative rating agency actions are all supportive of Aegon's CDS, in our view: We would continue to recommend a long position in 5-year CDS at 152bp (see *Selling Aegon Senior CDS*, February 7, 2013).

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European Insurers

Deleveraging Aegon to Improve Financial Strength

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Aegon Signals Shift in Stance to Financial Leverage

During its 1Q13 analyst call, Aegon's management indicated to investors that addressing the group's gross financial leverage position has become a higher priority. In this note, we dig into the issue ahead of the group's London Analyst & Investor Day on June 19, 2013, where we expect to hear formally the action Aegon plans to take.

Addressing the group's gross financial leverage position has become a higher priority

Rating Agencies Driving Change in Position

We believe that an increased emphasis on gross leverage would represent a change in approach to the management of Aegon's capital base.

In response to the financial crisis, Aegon committed itself to meeting targets around capital quality (and therefore financial leverage). The strategic target was set for at least 75% of the group's capital base to be comprised of core equity by YE12 (the 'Capital Base Ratio' or 'CBR'), the balance being made up of other group borrowings (net of holding company cash and operational debt).

The clear hurdle to achieving this target was the replacement of the €3 billion Core Tier 1 securities issued to the Dutch state in response to the financial crisis, these being included as core equity. However, as can be seen from Exhibit 1, Aegon successfully met its 75% target at FY12, reporting a ratio of 76.3% at 1Q13.

Exhibit 1
Evolution of Aegon's Capital Base Ratio

	2008	2009	2010	2011	2012	1Q13
Capital Base Ratio	77.5%	74.5%	75.0%	73.5%	76.7%	76.3%

Source: Company data, Morgan Stanley Research

There are of course multiple ways to calculate financial leverage. Some alternatives are more conservative than the CBR method employed by Aegon. This is the case with rating agency calculations, an important constituency for Aegon to consider in light, for example, of its reliance on fixed income markets for capital and funding (the group had outstanding total borrowings of approximately €20 billion at FY12).

Our understanding is that rating agencies tend to focus more on gross than net debt. Given that calculations based on this approach ignore holding company cash, the result is optically higher leverage ratios than would be generated under Aegon's CBR methodology.

Management comments signal to us a clear desire to prospectively tackle rating agency leverage concerns

All three main rating agencies refer to Aegon's financial leverage in their latest ratings reports. The topic is either viewed as one that could potentially trigger negative rating actions were it to deteriorate further, such as with Moody's and S&P, or an area of immediate concern such as with Fitch. Indeed, in its recent rating report of May 3, 2013, Fitch stated:

"*The Negative Outlook reflects Aegon's high financial leverage as calculated by Fitch (33% at 31 December 2012) and low fixed-charge cover… which remain materially outside stated guidelines for the rating level. The ratings are likely to be downgraded if financial leverage does not improve to below 30% and fixed-charge cover to above 5x.*"

Hence, for us, the 1Q13 management comments signal to us a clear desire to prospectively tackle rating agency leverage concerns.

Exhibit 2
Aegon: Rating Agency Views

	Fitch	Moody's	S&P
Holdco	A-/Neg	A3/Stable	A-/Stable
Opco Financial Strength	AA-	A1	AA-
Senior	A-	A3	A-
LT2	BBB	Baa1	BBB
T1	BBB	Baa1	BBB

Source: Rating agencies, Morgan Stanley Research

A Quick Overview of Aegon's Outstanding Debt

Aegon had outstanding total borrowings of around €20 billion at FY12. (Note: we focus on annual reporting, given the more detailed debt disclosure provided then compared with 1Q13.)

Broadly speaking, this can be broken down into the following eight sub categories:

- **Operational debt (FY12: €8.7 billion):** This borrowing is ignored by rating agencies in most of their financial leverage metrics (and also by us in our calculations), given that it is secured on specified pools of balance sheet assets. In the case of Aegon, at FY12 operational debt mainly comprised residential mortgage-backed securities and borrowings from the European Central Bank under its LTRO programme;
- **Aegon Association (Vereniging Aegon) preferred shares (FY12: €2.1 billion):** Following the announced agreement to exchange these for cash and Aegon common shares (expected to conclude in June; see *Stay Long Aegon Snr CDS*, February 15, 2013), we and the rating agencies exclude them from prospective leverage metrics;
- **Junior perpetual capital securities (FY12: €4.2 billion):** Spread across eight separate issues, in our view these are high-quality, Tier 1-style instruments with long-term regulatory capital value for Aegon. We discuss this in more detail later on in this note. Included here are the group's exchange-traded dollar and constant-maturity swap (or 'CMS') securities;
- **Dutch Guilder perpetual cumulative bonds (FY12: €453 million):** Issued in the mid-1990s and encompassing three issues, in our view these are lower-quality instruments (from a regulatory capital perspective) to the junior perpetual capital securities. They have only restricted coupon deferral rights. Any deferred coupons are cumulative;
- **Solvency II-compliant subordinated notes (FY12: €405 million):** These are the $525 million 8% 42NC17s issued by Aegon in 2012. They have been structured to comply with Solvency II requirements for Tier 2 capital. Under certain circumstances, coupons are non-cumulative;
- **Trust pass-through securities (TPT; FY12: €155 million):** Three illiquid stubs of legacy issues, the trust assets being junior subordinated deferrable debentures issued by group subsidiaries Transamerica Corporation and Clark Consulting;
- **Group senior debt (FY12: €3.2 billion):** Eight separate tranches of senior debt, issued in dollar, euro and sterling markets; and
- **Other borrowing (FY12: €0.5 billion):** Mainly comprised of commercial paper (€0.4 billion) and bank overdrafts (€0.1 billion).

Clearly, there is a wide spectrum of Aegon debt instruments outstanding from the perspective of regulatory capital quality and utility. This is also true from the perspective of rating agency qualifying capital. As we have written before, once regulatory credit is lost, so too is a bond's capital value from the perspective of the rating agencies (as a rule, they do not ascribe capital credit to an instrument if a regulator does not do so).

Not all the debt above is included in Aegon's capital base, as can be seen from Exhibit 3. Operational debt is fully excluded, as is the majority of senior debt. Note the senior debt related to insurance activities reflects that raised from holding company senior debt issuance that has been downstreamed into operations in a regulatory capital qualifying format.

Exhibit 3
Breakdown of Aegon's Total Capital Base

€ millions	2012	1Q13
Total shareholders' equity (inc. Assoc. preferred shares)	23,488	23,600
Junior perpetual capital securities	4,192	4,192
Perpetual cumulative subordinated bonds	453	453
Non-cumulative subordinated note	271	271
Other	102	114
Non-controlling interests	13	12
Trust pass-through securities	155	156
Other subordinated borrowings	42	44
Senior debt related to insurance activities	521	659
Total capital base	**29,237**	**29,501**

Source: Company data, Morgan Stanley Research

Strong Long-Term Utility of Most Aegon Hybrids

Using the methodology outlined in a recent note (see *Beware Extension Risks in Perpetual Insurance Tier 2*, May 9, 2013), we have analysed the quality of Aegon's hybrid instruments against guidance for both Tier 1 and Tier 2 capital under Solvency II.

Our key conclusions from this work are as follows:

- We share Aegon's view (expressed at FY12 reporting) that all the junior perpetual capital securities are likely to be grandfathered as Tier 1 within Solvency II transition arrangements. These could potentially extend out to 2027 (assuming a Solvency II start date in 2017 and ten years transition). As can be seen from the extract from Aegon's FY12 reporting in Exhibit 4, at 17% (i.e., 16%/(16%+80%) the entire quantum of the securities outstanding appears to fit within stated Solvency II Tier 1 hybrid limits (20% of total Tier 1).

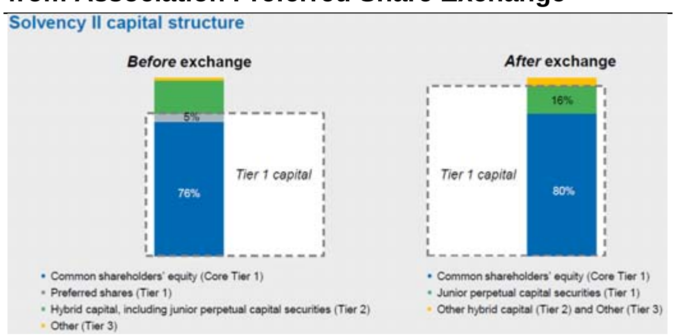
We believe the junior perpetual capital securities will qualify as Solvency II perpetual Tier 2 and therefore have high utility for the group in the long term

Tier 1 treatment for these instruments will be crystallised once the Aegon Association preferred share exchange completes. Because the transaction removes the more junior preferred shares from Aegon's capital structure, the group believes that the junior perpetual capital securities will now be grandfathered as Tier 1 capital under Solvency II.

Post the end of transition arrangements, in our view the junior perpetual capital securities will qualify as Solvency II perpetual Tier 2 and therefore have high utility for the group in the long term. This reflects them having for us all the necessary structural features to comply with Solvency II. These include mandatory deferral of interest upon a Regulatory Event, the broad definition of which could encompass the Solvency II Solvency Capital Requirement (or SCR) coupon deferral trigger, we believe.

Exhibit 4

Aegon's Solvency II Capital Structure to Benefit from Association Preferred Share Exchange



Source: Company data, Morgan Stanley Research

- With their less equity-like structure (including restricted optional coupon deferral) we believe that the Dutch Guilder perpetual cumulative bonds will qualify as Tier 2 capital during a Solvency II transition period. Thereafter, in our view they will at best be usable as Tier 3 capital.
- Given that they were explicitly structured with Solvency II compliance in mind, we believe that the $525 million 8% 42NC17s have all the necessary requirements for Tier 2 capital under Solvency II. Were Tier 2 qualification not to be achieved (this would require major changes to the Solvency II framework, in our view, and is therefore unlikely), the notes include a regulatory par call.
- Given their small total size, the trust pass-through securities are relatively immaterial to Aegon's overall capital base. From speaking with the company, we understand that their treatment under Solvency II grandfathering arrangements is the most uncertain of all the instruments above. Potentially they could lose all capital credit.

How Much Does Aegon Need to Delever?

To answer this question, we focus on the approach Fitch takes to assess financial leverage. This is due to the issue seemingly being most pressing for this agency among the various Aegon interested parties. Remember that Fitch has indicated that it will downgrade Aegon if leverage is not reduced below 30% over its rating horizon.

We base our calculations on the assumption that Aegon has to meet its Fitch target by YE14 and factor into our modelling the latest published Morgan Stanley equity research group earnings estimates for 2013 and 2014. The result of this work is included in Exhibit 5.

Exhibit 5

Estimated Fitch Leverage Calculations for Aegon

€ millions	2012	2013e	2014e	2014e PF
Subordinated debt	5,234	5,234	5,234	
Senior debt[1]	3,458	2,880	2,380	
Total debt (a)	8,692	8,114	7,614	6,364
Core equity (b)	24,669	23,868	24,945	24,945
Unrealised gains (c)	6,082	6,082	6,082	6,082
Goodwill (d)	638	638	638	638
Leverage (inc-goodwill; a/(a+b-c))	32%	31%	29%	25%
Leverage (ex-goodwill; a/(a+b-c-d))	33%	32%	29%	26%
Annual debt repayment		578	500	1,250[2]

Source: Company data, Morgan Stanley Research estimates; [1]Starting point reflects quantum of senior debt Fitch includes in calculation; [2]Additional debt reduction on top of 2014 total of €500 million.

In our view, Aegon can meet the YE14 Fitch leverage target by simply allowing two senior bonds to mature as normal during the period without them being refinanced (the $750 million 4.75% 2013s and €500 million 4.125% 2014s).

The group clearly appears to have sufficient liquidity available to support such a strategy. We note that its reported €1.8 billion holding company excess cash position at 1Q13 is stated after cash requirements needed to repay the $750 million 4.75% 2013s in June.

Removing this quantum of senior debt should be enough to alleviate the immediate threat of a Fitch downgrade (all else being equal). However, from speaking with the agency, we understand that a leverage position of just below 30% would still be relatively high for a group with ‘AA’ range financial strength ratings such as Aegon. If management really wants to take leverage off the table as a ratings issue by YE14, lowering leverage by a further €1.25 billion is required by our calculations, such a move bringing this metric more into line with Fitch tolerances (mid-to-low 20s).

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Deleveraging: Impact on Fixed Charge Cover

Just as important as an insurer’s financial leverage position is the affordability of its outstanding debt. This is picked up by fixed charge coverage metrics, which compare an insurer’s earnings against its debt (ex-operational) costs.

In terms of earnings, we (and also, we understand, Fitch) focus on Aegon’s pre-tax underlying earnings. This measure strips out major sources of noise from the group’s profit and loss account. For example, at 1Q13 the reported figure of €445 million ignored a number of fair value items that can be highly volatile from quarter to quarter. These included losses on equity hedges put in place to protect the group’s capital position. Depending upon how equity markets perform in 2Q13, these losses could be reversed.

In Exhibit 6, we set out our estimations for how Aegon’s fixed charge coverage metrics move through to 2014, factoring in maturing senior debt and Morgan Stanley equity research earnings estimates. As can be seen, the group should meet Fitch’s requirement to avoid a downgrade of coverage above 5x by YE14.

Exhibit 6

Estimated Movement in Aegon Fixed Charge Coverage Metrics

€ millions	2011	2012	2013e	2014e
Underlying earnings before tax	1,522	1,787	2,066	2,285
Finance costs	391	423	409	389
Fixed charge cover (x)	3.9	4.2	5.0	5.9

Source: Company data, Morgan Stanley Research estimates

However, again we understand that this level is low for the standards of ‘AA’ rated names at Fitch (12x is the coverage requirement, we believe). The need to improve this metric further provides impetus to raise underlying earnings but also to lower the quantum of outstanding debt, in our view.

Where Should Aegon Focus Potential Additional Deleveraging Efforts?

We have looked beyond the forthcoming senior debt maturities in 2013 and 2014 to consider what other securities Aegon should look to retire in order to most effectively improve its leverage and fixed charge cover position.

To help us here, we have considered the group’s outstanding debt against five separate attributes, namely:

- Regulatory capital value;
- Rating agency capital value;
- Interest cost contribution;
- Take-out execution certainty; and
- Potential liability management cost of/gain available on take-out.

We recognise that there are other potential factors to consider such as IFRS accounting impacts or potential interest rate or currency swap gains. However, we think these are relatively weaker drivers. For example, unlike the banks space, our understanding is that insurers as a whole do not generally swap out interest rate risk on hybrid instruments and also seek to currency match liabilities and assets across operations, thereby removing this additional need for swaps. Therefore, in our view, swap gains are unlikely to be a major factor in a debt-reduction decision-making process.

We scored each of Aegon’s instruments against these attributes. A score of 1 was assigned where we felt debt retirement is an unattractive option. Conversely, a score of 5 was assigned where we felt debt retirement is an attractive option.

As a final step, we weighted each attribute based upon our view of what Aegon might look to solve for via a more extensive debt-reduction exercise. In order of most to least important, we ranked the attributes as follows:

- **Interest cost contribution:** We would expect Aegon to put a higher priority on removing the most expensive instruments from its debt structure;
- **Regulatory capital value:** Our assumption is that the group would want to retain instruments with the highest regulatory utility;

- **Take-out execution certainty:** How easy is it for instruments to be retired? Can they simply be called? Or would a potentially costly liability management be required?
- **Rating agency capital value:** As per the regulatory view of capital, we assume that Aegon would want to show a preference to retaining instruments viewed most favourably by rating agencies; and
- **Potential liability management cost of/gain available on take-out:** In the event liability management is required, can bonds be purchased below par?

Our Key Conclusions and Trade Recommendations

We summarise our ranking of Aegon's debt instruments for potential retirement in Exhibit 7. The higher the score, the more attractive it is for the group to retire the debt ,in our view More detail on how we arrive at the overall score per instrument can be found in the Appendix to this report.

Looking beyond the expected maturities of the $750 million 4.75% 2013s and €500 million 4.125% 2014s, **our analysis suggests that other group senior bonds are attractive options for retirement.** In particular, these instruments screen relatively poorly, given their low value from a regulatory or rating agency capital perspective. Furthermore, a number of senior bonds carry relatively high coupons such as the £6.625% 2039s and £6.125% 2031s (we believe that these are also attractive for Aegon, given their long-dated nature). In retiring them, Aegon would improve its fixed charge cover without meaningfully negatively impacting either its regulatory or rating agency capital positions.

The key drawback for many of these senior bonds remains their current high trading cash prices (the £6.625% 2039s are offered at around 130), and therefore the requirement there would be on Aegon to offer a premium to this in order to entice investors to tender bonds.

Our top pick in seniors as a potential cash tender candidate is therefore the €3.0% 2017s (offered at B+100bp): We believe that this could be attractive to Aegon, given the relatively lower cash price at which it trades (offered at around 107), which would translate into a lower cash purchase cost for the group.

In our view, the prime candidates for take-out within the hybrid space are the junior perpetual capital securities. **Our top pick for redemption are the $7.25% perpetuals (ISIN: NL0006056814), which are currently trading at around $25.57 (in bond price terms at 102.3).** We would be avoiding these instruments on near-term call risk.

While not as attractive options for retirement as the senior bonds due to their high regulatory and rating agency capital utility, the junior perpetual capital securities are nonetheless interesting options for Aegon, given the high fixed coupons they carry. Furthermore, given that a number are callable quarterly at par, the group can be sure of taking out a large amount of debt without having to pay up to do so.

Exhibit 7

Our Fixed Income Scorecard: 5 the Most Attractive and 1 the Least Attractive for Liability Management

ISIN	Score	Senior/hybrid	Coupon	First call/maturity date
US007924AF01	3.80	$ Senior	4.750%	01/06/2013
XS0207157743	3.50	€ Senior	4.125%	08/12/2014
NL0006056814	3.20	$ Jnr Perp	7.250%	15/12/2012
XS0473964509	3.00	£ Senior	6.625%	16/12/2039
XS0105290349	3.00	£ Senior	6.125%	15/12/2031
US007924AH66	3.00	$ Senior	4.625%	01/12/2015
US007634AA64	3.00	$ Senior	5.750%	15/12/2020
XS0805452405	2.90	€ Senior	3.000%	18/07/2017
NL0000062420	2.90	$ Jnr Perp	6.500%	15/12/2010
NL0000686368	2.90	$ Jnr Perp	6.875%	15/09/2011
US007924608	2.80	$ Tier 2	8.000%	15/08/2017
US893472AA88	2.60	$ TPT	7.650%	01/12/2026
US893473AC28	2.60	$ TPT	7.625%	15/11/2037
NL0000168466	2.60	€ Jnr Perp	6.000%	21/07/2011
NL0000021541	2.60	$ Jnr Perp	6.375%	15/06/2015
XS0207767574	2.40	€ Senior	4.625%	09/12/2019
NL0000062438	2.30	$ Jnr Perp	4.000%	15/10/2010
NL0000120004	2.28	Guilder Perp	4.156%	08/06/2005
NL0000121416	2.28	Guilder Perp	5.185%	14/10/2008
NL0000120889	2.28	Guilder Perp	4.260%	04/03/2011
NL0000116168	1.60	$ CMS	2.055%	15/07/2014
NL0000116150	1.60	€ CMS	1.780%	15/07/2014

Source: Company data, Morgan Stanley Research

Fresh Aegon Supply to Come?

We believe that the retirement flexibility offered by the junior perpetual capital securities (the $ 7.25% above, $ 6.875% (ISIN: NL0000062420), and $ 6.5% (ISIN: NL0000686368) perpetuals) provides a very interesting refinancing opportunity for Aegon. We would not expect the group to look to retire the full €1.6 billion of regulatory capital represented by these bonds (note that they can only be called in whole and not in part). However, we believe that Aegon may look to replace existing expensive instruments with newly issued, lower-cost, Solvency II-compliant bonds. To illustrate, the group's $8% 42NC17s are currently trading at a YTC of around 4.25%.

This is a trade we have seen other European insurers undertake in recent months. For example, we note that Allianz recently called its $8.375% preferreds in the wake of fresh issuance in euro markets during 4Q12 (the €5.625% 42NC22s). Through this trade, Allianz will ultimately save itself around €45 million per annum in interest costs.

We believe that Aegon may look to replace existing expensive instruments with newly issued, lower-cost, Solvency II-compliant bonds

As to bonds we do not think Aegon would look to retire? We would focus on the CMS securities (ISIN: NL0000116168 and NL0000116150). In our view, the potential core capital gain that would be generated from a potential take-out below par (bonds trade in the high 50s/low 60s) is outweighed by the high regulatory and rating agency utility of the instruments plus their very low interest cost.

Nonetheless, we would own these floating-rate securities as an inflation hedge (rather than a means of chasing liability management-driven capital gains). Our bank research colleagues have written on the attractiveness of such instruments (see *Discos, CMS and Fixed-Rate Tier 1 Prefs: Calculating the Sensitivities*, April 4, 2013), noting the upside potential from rising rates. In the case of Aegon, we would add that we would expect prices to be supported ahead of the June investor day as the group's deleveraging options are debated in the market. Offered at a price of 67.5, Aegon's US dollar CMS (ISIN: NL0000116168) generate a YTP of 4.7% and running yield of 3.0%. At a price of 58.5, Aegon's euro CMS (ISIN: NL0000116150) generate a YTP of 4.2% and running yield of 3.0%.

Finally, we would also argue that efforts to delever the group and improve fixed charge coverage metrics in order to remove risks of a negative rating agency action are all supportive of Aegon's CDS. As a result, we would continue to recommend a long position in 5-year CDS at 152bp, as first espoused in *Selling Aegon Senior CDS*, February 7, 2013.

Risks to Our View

Where could we be wrong? Aegon does not announce expansive debt-reduction plans at its London Analyst & Investor Day on June 19, 2013. Alternatively, recommended bonds do not feature in debt-reduction actions due to the group prioritising debt instrument attributes differently to ourselves.

Appendix: Our Scorecard Assessing Aegon's Debt Instruments for Potential Retirement

		$ Tier1						€ Tier 1	
	Weighting	NL0000062420	NL0006056814	NL0000686368	NL0000021541	NL0000062438	NL0000116168	NL0000116150	NL0000168466
Regulatory capital value	0.23	1	1	1	1	1	1	1	1
Rating agency capital value	0.18	1	1	1	1	1	1	1	1
Interest cost	0.30	4	5	4	5	2	1	1	3
Execution certainty	0.20	5	5	5	2	5	2	2	5
LM cost/gain	0.10	3	3	3	3	3	5	5	3
Total	1.00	2.90	3.20	2.90	2.60	2.30	1.60	1.60	2.60

		Dutch Guilder Tier 1			$ Tier 2	$ Trust Pass Through	
	Weighting	NL0000120004	NL0000121416	NL0000120889	US007924608	US893472AA88	US893473AC28
Regulatory capital value	0.23	2	2	2	2	3	3
Rating agency capital value	0.18	3	3	3	2	3	3
Interest cost	0.30	2	2	2	5	3	3
Execution certainty	0.20	1	1	1	2	1	1
LM cost/gain	0.10	5	5	5	1	3	3
Total	1.00	2.28	2.28	2.28	2.80	2.60	2.60

		Senior Bonds							
	Weighting	XS0805452405	XS0207157743	XS0207767574	XS0473964509	XS0105290349	US007924AH66	US007924AF01	US007634AA64
Regulatory capital value	0.23	4	4	4	4	4	4	4	4
Rating agency capital value	0.18	4	4	4	4	4	4	4	4
Interest cost	0.30	2	2	1	3	3	3	3	3
Execution certainty	0.20	2	5	2	2	2	2	5	2
LM cost/gain	0.10	3	3	1	1	1	1	3	1
Total	1.00	2.90	3.50	2.40	3.00	3.00	3.00	3.80	3.00

Source: Morgan Stanley Research. A score of 1 = Unattractive for retirement. A score of 5 = Attractive for retirement.

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(as of April 30, 2013)

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	Coverage Universe		Investment Banking Clients (IBC)		
Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	**1034**	**36%**	**399**	**39%**	**39%**
Equal-weight/Hold	**1250**	**44%**	**479**	**47%**	**38%**
Not-Rated/Hold	**105**	**4%**	**27**	**3%**	**26%**
Underweight/Sell	**473**	**17%**	**123**	**12%**	**26%**
Total	**2,862**		**1028**		

Data include common stock and ADRs currently assigned ratings. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months.

Analyst Stock Ratings

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.

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