Equities Research

CREDIT SUISSE

First Edition - US Alert
Wednesday, April 26, 2023

26 April 2023
Credit Suisse Global Product Marketing

Estimate / Target Price Changes:

Company Updates:

Industry Updates:

ESTIMATE / TARGET PRICE CHANGES:

Restaurants | Increase Target Price

26 April 2023

Chipotle Mexican Grill, Inc. [CMG.N]

Positive Traffic Back on the Menu

- **CMG delivers impressive 1Q23 print with beats across-the-board.** CMG 1Q EPS was $10.50 (consensus $8.95), with the beat primarily driven by SSS of 10.9% (consensus 8.7%) and a RLM of 25.6% (consensus 24.3%). SSS included contribution from traffic of ~4% and average check of ~7% (price 10%, mix -3%). Importantly, traffic was positive throughout 1Q and strength has continued into April (traffic ~4%), supporting expectations for 2Q SSS in the MSD-HSD. CMG implied 2Q RLM of 27%+, above consensus' 26.3%, with sales leverage from incremental traffic representing the greatest source of upside. We continue to have high conviction in this rare compounding growth story positioned for double-digit top-line, margin expansion & unit growth acceleration, and together with relative valuation, believe CMG offers a favorable risk/reward.
- **Traffic to feed the bulls:** Traffic has been a key debate on CMG, & we believe concerns should be mitigated by the return to positive traffic in 1Q & 2QTD, driven by broad-based strength with contribution from increased frequency among higher income cohorts as well as improved traffic from lower income cohorts. As we highlighted in Easing Traffic Jam Concerns, we believe CMG is well positioned to continue to drive positive traffic in 2023, supported by initiatives around operations/throughput, loyalty, innovation & marketing. We see throughput as one of the most meaningful unlocks (key focus of "Project Square One"), noting just 1 incremental transaction at peak 15 min intervals translates to 1.5%+ in traffic. On innovation, CMG rolled out Chicken Al Pastor (mid-March), with early indications (incidence rate 1 in 4 transactions) suggesting it is outperforming Pollo Asado, the brand's most successful protein LTO ever. CMG is also seeing strong performance from the early March launch of the viral digital Fajita Quesadilla. CMG has grown Chipotle Rewards to 33MM members, highlighting increased engagement & enrollment with the introduction of Freepotle in January, & expectations for personalization to increasingly contribute to growth.
- **Estimate Changes:** We are increasing our 2023/2024 EPS to $44.50/$55.40 (from $42.97/$54.14), driven by slightly better top-line & restaurant margin estimates.
- **Valuation:** We are increasing our TP to $2,200 (from $2,050) based on ~37.5x/24x our NTM EPS/EBITDA in 12 months and supported by our DCF. Risks: consumer spending, food safety, inflation, COVID-19.

Full Report

Date of Production: 26-Apr-2023 02:48:06 UTC Date of Dissemination: 26-Apr-2023 08:01:35 UTC

OUTPERFORM

Rating	OUTPERFORM
Price (25-Apr-23, US$)	1780.00
Target price (US$)	(from 2050.00) 2200.00
52-week price range (US$)	1805.00 - 1204.01
Market cap(US$ m)	49,149
Enterprise value (US$ m)	48,333

Target price is for 12 months.

Research Analysts

Lauren Silberman

Alex Stansbury, CFA

Raymon Wang

Juniper Networks [JNPR.N]
1Q23 Results – Results Largely Beat and Guidance Raised; Backlog and Order Decline in Focus

UNDERPERFORM

Rating	UNDERPERFORM
Price (25-Apr-23, US$)	30.98
Target price (US$)	29.00
52-week price range (US$)	34.43 - 25.81
Market cap(US$ m)	9,955
Enterprise value (US$ m)	10,336

Target price is for 12 months.

Research Analysts

Sami Badri

George Engroff

Ryan Cui, CFA

Radi Sultan, CFA

Andy Kellam

- **Bottom line:** Reported results came in above expectations and FY23 rev. growth, GM, and OM revised higher, a positive. Despite several positives discussed, such as continued strength in Enterprise via Mist/campus, focus has shifted to backlog levels and mgmt.'s guidance suggesting a return of product order growth by 4Q23, a difficult outlook for investors to accept as tech spending is tightening rather than remaining constant.

- **Backlog and Product Orders in Focus:** Mgmt. highlighted that backlog declined by more than $350M in 1Q23 (above the ~$250-300M mgmt. expected in 4Q22), bringing total backlog to the ~$1.7B range with continued decline into 4Q23. JNPR's CFO noted there was a reduction in overall demand in 1Q23, with total orders down by a magnitude of ~30% y/y, and a continuation of the downtick in the amount of forward product ordering. Mgmt. expects backlog to continue ticking down to reach approx. $800-1,000M (CS est. $800M) by 4Q23, which mgmt. noted reflects 2x normal levels. We believe the magnitude of the backlog decline, the 30% decline in total product orders, and general high buy-side expectations explain the pressure on the stock despite the company increasing its FY23 guide and reporting results that beat sell-side expectations. The challenge at this stage is suggesting that dynamics may likely improve and strengthen in late 2023, a dynamic most investors are discounting as economic factors weigh.

- **1Q23 Results, Model Adjustments for Guidance:** JNPR reported 1Q23 rev./ EPS of $1.372B/$0.48, which are above CS and street estimates of $1.341B/$0.42 and $1.340B/$0.43, respectively. GM of 57.8% is above CS/street estimates of 57.2%/57.4% and would have reached ~59% if not for supply chain related costs. OM of 14.8% beat CS/street estimates of 13.7%/13.9%. Following the introduction of 2Q23 and updated FY23 guidance, we update our model, aligning with mgmt. guidance, factoring in revenue growth of at least 9% and strength in GM/OM in FY23. We adjust 2Q23/FY23 Rev. to $1.411B/$5.812B (from $1.361B/$5.740B) and EPS to $0.54/$2.30 (from $0.46/$2.28), respectively.

- **Valuation—Reiterate Underperform, Target Price Remains $29:** We value JNPR based on a P/FY2 EPS multiple of 11.4x times our FY24E EPS estimate of $2.57 (from $2.53). Potential upside risks to our rating and target price include increased demand, product refresh cycle timing, increasing margins, and cable & cloud capex trends.

Full Report

Date of Production: 26-Apr-2023 01:05:24 UTC Date of Dissemination: 26-Apr-2023 04:02:33 UTC

Alphabet [GOOGL.OQ]

Ongoing AI Integration Will be Multi-Faceted Across All Segments

OUTPERFORM

Rating	OUTPERFORM
Price (25-Apr-23, US$)	103.85
Target price (US$)	(from 136.00) 135.00
52-week price range (US$)	122.26 - 83.43
Market cap(US$ m)	1,325,675
Enterprise value (US$ m)	1,309,234

Target price is for 12 months.

Research Analysts

Stephen Ju

Tyler Seidman

- **Event**: Gross revenue was $69.8b vs. CS/cons. $67.6b/$70.5b. Net revenue was $58.1b vs. CS $55.9b/cons. $58.3b; Adj. EBITDA was $28.4b vs. CS $23.8b/cons. $26.4b. GAAP EPS was $1.17 vs. CS $0.80/cons. $1.16. Adj. EPS was $1.66 vs. our $1.26/cons $1.41. Our 2023/2024 Adj. EPS is now $6.22/$6.49 vs. prior $5.53/$6.27

- **Investment Case:** We believe the most important takeaway is that downward revisions to Gross Revenue est. seem largely behind us, and despite the cyclical headwinds this is the second consecutive quarter in which our outlook does not materially change. Decreases to YouTube ads, Network, and Cloud are more than offset by Search, YouTube Subs, and stabilization in Play, to arrive at an increase in Gross Revenue. And OP increases are offset by a step up in CapEx to arrive at a modest change to our FCF estimates and hence a minimal $1 change to our price target. Cost efficiencies are being invested back into the business, and Google should emerge on the other side of the current macro environment in a stronger position. And whereas 4Q22 pointed to the broader release of LaMDA and PaLM in 2023, 1Q23 centered on ways Google will continue to more widely deploy AI across its products. In particular, it has adjusted keyword relevance in Search with the latest language AI from models to improve ads relevance. Longer term, there is the potential for Search to become an even more valuable service to the consumer as the company leverages its user behavior data to train language models to ultimately enhance results. We maintain our Outperform rating based on the following: 1) ongoing monetization improvements in Search through product/AI-driven updates, 2) greater-than-expected contribution from non-Search businesses (YouTube, Cloud, and Play), 3) optionality and shareholder value creation from new monetization initiatives such as Maps, Discover tab, as well as the eventual commercialization of Google's Other Bets (Waymo, life sciences

- **Valuation**: Our DCF-derived price target, which uses a 10.5% weighted average cost of capital and 3% terminal growth rate, is now $135 vs prior $136. Slower-than-expected advertiser adoption of any of Google's new ad units or an extended impact from COVID-19 are risks to our price target and estimates.

Full Report

Date of Production: 26-Apr-2023 01:56:52 UTC Date of Dissemination: 26-Apr-2023 08:00:54 UTC

Credit Suisse

26 April 2023

McDonald's Corporation [MCD.N]
We're Lovin' the SSS

OUTPERFORM

- **MCD delivers another impressive quarter with top & bottom line beats.** MCD 1Q23 EPS of $2.63 solidly beat consensus' $2.33, primarily driven by global SSS of 12.6% (consensus 9%), which were consistent and reflected beats across all markets, and an operating margin of 46% (consensus 44.5%). MCD made no changes to its 2023 outlook (though operating margin guide of ~45% is likely conservative assuming top-line strength continues; we model ~46%). MCD is in the process of implementing changes associated with its previously announced organizational restructuring, and while the company suggested some reallocation of investment, we expect to see benefits largely flow through (likely more impactful in 2024). We continue to like MCD's defensive business model, believe MCD is well positioned to maintain global momentum, and given the current backdrop & current valuation, believe shares offers a favorable risk/reward.
- **US strength continues:** MCD 1Q23 US SSS were 12.6%, with ~1/3 contribution from positive traffic and ~2/3 from average check, including low DD price, partially offset by negative mix. MCD acknowledged some signs of check management, noting a decline in units per transaction & to a lesser extent trade down. That said, MCD is seeing share gains across all customer cohorts, driven by benefits from its strong value proposition, operations (staffing, speed of service), marketing focused on the core (relaunch of Crispy Chicken Sandwich under global McCrispy line drove DD sales growth), and digital (28MM 90-day active rewards members in US) & delivery (slowing, but still positive). MCD is in the process of rolling out enhancements to its classic burgers across the US, noting positive feedback from markets that have already made the changes (to be complete by 2024). MCD has also brought back the "Hamburglar" in a new TV commercial. While there appears to be some tension between corporate & franchisees, we see it more as NT noise, noting MCD offers among the best franchise economics (CF per store ~$500K in 2022) and we are encouraged that franchisee CF growth returned positive in 1Q23.
- **Estimate Changes:** We are increasing our 2023/2024 EPS to $11.06/12.03 (from $10.64/ 11.78), largely driven by the 1Q23 beat and higher top-line estimates.
- **Valuation:** We are increasing our TP to $320 (from $300) based on 18x/26x our NTM EBITDA/ EPS in 12 months. Risks: consumer, competition, inflation, COVID-19, FX.

Rating	OUTPERFORM
Price (25-Apr-23, US$)	291.51
Target price (US$) (from 300.00)	320.00
52-week price range (US$)	293.20 - 229.00
Market cap(US$ m)	212,812
Enterprise value (US$ m)	245,538

Target price is for 12 months.

Research Analysts

Lauren Silberman

Alex Stansbury, CFA

Raymon Wang

Full Report

Date of Production: 25-Apr-2023 23:58:34 UTC Date of Dissemination: 26-Apr-2023 08:00:13 UTC

Visa Inc.
FQ2 2023 Earnings Recap; Updated 2019-base CAGR Analysis

Research Analysts
Moshe Orenbuch
Timothy Chiodo, CFA
Nik Cremo
Hoang Nguyen
Christopher Zhang, CFA
Dylan Wright
Jing Zhang
Patrick Ennis
Kyle Lindgren

- **Revenue beats on yield, with underlying revenue growth +18% FXN ex-Russia:** Visa delivered another quarter of in-line volume growth alongside a yield driven revenue beat. Although, rather than being an International revenue driven yield beat, the yield improvement was driven more by Service revenues and Data Processing. Service revenues (i.e., brand fees or assessments) benefited from a combination of pricing and mix. Data processing revenues benefited from stronger transaction growth and increased VAS (~2/3rd of VAS reported in this line). On the other hand, cross-border yields were negatively impacted by corridor mix (related to increased intra-Asia and into Europe travel, relatively lower yield corridors vs. US), despite the YoY increase in FX volatility. As to total company net revenue, Visa reported +13% FXN in FQ2, which when adjusted for ~500bps of Russia-related headwinds, implies the underlying trend was +18%. The FQ3 outlook calls for a roughly ~500bps deceleration to ~13% (~LDD reported revenue growth, impacted by ~100bps of FX), which appears reasonable balancing easing YoY volume growth compares (particularly in May, with management noting an assumption that April trends will continue on a YoY basis into May and June), higher incentives, and an uncertain macro. Additionally, gas price compares (peaked last June), reduced FX volatility, higher incentives (2H to be above ~27.5% of gross revenue vs. ~26.3% in 1H), and closer to normalized cross-border travel (MTD April trends lower on an indexed to 2019 basis) inform the outlook. We model US volumes +6-7% YoY in FQ3, roughly in-line with the April MTD trends (implies a relatively stable 2019-base CAGR April-June).
- **Valuation & estimates:** Our CY 2023E/2024E EPS move to $9.01/$10.37, respectively (vs. prior $8.79/$10.33). Raise target price to $265 (from $250) based on ~25.5x CY2024E EPS (implying a ~1.5x PE premium relative to S&P 500, roughly in-line with historical average). Risks are macro (consumption), regulatory, cross-border (travel & eCommerce), M&A, and FX-related.

Full Report

Date of Production: 26-Apr-2023 04:42:16 UTC Date of Dissemination: 26-Apr-2023 04:43:26 UTC

Moody's [MCO.N]
Moated model poised for multiple on MA-remix

OUTPERFORM

Rating	OUTPERFORM
Price (24-Apr-23, US$)	302.65
Target price (US$)	350.00
52-week price range (US$)	329.49 - 235.25
Market cap(US$ m)	55,466
Enterprise value (US$ m)	62,935

Target price is for 12 months.

Research Analysts

Kevin McVeigh

Victor Khong

Marc Vitenzon

BOTTOM LINE—we expect MCO stock to outpace its peers on Q1 beat and FY23 EPS raise on lower interest [5¢] and taxes [~400bps (~40¢-50¢)]. MIS [~50% revenue] beat Street by ~8% on strong start to the year in investment-grade issuance balanced by weakness in structured finance and bank loans from March banking stress. Moody's reaffirmed expectations of some normalization in capital markets in H223, albeit less sharp [revised MIS rev growth expectations down to mid-to-high teens in H223]. MA [~50% 2022 versus ~15% in 2000] remains resilient, growing 10% YoY organically, with Moody's suggesting countercyclical demand on banking stress. We highlight our preference for MCO as inflection in interest rate stabilizes issuance markets. Our bullish view is tethered to unique integrated risk assessment, strong growth—cycle-to-cycle—fueled by secular drivers amid new data assets [BvD, RD+A + RMS].

- **Results: BEAT**

Revenue: $1.47b [CSe/Street: ~$1.45b/$1.43b].

EPS: $2.99 [CSe/Street: $2.48/$2.22].

Guide FY2023: INTRODUCE & MIXED

Revenue: +MSD-HSD & CSe/St. implied +~7%/~7% YoY.

EPS: $9.50-$10.00 & CSe/St. $9.35/$9.27.

CS EPS: 2023E-24E to $9.75/$11.15 [$9.35 2023E prior].

CS Revenue: 23E/24E unchanged at $5.87b/$6.43b.

Positives—MIS performance a sign of stabilizing capital markets.

- **Negatives**—$10-$30m expense ramp QoQ expected in Q2 due to restructuring and FX.
- **$350 Target Price is ~23.1x 2024E EBITDA/~31.6x 2024E FCF**—vs. 3yr EBITDA range 17.0x-25.0x + avg. 21.3x and 3yr FCF multiple range of 19.5x-38.7x + avg. 26.2x.

Full Report

Date of Production: 25-Apr-2023 20:12:51 UTC Date of Dissemination: 25-Apr-2023 20:13:52 UTC

Paccar Inc [PCAR.OQ]
Hit it Out of the Ball Paccar

NEUTRAL

Rating	NEUTRAL
Price (24-Apr-23, US$)	73.77
Target price (US$)	(from 75.00) 84.00
52-week price range (US$)	76.28 - 52.72
Market cap(US$ m)	38,549
Enterprise value (US$ m)	38,549

Target price is for 12 months.

Research Analysts

Jamie Cook, CFA

Chigusa Katoku

Anika Dholakia

Thoughts Post Print: PCAR's stock closed up 1% after beating street expectations on another record quarter of sales, margins and incremental margins. Adjusted EPS of $2.25 was up 31% y/y excluding $0.85 in charges associated with one-time civil charges in Europe. More importantly, gross margins well exceeded expectations at record levels of 19.3% compared to PCAR's guide of 16-17% helped by operating efficiencies, favorable price cost and record Parts margins. Gross margins are expected to be lower sequentially in the 18-19% range next quarter tied to more unfavorable absorption associated with red tags from this quarter and as Trucks become a bigger part of mix vs Parts. Incremental margins were at record levels of 37.9% in the first quarter well above the historic average in the mid to high teens. Truck pre-tax margins were impressive at 13.9% compared to 10.0% last quarter and 5.9% last year benefiting from investments in new truck models with roll out fully complete in the US and now 80% complete in Europe vs. 25% last year. Deliveries were 51.1K compared to PCAR's guide of 49-53K and forecast to increase to the range of 51-54K in Q2 helped by improving supply chain. Parts sales also achieved record levels of $1.623B, up 17% y/y exceeding PCAR's guide of up 10-13% and expected to continue to be strong growing 10-12% in Q2 and 10-13% for the full year. Parts gross margins were impressive at 32.2% helped by investments in PACCAR Parts over the past few years. Despite concerns on the macro, PCAR continues to see broad based strength across geographies with the robust vocational market offsetting some weakness in the truckload markets, with order books substantially full for the year. We believe PCAR can continue to take price and improve through cycle margins helped by investments in new truck models and growth in the Parts business, while continuing to invest in new technologies. We tweak our FY 2023-25 EPS to $7.90, $5.80 and $6.15 from $6.30, $5.20, and $5.85 respectively. We also increase our TP to $84 from $75 assuming 14.5x our 2024 EPS and reiterate our Neutral rating at these levels. Risks: material costs, supply chain, macro, and currency.

Full Report

Date of Production: 25-Apr-2023 20:32:12 UTC Date of Dissemination: 25-Apr-2023 20:35:05 UTC

First Republic Bank [FRC.N]

Remodeling to the current reality: reducing 2023/2024 estimates, initiating a 2025 estimate; TP now $11

NEUTRAL

Rating	NEUTRAL
Price (25-Apr-23, US$)	8.10
Target price (US$) (from 130.00)	11.00
52-week price range (US$)	170.12 - 8.10
Market cap(US$ m)	1,482
Enterprise value (US$ m)	1,482

Target price is for 12 months.

Research Analysts

Susan Roth Katzke

Jill Shea

On Monday after the close First Republic reported first quarter earnings of $1.23 per share; results included a number of “items” and compared to the FactSet consensus of $0.95. **More important than the reported results was a look at the period end balance sheet and deposit balances**; deposits were *down* $102bn (or -58%) excluding the $30bn in deposits from the consortium of 11 large U.S. banks; outflows were concentrated in uninsured deposits; insured deposits were down a lesser 5% qtr/qtr and importantly, as per last night’s release, deposit flows have stabilized since quarter end through April 21st; stability is critical as step one. **Looking forward…** the March deposit outflows/the shift in funding mix have seriously impaired the earning power of First Republic. Management outlined the actions being taken, beyond previously detailed executive compensation reductions and dividend suspensions, including (i) efforts to increase insured deposits and (ii) a determination to reduce loan balances, aimed at shrinking the balance sheet to first stabilize and then rebuild the NIM/NII growth prospects, add to this (iii) material expense reductions, including reduced executive comp, a 20-25% headcount reduction in 2Q, condensed corporate office space, and reduced non-essential projects/activities. **With respect to estimates…** factoring in the shift to a higher cost funding mix and assuming an accelerating pace of loan portfolio runoff (the more runoff the better until core deposits are rebuilt), the headwind to wealth management revenue (reflective of attrition), and implementation of expense reduction initiatives, translates to a forecast operating earnings (loss) per share of ($4.15) and ($1.10) for 2023 and 2024 respectively (prior: $6.40 and $8.20 per share); we’re initiating a 2025 estimate of $0.45 per share. Factoring our estimate revisions, assumed balance sheet shrinkage and a higher cost of capital into our DCF model takes our target price down to $11 (last published target price was $130).

- **Risk (+/-) to the achievability of our estimates and target price** ties most closely to the bank’s ability to rebuild its core deposit base and shrink its balance sheet, the ability to execute expense reduction initiatives and the ability to retain client relationships, talent and Wealth Management assets; confidence is critical (to core deposit flows, client, employee and asset retention) as is adequate time for management to execute on its restructuring plan; risk is above average at present.
- **Our $11 target price** is derived using a discounted free capital model, assuming required CET 1 of 10% and a 5% terminal growth rate.

Full Report

Date of Production: 25-Apr-2023 23:23:43 UTC Date of Dissemination: 25-Apr-2023 23:24:49 UTC

Synchrony Financial [SYF.N]
Lowering EPS Modestly On Lower Expected Buyback

OUTPERFORM

Rating	OUTPERFORM
Price (25-Apr-23, US$)	29.14
Target price (US$)	(from 38.00) 37.00
52-week price range (US$)	40.23 - 27.62
Market cap(US$ m)	12,489
Enterprise value (US$ m)	(2,049)

Target price is for 12 months.

Research Analysts

Moshe Orenbuch

Hoang Nguyen

- Post market close, SYF announced its board has approved an incremental share repurchase program of up to $1.3 Bn, commencing this quarter through 2Q24, and intends to increase the quarterly dividend from $0.23 to $0.25, commencing in 3Q23. SYF had $300 mil remaining under its prior share repurchase program as of 1Q23, so this increase will bring the repurchase authorization to $1.3 Bn between now and 2Q24. This is lower than our prior estimate, though we note that a part of this is likely due to SYF now seeing faster-than-expected loan growth (SYF raised loan growth guidance in 1Q earnings). SYF will still have the ability to increase its repurchase authorization between now and 2Q24 by having the board approve a new plan mid-cycle.
- **Investment conclusion:** We lower our 2023/2024 EPS to $5.00/$5.75 (old: $5.05/$6.05), on lower buyback. Our TP is now $37 (old: $38), 6x our 2024 EPS estimate. Risks to our TP and estimates include slower-than-expected growth and higher-than-expected provision.

Full Report

Date of Production: 25-Apr-2023 22:08:31 UTC Date of Dissemination: 25-Apr-2023 22:11:28 UTC

25 April 2023

Microsoft [MSFT.OQ]
Customer Spend Dynamics On Azure, OpenAI, And Office 365 Supporting Consolidation Onto Microsoft's Platform

- **Bottom-line:** Microsoft reported both revenue and EPS above consensus, with PBP and IC reporting better than expected results and MPC relatively in-line, as cloud optimization headwinds from F2Q continued, while PC demand was slightly better than expected.
- **Azure Growth Supported By OpenAI In F3Q:** Azure growth in F3Q was 27.5% y/y (31.5% y/y CC), versus mgmt.'s expectation for Azure to decelerate ~4-5 points in CC from the "mid-30's" CC growth exiting F2Q, vs. consensus of 30.6% y/y. Management specifically called out their Azure OpenAI service, which combines ChatGPT and GPT-4 with the enterprise capabilities of Azure, and now has over 2,500 customers, up 10x q/q.
- **Office O365 Remains Solid As AI/GPT Features Released:** Office 365 revenue increased 14% and 18% in CC, slightly better-than-expected driven by strong renewals and E5 momentum, supporting datapoints from our checks that MSFT is seeing virtually no customers switching off O365 as a result of price increases on "as-is" renewals. Additionally, mgmt. noted early customer traction with their release of Copilot, with 10,000+ organizations having signed up, and will continue to bring these experiences to more users in the coming months. As we discussed in our "Business Applications" Launch Event note, we believe the Copilot release has begun to drive a shift in consensus/investor focus, bringing the O365 monetization strategy to the forefront. We believe MSFT will seek to monetize the addition of basic M365 Copilot and other GPT functionality first through a broad-based price increase to reflect the value of these productivity enhancements, then creating a new E7 bundle, to reflect the addition of basic AI/GPT functionality into the Office suite.
- **Updated Guidance:** Management expects (1) Azure revenue growth of 26-27% CC including ~1 point from AI services, (2) many of the same macro trends seen in Q3 to continue into Q4, (3) a material dollar basis q/q capex increase for investments in Azure AI infrastructure, and (4) FY24 operating expense growth to remain low.
- **Updated Estimates & Valuation:** We revise our revenue/EPS estimates for FY23/FY24 to $211.1B/$238.0B and $9.56/$11.08 (from $209.7/$237.7B and $9.20/$10.84), respectively. Following model updates, our thesis remains, we forecast MSFT to deliver **(1)** low-to-mid teens total revenue growth LT (FY24+) driven by high-teens growth in IC, low DD growth in PBP, and **(2)** high-teens to +20% EPS and FCFPS growth. We are raising our price target to $350 (from $285) following guidance, model updates, and updated valuation multiples. Risks: FX, macroeconomic uncertainty, tech disruption, and regulatory changes.

Full Report

Date of Production: 26-Apr-2023 03:15:36 UTC Date of Dissemination: 26-Apr-2023 03:16:57 UTC

OUTPERFORM

Rating	OUTPERFORM
Price (25-Apr-23, US$)	275.42
Target price (US$)	(from 285.00) 350.00
52-week price range (US$)	293.47 - 214.25
Market cap(US$ m)	2,050,172
Enterprise value (US$ m)	2,074,049

Target price is for 12 months.

Research Analysts

Sami Badri

Radi Sultan, CFA

Andy Kellam

Ryan Cui, CFA

George Engroff

Corning, Inc. [GLW.N]
1Q23 Review; Continue To Expect 2H Recovery, Though Display Trends Are Improving

OUTPERFORM

Rating	OUTPERFORM
Price (25-Apr-23, US$)	32.89
Target price (US$)	40.00
52-week price range (US$)	37.54 - 29.02
Market cap(US$ m)	27,865
Enterprise value (US$ m)	33,073

Target price is for 12 months.

Research Analysts

Shannon Cross

Ashley Ellis

Corning (GLW, Outperform) reported 1Q23 results above our and Street estimates, including core sales of $3.37B (down 10% y/y) and core EPS of $0.41, vs. our in-line estimates of $3.34B/$0.39. Most notably, Display Technologies beat our estimate by 5% driven by a March recovery in panel maker utilization and volume (continued to improve during April), but macro and timing of carrier investments led most segments to decline on a y/y basis, ex Environmental Technologies and Hemlock & Emerging Growth. Recent price increases and cost optimization drove sequential margin improvement (GM up 159 bps q/q to 35.2% and op margin up 158 bps q/ q to 15.5%). While “recession-level demand” will continue into 2Q23, management is confident sales will rebound in 2H23, in-line with our expectations. Corning guided 2Q23 sales up 4% q/q at the midpoint, with growth driven by Display as utilization rates continue to improve. We maintain our $40 target price (based on 16x our 2024 EPS, up one turn from prior given sooner than expected recovery in Display). Risks include weaker than expected consumer spending, supply chain pressure, slower roll out of 5G and fiber; and lower glass prices.

- **Display Recovery Underway:** Display Technologies revenue was $763M, above our estimate of $729M driven by significant improvement in panel maker utilization and volumes, particularly in March which increased well above January/February levels. Management expects these trends to continue in 2Q23, driving sequential volume growth and we now estimate 2023 revenue up 4% y/y in 2023, vs. down 1% prior.
- **Optical Still Pressured**: Optical Communications revenue declined 6% y/y to $1.13B (we were at $1.09B) driven by continued softness in connectivity sales, albeit fiber and cable demand remains strong. Recent price increases partially offset revenue declines and contributed to y/y profit growth. Management is not anticipating a sequential improvement in Optical during 2Q23, but noted long term growth drivers remain intact.
- **Revising Estimates:** We lower our 2Q23 revenue estimate to $3.50B from $3.61B and core EPS to $0.49 from $0.51. Our revenue estimate includes Display flat y/y (vs. down 10% prior) and Optical down 17% y/y (vs. down 4% prior). We estimate 2H23 revenue up 12% over 1H23, leading to 2023 revenue down 2% y/y to $14.55B and EPS of $2.12.

Full Report

Date of Production: 26-Apr-2023 00:26:33 UTC Date of Dissemination: 26-Apr-2023 00:30:12 UTC

CREDIT SUISSE

Danaher Corporation [DHR.N]
Outlook Tempered on Continued Bioprocess Destocking, Emerging Biotech Pressures; Reiterate Neutral

- **Bottom Line:** Our Neutral rating on Danaher (DHR) reflects our view that relative exposure to bioprocessing inventory reductions and diagnostics could pressure its growth relative to peers. **Danaher's Q1 results and softened 2023 outlook support our thesis.**
- **Q1 results in line, defined by lackluster bioprocessing performance and instrument growth normalization.** Overall Q1 results were in line with expectations with 6.0% base business growth (vs 6.0% CSe), with respiratory testing revenue outperformance of $550M (vs $450M CSe). Segment performance, however, was mixed. Core biotechnology revenue declined ~12.9% with flat y/y base business sales driven by continued bioprocessing destocking from larger customers and an increasingly conservative emerging biopharma clientele. Core Life Sciences revenue grew ~5.1% following a normalization of instrument sales. Core diagnostics declined ~7.6% driven by a significant y/y reduction in Covid respiratory testing, but ex. covid segment revenue grew LDD driven by >30% Cepheid growth. Veralto (environmental/applied) was in line with guidance growing +MSD.
- **2023 guidance lowered.** Danaher now expects +MSD FY2023 base business core growth (vs. +HSD growth prior) weighed by a +LSD growth outlook for base Bioprocessing (from +HSD prior). EBIT margins are expected to decline to~26% in Q2 as the company right-sizes its cost structure for endemic COVID sales, with margin recovery expected as the restructuring finishes in Q3. The tempered outlook reflects management's belief that bioprocessing inventory destocking will likely continue through the end of 2023, further reduced by a muted appetite from emerging biopharma customers.
- **2023 estimates reduced, cutting price target to $270.** We've further tempered our 2023 outlook to reflect updated guidance, and are lowering our price target to $270 from $300 prior. Our FY23/24 EPS is updated to $9.26/$10.14 from $9.96/$10.82. Risks: M&A upsides/ downsides, end market health (esp. biopharma and diagnostics), COVID vaccine/testing demand, macro risks.

NEUTRAL

Rating	NEUTRAL
Price (25-Apr-23, US$)	231.99
Target price (US$)	(from 300.00) 270.00
52-week price range (US$)	302.35 - 231.99
Market cap(US$ m)	169,145
Enterprise value (US$ m)	176,867

Target price is for 12 months.

Research Analysts

Dan Leonard

Lu Li

Kyle Crews

Full Report

Date of Production: 26-Apr-2023 03:14:35 UTC Date of Dissemination: 26-Apr-2023 03:15:30 UTC

Centene Corporation [CNC.N]
Q&A Our Way: Refreshed 2024 Outlook with $6.60 EPS Floor; Medicare Strategy Shift

OUTPERFORM

Rating	OUTPERFORM
Price (25-Apr-23, US$)	69.29
Target price (US$)	(from 94.00) 87.00
52-week price range (US$)	97.22 - 62.55
Market cap(US$ m)	38,158
Enterprise value (US$ m)	38,594

Target price is for 12 months.

Research Analysts

A.J. Rice

Jonathan Yong

Enjia Cao

Anastasia Parafestas

Carlos Penikis, CFA

Joseph Overman

Centene reiterated its long-term adj annual EPS growth target of 12-15%. CNC posted 1Q23 EPS of $2.11, which represented 15.5% Y/Y growth. Management raised its 2023 guidance to at least $6.40, from $6.25-6.40 prior. For 2024, CNC rebased its adj EPS to at least $6.60 from a floor of $7.15, previously, reflecting updated views on Medicaid redeterminations, its 2024 MA bid strategy, and high-impact investments in the business.

- **Accelerated Investments in MA; 3.5 Stars Plans for Complex Lives; $200 mln PDR in 4Q23:** Given its position with Star ratings, the rate environment, and upcoming changes in the health equity index, CNC believes the time is right to accelerate investments and refocus on serving complex lives. Making targeted investments should help the company better leverage the health equity index, as focusing on complex lives makes it harder to get to 4 Stars in MA currently. With regards to 14-18% of member trending to 4 Star rated plans for 2024, this figure includes a large contract that covers 10% of MA members, which is on the bubble and under the updated outlook is anticipated to lose its 4.0 Star rating for 2025. Investments in distribution are expected to show benefits in 2025. A $200 mln PDR is expected to be recorded during 4Q23 and will be amortized across 2024. MA is expected to operate at a pre-tax loss in 2024 even after amortizing the PDR.
- **Medicaid Redetermination:** Regarding Medicaid, the company mentioned that its $2 bln payable position can help offset any deterioration in the risk pool caused by reverifications. CNC does not expect to lever the full amount as the payable has to be in states where there are acuity shifts and where higher cost occurs and cannot be spread across geographies. Mid-year state Medicaid acuity adjustments became more common during Covid, and the timing of updates will vary state by state. The PBM benefit to HBR would be higher than 20bps if there were no state Medicaid carve outs.
- **Raising 2023 EPS; Lowering 2024 EPS/Target Price:** We are raising our 2023 EPS to $6.45 (was $6.35) but are lowering our 2024 EPS to $6.65 (was $7.20). We are lowering our TP to $87 (was $94) based on 13x our 2024 EPS estimate. Risks include state rate updates, re-determination timelines, government policy, recapture on the exchanges, and enrollment changes.

Full Report

Date of Production: 26-Apr-2023 01:42:24 UTC Date of Dissemination: 26-Apr-2023 01:43:24 UTC

Spotify Technology [SPOT.N]
1Q23 Wrap: Healthy Start to the Year

NEUTRAL

Rating	NEUTRAL [V]
Price (25-Apr-23, US$)	138.20
Target price (US$)	120.00
52-week price range (€)	125.98 - 64.77
Market cap(US$ m)	26,730
Enterprise value (€ m)	25,708

Research Analysts

Douglas Mitchelson

Jane Feng

Grant Joslin

Chirac Ndetan

- **Forecast Update:** Following 1Q ahead on subscribers, EBITDA and FCF, but below on revenue and in line for Gross Profit, we are leaving our 2023-2025 estimates for revenue, Gross Profit and EBITDA essentially unchanged, modestly increasing FCF, and lowering 2023 EPS from €(1.08) to €(1.90) due to 1Q flow through. This includes moving to guidance for 2Q23, which was in line for revenue at $3.2B and just below for Gross Profit Margin at 25.5% vs. our 25.8%. We would note increased confidence in the growth outlook for Spotify given its top of funnel performance the past two quarters, continued innovation path and performance in the face of continued stiff competition (notwithstanding price increases at Amazon and Apple, Google noted YouTube Music continues to post significant growth).
- **Outlook:** Spotify is posting strong top line growth (mid-teens), fending off competitors, should have some level of pricing power, and its newfound focus on cost efficiencies is encouraging. We would note tail forecast risks for any macro impact on advertising and timing and size of an expected U.S. price increase later this year, but the primary issue in our view is that Spotify remains a low margin business. In fact, we still show negative EBITDA through 2024. Based on our forecast we see Spotify currently trading at 30x 2026 FCF, suggesting for shares to outperform, estimates need to start moving higher and/or the company needs to demonstrate stronger operating leverage.
- **Valuation:** Our target remains $120 given little change to our forecast. Risks: macro; competition; pricing power; any shift in negotiating leverage with the music labels, where TAM settles out, impact of AI, allocation of capital, sustainability of cost efficiency focus.

Full Report

Date of Production: 25-Apr-2023 23:36:31 UTC Date of Dissemination: 25-Apr-2023 23:38:05 UTC

Boyd Gaming [BYD.N]
Optionality On Display

OUTPERFORM

Rating	OUTPERFORM
Price (25-Apr-23, US$)	66.24
Target price (US$)	(from 80.00) 83.00
52-week price range (US$)	68.17 - 46.22
Market cap(US$ m)	6,749
Enterprise value (US$ m)	8,988

Target price is for 12 months.

Research Analysts

Benjamin Chaiken

Abdullah Dilawar

Harshi Rasania

1Q Recap: 1Q property EBITDAR was better than expected, $389.3m vs street $365.4m. Locals and Downtown segments were slightly better than expected, with the majority of the 1Q beat vs our expectations driven by Digital. Sky River continues to accelerate, with BYD raising their FY outlook for the mgmt. segment for a second quarter in a row. Midwest & South is experiencing some softness, but it sounds like sequentially trends have moderated/normalized. Net net, our FY numbers remain unchanged (mgmt. fees higher, Midwest and South lower).

Regional Segment Performance: Locals outperformed, with EBITDA of $126.2m vs street $119.7m and our $119.5m. Downtown EBITDA was in line, $22.4m vs street at $22.1m and our $22.0m. We think both segments are benefitting from a return of volumes to the strip (e.g., convention) and will continue to benefit from a lineup of entertainment and sporting events throughout the rest of the year. Midwest and South EBITDA was $198.7m vs street $196.9m and our $205.5m. Management called out continued softness at the properties in Louisiana and Mississippi, which collectively made up over half of the 200 bps decrease in margins for the segment. It sounds like mgmt. is seeing slightly more stability sequentially.

New Segments: BYD expects the two new segments (Digital and mgmt. contracts) to collectively generate ~130m in EBITDA in '23. This quarter, Digital generated $20.6m of EBITDA vs our estimate of $10.7m, the beat likely driven by launches in Ohio and Kansas, as well as stronger than expected seasonality. BYD expects the online segment to generate ~$50m in EBITDA this year (inline with our prior est.), with 1Q and 4Q being the strongest. Implicitly this means 2Q-4Q are flattish YoY. Recall, BYD is taking Stardust back (from FD) in May, which may add conservatism (as the platform will be under new mgmt. and it is difficult to predict player behavior) Managed & Other, generated $21.6m in EBITDA. Mgmt. expects the segment to earn ~$65-70m for FY23 (mgmt. previously expected Sky River to generate $50m).

LT Projects Update: (1) Mgmt expects full ownership and vertical integration of Stardust online casino in PA and NJ to be transitioned into BYD in May (2) BYD's $50m investment in Freemont is expected to be completed this year, driver of growth for the Downtown market (3) Mgmt. expects the $100m Treasure Chest development open next Spring.

Valuation: We forecast 23/24 EBITDA of $1,301m/$1,317m. Our $83 (formerly $80) TP is based on 8.5x our '24 EBITDA of $1,317m. Our TP is higher on lower share count.

- **Risks**: Recession as earnings are sensitive to changes in discretionary consumer spending, legalization and expansion of traditional or online gaming in markets near BYD properties

Full Report

Date of Production: 26-Apr-2023 00:10:17 UTC Date of Dissemination: 26-Apr-2023 00:11:20 UTC

Raytheon Technologies [RTX.N]
1Q23 Wrap - See You in Paris

NEUTRAL

Rating	NEUTRAL
Price (25-Apr-23, US$)	101.09
Target price (US$) (from 105.00)	110.00
52-week price range (US$)	104.66 - 81.00
Market cap(US$ m)	147,916
Enterprise value (US$ m)	176,180

Target price is for 12 months.

Research Analysts

Scott Deuschle

Will Jackson

- **Bottom Line:** RTX reported 1Q23 mostly ahead, with segment EBIT and EPS beating by 6.5%/7.4%, respectively, albeit with FCF $1.6b below Street on heavy working capital pressure. The full-year guide was reiterated, with RTX typically waiting for 2Q to adjust guidance. Positives for the quarter included strong revenue and margin outperformance at Collins, driven by 26% organic commercial aftermarket growth. P&W was another bright spot, with EBIT beating Street by 36%, albeit closer to ~17% excluding a $60m favorable one-time item. RIS/RMD book:bill of 1.43x/1.34x was another positive, particularly with RIS TTM book:bill inflecting back to 1.0x—a trend which should derisk the full-year sales guide. On the downside, RMD EBIT was 15% below Street, and the segment booked negative EACs following the exercise by a customer of a contract option. We believe this relates to a mature production program with unfavorable price/cost trends on incremental units. Additional option exercises on this program due to Ukraine demand could offer some additional risk to RMD margins, which already face a steep 2H margin ramp. The other primary negative with 1Q was the soft FCF performance, which arguably creates some execution risk to hitting the $4.8b guide. All in, we think the segment EBIT beat was impressive and the upside potential in aero offsets the risks on RMD and FCF, but there are clearly still risks here for the year—which given the increased crowding into the print helps explain the stock's lackluster reaction.
- **What to expect at Paris:** We expect mgmt. will provide clarity on the resegmentation during its 6/19 investor day, discuss in detail the building blocks to 2025 targets (potentially updated), and also provide a forward look beyond 2025. It is unclear what degree of specificity the forward view post 2025 will entail, but we think mgmt. will provide some sort of calibration for how it expects financial results will trend.
- **Estimates / Target Price:** Our '23-25 EPS est. revise to $5.01/$6.21/$7.48 (from $5.02/$6.26/$7.53). Our '25 FCF est. is little changed at $8.8b. Our target price rises to $110 (from $105) as we roll our valuation to 2025E, valuing RTX based on a 13x EV/EBITDAP multiple. Our $110 TP corresponds to a 5.7% FCF yield on '25E (5.2% uFCF yield). Risks include execution on fixed price programs, slower air traffic growth.

Full Report

Date of Production: 25-Apr-2023 22:12:52 UTC Date of Dissemination: 25-Apr-2023 22:14:11 UTC

CREDIT SUISSE

COMPANY UPDATES:

Consumer Staples Merchandise Retail | Pre Results Comment

26 April 2023

Sprouts Farmers Market, Inc. [SFM.OQ]
1Q23 Earnings Preview – Neutral Into the Print

NEUTRAL

Rating	NEUTRAL
Price (25-Apr-23, US$)	33.45
Target price (US$)	35.00
52-week price range (US$)	35.26 - 22.98
Market cap(US$ m)	3,469
Enterprise value (US$ m)	4,327

Target price is for 12 months.

Research Analysts

Karen Short

Zeyn Burak

Daniel Silverstein

Ryan Bulger

SFM is schedule to report 1Q23 Earnings AMC on Monday, 05/01/2023. *We maintain our 1Q23 EPS of $0.84 ~in-line with FactSet ("FS") $0.85 and guidance of $0.83-$0.87.*

Our View: While we believe many of SFM's initiatives have the potential to re-shape the company (personalization, DoorDash, higher ROIC store formats, a more efficient supply chain), we still continue to view fundamental components of SFM's go-to-market strategy as risky, given a) narrowing price gaps in produce (now ~10% vs. 20% - 25% several years ago), once SFM's primary competitive advantage, b) clear share loss given SFM's comps versus CPI, leading to c) the conclusion that mature stores are comping negative just given the basic comp waterfall math, d) SFM's necessary store closures of units that have underperformed at least since 2022 (the company guided to 11 closures in FY23, all slated for the first half of the year) despite 2022 remaining robust for most grocers – optically not ideal for a 10% LT unit algo story, e) SFM's prioritization of margin improvement at the expense of traffic growth, which we view as especially risky against a progressively more challenging consumer backdrop. However, we have held this list of concerns consistently and yet the stock has remained relatively resilient despite what we would argue are weakening fundamentals – evidence of the conviction SFM's core investor base has in the company. Separately, SFM should benefit from a) widening WA PPI Food - CPI FAH spreads and b) above-peer private label penetration, increasingly relevant as PL trends accelerate in 1Q23 as consumers exhibit value-seeking behavior. Long-term, SFM has the opportunity for meaningful efficiency gains as the smaller, higher-efficiency prototype units make up a larger percentage of the total store network, increased product availability as an expanded DC network comes online, and increased brand awareness in both new and existing markets through unit growth. Ultimately, though we recognize the upside potential of SFM's key initiatives and appreciate the resolve of its ESG-focused investor base, the feasibility of SFM's long-term strategy appears tenuous in light of the weakening consumer backdrop and increasingly competitive grocery space. Valuation and TP: We maintain our Neutral Rating and Target Price of $35, reflecting an EV/EBITDA multiple of ~6.6x based on our FY24E EBITDA estimate of ~$517M. Risks include share losses and deflation in the grocery space.

Additional Details

Despite a solid 4Q beat and better than expected initial guidance for FY23, we remain cautious on SFM. 2022 comps lagged grocery peers despite a backdrop of elevated +DD% YOY CPI Food at Home inflation (which decelerated to +HSD% in March 2023), reflecting share losses we think could continue over the near-term. We think SFM's go-to-market strategy remains a key risk to the SFM story today, despite the stock being resilient over the past several months. Further, SFM's 2023 guidance for the closure of 11 underperforming stores doesn't provide us with enough conviction today to buy into the sustainability of SFM's +10% unit growth algo (a key input to its +DD% EPS growth algo), in part because we are not convinced the new store format will resonate with the consumer, and the worsening consumer backdrop could play a role in underperformance. That said, SFM should benefit from 1) widening WA PPI Food - CPI FAH spreads and 2) above-peer private label penetration as consumers display value-seeking behavior. Net, we remain Neutral.

Our 1Q23 Estimates

We Model 1Q23 EPS of $0.84 vs. FactSet (FS) Consensus $0.85 and guidance $0.83 - $0.87. We model a 1Q comp of +2.5%, in line with the high end of guidance (+1.5- +2.5%), slightly above FS at +2.1%. We model 1Q23 EBIT margin of 7.1% or -20bps YOY (vs. FS 7.2%) on GMs ~flat YOY at 37.3%, roughly in-line with FS, and slight SG&A deleverage of ~20bps.

What Matters Most to Us

- Changes in FY23 guidance and any embedded 2-4Q accelerations
- QTD trends and/or 2Q23 guidance (2Q23 consensus is for comps of 1.8% and EPS of $0.59)
- Inflation commentary including elasticities
- Private label exposure impact on new customer growth

- Updates on digital initiatives
- New store productivity
- Update on market share penetration among income cohorts
- Unit growth algorithm
- Update on product innovation pipeline

Tailwinds:

- Continued high demand for grocery/essentials vs discretionary
- Increasing consumer focus on private label
- Improving supply chain mechanics
- Historically low unemployment levels
- Relenting permitting/construction dela,
- CPI FAH – WA Food PPI spread inflecting positively

Headwinds:

- Weaker consumer in a challenging macro
- Consumer wallet shift to discounters
- Persistent input cost inflation
- Increasingly promotional environment
- Higher shrink levels across retail

Full Report

Date of Production: 25-Apr-2023 22:25:09 UTC Date of Dissemination: 26-Apr-2023 06:00:02 UTC

CREDIT SUISSE

Life Sciences Tools & Services | Forecast Change

25 April 2023

Illumina [ILMN.OQ]
Modest Q Beat, Guide Unchanged, But Risks Seem to Skew More Downward

NEUTRAL

Rating	NEUTRAL
Price (25-Apr-23, US$)	218.69
Target price (US$)	225.00
52-week price range (US$)	307.68 - 177.23
Market cap(US$ m)	34,564
Enterprise value (US$ m)	34,802

Target price is for 12 months.

Research Analysts

Dan Leonard

Lu Li

Kyle Crews

- **Bottom-line:** Our Neutral rating on Illumina (ILMN) reflects our positive view of the company's market position in next-gen sequencing (NGS), offset by concerns that forward street estimates are too high. Illumina's Q1 beat has mixed implications for our view.
- **Q1 slight beat vs our forecast.** Sales of $1.09B exceeded our $1.07B forecast due to higher NovaSeq X+ shipments (67 vs 40-50 guide). EPS of $0.08 exceeded our $0.01 estimate on lower Opex, despite lower gross margin (64.7% reported vs 65.8% CSe).
- **2023 guidance unchanged but now embeds hope for NovaSeq X+ upside, pharma partnership sales; Russia offsets.** Illumina increased its NovaSeq X+ shipment forecast to >330 instruments, from >300 prior, and now embeds significant pharma partnership sales. The upside potential is offset by the removal of $60M in sales to Russia from the 2023 plan, related to sanctions. Moreover, the guidance continues to assume a lessening of macro headwinds in 2H 2023, headwinds which have pressured some of its diagnostics customers (e.g., sales to oncology customers fell 3% y/y). All in, with the NovaSeq upside lever now pulled, we believe 2023 guidance risks skew to the downside.
- **Forecast not meaningfully changed.** We have updated our 2023/2024 EPS forecasts from $1.30/$1.86 to $1.26/$1.80. Pressures to the forecast in 2024 are partially offset by Illumina's upsized profitability commitments ($100M in cost-outs announced coincident with earnings).

Full Report

Date of Production: 26-Apr-2023 01:33:51 UTC Date of Dissemination: 26-Apr-2023 01:34:52 UTC

Financials | Forecast Reduction

25 April 2023

Northern Trust [NTRS.OQ]
Circling back… trimming estimates; TP $84

UNDERPERFORM

Rating	UNDERPERFORM
Price (25-Apr-23, US$)	78.16
Target price (US$)	84.00
52-week price range (US$)	112.60 - 77.21
Market cap(US$ m)	16,238
Enterprise value (US$ m)	16,238

Target price is for 12 months.

Research Analysts

Susan Roth Katzke

Jill Shea

This morning, Northern Trust reported 1Q23 GAAP earnings of $1.51 per share; bottom line results were essentially in line with forecast (vs. CS GAAP at $1.52/consensus at $1.51) considering the net impact of items reported in the quarter. Relative to our forecast, expenses were lower with that benefit offset by marginally weaker revenue (both NII and fee income) and higher credit costs. Reported ROE for the quarter was 12.4% on CET1 of 11.3%. **Looking forward…** with fine tuning (marginally lower revenue/marginally higher expenses) we're trimming our 2023 and 2024 estimates, to $6.70 and $7.20 per share respectively (prior: $6.80 and $7.40). Our target price is unchanged at $84. **Risks (+/-) to the achievability of our estimates and target price** tie most closely to the macro and market backdrop (i.e., the level and shape of the yield curve, market values, market volatility, net asset flows and credit quality migration), net new business and the bank's ability to limit expense growth (without compromising investments in support of growth and productivity).

- **For a snapshot of 1Q23 fundamentals,** we refer to this morning's note: NTRS: First thoughts on 1Q233 (pretty much in line with forecast)
- **Our $84 target price** is derived by applying our weighted average valuation methodology using a 10% weight on our blue sky scenario of $108 a 50% weight on our DCF-derived base case scenario of $93, and a 40% weight on our grey sky scenario of $68; this target price translates 12.5x our 2023 eps estimate and 1.7x forecast year end 2023 tangible book value per share.

Full Report

Date of Production: 26-Apr-2023 00:40:20 UTC Date of Dissemination: 26-Apr-2023 00:41:50 UTC

OneMain Holdings [OMF.N]
1Q23: Higher Provision, Better Loan Growth, Credit Stable, Improving Post-Tightening

OUTPERFORM

Rating	OUTPERFORM
Price (24-Apr-23, US$)	38.61
Target price (US$)	53.00
52-week price range (US$)	49.54 - 29.07
Market cap(US$ m)	4,665
Enterprise value (US$ m)	4,665

Target price is for 12 months.

Research Analysts

Moshe Orenbuch

Hoang Nguyen

- **OMF reported 1Q adj EPS of $1.46 (GAAP $1.48), below CSe of $1.50 and cons of $1.65.** The miss vs CSe was more than entirely driven by higher-than-expected provision ($0.10 impact), due to higher reserve build, though losses were slightly better than our estimate. NII was mostly in-line, though loan growth was ~1 ppt above CSe. Meanwhile, other revenues were higher ($0.06 benefit). Opex also came in slightly lower/better than expected. Loan growth is tracking higher than previous guidance given continued strong demand and better-than-expected origination. Meanwhile, management continues to see credit stabilization. The company has also locked in fixed rates for the majority of its funding over the next 2 years, and still has flexibility in terms of funding mix going forward. Overall, we view the quarter as **positive**.
- **Investment conclusion.** Post earnings, we adjusted our 2023/2024 EPS estimates to $6.45/$8.50 (old: $6.71/$8.49), to account for the results in 1Q and guidance. Our TP is $53, 6x our 2024 EPS estimate. Risks to our estimates and TP include lower-than-expected loan growth and higher-than-expected opex.
- **Positives. 1)** Loan growth was slightly stronger than expected and raised loan growth guidance. **2)** Expenses were slightly lower/better than expected, due to lower core opex. **3)** Management continues to see credit stabilization following underwriting tightening.
- **Negatives. 1)** Provision of $385 mil was higher than CSe of $368 mil, driven by higher reserve build, though losses were slightly lower than CSe.

Full Report

Date of Production: 25-Apr-2023 20:45:11 UTC Date of Dissemination: 25-Apr-2023 20:46:38 UTC

Juniper Networks [JNPR.N]
1Q23 Earnings Results—First Blush

UNDERPERFORM

Rating	UNDERPERFORM
Price (25-Apr-23, US$)	30.98
Target price (US$)	29.00
52-week price range (US$)	34.43 - 25.81
Market cap(US$ m)	9,955
Enterprise value (US$ m)	10,360

Target price is for 12 months.

Research Analysts

Sami Badri

Radi Sultan, CFA

Andy Kellam

George Engroff

Ryan Cui, CFA

Conference call today at 5:00PM EDT at 888-506-0062. Meeting ID: 464325.

1Q23 Results Summary**: 1Q23 revenues/EPS above estimates. 2Q23 revenue guide largely above expectations, with revenue beat Street and CS estimates. Operating margin guidance for 2Q23 above/in-line with CS /Street estimates. Mgmt. called out better than expected margins in the quarter. Focus for this call is likely on forward looking demand and backlog draw as supply chains ease. Total Software and Related Services grew 2% y/y, also a likely focus area for the quarter. Awaiting more color on the call.**

1. **Revenues:** $1,371.8M (+17.4% y/y) **ABOVE** CS/Street estimates of $1,340.5M (+14.8% y/y) / $1,340.3M (+14.7% y/y)

- **Automated WAN:** $474.5M **ABOVE** CS/Street estimates of $461.0M / $445.7M
- **Cloud-Ready Data Center:** $193.6M **WELL BELOW** CS/Street estimates of $225.4M / $232.7M
- **AI-Driven Enterprise:** $317.0M **WELL ABOVE** CS/Street estimates of $260.7M / $274.6M
- **Hardware Maintenance and Professional Services:** $386.7M **BELOW** CS/Street estimates of $393.4M / $387.6M

1. **Gross Profit (Non-GAAP):** $792.6M (57.8% margin) **MARGIN ABOVE** with CS/Street estimates of $766.7M (57.2% margin) / $769.3M (57.4% margin)
2. **Operating Profit (Non-GAAP):** $203.0M (14.8% margin) **MARGIN ABOVE** CS/Street estimates of $183.6M (13.7% margin)/ $185.9M (13.9% margin)
3. **Taxes:** $36.7M **ABOVE** CS estimate of $32.7M
4. **EPS (Non-GAAP):** $0.48 **ABOVE** CS/Street estimates of $0.42/$0.43
5. **Shares Outstanding:** 329.1M **SLIGHTLY ABOVE** CS estimate of 329.0M

Additional Information

2Q23 Guidance Summary**:**

1. **Revenues:** $1,410M +/- $50M (+11.1% y/y at mid-point) **ABOVE** CS/Street estimates of $1,361.3M (+7.2% y/y)/ $1,401.1M (+10.4% y/y)
2. **Gross Margin (Non-GAAP):** 58.0% +/- 1% **ABOVE** with CS/Street estimates of 56.9%/ 57.7%
3. **Operating Margin (Non-GAAP):** ~16.2% **ABOVE/IN-LINE** CS/Street estimates of 14.6% / 16.1%.
4. **Tax Rate (Non-GAAP):** ~19.0% **IN-LINE** with CS estimates of 19.0%
5. **EPS (Non-GAAP):** $0.54 +/- $0.05 **ABOVE** CS/Street estimates of $0.46 / $0.53.

From the Press Release:

"We experienced strong revenue results during the March quarter, delivering year-over-year growth across all customer solutions and all geographies," said Juniper's CEO, Rami Rahim. "Despite market uncertainties, I remain confident in our strategy and our ability to deliver another year of healthy revenue growth based on the momentum we are seeing with our customers, the continued strength of our backlog, and the improvements we are seeing with respect to supply."

"We delivered better than expected profitability during the March quarter, as non-GAAP gross and operating margin both came in well above the mid-point of our guidance, which enabled us to exceed the high-end of our non-GAAP EPS outlook," said Juniper's CFO, Ken Miller. "We remain focused on delivering improved profitability and expect to expand operating margin by greater than 100 basis points in 2023."

Ken Miller, CFO stated "As expected, total orders softened during the March quarter, declining more than 30% year-over-year. We do not believe this reflects true-underlying demand for our products, but rather is a reflection of our customers' consuming previously placed early orders and the reduced need for continued early ordering as lead times have improved. With that said, we *believe customer ordering patterns are starting to normalize and we would expect to see a return to more traditional seasonal patterns on a sequential basis starting this quarter. This would imply that our year-over-year order declines should improve on a go-forward basis and return to year-over-year growth, potentially as soon as Q4 of this year. Our backlog remains elevated but declined more than $350 million due to improvements in supply. We expect the backlog to further decline as supply improves but remain elevated relative to historical levels exiting the year."*

Summary Charts:

Note: Forward estimates have not been updated below

Full Report

Date of Production: 25-Apr-2023 21:08:08 UTC Date of Dissemination: 25-Apr-2023 21:09:09 UTC

Diversified REITs | Earnings

25 April 2023

Boston Properties, Inc. [BXP.N]
1Q23 Beat Despite Slow Leasing Quarter; 2023 Guidance Midpoint Raised

NEUTRAL

Rating	NEUTRAL
Price (25-Apr-23, US$)	50.30
Target price (US$)	65.00
52-week price range (US$)	124.14 - 47.37
Market cap(US$ m)	7,889
Enterprise value (US$ m)	21,628

Target price is for 12 months.

Research Analysts

Tayo Okusanya, II, CFA, CPA

- **Overall Thoughts**: 1Q23 FFO/sh of $1.73 beat CS/consensus at $1.72/$1.68. While office lease revenue came in below our expectations of the back of a slow leasing quarter, the beat vs CS was primarily driven by lower than expected operating expenses, better hotel results, and better parking results. BXP introduced 2Q23 FFO/sh guidance of $1.79-$1.81 which is in-line with CS/consensus at $1.81/$1.80. BXP also raised 2023 FFO/sh guidance to $7.14-$7.20 ($7.17 midpoint) from $7.08-$7.18 previous ($7.13 midpoint) to reflect the 1Q23 beat versus consensus, with updated FFO/sh guidance slightly ahead of CS/consensus at $7.11/$7.13. Notable drivers of guidance did not change (i.e., average in-service portfolio occupancy remains at 88.0%-89.5% as does consolidated net interest expense of $(525M)-$(515M)). We like the high-level idea of BXP's premier workplace focused strategy and the recently commenced fully pre-leased life science developments (290 & 300 Binney St in Cambridge, MA). The stock also screens attractive on a valuation basis (~9.5x P/AFFO vs 5-year average of ~23.5x). That said, investors will need more conviction regarding a turnaround in BXP's earnings outlook, and weak 1Q23 leasing results (~660k sq ft in 1Q23 vs ~1.1M sq ft in 4Q22 and the 5 quarter average of ~ 1.25M sq ft/quarter) and little development lease-up (only one project saw q/q increase in leased %) will likely not do the trick.
- **Mixed Operating Metrics In 1Q23**: Aside from weak leasing volume, we note physical occupancy remained flat q/q in 1Q23 at 88.6% although portfolio % leased fell 50 bps q/q to 91.0%. On the positive side, TIs per sq ft per lease year fell to ~$9.46 in 1Q23 vs ~$10.54 in 4Q22 and ~$12.25 in 3Q22 and SS NOI growth accelerated to 0.4% GAAP/4.8% cash in 1Q23 YoY vs 0.1% GAAP/2.6% cash in 4Q22.
- **Key Questions**: 1) Thoughts on life science real estate demand/construction cost outlook, 2) Outlook for development lease-up given little activity in 1Q23. 3) Acquisition/disposition outlook given little activity in 1Q23. 4) discuss meaningful occupancy loss in LA and DC in 1Q23; 5) Plans to further de-lever given Net Debt to EBITDare (quarter annualized) rose to 7.78x from 7.56x in 4Q22, Earnings Call April 26th 10 AM EST. 844-543-0451.

Full Report

Date of Production: 26-Apr-2023 00:33:09 UTC Date of Dissemination: 26-Apr-2023 00:34:39 UTC

Highwoods Properties, Inc. [HIW.N]

1Q23 Beat But a Weak Leasing Quarter Like Its Office REIT Peers; 2023 Guidance Raised at Lower End

NEUTRAL

Rating	NEUTRAL
Price (25-Apr-23, US$)	22.50
Target price (US$)	27.00
52-week price range (US$)	43.12 - 19.82
Market cap(US$ m)	2,372
Enterprise value (US$ m)	5,567

Target price is for 12 months.

Research Analysts

Tayo Okusanya, II, CFA, CPA

- **Overall Thoughts**: 1Q23 FFO/sh of $0.98 beat CS/consensus at $0.94/$0.93. The beat vs CS was primarily driven by lower than expected interest expense ($0.01), better than expected other income ($0.01), and better FFO/sh contribution from HIW's minority stakes in JVs ($0.02). HIW slightly raised 2023 FFO/sh guidance to $3.68-$3.82 (from $3.66-$3.82, $3.74 midpoint). The new $3.75 midpoint is in-line with CS/consensus at $3.77/$3.75. HIW slightly raised FY23 same property cash NOI growth expectations to (0.5%)-1.0% (0.25% midpoint) from (1.0%)-1.0% (0% midpoint). Other key drivers to 2023 guidance remained the same such as year-end occupancy of 89.0%-91.0%. As has been the case for Office REITs so far (i.e., ARE, BXP), HIW also reported soft 1Q23 leasing metrics (~522k sq ft in 1Q23 lags ~924k sq ft in 4Q22 and the 5 quarter average of ~764k sq ft). We note leasing in 1Q23 was also more expensive for HIW (TIs/sq ft/ lease year rose to $5.44 in 1Q23 from $3.46 in 4Q22) with little progress being made on the development leasing front (now ~21.8% pre-leased vs ~20.9% pre-leased in 4Q22). At ~8.8x P/ AFFO (vs 5 year average of ~18.3x), some of the earnings growth concerns appear priced into the stock. That said, the near-to-mid term earnings impact from 1) known move-outs of large tenants in 2023/2024/2025 coupled with weak leasing amidst a challenging office fundamentals backdrop; and 2) potential dilution from the expected sale of HIW's Pittsburgh assets to fund growth elsewhere suggests HIW's earnings growth outlook could be challenging even beyond 2023.
- **Balance Sheet In Good Shape**: In 1Q23, HIW obtained a ~$200M, 5-year secured loan at a fixed rate of 5.69%. There are no debt maturities until 4Q25 but still relatively high variable rate debt at ~24.5% of total debt. Net debt to Adjusted EBITDAre was relatively flat q/q at 5.9x in 1Q23. Pro forma liquidity of ~$725M could allow HIW to capitalize on potential acquisition opportunities although none is baked into FY23 guidance.
- **Key Questions**: 1) Thoughts on the overall leasing outlook; 2) Updates on backfilling upcoming move-outs; 3) Commentary on development lease-up; 4) Update on the planned exit from Pittsburgh given the tough capital markets backdrop. Earnings Call April 26th 11 AM EST. 800-756-3565

Full Report

Date of Production: 26-Apr-2023 01:20:02 UTC Date of Dissemination: 26-Apr-2023 01:21:27 UTC

Universal Health Services [UHS.N]
Q1 EBITDA Nicely Ahead of Ests, Behavioral Health Strong Across the Board, Acute Care Exhibits Vol Strength

- **EPS, Revs Both Beat Consensus**: UHS posted 1Q23 adj. EPS of $2.34, above CSe/Cons by $0.34/$0.15. Adj. EPS in 1Q22 was $2.15. The company's earnings include $4.5 mln, of $0.06 per diluted share, of unrealized losses from the decrease market value of certain equity securities. Net revs for the quarter were $3.468 bln, outpacing CSe/Cons of $3.452 bln/$3.448 bln. Revs were up 5.3% Y/Y. Adj. EBITDA net of NCI was $421.1 mln in the quarter, also outperforming CSe/Cons of $385 mln/$395 mln.
- **Acute Care SS Volumes Grow, Pricing/Acuity Face Tough Comp:** SS net revs increased by 3.5% in the quarter. 1Q23 adj. SS adjusted acute admits were up 10.5% Y/Y, while net rev per adj. admission decreased 7.5% Y/Y. 1Q22 is a particularly tough comp for acuity and, therefore, pricing, given the Covid surge in the year-ago quarter. Y/Y comparisons should be more normalized in future quarters, as Covid cases have stabilized. Management noted that vols were particularly strong in Texas and Florida mkts. Segment EBITDA was $233.1 mln (11.8% margin vs. 12.8% in 1Q22), down 4.5% year-over-year. SWB exp came in at 42.8%, down 130 bps from 1Q22 and down 20 bps sequentially. 1Q22 Other OpEx was 27.6% of revs for the acute segment, down 20 bps sequentially. Contract labor improved moderately, though higher volumes prevented contract labor from improving further, which management describes as a positive tradeoff for the company.
- **Behavioral Health Continues Post-Covid Recovery, Vols and Pricing Both Solid: N**et revs in the behavioral segment increased 9.7% Y/Y. Segment 1Q23 adj. EBITDA of $312.3 mln (21.0% margin), up 23.4% Y/Y from $253.1 mln (18.5% margin) last year. Behavioral SS adj. admits increased 7.5%, while adj. patient days advanced 4.7% versus 1Q22. Net rev per adj admit increased by 2.2%, and net rev per adj patient day jumped 5.0% Y/Y.
- **Cash Flows Impacted by Working Capital Timing, Share Repurchases Continue:** CFFO for 1Q23 was $291 mln, down from $445 mln a year ago. The decline was primarily caused by an unfavorable working capital drag of $183 mln due to unusual timing related to disbursements for accrued comp and AP. During the quarter, UHS repurchased approx. 650k shares at a total cost of $78.7 mln ($121 per share).

Full Report

Date of Production: 25-Apr-2023 23:15:28 UTC Date of Dissemination: 25-Apr-2023 23:17:04 UTC

OUTPERFORM

Rating	OUTPERFORM
Price (25-Apr-23, US$)	140.72
Target price (US$)	153.00
52-week price range (US$)	152.67 - 87.81
Market cap(US$ m)	9,856
Enterprise value (US$ m)	14,688

Target price is for 12 months.

Research Analysts

A.J. Rice

Jonathan Yong

Joseph Overman

Enjia Cao

Anastasia Parafestas

Carlos Penikis, CFA

CREDIT SUISSE

Health Care Technology | Comment

25 April 2023

GoodRx Holdings [GDRX.OQ]
Interim CEO Appointed; Timing Somewhat Surprising but May Yield New Perspective

NEUTRAL

Rating	NEUTRAL [V]
Price (25-Apr-23, US$)	5.49
Target price (US$)	8.00
52-week price range (US$)	15.63 - 4.06
Market cap(US$ m)	2,183
Enterprise value (US$ m)	2,093

Research Analysts

Jonathan Yong

A.J. Rice

Anastasia Parafestas

Interim CEO Appointed: This evening, GDRX announced that Scott Wagner, former CEO of GoDaddy, would be appointed Interim CEO while Co-CEOs Doug Hirsch and Trevor Bezdek would transition to Chief Mission Officer and Chairman, respectively. The timing of the announcement and transition may create some uncertainty as GDRX is set to report 1Q23 results on May 10, two weeks from now. That said, the company did note they are transitioning from a moment of strength for the business. Mr. Wagner is coming in as an Interim CEO, rather than a permanent CEO with the board engaging in a search process for a permanent successor to Messrs. Bezdek and Hirsch. Finally, while the company did not reaffirm 2023 guidance with this release, they did indicate that their MAC count was in the range they expected and that the year was off to a good start. Ultimately, while the change in CEO is somewhat sudden, a change in perspective could be beneficial for the company and Mr. Wagner has had success in his prior roles, although we look to hear more on what he may look to improve upon at the company. We remain Neutral on the stock as we look to see a rebound in growth beyond the easing of comps.

Quick Background: Mr. Wagner has been serving as an investor and advisor to technology companies following his role at GoDaddy, where he served as CEO from 2017-2019 as well as President, CFO and COO during 2013-2017, and interim CEO from 2012-2013. He currently serves on the board of directors at various companies. He has been appointed Interim CEO effective April 25, 2023.

Full Report

Date of Production: 25-Apr-2023 21:31:31 UTC Date of Dissemination: 25-Apr-2023 21:32:30 UTC

Equity Residential [EQR.N]

1Q23 Slight Miss Despite Improving Delinquency Trends; FY23 NFFO Guidance Unchanged; Decent Set-Up Into Spring Leasing

NEUTRAL

Rating	NEUTRAL
Price (25-Apr-23, US$)	60.52
Target price (US$)	58.00
52-week price range (US$)	89.09 - 55.46
Market cap(US$ m)	22,931
Enterprise value (US$ m)	30,207

Target price is for 12 months.

Research Analysts

Tayo Okusanya, II, CFA, CPA

Sam Choe, CFA, CAIA

Adam Hamilton

- **Overall Thoughts:** 1Q23 NFFO/sh of $0.87 came in just below consensus at $0.88. Despite the slight miss, management seemed encouraged by lower-than-expected bad debt expense from improving delinquency trends, as evidenced by better payment and move-out activity (vs. initial February 2023 guidance). While FY23 guidance remains largely unchanged as 1Q23 and April 2023 operating trends have trended relatively in-line with management expectations, better bad-debt expense suggests potential for upside later in the year when EQR revisits guidance assumptions. Also notable was a pick-up in transaction activity, as EQR set FY23 guidance for acquisitions and dispositions to $300M each (from $0 in February guidance) to signal the resumption of capital recycling efforts.
- **FY23 Guidance Mostly Unchanged; 2Q23 Guidance Established:** EQR kept its FY23 NFFO/sh guidance range at $3.70-$3.80 with the $3.75 midpoint in line with consensus. FY23 SS NOI growth midpoint remained at 5.5%, with midpoints for SS revenue/expense growth at 5.25%/4.5% (also unchanged). Within the unchanged SS revenue growth guidance of 4.5% to 6.0%, management has incorporated a -0.9% impact from elevated levels of bad debt in 2023 which may prove conservative as the year progresses. SS opex guidance of 4.5% suggests moderation in opex (SS opex grew 7.2% YoY in 1Q23 due to one-time repair costs). For 2Q23, EQR expects a NFFO/sh range of $0.91-$0.95, with the $0.93 midpoint in line with CS, and slightly below the consensus estimate of $0.94.
- **1Q23 Occupancy Solid, But Operating Trends Slowed QoQ**: SS Occupancy increased 10 bps QoQ to 95.9% and an additional 10 bps to 96.0% in April 2023. Blended/new/renewal rental rates decreased to 3.9%/1.3%/6.2% YoY in 1Q23 vs. 5.6%/2.2%/8.5% in 4Q22. In April 2023, blended/new/renewal rental rates amounted to 4.0%/1.6%/5.7%. SS NOI slowed to 10.2% from 10.9% QoQ due to the aforementioned elevated SS OpEx growth.
- **Key Questions:** 1) Updated thoughts on current leasing trends (given persisting negative new lease spreads in Seattle, Denver, and other expansion markets) and where loss to lease currently stands, 2) Color on delinquency trends, 3) color on 1Q23's one-time expense items, and 4) what led to the decision to restart capital recycling efforts. Earnings call tomorrow (4/26/2022) at 11am ET (dial-in: 888-394-8218; access code: 4781872).

Full Report

Date of Production: 26-Apr-2023 01:35:29 UTC Date of Dissemination: 26-Apr-2023 01:36:56 UTC

Verizon Communications [VZ.N]
1Q23 Wrap: Fighting For Flat

NEUTRAL

Rating	NEUTRAL
Price (24-Apr-23, US$)	37.10
Target price (US$)	43.00
52-week price range (US$)	52.09 - 35.35
Market cap(US$ m)	155,816
Enterprise value (US$ m)	325,102

Target price is for 12 months.

Research Analysts

Douglas Mitchelson

Grant Joslin

Jane Feng

Chirac Ndetan

1Q23 Results: Verizon reported a reasonable enough 1Q23 as management may have allayed fears about its ability to attract customers with a rebound in Consumer wireless postpaid phone gross adds, but it came at a significant ARPA cost (offsetting more than half the benefit of the 4Q price increases) and accompanied by more churn. Beyond the key consumer postpaid market dynamics was a prepaid and business wireline-driven revenue miss, bringing 1Q23 revenue/EBITDA/EPS to -2%/-1%/-11% Y/Y. Full year 2023 guides were maintained.

Forecast Update: Compared to 1Q23, Verizon's 2Q23 will benefit from a $2/phone legacy unlimited price increase hitting with the April billing cycle (we think a mid-teens share of the base), offset by promotional amortization and the effects of the initial marketing tactics of new Consumer and Business segment leadership. In all, we modestly raise 2023 consumer net adds 153k to -347k, substantially lower prepaid net adds 768k to -926k, and lower service revenue offset by lower opex leaving Consumer EBITDA little changed. We lower 2023 business wireline revenue resulting in $166M lower EBITDA of $6.629B. These segment changes are partly offset by better Corporate losses for total EBITDA -$87M to $47.421B. Our full year '23-'25 Adj EPS, Capex, and FCF are unchanged.

Outlook: For Verizon to build confidence in its 2023 guidance and its medium-term outlook after a disruptive last year, key will be the early pulse on efforts to revitalize the company's retail blocking and tackling with 2Q/3Q earnings. Perhaps prepaid will improve, adding more capacity could lengthen the FWA growth cycle, and cost savings could start falling to the bottom line late in the year. On the other hand, wireless growth concerns remain elevated for Verizon, be it cable's wireless acceleration and much lower converged pricing or TMUS and AT&T discounting on the business side, while competitors continue to pry away Verizon's perception of network leadership. We continue to see flattish EBITDA in 2024 and beyond as share challenges for the wireless leader and secular wireline business declines are balanced by pricing and cost initiatives; we remain Neutral.

- **Valuation:** Our DCF target remains $43 (7.2% WACC, no terminal growth). VZ trades at 9x '23e FCF, 8x '23 EPS, and a 7% dividend yield. Risks: competitive intensity; macro; 5G core and Tracfone execution; enterprise traction.

Full Report

Date of Production: 25-Apr-2023 20:44:29 UTC Date of Dissemination: 25-Apr-2023 20:45:41 UTC

Chubb Limited [CB.N]
1Q23 Results: Commercial P&C Rate Increases Re-Accelerate, Underlying Results Solid

OUTPERFORM

Rating	OUTPERFORM
Price (25-Apr-23, US$)	201.18
Target price (US$)	270.00
52-week price range (US$)	231.11 - 174.74
Market cap(US$ m)	83,318
Enterprise value (US$ m)	83,318

Target price is for 12 months.

Research Analysts

Andrew Kligerman

Joel Hurwitz, CFA

Michael Domiano

Alfred Miller

- **Core operating EPS of $4.41 vs. CS/cons' $4.51/$4.46**. Miss vs. CS on ~$(0.30) of higher catastrophe (cat) losses, partly offset by higher net investment income (NII) and Life Insurance income. Total net written premiums (NWP) of $10.7B up 16.6% (18.3% constant currency, cc), and above CS $10.6B; P&C (ex. crop) NWPs up 6.7% (8.3% cc) y/y. Buybacks of $428M. Adjusted NII of $1.2B up 31% y/y. Net EPS of $4.53.
- CEO Greenberg: "In North America, **both P&C rate and price increases re-accelerated in the quarter with commercial P&C pricing increasing 11.2%.** In our retail international operations, pricing was up about 8%."
- **P&C U/W income** (ex. cats and prior year developments [PYD]) **of $1.48B above CS est. $1.46B.** C/R ex. cats and PYD (adj. C/R) of 83.4% vs. CS est. 83.9% and 83.5% y/y. P&C ex. crop adj. C/R of 83.4% vs. 83.6% y/y and 82.9% q/q.
- **P&C U/W income (incl. cats and PYD) of $1.21B vs. CS est. $1.34B**. C/R of 86.3% vs. CS 85.2% and 84.3% y/y. Net favorable PYD impact of 2.2% vs. 3.2% y/y. Pre-tax (p-t) net cats incl. reinstatements of $(458)M vs. $(333)M y/y, and CS est. $(303)M. P&C ex. crop C/R of 86.1% vs. 85% y/y.
- **Adj. C/R increases in NA Personal, solid in all other lines; total adj. L/R of 55.6% vs. 56.1% y/y and E/R of 27.8% vs 27.5% y/y**. NA Commercial adj. C/R of 81.2% vs. CS 82.2% and vs. 81.7% y/y; NA Personal 80.6% vs. CS 78.8%, 79.6% y/y, and 77.1% q/q; NA Agriculture 83.9% vs. 79.5% y/y; Overseas General Insurance 85.1% vs. CS 86.3% and 85.5% y/y; Global Reinsurance 78.4% vs. 79.9% y/y.
- **Commercial lines net written premiums (NWPs) rose 7.8% y/y cc and personal lines NWPs up 6.5% y/y cc**. Commercial NWPs led by multiple peril up 17.5% and property and other up 16.5% y/y, but offset by financial lines off (0.5)% y/y cc. Personal auto NWP up 0.9% y/y cc, homeowners up 9.4% y/y cc, and other up 6.5% y/y cc.
- **Life Insurance segment income of $244M, vs. CS est. $217M and $121M y/y.** NWPs up 129% y/y cc, aided by the acquisition of Cigna's business in Asia.
- **Stock Rx**: Modest outperform peers on 4/26 on solid underlying results and NWP growth. Adj. C/R in NA Personal rose slightly, though its C/R of 93.9% is still well ahead of peers.
- **Conference call details**: April 26 call at 8:30 a.m. ET, 877-400-4403 (ID1641662).

Full Report

Date of Production: 26-Apr-2023 00:54:00 UTC Date of Dissemination: 26-Apr-2023 00:55:13 UTC

CREDIT SUISSE

Forest Products | Results

25 April 2023

West Fraser Timber Co Ltd. [WFG.N]
At-a-Glance: Pondering the Pricing

OUTPERFORM

Rating	OUTPERFORM
Price (24-Apr-23, US$)	74.77
Target price (US$)	92.50
52-week price range (US$)	101.99 - 68.92
Market cap(US$ m)	6,077
Enterprise value (US$ m)	5,419

Target price is for 12 months.

Research Analysts

Andrew M. Kuske

James Aldis

Selena Zhou

- **Preliminary Results Review: West Fraser Timber Co Ltd (WFG)** reported Q1 2023 adjusted EBITDA of US$58m that missed our US$105m forecast, the Street's US$95m and the bottom end of the US$56m-US$142m range. On EPS, WFG reported Q1 EPS of US$(0.52) that missed our US$(0.39) but was above the Street's US$(0.67) along with being within the range of US$(0.87) to US$(0.41). As per our past upgrade (*Upgrade to Outperform (from Neutral); Views on Value with Highlighted Headwinds*), we remain constructive on WFG's business exposure – albeit the re-rate path is unlikely to be linear and rather rocky at times as partly witnessed over the last few months.
- **Selected Details:** Largely on a Q1 2023 versus Q4 2022 basis, notables included: **(a)** Lumber segment adj. EBITDA of US$0m vs. US$(77)m; **(b)** North America EWP adj. EBITDA of US$31m vs. US$109m; **(c)** Pulp & Paper adj. EBITDA of US$7m vs. US$15m; **(d)** Europe EWP adj. EBITDA of US$20m vs. US$30m; and, **(e)** On February 22, 2023, WFG renewed their normal course issuer bid allowing WFG to acquire up to 4,063,696 Common shares for cancellation from February 27, 2023 until February 26, 2024. As of April 24, 2023, no shares have been repurchased under the bid.
- **Conference Call:** WFG's results call on April 26th at 11:30am ET will be accessible via 1-888-390-0605 and 416-764-8609.
- **Investment Thesis:** We believe West Fraser has an enviable position in both lumber and OSB markets, however, pricing and housing dynamics are not currently overly supportive.
- **Valuation:** Our US$92.50 target and Outperform rating are based on multiple methods, including: **(a)** a 2024e-driven NAV that includes a 7.5x multiple on the Lumber segment; a 4x multiple on the Pulp & Paper segment; and 5.5x multiples on North American and European EWP segments; **(b)** an implied 16.1x P/E valuation on 2024e; and, **(c)** an implied 5.7x EV/EBITDA multiple on 2024e. Risks to our rating and target price, include: **(a)** housing market dynamics; **(b)** interest rates; **(c)** commodity prices; **(d)** FX; **(e)** input costs; and, **(f)** operating risks from the underlying business including regulatory and political.

Full Report

Date of Production: 25-Apr-2023 22:40:36 UTC Date of Dissemination: 25-Apr-2023 22:41:44 UTC

CREDIT SUISSE

INDUSTRY UPDATES:

Computers & Peripherals | Quarterly

25 April 2023

IT Hardware

Read-Through From MSFT Results Across IT Hardware Vendors (March Quarter)

Research Analysts

Shannon Cross

Ashley Ellis

We listened to Microsoft's (MSFT, Outperform – covered by Sami Badri) F3Q23 earnings call for IT Hardware read-throughs. Most notably, Microsoft said PC demand was better than expected, specifically for Commercial devices. This is a positive for Dell (Dell, OP) which has high market share in the commercial PC market. We currently estimate Dell's Commercial PC revenue down 25% for the quarter ended April, close to the 28% decline in Windows OEM revenue in the March quarter. Microsoft referenced AI throughout the call and pointed to a number of new AI powered apps and cloud services as driving share gains for Azure. There are now more than 2,500 Azure OpenAI customers, up 10x sequentially including Mercedes and Shell. We think these trends highlight growing awareness and implementation of AI in enterprise environments which will benefit IBM (IBM, OP), Dell and HP Enterprise (HPE, OP) near-term. We think the storage companies will also benefit from data creation longer-term.

PCs

Modest positive read-through for the PC market including Dell and HP Inc. (HPQ, N), as demand and mix was better than expected. Although, the company said inventories are still high, leaving us comfortable with our revenue estimates for the April quarter and expectation that any recovery will be later in 2023. Highlights include:

- Windows OEM revenue declined 28% versus guidance of down in the 30% range with upside due to commercial demand which typically carries higher ASPs and margin.
- Similarly, commercial deployments of Windows 11 are accelerating (90% of Fortune 500 are trialing or deployed) with Office Commercial revenue better than the company expected.
- Microsoft guided Windows OEM revenue down in the low to mid 20% range for the June quarter and implying a slightly better decline for the whole PC market as Microsoft only benefits from sell-in, not sell-through.
- In-line with last quarter, monthly active Windows devices hit a record high and usage remains above pre-pandemic levels.

Hybrid Cloud/Servers

Net neutral read-through for Hybrid Cloud but negative for servers. Customers are still optimizing workloads which **we believe could be a headwind for NetApp's (NTAP, N) Azure partnership** but some new workloads are starting again and management intimated there could be more of a balance between optimization and scaling in the coming quarters (albeit guided further deceleration in the June quarter due to the consumption business).

Full Report

Date of Production: 26-Apr-2023 01:20:48 UTC Date of Dissemination: 26-Apr-2023 01:22:27 UTC