Equities Research

First Edition - US Alert Monday, April 24, 2023

24 April 2023
Credit Suisse Global Product Marketing

CREDIT SUISSE

EQUITY STRATEGY:

Strategy | Economics and Strategy

24 April 2023

U.S. Equity Strategy
Markets Rerate, Valuations Not Problematic

Research Analysts

Jonathan Golub, CFA

Patrick Palfrey

Manish Bangard, CFA

Nick Samoyedny, CFA, CAIA

Katherine Zhou

Michael Arias

Stock multiples have risen from 15.1x on October 12 and 16.7x at the end of 2022 to 18.1x today. This compares to 10-year average multiple of 16.7x.

Since the start of the year, valuations between sectors have moved substantially. For example, Tech multiples have risen sharply, and now appear very expensive. Discretionary trade close to their 10-year average levels, versus a discount at the start of the year. By contrast, valuations for Defensive groups (Health Care, Staples, Utilities and REITs) have declined and now trade at or below their relative averages. P/Es for Financials and Energy have also fallen, with Financials now trading at the low end of their range. Despite the recent rally in Communications, the sector still trades considerably below its relative average.

Sector Takeaways (Valuation Relative to S&P 500):

Technology: Tech has seen the largest P/E appreciation YTD, with Semis and Hardware now extremely expensive and Software and IT Consulting trading above average.

Discretionary: Autos (TSLA) P/E is rich while Internet Retail (AMZN) is inexpensive. Hotels, Restaurants & Gaming, Hardline Retail, and Softline Retail trade near long-term averages.

Health Care: Health Care P/Es have fallen YTD, and now trade in-line with history. Equipment & Supplies, Life Sciences and Biotech appear rich while Pharma is attractive.

Staples: Staples witnessed the largest P/E decline YTD and now trade at average levels. Personal Products and Staples Retail are expensive, while Tobacco and Food are inexpensive.

Utilities: Utilities are trading below their historical average. Among subgroups, Electric and Multi-Utilities are inexpensive.

Industrials: While Industrials are trading below their 10-year average, A&D and Business Services are expensive while Transportation and Cap Goods ex-A&D are inexpensive.

Energy: All groups are trading at the low end of their 10-year range, with Downstream, Integrateds and Midstream most attractively valued.

Materials: Materials are trading at a discount versus their history with all subgroups (Chemicals, Metals & Mining and Other Materials) trading below their relative average P/E.

Financials: Financials are trading at the bottom of their relative valuation range with all subgroups trading at a discount. Credit Cards and Regional Banks are extremely inexpensive.

REITs: REITs are trading at the low end of their valuation range with all subgroups—Office, Special, Residential, and Health Care REITs—trading below their average levels.

Communications: Despite the recent rally in Comm., the sector is the cheapest group when compared to its historical relative PE spread, with all subgroups trading at a discount.

Full Report

Date of Production: 24-Apr-2023 00:58:02 UTC Date of Dissemination: 24-Apr-2023 08:05:30 UTC

CREDIT SUISSE

ESTIMATE / TARGET PRICE CHANGES:

Life & Health Insurance | Sector Forecast

24 April 2023

U.S. Life Insurance

1Q23 Preview: Uncertainty Lies Ahead; Investment Portfolio Still in Focus, While LDTI Likely to Cause Earnings Noise

Research Analysts

Andrew Kligerman

Joel Hurwitz, CFA

Michael Domiano

Alfred Miller

- **1Q23 was rough on our U.S. covered companies, with all but two** (PRI and VOYA) **posting negative stock performance**; and the median performance down nearly (11)% while the S&P 500 was up 7% in the quarter. Stock performance has slightly rebounded thus far in 2Q23, with the median stock up 2.4%, vs. the S&P 500 up 0.6%. We attribute the underperformance largely to heightened credit concerns (despite corporate bond spreads only widening modestly in the quarter), especially over commercial real estate (CRE) and more specifically office properties. We outlined our Life covered companies' investment portfolios, including real estate exposure, in our Credit Back in Focus report.
- **Much of the 1Q23 earnings call focus is still likely to be on investment portfolios**, including updated stress scenarios, further de-risking actions, and added color on potential deep dives done on more focused areas such as CRE office properties (i.e., updated appraisal data and valuation metrics). We think potential issues on CRE will take significant time to develop. But, **we expect uncertainty to continue, and factor a discount related to credit in our target prices for many of our covered companies** (with BHF, CRBG, EQH, LNC, MET, PFG, PRU, VOYA most impacted given CRE exposure).
- **AMP, GL and PRI remain our top picks.** As highlighted in our 2023 Outlook, we continue to favor distribution plays and asset-light companies. These three companies have below-peer exposure to CRE, which should limit downside from such concerns.
- **1Q23 Outlook**: The first quarter of reporting under LDTI will likely cause some noise relative to Street estimates given the lack of clarity on earnings power / seasonality under the accounting regime. Favorable equity markets and fixed income returns are an earnings tailwind, but we expect unfavorable variable investment income for most.

Full Report

Date of Production: 24-Apr-2023 02:56:06 UTC Date of Dissemination: 24-Apr-2023 04:01:25 UTC

HCA Healthcare [HCA.N]
Q&A Our Way: Volumes Grow While Expenses Remain In-Check; Sets up Positive Momentum for Remainder of 2023

OUTPERFORM

Rating	OUTPERFORM
Price (21-Apr-23, US$)	281.21
Target price (US$)	(from 282.00) 311.00
52-week price range (US$)	281.21 - 165.99
Market cap(US$ m)	77,967
Enterprise value (US$ m)	115,143

Target price is for 12 months.

Research Analysts

A.J. Rice

Jonathan Yong

Joseph Overman

Enjia Cao

Anastasia Parafestas

Carlos Penikis, CFA

On April 21, HCA reported 1Q23 adj. EBITDA of $3.17 bln. The results included a $145 mln benefit from the settlement of prior year payer disputes. Normalizing for this benefit, adj. EBITDA would have been $3.03 bln, still beating consensus (CSe/Cons was $2.71 bln/$2.89 bln). HCA increased its 2023 adj. EBITDA guidance to $12.1 - $12.7 bln.

- **Signs of Moderation in Full-Time and Contract Labor:** The labor exp ratio was 45.4% of revs, down from 46.4% in 1Q22 and 45.5% in 4Q22. HCA said RM turnover was close to pre-pandemic levels and hiring increased almost 19% compared to the previous four quarters. Contract labor costs were down about 21% compared to last year Q1, a savings of around $140 mln. Contract labor expense is expected to decline further, primarily due to lower utilization as retention and hiring efforts continue improving. Full-time wage growth embedded in guidance remains 3.5-4.0%, which HCA believes will keep SWB expense flat as a percentage of revenue when combined with contract labor improvements.
- **Volumes Show Broad-Based Growth:** HCA saw strong admissions growth in the first quarter, up 4.4% Y/Y on a SS basis. The growth was seen across service lines, with management specifically mentioning 10% growth in ER visits, 5% growth in outpatient surgeries, MRIs up 7%, catheterizations up 10%, and CTs up 8-9%. Rehab admits were also up about 16%, driven by new rehab programs introduced during the year. C-sections and deliveries were essentially flat, but management noted that this appears to be normal market cyclicality. Strong admissions numbers were spread across the country, not just concentrated in certain markets. Declinations (diversions) were around 1.5% of total admits, down from 2% in 4Q22. While most declinations in 2022 were driven by labor shortages, management said that declinations last quarter were more driven by higher admissions traffic and capacity constraints crowding out potential transfers.
- **Updating Estimates, Valuation, and Target Price:** We are updating our 2023 adj. EBITDA estimate to $12.49 bln (from $12.07 bln) and our 2024 adj. EBITDA estimate to $13.33 bln (from $12.72 bln) to reflect positive volume trends and improved company guidance. We are updating our target price to $311 (from $282). Our EV/EBITDA price target multiple is unchanged, at roughly 9.5x forward EBITDA. Risks include volatility in volumes, government and commercial reimbursement, inflationary pressures, and Covid-19.

Full Report

Date of Production: 24-Apr-2023 02:31:19 UTC Date of Dissemination: 24-Apr-2023 08:06:30 UTC

Canadian Infrastructure
Readying for the Renewable Rerate with Powerful Potential and Possibilities

Research Analysts

Andrew M. Kuske

Selena Zhou

James Aldis

On May 16th and 17th, Credit Suisse will host the 2023 Renewables and Utilities Conference in New York with currently ~40 companies across the ecosystem for a variety of meetings and panel discussions. Please contact us or your sales representative for details along with seeing Credit Suisse Renewables & Utilities Conference.

- **Dealing with the Dispersion:** Into the Q1 2023 results season, we practically focus on the sub-sector performance on an indexed basis with **Brookfield Renewable Partners LP (BEP)** delivering significant outperformance – albeit a bit apples-to-oranges given the use of the US line in the chart. There continue to be significant secular trends for much of the power/renewables industry that we continue to favour for exposure. Given the growth opportunity, more clarity on the growing list of government incentives (many across the regional exposures), attractive valuations and, in some cases, positively exposed power markets, we continue to believe this sub-sector is the most attractive for overall exposure.
- **Selected Stocks:** In terms of stocks, we prefer **Innergex Renewable Energy Inc. (INE)** as a value stock with a road-to-redemption approach to delivering value. Alberta-exposed names like **Capital Power Corporation** (**CPX** – with a new CEO) and **TransAlta Corporation (TA)** face positive power prices in the core market (again) into the print. Even with these comments, we notably carry Outperform ratings on **BEP** and **Northland Power Inc. (NPI)** – that further highlights our preference for this sub-sector.

Full Report

Date of Production: 21-Apr-2023 20:44:21 UTC Date of Dissemination: 24-Apr-2023 04:03:26 UTC

D.R. Horton [DHI.N]

Capturing Demand via Specs, Generating Cash Flow; Increasing Ests and Target

NEUTRAL

Rating	NEUTRAL
Price (20-Apr-23, US$)	107.60
Target price (US$) (from 85.00)	100.00
52-week price range (US$)	107.60 - 60.56
Market cap(US$ m)	36,764
Enterprise value (US$ m)	37,566

Target price is for 12 months.

Research Analysts

Dan Oppenheim

Max Teplitz

- **High level of spec construction allows for strong cash generation.** As we noted previously, we thought DHI's high level of specs at the start of 2023 and its focus on order generation would allow for cash flow generation and share repurchase. And, DHI's focus on orders and the healthy demand at the start of the season allowed for upside on orders (23,142 homes vs consensus of 19,792 homes) and closings (19,664 homes vs consensus of 16,546 homes) while allowing for $300 mln of share repurchases and a reduction in net debt to capital to just 14.8%. With 24,800 specs at the end of fiscal 2Q and 6,400 completed specs, we expect further cash generation in 3Q.
- **Raising estimates and target.** We are increasing our 2023 EPS estimate to $10.25 (from $8.35) and our 2024 estimate to $8.55 (from $6.90) based on our expectation that DHI will continue to capture share with available specs for buyers, leading to our expectation of 76,549 closings for the year (up from 65,615 previously). However, we continue to expect additional margin erosion, but that it will be more modest than in recent quarters. We're raising our target price to $100 from $85, with the $100 target driven by a 1.5x multiple on 2023E book value.
- **Margins better than expected, driven by demand for specs.** DHI generated gross margins (before charges) of 21.7%, above consensus of 20.6%. We expect margins to decline 100 basis points sequentially in fiscal 3Q and 50 basis points in 4Q.
- **Continued focus on capital with substantial land position.** DHI decreased its land portfolio by 4,000 lots sequentially to 547,000 lots (75% optioned) as it added fewer lots than the homes it sold/options it abandoned. The land position remains significant relative to estimated closing in 2023 (approximately 7x). We expect DHI to continue to utilize options and to be conservative in the current environment.
- **Maintain Neutral rating with $100 target price.** Downside risk would be further price erosion and potential for impairments; upside from better affordability (lower rates).

Full Report

Date of Production: 21-Apr-2023 19:38:44 UTC Date of Dissemination: 21-Apr-2023 20:00:53 UTC

CREDIT SUISSE

COMPANY UPDATES:

Consumer Discretionary | Forecast Change

24 April 2023

Tractor Supply Company [TSCO.OQ]

1Q23 Earnings Preview

OUTPERFORM

Rating	OUTPERFORM
Price (21-Apr-23, US$)	248.59
Target price (US$)	260.00
52-week price range (US$)	249.00 - 170.53
Market cap(US$ m)	27,319
Enterprise value (US$ m)	28,768

Target price is for 12 months.

Research Analysts

Karen Short

Zeyn Burak

Daniel Silverstein

Ryan Bulger

TSCO is scheduled to report its 1Q23 earnings results before the markets open on Thursday, April 27. We are lowering our EPS forecast by $0.04 to $1.68 vs. the FactSet cons. of $1.74.

- **Our Expectations on 1Q23:** We believe TSCO's underlying demand trends have remained solid, given the structural tailwinds (e.g., increased pet adoption), its strategic initiatives (e.g., Side Lot and Project Fusion), and its high exposure to non-discretionary categories (consumables, edibles, and usables represent an estimated >60% of sales). That said, we are lowering our comp estimate (from 5.5% to 4.5%) and EPS estimate (from $1.72 to $1.68) to reflect the overall slowdown in consumer spending in March related to economic fears in light of the banking crisis, continued slowdown in housing, softness in discretionary purchases, and unfavorable weather TSCO should have experienced through much of the quarter. To elaborate, the weather in the US was much warmer on a y/y basis in January and colder on a y/y basis in March, both of which tend to be negative for TSCO. In January, temperatures across the US were up ~13% y/y and an estimated ~37% warmer when weighted on TSCO's regional exposure, which should have been a headwind. In March, temperatures across the US were ~8% cooler y/y and estimated ~3% cooler when weighted on TSCO's regional exposure, which should have been a headwind, as well. As a side note, the weather in 1Q22 was relatively "neutral to slightly unfavorable", with a relatively cold March (unfavorable) offsetting a relatively cold January (favorable). Separately, 1Q23 was the first quarter TSCO lapped a double-digit rate of inflation benefit, so the company's ticket performance will inform us on its ability to keep lapping tough inflation comparisons through the remainder of 2023. We believe TSCO should have continued to benefit from inflationary trends in many consumables categories. For instance, pet food inflation y/y was relatively stable at ~15% between Jan-Mar, according to CPI. These pricing benefits should have been partially offset by a decline in prices of some big-ticket products, such as trailers, due to lower prices in some commodities and TSCO's renegotiations with its suppliers. Overall, we anticipate continued strength in consumable, usable, and edible (aka, "CUE") products, due to the higher prices as well as installed base of pet and animal owners. Recall, CUE comps have grown ~3x faster than company avg. all throughout 2022.

Additional details

- **2023 Thoughts:** We continue to believe TSCO's share gains will prove to be sticky for the following reasons: 1) The shift to "Life out Here" is not transitory, it is permanent, and therefore TSCO share gains are sustainable, 2) TSCO should not see broad-based deflation in 2023 (excluding select big-ticket items) given that it has very clear visibility into pricing for up to 12 months and continued supply constraints in consumable, usable, and edible ("C.U.E.") items; 3) TSCO is in the early innings of leveraging customer data within its Neighbor's Club loyalty program, which is already well ahead of many other retailers in our coverage from an engagement standpoint, as its 28M+ members account for 75%+ of its ~14B in sales; 4) The importance of TSCO's culture and investments in its workforce cannot be overstated, resulting in increased retention at all levels in stores and DCs and also leading to higher customer loyalty and engagement due to its relationship-based culture while the selling process at most other retailers are transaction oriented; 5) TSCO should see a meaningful reduction in supply chain costs related to the opening of two new DCs (9th DC opened in OH in January and the 10th DC is slated to open in AR later in 2023); 6) TSCO has not seen trade-down; and, 7) TSCO has a market share of just ~8% in a TAM of $180B and it is scratching the surface in many categories as some of its initiatives are still in early innings.

- **Valuation:** We continue to rate TSCO OUTPERFORM with a TP of $260, based on an EV/ EBITDA of ~13.7x on our FY24 EBITDA est. of $2.1B.

Leadership Update

On February 9th, 2023, TSCO announced Chairman of the Board of Directors Ms. Cynthia T. Jamison's intention to not stand for re-election as a director at TSCO's 2023 Annual Meeting of Stockholders, effective May 11th, 2023. The board appointed Ms. Edna K. Morris as the new

Chairman of the Board of Directors. Ms. Norris, currently the Chair of the Compensation Committee and a member of the Corporate Governance and Nominating Committee, has 18 years of experience as a board member at TSCO and 40 total years of executive leadership experience. The company also announced the departure of Mr. Tom Kingsbury from the Board of Directors. Mr. Kingsbury's departure decreased the total number of board members to nine, and Ms. Jamison's retirement in May will further reduce the total number of board seats to eight.

Additionally, TSCO announced a contract extension with President and CEO Mr. Hal Lawton through February 2026. We view this extension positively given Mr. Lawton's strong track record of execution over the past three years (Mr. Lawton's tenure as President and CEO began in January 2020), including a) robust top-line sales growth, b) strong operating income and EPS growth, c) nearly doubling the number of Neighbor's Club loyalty members (from ~15M to ~28M), and 4) increasing dividend payments from $1.36 per share in 2019 to $3.68 per share in 2022, even as TSCO has invested in the business to capitalize on structural tailwinds present in the industry, including homesteading, rural revitalization, and millennial household formation.

1Q23 Estimates

For 1Q23, we now project EPS of $1.68 ($1.72 previously) vs. the FactSet consensus ("FS") of $1.74, on our new comp forecast of 4.5% (5.5% previously) vs. FS at 4.4%. We expect TSCO's strength to be driven by: 1) its large non-discretionary product mix, with consumable, usable, and edible ("CUE") products representing more than an estimated ~60% of sales; 2) a robust new store opening pipeline as well as the addition of acquired Orscheln Farm and Home locations, which are expected to be accretive to EPS by "at least" $0.10 in FY23; 3) retail price inflation (TSCO guided to 3 to 5 points of inflation benefit for the year, with a greater impact in the first half of FY23); and 4) continued rollout of Side Lots and Project Fusion remodels. With regards to margins, we expect gross margin expansion of 20 bps to 35.1% from the moderation of product costs and lower ocean freight rates, partially offset by the mix impact of C.U.E versus FS consensus of 35.0%. We model SG&A (incl. D&A) expense ratio deleverage of 60 bps to 27.4%, due to new DC opening costs as well as the integration of the Orscheln Farm and Home acquisition, versus FS consensus of 27.2%. All in, we project EBIT margin to be down ~40 bps to 7.7% vs. FS at 7.8%.

What Matters Most to Us:

- 2023 and 2Q23 outlook, including assumptions on macro and inflation
- 2QTD trends
- 1Q comp trends by month
- 1Q transactions and ticket, including the impact of inflation
- 1Q comp by region and merchandising category
- The weather impact on the comp
- Commodity inflation impact on the comp
- Performance by category, including mix impact of C.U.E.
- Big ticket performance
- Update on strategic initiatives
- Update on Neighbor's Club and private label credit card
- Progress on integration of Orscheln Farm and Home stores
- E-commerce performance
- Sales growth vs. EBIT growth

Tailwinds:

- Historically low unemployment levels
- Retail price inflation
- Homesteading, rural revitalization, and millennial household formation trends
- Healthy inventory levels

- Low promotions
- C.U.E. demand trends

Headwinds:

- A more challenging macro environment
- Mix shift into lower margin C.U.E. categories
- Continued wage rate pressures
- Higher interest rates and expenses
- Unfavorable weather in 1Q

Full Report

Date of Production: 23-Apr-2023 21:45:12 UTC Date of Dissemination: 24-Apr-2023 06:00:06 UTC

Affirm Holdings [AFRM.OQ]
March Trust – Delinquency Down Across Buckets; Early Roll Rates Continue to Improve; Continued Credit Stability

NEUTRAL

Rating	NEUTRAL [V]
Price (21-Apr-23, US$)	10.99
Target price (US$)	16.00
52-week price range (US$)	39.91 - 8.91
Market cap(US$ m)	3,231
Enterprise value (US$ m)	4,733

Research Analysts

Timothy Chiodo, CFA

Moshe Orenbuch

Nik Cremo

Christopher Zhang, CFA

Hoang Nguyen

Dylan Wright

Jing Zhang

- **Affirm March securitization data:** Affirm's March securitization data continue to show strong performance on Affirm's Z securitizations (used for longer-term 0% APR loans which are for high credit quality customers) with small delinquency and loss, though newer Z securitizations are performing a bit behind prior ones. For securitizations of interest-bearing loans, the delinquency formation (change) was better than prior month across the board, with a decrease in delinquency across delinquency buckets overall, and better than the (limited) historical seasonality, a positive (though 2023-A has yet to report). Overall performance remains consistent with management's commitment to manage credit tightly in this environment, even if it impacts GMV growth. Early roll rates in the interest-bearing securitizations were down m/m in March across the board, also a positive.

- **Longer-term 0% APR loan securitizations continue to perform well, while interest bearing securitizations overall saw a decline in delinquency across buckets.** Longer-term 0% APR loan securitizations (Z securitizations) continue to perform well, with lower loss than interest-bearing loans and lower allowance coverage. Based on the data , the 30+ day delinquency and cumulative charge-off on these Z securitizations have continued to remain extremely low in the ~35-97 bps range, despite fact that the loans have aged for 14-33 months. 2021-Z2 and 2022-Z1 are not performing at quite the same level as the other three prior Z deals (though these securitizations are accounted for as loan sales so they do not impact AFRM's net charge-offs and still are very good credit quality). In general, loans in the Z securitizations have historically had low losses throughout Affirm's history. These securitizations had ~7-20% declines in balances in March (they are all amortizing), and dollar delinquency was down ~12% in aggregate.

- **Interest bearing securitizations – continued broad decline in delinquency across buckets a positive, particularly in early stage del, early roll rate improved m/m:** Securitizations with majority interest-bearing collateral (2021-B, 2022-X1 – 2022-X1 is off-balance sheet, and 2022-A) saw broad-based decline in delinquency, and this happened across all delinquency buckets in March. We note that 2023-A has yet to report, and AFRM has recently issued a tack-on deal on this shelf. The delinquency change in March was better than seen in February for all 3 securitizations (which was already better than January), extending the positive trend over the past 4 months. 30+ delinquency decreased m/m by 48 bps in 2021-B, 21 bps in 2022-X1 and 43 bps in 2022-A in March vs February (on a combined basis, dollar delinquency was down 13% m/m).

Additional details

The decreases were observed across buckets from early to late delinquency. The decline in early stage delinquency was slightly better than the (limited) historical seasonality of AFRM's securitization program, and was also better than seen in the credit card trusts, and this continues to be a positive. We also note that 2021-B and 2022-A are more relevant than 2022-X1 for the overall performance of AFRM's interest-bearing loans given the former have 6-9x the balance of the latter.

- **Roll rates for interest bearing securitizations:** We also analyze roll rate for the interest-bearing securitizations, and see that among the more pertinent buckets, roll rates were down m/m in current to 30-59 day delinquency and mostly up m/m in 30-59 day delinquency to 60-89 day delinquency for 2021-B, 2022-X1 and 2022-A (though still well within historical range).

- **Cumulative loss data:** We have yet to receive cumulative loss data for 2021-B, 2022-X1 and 2022-A (will likely have the data by the end of the month). As their 90+ day delinquencies were down in March (except 2022-X1 which was flat), their losses in aggregate are likely to be down in April, and then go down again in May given the decline in mid-stage delinquency in March. For 2022-X1, it is off balance sheet, and so doesn't affect AFRM's reported charge-offs, and it also has much smaller balance vs the other interest-bearing securitizations.

- **Tack-on deal on 2023-A shelf:** AFRM has issued another $400 mil tack-on ABS on the original 2023-A deal. This was upsized from $250 mil initially. Weighted average life of the tack-on was 1.7 years, and weighted average cost was 7.5%. Vs. the original 2023-A deal, weighted average life was shorter by 0.6 years, but weighted average spread was higher by 17 bps. The original 2023-A deal was $500 mil and was priced in mid-January. Vs. then, benchmark rates are now at mostly similar level, though it appears that spread has ticked up due to continued macro uncertainties (i.e. banking turbulence). Deal being upsized is a positive for funding availability

Additional research: 1) We hosted AFRM's CFO at our 26th Annual Technology Conference in Arizona, including touching on pricing (both on the consumer side and the merchant side), please see our recap report here: 2) See our securitization analysis report for March, April, May, June, July, August, September, October, November, December, January and February; 3) For takeaways from our hosted Affirm FQ2 2022 Buyside Call (led by Affirm's CFO), please see our recap note; please also see our FQ2 2023 earnings recap note; 4) For our thoughts on Affirm's September 2021 investor day, please see our recap report; 5) For our initial thoughts on the AFRM-AMZN partnership and its potential impacts, please see our AFRM-AMZN report; 6) For more on Affirm, please see our initiation report (including Affirm overview & BNPL primer-type materials); 7) We preview our 6th Annual Private Company FinTech Conference & Networking Event taking place in-person outdoors in Napa, May 18-19th; and 8) For further views on the broader Payments, Processor, & FinTech sector, including the intersection of software and payments, please see our industry presentation (recently updated September 2022 edition), "If Software is Eating the World…Payments is Taking a Bite".

Full Report

Date of Production: 23-Apr-2023 22:16:18 UTC Date of Dissemination: 24-Apr-2023 08:01:37 UTC

PayPal [PYPL.OQ]

TPV, take rates, & transaction expense by category (Branded Checkout, Braintree, Venmo, etc.), eCommerce “True TAM”, & TPA analysis

OUTPERFORM

Rating	OUTPERFORM [V]
Price (21-Apr-23, US$)	74.18
Target price (US$)	100.00
52-week price range (US$)	102.08 - 67.55
Market cap(US$ m)	83,290
Enterprise value (US$ m)	72,855

Research Analysts

Timothy Chiodo, CFA

Nik Cremo

Christopher Zhang, CFA

Dylan Wright

Jing Zhang

Patrick Ennis

Kyle Lindgren

- **Analysis of PayPal TPV mix, take rates, & transaction margins by business line:** We believe that it is important to gain an understanding of the various TPV types that make up the business, particularly given the mix shifts associated with faster growth in Braintree (enterprise-focused, unbranded, lower net take rate). Each of these components (Branded Checkout, Unbranded [Braintree & PayPal unbranded], Venmo, P2P ex-Venmo, etc.) have varying take rates, funding mixes (transaction expense levels), and thus, disparate transaction margins. We include our updated analysis (aligned with more recent categorizations/disclosures provided by PayPal) on TPV growth, take rates, transaction expenses (i.e., credit, debit, ACH/balance funding mix), and resultant transaction margins by TPV category. This analysis available in Excel by request.

- **Transactions per active (TPA) analysis:** We combine our user forecast (~500mm actives by 2025E vs. ~435mm in 2022), TPV by category analysis, and transaction size assumptions to arrive at what we believe to be a more representative Total ex-Braintree & Venmo TPA picture (excluding Braintree, P2P/Venmo, & eBay). Specifically, this analysis removes the impacts associated with Braintree (fast growing unbranded business), Venmo and P2P (largely unmonetized transactions), and eBay (shrinking business that now makes up only a ~LSD portion of TPV). Our analysis/ assumptions suggests Total TPA ex-Braintree, Venmo, PayPal P2P, & eBay has gone from ~15.3x in 2015 to ~18.6x in 2022 (a year with increased user churn and discretionary spending headwinds), with our forecasts implying relative levels of stability in 2024 & 2025.

- **Updated US Branded Checkout share analysis:** We update our illustrative US Branded Checkout share analysis. Recent management commentary (comments made at earnings and during an intra-quarter conference appearance) suggests that PayPal’s Branded Checkout button could accelerate in Q1 2023 vs. Q4 2022 levels. We note the recent industry eCommerce data points (US Census Non-Store Retail Sales, Mastercard SpendingPulse, Visa CNP ex-travel), based on the data sources available thus far, suggest relatively stable eCommerce growth trends into Q1 2023 vs. Q4 2022.

- **Valuation & estimates:** PayPal shares continue to provide exposure to a unique and scaled two-sided network (~80% of top 1.5k sites, ~400mm users, ~35mm merchants). Our $100 target (unchanged) is based on ~18x non-GAAP 2024E EPS, which implies ~22-22.5x 2024 non-GAAP less tax effected SBC EPS (vs. V & MA trading at ~26-29x NTM). Risks are macro (inflation, discretionary, rates), competitive (Apple Pay, Shop Pay, etc.), execution, & take rates (largely mix driven).

Full Report

Date of Production: 24-Apr-2023 01:44:44 UTC Date of Dissemination: 24-Apr-2023 01:45:56 UTC

Algonquin Power & Utilities Corp. [AQN.N]
Ample Activities Ahead Along with Activism

OUTPERFORM

Rating	OUTPERFORM
Price (21-Apr-23, US$)	8.35
Target price (US$)	10.50
52-week price range (US$)	15.08 - 6.52
Market cap(US$ m)	5,625
Enterprise value (US$ m)	14,180

Target price is for 12 months.

Research Analysts

Andrew M. Kuske

Selena Zhou

James Aldis

Remaining Ready for Re-Rate: Late in the April 21st trading day, **Algonquin Power & Utilities Corp.'s (AQN)** shares started to lift on the back of media reports about a rather well-known activist taking a position the company (Press Release). With the Q1 2023 results being reported on May 11th, another potential catalyst on the re-rating path is in close proximity; however, we don't expect a meaningful deviation from the playbook. Key parts of the current playbook are largely focused on divestitures initially focused on renewables, the strategic review process for **Atlantica Sustainable Infrastructure (AY)** and, eventually, some of the utilities in the portfolio – as addressed in some past work like *Termination Talk and Revisiting the Re-Rating by Reiterating the Outperform Rating* and *The Reset Reality and a Rocky Roadmap* and *AQN.N: Considering the Catalysts and the Calendar; Re-Rate Reiterated with an Outperform Rating*). We continue to believe AQN's risk-reward relationship and re-rate potential is very meaningful – albeit the road is likely to be rocky and dependent on news flow coming from successful strategic execution of the plan.

Concerns or Caution: Some express concern on AQN's vigilance on executing asset sales – especially with the Kentucky termination. We believe management will deliver the asset sales; however, a potentially growing list of more active investors may motivate change at an accelerated rate.

Investment Thesis: Algonquin provides hybrid exposure to a decarbonizing utility base and renewable power generation outside of rate base – with a value bias versus other stocks. Yet, there is a clear need to actively deliver the "game plan" to surface value in the quarters ahead to help regain Street confidence – along with a re-rating.

Valuation: Our US$10.50 target price and Outperform rating are obtained from multiple methods, including: **(a)** a 2024e EBITDA driven NAV that includes a 12x multiple on the renewable energy segment and a 11.5x multiple on regulated services; **(b)** a blended multiple of 12.6x on 2024e EV/ EBITDA; and, **(c)** an implied ~4.10% 2024e dividend yield. Risks to our rating and target price include: power prices; regulation; operational performance; FX; and variable production levels.

Full Report

Date of Production: 24-Apr-2023 01:47:18 UTC Date of Dissemination: 24-Apr-2023 01:48:10 UTC

Corning, Inc. [GLW.N]
1Q23 Preview; Expect In-Line Quarter with Top-line Acceleration Beginning In 2H23

OUTPERFORM

Rating	OUTPERFORM
Price (20-Apr-23, US$)	33.98
Target price (US$)	40.00
52-week price range (US$)	37.54 - 29.02
Market cap(US$ m)	28,789
Enterprise value (US$ m)	33,447

Target price is for 12 months.

Research Analysts

Shannon Cross

Ashley Ellis

Corning (GLW, Outperform) is scheduled to report 1Q23 results before market open on April 25. We lower our 1Q23 revenue estimate to $3.34B from $3.40 billion (consensus is at $3.35B), given a more cautious stance on timing of Display and Optical improvement. We estimate gross margin declined 79 bps y/y to 35.8%, reflecting continued supply chain pressure and factory underutilization, partially offset by recent price increases. For 1Q23, we expect non-GAAP EPS of $0.39 (down $0.02 from prior and in-line with consensus). We continue to expect Corning's earnings in 2H23 and beyond to likely benefit from: 1) improving display trends; 2) optical demand supported by government funding; and, 3) growth at Hemlock with US domestic production of polysilicon becoming increasingly valuable. Risks include weaker-than-expected consumer spending, supply chain pressure, slower roll-out of 5G and fiber; and, lower glass prices.

- **Display Technologies:** We lower our Display revenue estimate by 5% to $729M, reflecting weaker panel maker utilization in January due to COVID-19 lockdowns and continued pressure in Chinese demand. At our meetings, management highlighted consumer demand is "far from normalized", albeit panel inventories are declining, indicating a bottom is near. Overall, we estimate Display revenue down 1% in 2023 (versus down 11% in 2022) but return to growth in 2024 (we estimate up 7%).
- **Optical Communications**: We lower our Optical revenue by 2% to $1.09B, reflecting a continued pause in carrier spending and ongoing digestion with hyperscale cloud customers. We believe the long-term prospects in this segment remain intact driven by private and public funding where we believe Corning's share will likely ultimately reach into the billions (we estimate revenue flat y/y in 2023 and up 13% y/y in 2024).
- **Looking Ahead**: We estimate 2Q23 revenue down 4% y/y to $3.61B (versus consensus of $3.58B), driven by similar trends as 1Q23, but expect a rebound in 3Q23 (up 7% y/y). We think Display will incrementally improve throughout the year and Optical will exit the digestion phase in 2H23. Overall, we estimate 2023 revenue flat y/y at $14.86B and non-GAAP EPS of $2.17, vs. consensus at $14.67B/$2.07.

Full Report

Date of Production: 21-Apr-2023 20:04:16 UTC Date of Dissemination: 21-Apr-2023 20:05:04 UTC

Diversified REITs | Theme

24 April 2023

Retailer Bankruptcies Not A Good Start For 1Q23 Earnings Season
A Potential Drag On 2023 Earnings

Research Analysts

Tayo Okusanya, II, CFA, CPA

Corey DeVito

Over the past week, two notable retailers, Bed Bath & Beyond and David's Bridal, filed for Chapter 11 bankruptcy. The two retailers have been on the watch lists of Retail REITs who have actively been working on back up plans to backfill the space in the eventuality of a bankruptcy. That said, the closure of all their stores will put pressure on in-place occupancy in the near term.

- **Details of The Bankruptcies:** On Monday, April 17, 2023, David's Bridal filed for Chapter 11 bankruptcy just days after announcing plans to lay off more than 9,000 employees (essentially all of its staff) later this year. The wedding dress retailer said its stores and e-commerce website will remain open during the financial restructuring process but will close all its 294 stores if a buyer of the business is not found. As for Bed Bath & Beyond, the company filed for Chapter 11 bankruptcy on Sunday, April 23, 2023, and expects to close all of its 360 Bed Bath & Beyond and 120 Buybuy Baby retail locations eventually. The company has received $240M in financing to keep operating throughout its liquidation process.

- **Downtime Will Likely Cause a Drag on 2023 Earnings:** Despite concerns around tenant vacancies as a result of these bankruptcies in particular, and also as many retailers continue to right size their fleets to improve their balance sheets in general, we see minimal risk to Retail REITs eventually backfilling these potential vacancies, as supply remains limited and demand remains elevated. However, backfilling tenants is time consuming and costly, and typically results in a period of downtime as operators reconfigure the space. As such, we believe 2023 earnings could potentially come under some pressure as space is vacated. This could mean potential downward pressure on NOI margins and higher uncollectible lease income. However, it is worth noting that 2023 guidance provided by many Retail REITs appeared somewhat conservative, already having assumed a higher than usual level of credit provisioning. That said, we believe RPT is at greatest risk of experiencing earnings drag from re-tenanting given roughly 2.3% of annualized base rent (ABR) is derived from Bed Bath & Beyond. Meanwhile, companies such as BRX, FRT, PECO and REG all derive less than 1.0% of ABR from Bed Bath & Beyond. We note that no Retail REITs have exposure to David's Bridal.

Full Report

Date of Production: 23-Apr-2023 23:34:50 UTC Date of Dissemination: 24-Apr-2023 08:02:18 UTC

The Brookfield Group
Stub Seeker: Defaults in DC and Deployments into the Results Runway

Research Analysts

Andrew M. Kuske

James Aldis

Selena Zhou

Key Thoughts: We focus on three areas in this week: **(a)** continued focus on a recurring storyline of property defaults with this iteration being selected **Brookfield** assets in DC (Press Release); **(b)** Brookfield's acquisition proposal for **Network International Holdings plc (NETW)** at a value of 400p for a total consideration of ~US$2.65bn (Announcement); and, **(c)** the official kick-off of the alternative asset manager earnings season with **Blackstone's (BX)** mixed print as per our US Team's views in *Off The (1Q23) Call – A Soft Fundamental Update; FRE Multiple(s) Seem Out Of Sync*.

- **Stub Movement:** In the last week, the **BN** "stub" was up US$1.18 with the following stock performances: **BAM:** ~US$(0.66); **BEP:** ~US$(0.12); **BNRE:** ~US$0.01; **BIP:** ~US$(0.09); and, **BBU:** ~US$0.01.

Full Report

Date of Production: 23-Apr-2023 22:10:12 UTC Date of Dissemination: 24-Apr-2023 08:00:56 UTC

Canadian Banks
Read-throughs from U.S. Banks' Q1/23 Results – Slowing PTPP Earnings Growth, NIM Improvement

Research Analysts

Joo Ho Kim

Amanda Abraham

We highlight the key trends from the U.S. banks' Q1/23 results, for potential read-throughs to the Canadian banks' Q2/F23 earnings (scheduled for release in late May).

The Bottom Line: We believe the trends from the U.S. banks' Q1/23 earnings were a modest negative for BMO and TD (i.e. the Canadian banks with a more significant US earnings exposure) given the slowdown in PTPP earnings growth, which was driven by a much less impressive margin improvement and slower loan growth. Meanwhile, the reserve builds across the U.S. banks looked lite in our view, particularly given the heightened volatility in the macro-outlook brought forth by the regional banking 'crisis' in March. That said, more modest build in allowances could help offset some pressure on the bottom line (i.e. NQ consensus estimates) for the Canadian banks if similar trends persist for the group. Lastly, investment banking results were no surprise given the tough market conditions, while heightened volatility helped trading activities again this quarter (positive for NA given its greater trading revenue exposure vs. peers).

- **NIMs Improve Marginally, Deposit Trends Mixed:** The U.S. banks that we track (the 4 moneycenter banks and 6 large regionals) reported aggregate NII growth of 1% Q/Q (up 38% Y/Y), which was meaningfully slower than 11% sequential growth we saw in Q4/22. The result reflected a more modest NIM improvement (up 1bp Q/Q vs. 19bps in the prior quarter), with a softer performance from the regional banks in particular. On balance sheet, loan growth showed signs of some slowing as well, while deposit results were mixed across the banks (with the shift towards higher cost deposits continuing).

- **Reserve Builds were More Modest than Expected; Increase in Write-Offs Continued:** The U.S. banks that we track built US$2.7 BB in reserves during Q1/23 compared to a more sizable build of US$4.2 BB in Q4/22 and reserve release of US$1.8 BB in Q1/22. The sequential decline in the reserve build was a surprise in our view, given the volatility in the U.S. banking sector during the quarter. The quarterly results reflected a continued increase in the write-off levels, up 8% Q/Q to US$4.9 BB.

- **Trading Revenues Improve Sequentially, Investment Banking Still Weak:** Across the 5 large U.S. investment banks we track, total revenue from trading and underwriting was up 35% Q/Q and down 9% Y/Y. Trading revenue performance continued to be better (up 44% Q/Q), reflecting sequential growth across both FICC (up 50% Q/Q) and equities (up 35% Q/Q). Investment banking activities remained muted (up only 2% Q/Q), reflecting a sequential recovery in debt underwriting (up 51% Q/Q), while advisory and equity underwriting declined further (down 21% and 3% Q/Q, respectively).

- **PTPP Growth Slowed Down:** Pre-tax pre-provision earnings for the U.S. banks (focusing on their P&C businesses) were up just 2% Q/Q (vs. up 11% in Q4) and up 53% Y/Y. The slowdown in the sequential PTPP earnings growth reflected more challenging results from the regional banks in particular (down 3% Q/Q) as moneycenter banks reported better results (up 5% Q/Q).

Full Report

Date of Production: 24-Apr-2023 00:20:44 UTC Date of Dissemination: 24-Apr-2023 08:03:00 UTC

Credit Suisse

Health Care Equipment & Services | Weekly Analysis

24 April 2023

Healthcare Services Weekly Check-up Hospitals & Specialty Services Outperform; Outlook for PBM Reform Legislation; Proposed Expansion of Methadone Access

- **Tech PCPs & Managed Care Outperform**: For the week ending April 21st, healthcare services stocks were up 0.4% on average, outperforming the S&P 500 (-0.1%) and the broader healthcare index (HCX -0.9%). Hospitals (+6.3%) and Specialty Services (+5.7%) outperformed, while Managed Care (-5.1%) and Tech PCPs (-6.6%) lagged. In our coverage, CYH (+13.0%) and TDOC (+8.6%) performed best, while ANTM (-7.0%) and CANO (-12.1%) lagged.
- **Report of the Week: Outlook for PBM Reform Legislation:** On April 19th, members of the House Energy and Commerce Committee introduced a bill to increase oversight of the Pharmacy Benefits Management (PBM) sector. This bill coincides with a proposed bipartisan framework on PBM reform that was released by members of the Senate Finance Committee in the same week. Both proposals aim to control spending on pharmaceuticals. A third bill, the Drug Price Transparency in Medicaid Act, was introduced in the House earlier in April and would limit certain PBM practices such as spread pricing. It is possible that these efforts could be packaged together as part of a broader health care effort in the House later this year, though it is too early to make assumptions about the type of legislation that could get through a narrowly divided Congress. It is worth noting that PBM reform efforts aren't generally polarized along traditional party lines, which keeps open the possibility for bipartisan agreement. However, similar PBM reform bills have been repeatedly introduced and debated in previous sessions of Congress, so there remains skepticism that this time will be different.
- **Survey of the Week: Proposed Expansion of Methadone Access for Opioid Addiction:** In light of proposals to expand the availability of methadone for treating Opioid Use Disorder (OUD), researchers performed a review of peer-reviewed studies on the topic. U.S. law currently requires methadone to be delivered in opioid treatment programs under strict supervision. A new bill, recently introduced in both the U.S. House and Senate with bipartisan support, would allow individuals to fill medical prescriptions for 30-day supplies of methadone for use without supervision. HHS has also proposed rules intended to expand access to methadone for opioid treatment. The MAT Act, passed in December 2022, made buprenorphine, a lesser used alternative to methadone, more broadly accessible.

Research Analysts

A.J. Rice

Jonathan Yong

Joseph Overman

Anastasia Parafestas

Enjia Cao

Carlos Penikis, CFA

Full Report

Date of Production: 24-Apr-2023 00:41:18 UTC Date of Dissemination: 24-Apr-2023 08:04:30 UTC

Mortgage REITs | Autos ABS

24 April 2023

Used vehicle prices & auto credit monthly – March 2023

Wholesale used vehicle prices have been variable, but stronger than expected in 2023 ytd: Manheim was up 1.5% in March compared to prior month (-2.4% y/y) and Blackbook was up 2.8% vs. prior month.

Research Analysts

Moshe Orenbuch

Full Report

Date of Production: 24-Apr-2023 02:04:09 UTC Date of Dissemination: 24-Apr-2023 08:05:50 UTC

Inflection Point

US Transition Weekly: Louisiana CCS primacy, yet another large-scale Gulf Coast blue ammonia plant

Research Analysts

Betty Jiang, CFA

- **Transition theme performance:** Our transition thematic universe was down ~2.5% WoW on a market-cap adjusted basis, underperforming the S&P 500 which was down only 0.2%. Solar (+2.7%), building efficiency (+2.3%) and EV charging (+1.8%) outperformed. Meanwhile, passenger EVs were among the worst performing groups down 9.8% as Tesla's earnings weighed on the sector after it revealed a decrease in gross margins (19.3% vs 22.4% expected) following a series of price cuts. Lithium producers with exposure to Chile were also under pressure (Albemarle -15.2%) following news that the country is planning to nationalize the industry though Bloomberg reported on Friday that the company expects the current contract through 2043 will be honored.
- **Top news highlights of the week:** Louisiana could gain primacy by the end of the year which could accelerate Class VI carbon sequestration well permitting progress in the Gulf Coast. We estimate ~22 MMtpa of carbon capture and storage projects have been announced or in development in Louisiana. PE-backed St. Charles Clean Fuels plans a $4.6 billion-dollar blue ammonia facility and export facility in Louisiana, which adds to a growing list of low-carbon ammonia investments being made by Air Products, Nutrien, and Yara among others. Republicans introduced a proposal to raise the debt ceiling that also looks to repeal or revisit clean energy tax incentives within the Inflation Reduction Act. While the bill is expected to be blocked, it shows continued political discord despite IRA-driven investments having been primarily focused in red states. The DOE's LPO granted $3 billion in loan guarantee to Sunnova in support of clean distributed generation and virtual power plant development. This reduces cost of capital for the residential solar company.
- **This week in Research:** Our chemicals team provided takeaways on ammonia from the World Petrochemical Conference highlighting its growing use as a fuel and increasing value for its hydrogen rather than nitrogen. CF industries is the global leader in ammonia/nitrogen fertilizers. European Utilities published key takeaways from their discussion with WindEurope highlighting that permitting remains the number 1 issue and that despite subsidies in the EU's Green Deal Industrial Plan, projects are being redirected to the US due to simplicity of the IRA.
- **The week ahead:** Earnings are in full swing with companies reporting first quarter results including General Electric, Dow, UPS, NextEra Energy, Sunnova, and Linde among others.

Full Report

Date of Production: 23-Apr-2023 23:55:42 UTC Date of Dissemination: 23-Apr-2023 23:56:46 UTC

Credit Rating Agencies
Issuance slowed in March

Research Analysts

Kevin McVeigh

Victor Khong

Marc Vitenzon

As we have consistently written, while our constructive credit rating agency view is not predicated on near-term issuance, the MCO and SPGI stocks are impacted. As such, we offer our proprietary bottom-up issuance tracker as these data points help investors calibrate ratings non-subscription revenue [~50%/25% MCO/SPGI]. We project ratings non-subscription revenue and reconcile to it our proprietary issuance forecast model. The market is focused on tough 2023 issuance trends + outlook as evidenced by Q4, coupled with potential estimate revisions over the course of 2023. Post Q4 Moody's introduced its 2023 guide, implying MSD-HSD YoY top-line growth—suggesting stability—albeit limited recovery—in issuance markets. These expectations were echoed by SPGI guide as well with S&P suggesting it expects issuance to bounce along the bottom for at least H123.

- **Issuance uncertainty has created intriguing entries**—given interest rate and market volatility, we analyze CRA—MCO and SPGI—performance around CDS spreads. We consider historical CRA share price performance relative to 5-year North America high-yield IHS Markit CDS total return index [CDXTHL15]. CDX indices are tradable credit default swap [CDS] indices covering North America and emerging markets and are a proxy for issuance health. In Q122 swoon—late Dec–to-mid-March—CRAs underperformed CDXTHL15 ~18% like average ~15% underperformance in prior periods of market stress [GFC, Q418, COVID-19 sell-off]. After COVID, the CRAs each rallied ~150% to all-time highs of $406.69 [MCO (10/28/21) and $478.97 [SPGI (12/15/21)] over the next ~18 months. Moody's and S&P have rallied 2035% and 2147% since the global financial crisis.

Issuance slowed in March—February saw the strongest start to IG issuance since 2018 [Figure 16] as March turned back to trough. Q1 total issuance finished at ~-17% YoY vs. [~-23%/~-44%/~-44%/~-39% YoY Q1/Q2/Q3/Q422]. IG finished 2% YoY in Q1 [~16%/~-40%/~-37%/-25% YoY Q1/Q2/Q3/Q422]. HY finished -17% YoY in Q1 [~-72%/~-82%/~-84%/~-82% YoY Q1/Q2/Q3/Q422]. Given the lack of typical seasonality in March—typically the strongest month—we aren't projecting quarterly trends. Despite the strong start, Q1 total issuance is hovering around 2019 levels.

Constructive on Moody's [Outperform, $350 TP]—positive as fundamentals fortifying medium-term targets discussed at investor day. We highlight growing, diversified client demand, recurring revenue, and enhanced solutions in MA [~52% 2023 versus ~15% in 2000] as an offset to near-term issuance weakness. Our bullishness is tethered to unique integrated risk assessment, strong growth—cycle-to-cycle—fueled by secular drivers amid new data assets [BvD, RD+A and RMS] coupled with impressive, expanding margins.

- **SPGI bottoming [Outperform, $395 TP]**—accelerated share repurchases (ASR) amid ongoing cost [$600m] and revenue [$350m] synergies bridged issuance volatility. Investors should be rewarded as the market discounts an industry leader, secular megatrends, and TAM. TAM offers global issuance [4-5% 20yr CAGR], China, ESG amid passive investing growth—passive equity ~30% allocation vs. 6% in 2000—and data asset proliferation.

Full Report

Date of Production: 21-Apr-2023 21:28:42 UTC Date of Dissemination: 22-Apr-2023 16:00:09 UTC

US Restaurants
Food for Thought: Spring Chicken

Research Analysts
Lauren Silberman
Alex Stansbury
Raymon Wang

This is our weekly US Restaurants note that highlights the most significant news as it pertains to our coverage and industry. See 23 Themes for 2023 for our 2023 outlook.

- **2022 Industry Growth:** This week, Technomic released its Top 500 report, which includes company-specific and industry-level data across segments. In 2022, restaurant industry sales grew 7.5% to ~$619.5BN, including limited service growth of 7.4% and full service growth of 7.6%. Unit growth increased 0.9% to ~631.5K units, noting restaurant supply is still down ~10% vs 2019. Chicken has been the best performing segment over the last three years, with sales up 14.5% in 2022, adding to total growth of 42.2% vs 2019. Pizza has been the weakest performing segment, with sales -0.1% in 2022 (only segment to demonstrate negative growth), noting sales are up just 4.3% vs 2019.

- **Deeper Dive into Top 500:** The top 500 restaurants make up 63%+ of industry sales, up from 57-58% in 2018/2019. 2022 was another year of outperformance, with the top 500 growing sales 8.2% (industry 7.5%). The top 500 grew units 1.7%, nearly 2x the pace of the overall industry. In 2022, Starbucks opened the most US units, followed by Crumbl Cookies (more than doubled unit count), Jersey Mike's Subs, Chipotle and Taco Bell. In 2022, there were no changes in the rankings among the top 10 chains, which together comprise nearly $170BN in sales, or ~27.5% of total industry sales. Over the last three years, Wendy's & Dunkin' each moved up two spots, Chipotle moved up one spot and Burger King & Subway each moved down two spots. Among the top 10 chains, Chick-fil-A has demonstrated the strongest growth over the last three years, with sales +55%, closely followed by Chipotle at +54%. Looking at the top 100 largest chains, three chains more than doubled in size over the last three years, including Raising Cane's (113%), Dutch Bros (109%) and Jersey Mike's Subs (101%). In terms of chains to watch, Dave's Hot Chicken, bb.q Chicken, Kura Sushi, Salad and Go, Hawaiian Bros Island Grill, Just Salad, Bubbakoo's Burritos & Barrio Tacos all moved 100+ spots in the top 500 rankings in 2022.

- **Leaning into the Core:** McDonald's is making changes to its classic burger lineup to serve its "hottest, juiciest and tastiest burgers" yet, including softer buns that are toasted, tweaking processes to get meltier cheese, adjusting grill settings for a better sear, adding onions to patties while still on the grill, & adding more sauce to Big Macs. McDonald's has introduced these enhancements in select international markets & cities on the West Coast, with plans for a full rollout across the US by 2024. Over the last couple of years, we have seen more chains going "back to the basics." Menu improvements have been core to Subway's turnaround strategy (mid-2021), Tim Hortons has seen strong performance as it leans into its core & Wendy's saw strength with Hot & Crispy Fries (mid-2021). Outback, Chili's, Denny's & Applebee's have all discussed new equipment to enhance core menus.

- **Next Week in Restaurants:** Earnings: 4/25 **MCD**, **CMG**; 4/27 **DPZ**, BJRI; 4/28 **BLMN**.

- **Notable News:** 1) McDonald's is launching Big Mac sauce dip cups through its app for a limited time; 2) Shake Shack announced it is expanding to Israel, with plans for 15 Shacks by 2033; 3) Taco Bell is again partnering with Pete Davidson for a breakfast campaign.

Full Report

Date of Production: 21-Apr-2023 21:08:48 UTC Date of Dissemination: 21-Apr-2023 21:37:13 UTC

HCM & Vertical Services Software McVeigh's Selected Recap in a Minute

Research Analysts
Kevin McVeigh
Victor Khong
Marc Vitenzon

The market remained mostly flat this week as investors debated the prospect of rate cuts by year-end amid a backdrop of slowing macro conditions. Next week, we have a trove of earnings as earnings season kicks off—TRU, MCO [4/25, BMO]; ADP [4/26, BMO]; ASGN, RHI, TNET [4/26, AMC]; SPGI, WSC [4/27, BMO]; SSNC [4/27, AMC].

- **HCM & Vertical Services Software Q1 Preview**—Given uncertain and evolving macro environment, we remain selective in HCM + Vertical Services Software into Q123. We believe CDAY and SSNC are poised to outperform in Q1 earnings and believe implied 5-7% intraday moves on earnings 5/3 + 4/27 offer attractive relative risk-rewards. Despite geopolitical and macro risk, these sectors offer high-quality secular growth—as evidenced by revenue outperformance—relative to nonfarm payroll [NFP] growth. ALIT, INTA, SSNC, and TNET have outperformed the broader market YTD. While consistent with our relative view, we also believe FDS and PAYC—both essentially flat—are discounting too much fear. In our view, SaaS operators are well positioned as cloud solutions capture whitespace amid increased penetration driven by technology-fueled generational shifts in consumption.

Equifax—The EFX stock rallied ~4% intraday—consistent with its implied 3- 4% SURP—on a Q1 beat coupled with reaffirmed FY23 guide. Its tweaked mortgage origination outlook was more than offset by better-than-expected US inquiries and strength in international revenues. EWS [~45% revenue] was enhanced by record additions coupled with stronger government + new product initiative revenue—as Equifax remains on pace for 8% FY23 non-mortgage growth. Notably, Equifax suggested that it is seeing no broad-based credit tightening. Despite mortgage revenue headwinds, margins are poised to benefit from $200m cost-reduction program with an additional $50m in 2024. This, coupled with stronger non-mortgage revenue growth anticipated in H223, should deliver operating leverage in 2023.

- **Q4**—Q4 appointed a new COO highlighting its focus on fueling revenue and operational efficiency. Q4—leading capital markets communications platform provider—appointed Keith Reed COO effective 4/17. Mr Reed has 25+ years of experience with expertise in client success, product development, and sales.

SS&C—SS&C Intralinks [~10% rev]—sees Q223 M&A volume steady despite volatility—helps 2023 organic growth. SS&C Intralinks deal flow predictor forecasts number of future M&A announcements by tracking early-stage activity from prior four quarters [preparing new sell-side M&A deal or begun due diligence].

Jobless Claims—Week ending 4/15 as-expected at 245kA vs 245kE; up from 240kA [revised up 1k] last week. The data consistent with tight labor coupled with recent PAYX earnings support payroll [CDAY, PAYC, PAYX, PYCR]—tend to outperform later cycle, over temporary help [ASGN + RHI] as jobless claims hover and JOLTS ease.

TIXT update—Updating the model for seasonality + change in FCF due to interest paid shifted to CFF from CFO with no change to FY23-24E.

Full Report

Date of Production: 21-Apr-2023 16:37:24 UTC Date of Dissemination: 21-Apr-2023 20:00:09 UTC

Keeping it Real in Real Estate - Credit Suisse REIT Weekly

The "It's Beginning To look A Lot Like 1Q23 Earnings" Edition

Research Analysts

Tayo Okusanya, II, CFA, CPA

Sam Choe, CFA, CAIA

Corey DeVito

Adam Hamilton

The MSCI US REIT Index was up w/w Thursday to Thursday (+0.38%) outperforming the S&P500 (-0.40%) despite the US 10-Year Treasury yield increasing +15bps w/w. Outperformers were Single Family Homes (+2.54%) & Office (+2.03%, some recovery into 1Q23 earnings season after recent sell-off on concerns over tightening credit markets). Underperformers were Prisons (-3.52%) & Self-Storage (-4.80%, giving up some recent gains).

1Q23 Earnings Kicks Off – We Note Caution Surrounding Office Dividends: SLG & BDN reported this week and investors should be relieved to see a generally quiet quarter with nothing overly concerning. That said, there remains a lot to execute on (SLG de-levering and growing occupancy; BDN de-levering and leasing JV developments). We believe a lack of asset sales at both companies is spooking investors that there is no market to finance office transactions. As such, names that need to sell assets to de-lever may find themselves in a situation where a dividend cut becomes the most readily available source of capital. We note SLG & BDN as names to watch on the de-levering front. HPP & BDN are names with much higher dividend yields vs peer average (HPP at ~17.9%, BDN at ~18.3%, Office REIT average at ~6.5%) and screen as potential dividend cut candidates.

1Q23 Earnings – Gearing Up For Next Week: We expect to see slow leasing as well as transaction activity from BXP, HIW, and KRC. Investors will likely be focused on updates regarding HIW's previously announced Pittsburgh asset sales and KRC's South San Francisco development lease-up. ARE & PEAK report and we continue to expect to see slowing internal growth and potential occupancy headwinds in their life science portfolios. We expect an update on acquisitions in the pipeline and potential shifts in expectations around dispositions from LTC. MPW investors will likely be focused on updates regarding troubled tenants and the dividend outlook given these recent challenges. We remain conservative in our assumptions for acquisition activity among Triple Net Lease REITs, though note EPRT could potentially see elevated activity given management's ability to pre-fund its pipeline and middle market companies view on sale-leasebacks as an attractive alternative source of capital. With KIM, we expect investors will focus on potential tenant vacates associated with recently announced retail bankruptcies and the potential impact in terms of occupancy, NOI margins, credit losses, lease termination income, and re-leasing spreads. Residential REITs have seen rent growth deceleration as well as slowed transaction activity, and as such we are expecting that to be reflected in earnings across the board. We remain bearish on ESS based on its heavy West Coast exposure. We remain neutral on MAA, EQR and NXRT on decelerating rents, which we expect to have an impact on their reported earnings next week. AVB is experiencing the same rent deceleration as well as shrinking development spreads from higher construction costs. While UDR may experience some rent deceleration, we expect less impact on the bottom line due to its portfolio diversification and cost management initiatives. Investors in the Residential REIT space will also likely be on the lookout for impact from regulatory risk around rent control or tenant protections. In particular, the expiration of the LA eviction moratorium on March 31st creates near-term headwinds for names like ESS, AVB and EQR.

Full Report

Date of Production: 21-Apr-2023 21:12:55 UTC Date of Dissemination: 21-Apr-2023 21:14:31 UTC