Equities Research

CREDIT SUISSE

First Edition - US Alert Wednesday, May 3, 2023

3 May 2023
Credit Suisse Global Product Marketing

Estimate / Target Price Changes:

Company Updates:

Industry Updates:

CREDIT SUISSE

ESTIMATE / TARGET PRICE CHANGES:

Health Care Technology | Increase Target Price

03 May 2023

AmerisourceBergen [ABC.N]
Q&A Our Way: A Strong Quarter in the US Drives Guidance Raise

OUTPERFORM

Rating		OUTPERFORM
Price (02-May-23, US$)		169.16
Target price (US$)	(from 197.00)	199.00
52-week price range (US$)		173.99 - 135.33
Market cap(US$ m)		34,214
Enterprise value (US$ m)		35,557

Target price is for 12 months.

Research Analysts

A.J. Rice

Jonathan Yong

Carlos Penikis, CFA

Enjia Cao

Joseph Overman

ABC reported FY2Q23 revs, EBIT, and EPS ahead of cons ($63.5 bln revenue, $932.1 mln EBIT, $3.50 EPS). The company also raised FY23 revenue and EBIT guidance and raised EPS guidance to $11.70 - $11.90 (prev $11.50 - $11.75). See our note for more: Solid Quarter and Guidance Raise.

- **ABC Expressed High Confidence in its Guidance**: ABC discussed its benefit this quarter from a broad uptick in US utilization, including with two major clients WBA and Express Scripts, specialty (physician practices and health systems), and in community pharmacies. ABC said it has not incorporated the full strength of this uptick in utilization into its guidance, which gives it a high degree of confidence that it can meet its targets.

- **ABC Plans to Buy Back Shares if WBA Sells, But How Many is a Question**: ABC reiterated its intent to collaborate with WBA to repurchase shares if WBA opts to conduct another share sale. ABC cautioned, however, that given its purchases of PharmaLex and OneOncology, how much cash it will allocate to share purchases may be limited. We note that ABC had an average diluted share count of 206 mln in 1Q23 and 204 mln in 2Q23, and the company has guided to ending the year with an average share count of 205 mln. This implies that ABC does not plan to conduct repurchases absent a WBA sale.

- **Insulin Prices not Expected to be a Headwind**: ABC noted that it has clauses in its contracts that allows the company to renegotiate contracts if manufacturers reduce prices. The company is confident in the value it provides to manufacturers and its negotiating ability, so that decreasing drug prices should not be a headwind.

- **Updating Estimates, Maintain Outperform**: We update our estimates and now expect 3Q23 EPS of $2.80 (prev $2.87) and FY23 EPS of $11.83 (prev $11.56). Our $199 price target (from $197) is based on 11.5x CY24 EBITDA. We maintain our Outperform rating. Risks include a change in continued competitive pressures, a slowdown in healthcare utilization trends and script growth, greater-than-expected generic deflation, and weaker brand inflation.

Full Report

Date of Production: 03-May-2023 04:47:59 UTC Date of Dissemination: 03-May-2023 08:00:54 UTC

Canadian Infrastructure
All About the ATCO Group After the Earnings

Research Analysts

Andrew M. Kuske

James Aldis

Selena Zhou

On May 16th and 17th, Credit Suisse will host the 2023 Renewables and Utilities Conference in New York with about 40 companies across the ecosystem (including the ATCO Group (with both ACO and CU in attendance) for meetings. Please contact us or your sales representative for details (Credit Suisse Renewables & Utilities Conference).

- **Results Round-Up: ATCO Ltd. (ACO)** and **Canadian Utilities Limtied (CU)** reported results on April 27th each with a positive bias – albeit with the re-basing reality being a key focus for the underlying CU business as per our notes: *ACOx.TO: At-a-Glance: Positive Positioning* and *CU.TO: At-a-Glance: Reassessing a Re-Basing Reality*. Very simply, we don't put undue emphasis on quarterly results for many long-dated assets and even more so for the regulated utilities sector when undergoing a regulatory re-basing. CU is in such a situation and, therefore, the Q1 quarterly beat is interesting, but not necessarily something to continue throughout 2023. With some of the uncertainty around CU's future financials (really in 2023), we focus on an ATCO stub value that shows utility interests are not even fully reflected in the share price.

- **Pondering the Pair:** Given the stub reality, there is considerable potential option value with the ATCO Group – primarily with ACO, but could be amplified with a restoration of CU growth. Beyond the 2023 re-basing year, the core Alberta business should have a better baseline and other business activities could help with a re-rating of the discounted stock. In this note, both ACO and CU earnings were slightly biased upwards as outlined within.

Full Report

Date of Production: 02-May-2023 21:28:11 UTC Date of Dissemination: 03-May-2023 04:04:05 UTC

Sysco Corporation [SYY.N]
F3Q Recap

OUTPERFORM

Rating	OUTPERFORM
Price (02-May-23, US$)	75.80
Target price (US$)	(from 94.00) 88.00
52-week price range (US$)	88.23 - 70.71
Market cap(US$ m)	38,476
Enterprise value (US$ m)	48,163

Target price is for 12 months.

Research Analysts

Lauren Silberman

Alex Stansbury, CFA

Raymon Wang

- **SYY delivered a mixed F3Q print, with top line & GP beats offset by elevated opex.** SYY F3Q23 EPS was $0.90 (consensus $0.92) and EBITDA was $900MM (consensus $945MM). The top-line beat was driven by foodservice case growth of 6.1%, including local case growth of 4.2%, and enterprise inflation of 4.9%, with SYY noting inflation decelerated faster than expected during the quarter. Higher-than-expected opex costs again pressured flowthrough, though SYY emphasized increased efforts around productivity & efficiencies to support margin expansion. Given the slowdown in industry trends & lower inflation, SYY is now guiding FY23 EPS to the low end of its $4-4.15 range. For FY24, we suspect SYY will guide below its prior outlook (which implied EPS of >$4.61). While we acknowledge NT industry & company-specific headwinds, we believe SYY has levers to enhance top-line & flowthrough, and given SYY's relatively resilient model and current valuation (17.5-18x P/E vs ~22x 5-yr avg), we believe SYY offers a favorable risk/reward.
- **Company initiatives to drive share gains:** F3Q US foodservice case growth was 6.1%, noting industry volumes softened in March (consistent with restaurant commentary), which is expected to persist into F4Q. Despite the industry backdrop, SYY continues to expect to grow 1.35x the market in FY23, with market share gains to be driven by enhanced service through programs such as Sysco Your Way (now live in 300+ neighborhoods; exceeding expectations with DD top & bottom line growth) & Sysco Perks (11K+ customers enrolled), digital tools, personalized offers to optimize basket sizes and specialty platforms. SYY is also making efforts to increase customer penetration, supported by enhancements to digital tools, such as the Sysco Shop ordering platform (product suggestions, targeted offers) and sales consultant CRM tool (increased visibility into customer order platforms – "step-level increases of engagement" when sales rep presents offer customer has seen digitally).
- **CS Estimates:** We are lowering our FY23/FY24 EPS to $3.97/$4.45 (from $4.03/$4.67), largely driven by higher opex estimates and slightly lower GM estimates.
- **Valuation:** We are lowering our TP to $88 (from $94) based on ~12x/18x our NTM EBITDA/EPS in 12 months, a discount to historical multiples given uncertainty in the environment & elevated cost pressures. Risks: consumer, inflation, COVID-19, competition.

Full Report

Date of Production: 03-May-2023 05:44:04 UTC Date of Dissemination: 03-May-2023 08:02:14 UTC

Zebra Technologies Corp. [ZBRA.OQ]
Large Retail & E-commerce Customer Deferrals Drives Q2 and FY23 Guidance Cut

OUTPERFORM

Rating	OUTPERFORM
Price (02-May-23, US$)	255.44
Target price (US$) (from 326.00)	295.00
52-week price range (US$)	368.14 - 226.88
Market cap(US$ m)	13,129
Enterprise value (US$ m)	14,796

Target price is for 12 months.

Research Analysts

Guy Hardwick

- **Key Takeaways**: ZBRA reported Q1-23 EPS 2c ahead of consensus with organic growth at -0.3% in line with CS expectations but ahead of the street (-1.2%) However, ZBRA guided Q2 revenues and EPS materially below the street and lowered FY23 revenue and EBITDA margin guidance. Updated FY23 revenue guidance is -4% at the midpoint (-3.5% organic) versus prior guidance of -1% (-0.5% organic). We believe most of the revenue shortfall versus expectations for both Q2 and FY23, is lower large customer business, particularly from the retail/e-commerce sector, and secondly a level of distributor de-stocking. We lower CSe FY23 EPS to $16.03 (prior $17.70) and FY24 EPS to $17.70 (prior $19.71). We lower our target price to $295 (prior $326) due to lower FY23 EPS.
- **Key Issues:** The FY23 range of revenue guidance (-6% to -2%) is dependent on the level of large customer demand for the rest of the year. We model FY23 organic revenues -4% (-$230M), which assumes an~$190M headwind from a 25% decline in large customer retail/e-commerce revenues. FY23 EBITDA margins guidance was lowed from 22%-23% to ~22%, with negative operating leverage partially offset by lower premium freight costs and better gross margins due to mix (lower large customer business). FCF guidance was lowered sharply to $450M to $550M (previous guide > $650M) due to lower EBITDA, higher inventory, and cash taxes. While particularly disappointing, we note FCF has now been added as a management incentive and we model a return to 90% FCF conversion in FY24. Prospects for FCF in FY24 will be an important consideration of a constituency of investors who are currently on the sidelines but interested in ZBRA.
- **Catalysts & Risks:** Risks include US tightening credit conditions for SMBs, and exposure to retail and e-commerce; FX headwinds particularly the EUR (25% of sales).
- **Valuation**: Our $295 target price is based on18.4x CS FY23e EPS, the multiple is derived from a P/E model for Growth firms. 18.4x is 0.98 relative to ‘23 SPX, compared to 10-year average of 0.98.

Full Report

Date of Production: 03-May-2023 03:15:32 UTC Date of Dissemination: 03-May-2023 08:00:05 UTC

CREDIT SUISSE

Restaurants | Increase Target Price

03 May 2023

Starbucks Corporation [SBUX.OQ]
A Latte to Like

OUTPERFORM

Rating	OUTPERFORM
Price (02-May-23, US$)	114.46
Target price (US$) (from 122.00)	128.00
52-week price range (US$)	114.56 - 69.90
Market cap(US$ m)	131,286
Enterprise value (US$ m)	143,103

Target price is for 12 months.

Research Analysts

Lauren Silberman

Alex Stansbury, CFA

Raymon Wang

- **SBUX delivers impressive F2Q print with beats across the board.** SBUX F2Q EPS of $0.74 beat consensus' $0.65, driven by outperformance across all markets (global SSS 11% vs consensus 7.5%) & better-than-expected operating margin (14.3% vs consensus 13.1%). US SSS accelerated to 12%, including +6% traffic contribution, and underlying momentum has continued into F3Q (SSS in 7-9% range). International SSS of 7% beat expectations, with China SSS notably returning to positive territory at +3% and SSS in markets outside of China were +DD. Despite the strong F2Q beat, SBUX maintained its FY23 guide for EPS growth at the low end of 15-20%, which we view more as conservatism rather than any change in underlying fundamentals amidst uncertainty in the macro environment (and a new CEO at the reins). We see potential upside to numbers on better-than-expected US flowthrough and the ongoing China recovery. Expectations were high into the print, and we view any pullback in the stock as a buying opportunity of a best-in-class, high-quality growth company. Reiterate Outperform.
- **US outperformance continues:** US SSS were 12%, with balanced contribution from traffic & average check. Total customer count was +11%, supported by growth across both Starbucks Rewards and non-rewards members, and units per store per day were positive vs 2019 across all dayparts (total transactions positive vs 2019 at peak dayparts – morning, early afternoon). We expect continued US SSS outperformance, driven by the resiliency of SBUX's habitual product, loyal customer base and strategy around personalization, fueled by an industry-leading digital ecosystem (Starbucks Rewards grew 15% to 30.8MM members, representing a record 57% of US sales) & products that are increasingly difficult to replicate at home (i.e., cold beverage innovation). We also believe better turnover, hourly retention, throughput and new equipment could help unlock capacity (particularly at peak) & improve operations, and increasingly contribute to SSS.
- **CS estimates:** We are increasing our 2023/2024 EPS estimates to $3.43/$4.28 (from $3.35/$4.21), driven by higher revenues partially offset by higher G&A estimates.
- **Valuation:** We are increasing our TP to $128 (from $122), based on ~27.5x/17.5-18x our NTM EPS/EBITDA in 12 months. Risks: consumer spending, inflation, FX, Covid-19.

Full Report

Date of Production: 03-May-2023 05:50:49 UTC Date of Dissemination: 03-May-2023 08:03:34 UTC

Restaurant Brands International Inc [QSR.N]
Having SSS Their Way

OUTPERFORM

Rating	OUTPERFORM
Price (02-May-23, US$)	72.14
Target price (US$)	(from 74.00) 79.00
52-week price range (US$)	72.14 - 46.94
Market cap(US$ m)	22,454
Enterprise value (US$ m)	34,648

Target price is for 12 months.

Research Analysts

Lauren Silberman

Alex Stansbury, CFA

Raymon Wang

- **RBI delivered a strong 1Q23 with beats across-the-board.** RBI reported 1Q23 EPS of $0.75 (consensus $0.63) and EBITDA of $588MM (consensus $558MM), supported by SSS beats across all brands. BK was the primary driver of the EBITDA beat, with global SSS of 10.8% (consensus 6.2%), including BK US 8.7%. TH Canada had another strong quarter with SSS of 15.5% beating consensus' 10.2%. RBI expects elevated closures for BK US this year, though still remains confident in its ability to accelerate underlying unit growth in 2023 (vs 2022 4.3%) and return to 5%+ over time, reflecting the largest contribution from BK International and increased contribution from Tim Hortons & Popeyes. We believe continued strength at TH, progress against the BK US turnaround and execution against accelerating unit growth should improve sentiment on the fundamental story, and at current valuation, we believe RBI offers a favorable risk/reward.
- **TH Canada demonstrates broad-based strength:** TH Canada SSS accelerated to 15.5%, with positive contribution from traffic & average check, reflecting the cumulative benefits of its more focused strategy around the core as well as tailwinds from increased mobility. TH represents a meaningful ~45% of RBI EBITDA, and we're encouraged by the consistent strength in recent quarters following years of the brand being an overhang. Growth is being driven by momentum across key categories, including cold beverage (grew 21% YOY; market share increased to 23%, +300bps), PM food sales (grew 23% YOY, including 17% growth in lunch & 13% growth in afternoon snack; PM food sales mix grew to 25%, +200bps YOY), breakfast food sales (grew 11% YOY) and baked goods (grew 34% YOY). Digital is also a key enabler of growth, now representing 33%+ of sales. TH's 4.8MM monthly active users visit at least 8x per month and the brand is continuing to look for more ways to increase engagement, noting the recent Roll Up To Win campaign drove 5.8MM monthly active users, the highest in the brand's history. TH also highlighted benefits from operational improvements, noting guest satisfaction improved 15pp YOY.
- **CS Estimates:** We are increasing 2023/2024 EPS to $3.14/$3.43 (from $3.01/$3.32), largely driven by higher revenues, lower franchise expenses and lower interest expense.

Valuation: We are raising our TP to $79 (from $74) based on ~17x/22-22.5x our NTM EBITDA/EPS in 12 months. Risks: consumer, competition, COVID-19, inflation, FX.

Full Report

Date of Production: 03-May-2023 05:27:22 UTC Date of Dissemination: 03-May-2023 08:01:35 UTC

Western Union [WU.N]
Q1 2023 Recap

UNDERPERFORM

Rating	UNDERPERFORM
Price (02-May-23, US$)	10.61
Target price (US$)	(from 14.00) 12.00
52-week price range (US$)	18.14 - 10.34
Market cap(US$ m)	3,973
Enterprise value (US$ m)	5,458

Target price is for 12 months.

Research Analysts

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Nik Cremo

Christopher Zhang, CFA

Dylan Wright

Jing Zhang

Patrick Ennis

Kyle Lindgren

- **Strong Q1 benefiting from Iraq policy change & Argentina inflation:** Western Union reported Q1 revenue (ex-Business Solutions) ahead of Street (VA) and CSe by ~4%, with adjusted operating margins of 20.5% also coming in well ahead expectations driven by lower marketing spend, quicker than expected cost actions (freeing up half of the ~$35mm planned for FY 2023 in Q1 alone), and better than expected revenue. Despite the strong Q1 performance, management reaffirmed the prior FY 2023 guide, citing conservative assumptions from Iraq contributions for the remainder of the year (benefited Q1 revenue by ~200bps, with the company not forecasting continued benefits past April), alongside macro uncertainty (although the current guidance does not contemplate a material change in macro). We note that WU previously noted that the second European retail agent loss (~1% of revenue) is expected to occur in the middle of 2023. A highlight in Q1 was the strength in US outbound branded digital new customer growth of 21%, alongside transaction growth of 11%, with expectations for revenue growth to begin in Q3 2023. Further, WU demonstrated leverage in CAC for the NA branded digital business (down ~20% YoY), albeit benefiting from promotional pricing which was broadly rolled out in 2H 2022. We continue to believe that while WU benefits from a set of competitive advantages (global brand name & trust, global scale, years of investment behind a compliance infrastructure, and differentiated digitally initiated & retail payout capabilities), that it has fewer moats in the more competitive digital channels (particularly digital-to-digital).

- **Visa+ initial thoughts:** We note that Western Union was named as one of the early partners for Visa+, alongside DailyPay, i2c, TabaPay, PayPal, and Venmo. Visa+ is initially a domestic only program, but could expand to cross-border. For Western Union, Visa+ effectively provides an additional rail or payout method (e.g., pay out to a retail location, account, wallet, card [WU currently partners with Visa Direct], etc.). While Visa+ expanding to cross-border could reduce barriers to entry for apps (and banks) seeking to enable cross-border remittances, these would-be competitors would still be required to invest behind KYC and compliance capabilities (a strength for WU). Our initial thoughts here.

- **Valuation and estimates:** $12 target price (vs. $14 prior) based on 7x 2024E EPS, implying an ~8% dividend yield. Our 2023/24E EPS move to $1.66/1.73 (vs. prior $1.59/1.67) on Q1 results. Concerns persist regarding the adoption of alternative/digital-first competitors and shift toward digital (where WU has lower relative competitive moats, and potential for higher CAC beyond "retail to digital escalator"). Risks are regulatory, competition (traditional & FinTech), FX, and migration trends.

Full Report

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CREDIT SUISSE

02 May 2023

AGCO Corp [AGCO.N]

Time and Time AGain

OUTPERFORM

Rating	OUTPERFORM
Price (02-May-23, US$)	127.95
Target price (US$)	175.00
52-week price range (US$)	144.24 - 90.25
Market cap(US$ m)	9,577
Enterprise value (US$ m)	10,035

Target price is for 12 months.

Research Analysts

Jamie Cook, CFA

Chigusa Katoku

Anika Dholakia

Thoughts Post Print: AGCO’s stock closed up nearly 3% after beating Q1’23 consensus earnings by 30% on a 5% sales increase. First quarter operating margins increased 260 bps to 11.7% tied to strong performance in particular South America where margins were strong at 19.7%, 11% pricing, and favorable mix in addition to continued penetration of higher margin precision AG. The 11.7% margin compares to AGCO’s mid cycle margin target of 12%. More important, AGCO continues to make great progress towards shifting the portfolio to higher margin product lines and solutions including Precision AG, Fendt and aftermarket parts which should drive margins structurally higher. Despite concerns on farmer fundamentals, AGCO continues to have above average visibility in 2023. Order books in Europe are full through the end of 2023 with large ag orders up double-digits and small ag orders down double-digits y/y. SA order coverage is full through September of this year and NA orders for tractors, combines and sprayers extend out to 2024. Recall, AGCO made the decision to limit order intake to focus more on on-time delivery rates and therefore, NA orders are below last year’s levels. Normalizing for new order intake rules, large ag orders are up and small ag orders are down. AGCO increased its FY2023 adjusted EPS $0.90 to $14.40 on a $500M sales increase relative to the prior guidance. FCF remains strong, forecasted at $750M to $1B of which the majority is being returned to shareholders. Recall, AGCO recently announced a special variable dividend of $5/share as well as a 21% increase in the regular dividend. Bottom line, AGCO continues to execute well and refocus the company to higher/margins returns products which should drive a re-rate story over time. We tweak our FY23 and FY25 EPS to $14.40 (from $13.50) and $15.75 (from $15.50), respectively and maintain FY24 EPS of $14.60. We maintain a TP of $175 assuming 12.0x our 2024 EPS. Risks: supply chain, inflation, material costs.

Full Report

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Credit Suisse

Software | Earnings

02 May 2023

Paycom Software [PAYC.N]
Beat, raise, and inaugural dividend = Outperform

OUTPERFORM

Rating	OUTPERFORM [V]
Price (02-May-23, US$)	288.75
Target price (US$)	(from 430.00) 375.00
52-week price range (US$)	398.91 - 259.97
Market cap(US$ m)	17,413
Enterprise value (US$ m)	16,668

Research Analysts

Kevin McVeigh

Victor Khong

Marc Vitenzon

BOTTOM LINE—the PAYC stock is poised to rally given the Q1 beat and guidance raise above the beat. Despite an uncertain macro, Paycom is poised to exceed 'Rule of 65'. Notably, Paycom hasn't seen softening trends as logo wins continue to drive recurring revenue growth. While we monitor the macro uncertainty, we continue to highlight that Paycom only has ~5% share of TAM which should be helped by continued investment in sales and marketing, and research and development. As part of its global HCM initiative, Beti will initially be implemented in 16-20 countries. We also see the inaugural $1.50/ share annual [$0.375 1/4ly] cash dividend as positive, especially with a $1.1b buyback outstanding. Further, payroll tends to outperform late-cycle as the industry is less cyclical given the secular story as outlined in our recession framework. These results bode well for ~$10b market cap Outperform-rated Ceridian HCM [$105 target price] set to report on Wednesday, May 3, after the close.

- **Results [Q1]: BEAT**

Total Revenues: $451.6m [vs. CSe/St. $443.7m/$444.2m].

EBITDA: $220.5m [vs. CSe/St. $210.7m/$211.4m].

EPS: $2.46 [vs. CSe/St. $2.35/$2.36].

- **Guide [Q2]: BEAT**

Revenue: $397.0m-$399.0m [vs CSe/St $387.1m/$393.2m].

EBITDA: $152.0m-$154.0m [vs. CSe/St. $145.3m/$150.3m].

- **Guide [2023]: BEAT**

Revenue: $1.713b-$1.715b [vs CSe/St $1.700b/$1.700b].

EBITDA: $717.0m-$719.0m [vs. CSe/St. $700.0m/$701.9m].

- **CS EBITDA [23E/24E]:** Took to $718.0m/$825.0m from $700.0m/$830.0m.
- **Positives**—Inaugural dividend, recurring revenues were 98.4% of total revenues.
- **Negatives**—Recurring revenue grew at a slower pace than non-recurring.
- **$375 [down from $430] target price is 11x** 2024E EV/Sales vs. three-year range/average of **7.5x-26.7x/15.7x**. Target price is warranted given: (1) strong execution in uneven macro environment; (2) disruptive comprehensive HCM suite; and (3) large, growing addressable market. **Risks:** The economy and competition from other Payroll & HCM vendors.

Full Report

Date of Production: 03-May-2023 00:39:56 UTC Date of Dissemination: 03-May-2023 00:41:03 UTC

Pfizer [PFE.N]
1Q23 Second Opinion; Trimming Target Price to $47

OUTPERFORM

Rating	OUTPERFORM
Price (01-May-23, US$)	39.21
Target price (US$)	(from 50.00) 47.00
52-week price range (US$)	54.48 - 38.63
Market cap(US$ m)	221,317
Enterprise value (US$ m)	250,815

Target price is for 12 months.

Research Analysts

Trung Huynh

Carson Wong

- **Solid quarter but acceleration needed in 2H23:** 1Q23 operational sales (ex-COVID) grew +5% YoY to $11.1bn, +6% ahead of consensus, supported by growth of new products (Nurtec, Oxbryta). 1Q23 COVID-19 sales were $7.1bn, ahead of consensus of $5.6bn, with significantly lower sales contributions in 2Q expected and substantial vaccine deliveries to start in September. Operating costs came in broadly in line with COGs and SI&A offset by lower R&D costs. Sales and EPS guidance of $67.0-71.0bn (CSe $68.3bn) and adjusted EPS of $3.25-3.45 (CSe $3.32) was reiterated with non-COVID revenues growing more quickly in the 2H23 versus 1H23.
- **Reiterate Outperform rating.** On our forecasts, Pfizer is trading with marginal value attributed to COVID products. We believe sales momentum should start to build for newly integrated products (Nurtec and Oxbryta) and a large number of launches in 2H (RSV adults, and Prevnar 20 peds), which should enable PFE to hit its +7-9% sales growth target. We value this base business at $37/share. For COVID, despite our lower-than-consensus forecasts for Comirnaty and Paxlovid, we think these should account for c.$10/share of value. We are aware our Outperform rating is against consensus but fundamentally PFE valuation looks cheap, and it now has a c.4% dividend, the highest amongst peers.
- **Trimming TP to $47 from $50.** We have adjusted our COVID forecasts given tempered expectations for Comirnaty. Our FY23 covid estimates remain unchanged at $13.6bn for Comirnaty and $8.0bn for Pax, in line with guidance. We have lowered our 2024 Comirnaty estimates to $13bn (from $15.8bn) and our 2025 estimates to $11.3bn (from $14.9bn). We now estimate FY24/25 EPS of $3.76 and $3.95 following these changes.
- **Catalysts and Risks:** (1) Prevnar 20 pediatric approval in April, (2) Phase 3 mRNA influenza vaccine in 2H23, (3) Phase 3 PATINA for HR+/HER2- breast cancer in 2H23.
- **Valuation:** Our $47 target price is based on a 25:75 blended discounted cash flow (DCF) valuation of $48 and a relative P/E of $47. Pfizer trades on a 2024 P/E of 10.4x, a c.35% discount to US peers of 15.9x. On EV/NPV, PFE trades on 0.70x vs. peers on 1.09x.

Full Report

Date of Production: 02-May-2023 21:41:33 UTC Date of Dissemination: 02-May-2023 21:43:03 UTC

Axalta Coatings Systems Ltd. [AXTA.N]
Upside MarQ results & JunQ guide

UNDERPERFORM

- **JunQ23 EPS guide midpt. of $0.37 v. $0.33 CSe**. Conf. Call 8AM on Wednesday (201-689-8560). JunQ23 Adj EBITDA guide midpt. of $230M v. $219M/$235M CSe/FactSet Consensus). MarQ23 adj. EBITDA up 19% to $213M vs. $197M/$201M CSe/consensus. MarQ23 adj EPS was $0.35 vs $0.30/$0.30 CSe/consensus. Overall vol. rose 2.7% Y/Y, with easy comps for auto OEM offset by weak industrial & flattish auto refinish. PPG earlier noted MarQ auto refinish vol. down on timing, & weak industrial coatings. RPM factory-applied coatings also reported weak. And SHW highlighted the best refinish growth (largely U.S.), & also noted weakness in factory-applied coatings.
- **Performance Coatings Adj EBIT of $109M vs. $102M CSe.** Adj EBIT rose 15.5% Y/Y in spite of 3.4% lower volume, as pricing continued to catchup with higher raws. Auto refinish vol. rose 1% Y/Y, with weakness in China (Covid-related) & Europe offset by higher U.S. volumes. Industrial coatings vol. declined 9% Y/Y, with weakness in U.S. building materials & Europe in general.
- **Mobility Coatings Adjusted EBIT of $23.5M vs. $20M CSe.** Adj EBIT rose from near breakeven a year ago on +16.5% Y/Y volume. Light vehicle vol. rose 16% Y/Y, outperforming the market. Commercial vehicle volume rose 19%, and also outperformed Class 4-8 truck market growth.
- **Estimates Change.** Reflecting upside in 1Q and stronger-than-anticipated 2Q, we raise our 2023E EPS to $1.50 from $1.40. We also raise 2024E EPS to $1.70 from $1.60.
- **Valuation and Risks:** Our target price of $29 (from $24) represents 9.5x (from prior 9x) roll forward NTM (ending MarQ25E: Q5-Q8E) EBITDA of $948M (from prior $900M, ending DecQ24E). We use a higher multiple to reflect higher peer multiples. Upside risks to our Underperform rating include a sharp increase in auto production despite the prospect of a global economic downturn as well as a sharp decline in oil-based raw materials.

Rating	UNDERPERFORM
Price (02-May-23, US$)	31.16
Target price (US$)	(from 24.00) 29.00
52-week price range (US$)	31.73 - 21.06
Market cap(US$ m)	6,902
Enterprise value (US$ m)	9,602

Target price is for 12 months.

Research Analysts

John Roberts

Edlain Rodriguez

Matthew Skowronski

Full Report

Date of Production: 02-May-2023 22:16:00 UTC Date of Dissemination: 02-May-2023 22:17:08 UTC

Lyft [LYFT.OQ]

The Key Question is How Quickly Conversion Rates Will Recover

OUTPERFORM

Rating	OUTPERFORM [V]
Price (01-May-23, US$)	10.59
Target price (US$)	(from 27.00) 23.00
52-week price range (US$)	30.76 - 8.46
Market cap(US$ m)	4,004
Enterprise value (US$ m)	3,305

Research Analysts

Stephen Ju

Tyler Seidman

- **Event:** We preview Lyft's 1Q23 results, which are set to be released May 4. Our FY23/FY24 Adj. EPS estimates are now ($0.01)/$0.12 respectively vs prior ($0.25)/($0.19). Our FY23 Adj. EBITDA forecast is now $183mm vs prior $94mm and our FY24 forecast of the same stands at $270mm vs $146mm prior.

- **Investment Case:** As Lyft takes steps to close the price/service gap relative to its competitor – with the NT impact likely in the form of lower prices and ongoing driver incentives to move supply – the key consideration will be whether conversion rates will recover accordingly to accelerate unit growth. Our 2023 estimate reflects an ~11% ASP compression coupled with ~13% rise in volume, to arrive at Bookings growth of ~2%. New CEO David Risher will have been in his seat ~17 days as of the earnings report, so we do not expect a more detailed product or strategy change beyond the desire (as articulated in interviews) to close the aforementioned service gap. Lyft also announced a new round of headcount reductions, which seems to be about 160% the size of that announced during Nov 2022. We revert back to the disclosure from the 10K and particularly the severance charges (vs operating lease impairments) to gauge that the amount for 2Q23 should be ~$48mm. To that end, we have modestly lowered the personnel cost part of our OpEx projections starting in 3Q23 and beyond. That said, we have assumed for the time being that the cash savings will be redeployed back into driver/consumer incentives. Our price target decreases to $23 vs prior $27. We maintain our Outperform rating on the following factors: 1) large and underpenetrated addressable market of $745b, 2) optionality for unit volume and booking growth acceleration as price/service gap narrows, 3) upside potential to generate ongoing operating leverage.

- **Valuation:** Our $23 (vs prior $27) target price is based on DCF that assumes a WACC of 11.5% and a terminal growth rate of 3%. Risks include competition, macroeconomic downturn, and failure to drive operating leverage.

Full Report

Date of Production: 02-May-2023 19:38:31 UTC Date of Dissemination: 03-May-2023 01:00:16 UTC

Ashland Inc [ASH.N]
2HSep23FY EBITDA guide lowered after in-line MarQ results

OUTPERFORM

- **2HSep23FY adj EBITDA guide midpt. reduced to $342M v. $353M/$357M CSe/FactSet Consensus.** Conf. call @ 9am Wednesday. MarQ22 adjusted EBITDA was $145M vs $146M/$144M CSe/consensus, but MarQ23 adj. EPS was $1.43 vs. $1.53/$1.48 CSe/cons. ASH noted continued channel destocking in personal care & DIY paint ingredients, & BDO derivatives have turned down. ASH is reducing its own operating rates to further destock. Pharmaceutical ingredients remain strong.
- **Life Sciences/Personal Care EBITDA of $75M/$35M vs. CSe $50M/$44M:** Excluding the impact of plant outage & FX, Life Sciences adj. EBITDA rose 45% Y/Y on +20% organic sales. We believe sales were led by excipient sales to pharmaceutical customers. On same basis, Personal Care adjusted EBITDA declined 12% Y/Y in spite of only 1% lower organic sales. ASH noted continuing customer destocking.
- **Specialty Additives/Intermediates EBITDA of $34M/$20M vs. CSe $47M/$27M**: Specialty Additives EBITDA declined 29% Y/Y on 10% lower organic sales. DIY paint is the largest end-market, where distributors & smaller customers continue to destock. Intermediates (e.g., BDO) adjusted EBITDA declined 33% Y/Y, on 23% lower merchant derivative sales (mostly price we believe), and 20% lower captive BDO sales (at market pricing).
- **Estimates Change**. Reflecting ongoing destocking, we reduced our FY2023E EPS to $6.25 from $6.55 and FY2024E EPS to $7.10 from $7.30.
- **Valuation & Risks:** Our target price of $122 (down from $130) is based on ~10.5x (from 11.0x) forward NTM (ending FYMarQ25E: Q5-Q8E) EBITDA of $663M. Key risks to our investment thesis include a severe economic downturn that could impede recovery in some of the more cyclical end markets.

Rating	OUTPERFORM
Price (02-May-23, US$)	100.01
Target price (US$) (from 130.00)	122.00
52-week price range (US$)	113.58 - 93.76
Market cap(US$ m)	5,427
Enterprise value (US$ m)	5,903

Target price is for 12 months.

Research Analysts

John Roberts

Edlain Rodriguez

Matthew Skowronski

Full Report

Date of Production: 02-May-2023 23:19:01 UTC Date of Dissemination: 02-May-2023 23:20:08 UTC

Terex Corporation [TEX.N]
A TEXas Sized Print

NEUTRAL

Rating	NEUTRAL
Price (02-May-23, US$)	48.25
Target price (US$)	(from 59.00) 60.00
52-week price range (US$)	60.32 - 27.37
Market cap(US$ m)	3,279
Enterprise value (US$ m)	3,632

Target price is for 12 months.

Research Analysts

Jamie Cook, CFA

Chigusa Katoku

Anika Dholakia

- **Thoughts Post Print:** TEX closed up 5% after beating Q1'23 consensus EPS by 54% on better sales and margins and raising 2023 EPS guide by $1.00 on both ends. AWP sales jumped 24.4% and 27% on a FX neutral basis to $685.9M with margins at 12.1% up 620bps over last year, tied to increased volumes and improving price cost. MP sales grew 22.3% over last year and 28% on a FX neutral basis to $553.8M and margins increased 120 bps y/y to 15.4%. While TEX saw slight supply chain improvements, hospital inventories increased in the first quarter after declining in the fourth and AWP continues to be a relatively supply constrained area in our view. Importantly, consolidated backlog is at record levels of $4.1B and book to bill at 105%, and TEX sees minimal pushouts/cancellations, providing greater confidence into 2024. While some areas of the non-residential market are impacted by rising interest rates, megatrends like infrastructure stimulus, CHIPS Act, IRA and onshoring of battery/chips manufacturing appear macro resilient, likely providing strength in the cycle over the next couple of years. AWP Monterrey facility is on track, which is expected to add ~200bps of margin to the AWP business over the next couple years; however, TEX expects some headwinds to AWP margins tied to scheduled production moves in the back half of this year. TEX sits with a strong balance sheet with net leverage at 1.0X, taking a balanced approach between organic and inorganic investments while returning cash back to shareholders. Bottom line, TEX sits with above average visibility and continues to execute, primed to take advantage of secular megatrends. Therefore, we tweak our FY2023-25 EPS to $5.90, $6.00 and $6.15 from $4.85, $4.92, and $5.12 respectively and TP to $60 from $59 assuming a 6.5x multiple on our FY24 EBITDA. Risks: supply chain, material costs, macro risk.
- **Details on Outlook:** TEX raised 2023 adjusted EPS by $1.00 on both ends to $5.60-6.00 (prev. $4.60-5.00), or $5.80 at the midpoint, 18% above the consensus estimate of $4.92. Total sales are expected to be $4.8-5.0B (prev. $4.6-4.8B). FCF is expected to be $300-350M (prev. $225-275M). This includes capex of ~$135M.

Full Report

Date of Production: 03-May-2023 02:26:28 UTC Date of Dissemination: 03-May-2023 02:27:34 UTC

Sarepta Therapeutics, Inc. [SRPT.OQ]
4Q22 Earnings Update: All Eyes on 5/12 AdCom & Potential Launch Dynamics

NEUTRAL

Rating	NEUTRAL [V]
Price (02-May-23, US$)	123.69
Target price (US$) (from 139.00)	138.00
52-week price range (US$)	155.99 - 62.69
Market cap(US$ m)	11,521
Enterprise value (US$ m)	12,552

Research Analysts

Judah C. Frommer, CFA

Nick Japhet, CPA

In Sarepta's last earnings update before the highly anticipated advisory committee meeting for '9001 on May 12th, mgmt. avoided commenting on the ongoing regulatory process but did provide color on some 'adjacent' topics. In particular, Q&A focused on manufacturing, commercial uptake, payor reimbursement, and the upcoming readout from the proposed confirmatory PH3 study, **EMBARK (topline data expected around YE23 or early '24)**. Given full enrollment in Fall '22, mgmt. highlights that accelerated approval poses no risk to completion of EMBARK. Regarding Q1, product revenue came in at $235.5M (vs. FS $242M), a 23% YoY increase driven by higher-than-expected US revenue. Sarepta reiterated FY23 PMO revenue (>$925M), reflecting modest anticipated US growth and continued quarterly fluctuations in ex-US ordering patterns. The company ended the quarter with $1.9B in cash/equivalents.

- **Manufacturing a 'Go' Thus Far.** All three GMP inspections at (2) Catalent and (1) Sarepta manufacturing facilities have been completed without incident. Mgmt. also acknowledged recent commentary from Catalent regarding production capacity at its gene therapy manufacturing site in Harmans, Maryland and reported that the delay will have no impact on potential launch. Additional site(s) with partner Thermo Fisher are anticipated to be qualified by the FDA post-launch. However, current manufacturing capacity is expected to sufficiently supply initial patient demand.
- **Potential Ramp/Payor Dynamics.** Mgmt. expects inflection in '9001 uptake after one to two quarters, given complexity of initiating a gene therapy regardless of access. No difference in uptake between PMO-naïve or -experienced pts. is anticipated, but, consistent with overall uptake, significant cannibalization of the PMO franchise will not materialize in the short term. Mgmt. also highlighted that payor conversations have been ongoing since ~2018 and they're confident that accelerated approval will be sufficient to secure access for pts. Pharmacoeconomic models produced by the company forecast significant cost-benefit with '9001 over current SoC, which should inform pricing and any potential for value-based reimbursement models.
- **Model/Risks.** We update our model to reflect 1Q23 actuals. We now project FY23 EPS of -$5.75 (previously -$1.02). Our 12-month TP moves to $138 (previously $139), which is derived from a 67/33% blended product-based DCF ($132/sh) and M&A DCF ($152/sh). Risks include clinical, commercial, regulatory, and financing headwinds/tailwinds.

Full Report

Date of Production: 03-May-2023 01:27:15 UTC Date of Dissemination: 03-May-2023 01:28:32 UTC

Illinois Tool Works, Inc. [ITW.N]
Keepin' Up the Good Works

OUTPERFORM

Rating	OUTPERFORM
Price (02-May-23, US$)	234.39
Target price (US$) (from 282.00)	281.00
52-week price range (US$)	250.54 - 175.97
Market cap(US$ m)	71,447
Enterprise value (US$ m)	78,888

Target price is for 12 months.

Research Analysts

Jamie Cook, CFA

Chigusa Katoku

Anika Dholakia

- **Thoughts Post Print:** ITW's stock closed down nearly 5% after beating Q1'23 consensus earnings estimates by 4.5% and raising FY EPS $0.05 on each end to $9.45-$9.85 on a lower tax rate. Organic growth was 5% which decelerated from 12% last quarter although at the high end of ITW's unchanged FY2023 organic growth target of 3-5%. Also, ITW achieved positive organic growth in four of the seven segments and with positive organic growth in each geography. Similar to last quarter, 25% of ITW's portfolio is starting to slow including housing construction, commercial welding, auto aftermarket down in the low single digit range, appliances off in the high single digit range, and semis seeing declines in the 10-15% range. ITW still expects margins to improve 100bps year on year to 24.5-25.5% with embedded incremental margins approximating 60% and ahead of its normalized incremental target of 35%. FCF was another positive in the quarter up 147% to $615M and ITW targets FCF conversion north of 100% while buying back $1.5B in stock. ITW continues to make the necessary investments to sustainably growth market share through the cycle positioning the company to achieve above average growth while delivering on the margin and print cash. We believe today's stock performance is more about macro concerns versus the print and have confidence ITW can achieve above average operational execution on sales, margins and returns in good and challenging market conditions. We tweak our FY'23-25 EPS to $9.65, $10.59 and $11.64 and TP to $281 (from $282), based on 18.5x FY'24 EBITDA, on revised estimates. Risks: macro, supply chain, inflation.
- **Details on Outlook:** ITW raised FY'23 EPS guide of $9.45-$9.85 (prev. $9.40-9.80), an increase of 3%-7% y/y when excluding last year's divestiture gains. Revenue is seen at $16.3-16.6B (prev. $16.2-16.5B), or up 3-5% organically. This is based on current levels of demand and anticipated further slowing in certain markets, coupled with combined FX and divestiture headwind of (1)%. Operating margin is expected to be 24.5%-25.5%, (unchanged) vs 23.8% last year, helped by operating leverage, contribution from enterprise initiatives of ~100 basis points, and positive price cost, offset by investments in the business and wage inflation. FCF is seen at 100%+ of net income. ITW expects to repurchase ~$1.5B of shares and effective tax rate is seen at ~23.5-24%. ITW will host an Investor Day in May 2023 to discuss a strategy update.

Full Report

Date of Production: 02-May-2023 23:44:42 UTC Date of Dissemination: 02-May-2023 23:46:41 UTC

Freshworks [FRSH.OQ]

Solid Start to FY2023; Awaiting Healthy Expansion and Multi-Persona Traction

NEUTRAL

Rating	NEUTRAL [V]
Price (02-May-23, US$)	12.85
Target price (US$)	16.00
52-week price range (US$)	17.57 - 10.88
Market cap(US$ m)	3,741
Enterprise value (US$ m)	2,633

Research Analysts

Rich Hilliker

Victoria Petrenko

Key Takeaways. Q1 results were solid, with +20% reported and CC revenue growth and operating income well ahead of consensus expectations. Existing customer expansion continues to see pressure; more work remains to diversify this motion and also capitalize on the multi-persona opportunity. We were encouraged FRSH raised its growth and profitability guidance.

Results. FQ1 total revenue of $137.7 million exceeded consensus of $134.2 million and represented 23.1% y/y growth in constant currency (CC), driven by impressive success landing new business – suggesting the company's intuitive UI/UX and value proposition is resonating. Despite the strong new execution, we are cautious regarding **1)** the existing base expansion motion, which remains anemic despite said value proposition, the platform's growing breadth, functionality, and partner ecosystem; and **2)** FRSH's ability to execute against its multi-persona vision in the near-term, which we believe collectively jeopardize the potential return to and durability of a mid-20% revenue growth run rate as well as the inherent cash flow generation. EBIT margin of 2.8%, its second positive quarter on record, exceeded consensus and our est. (CS: -6.0% / Cons: -5.8%) by an impressive ~$12 million, ultimately supporting FCF of $9.1 million – consistent with its ambition to achieve sustainable profitability in FY2023+.

Guidance and Estimates. FRSH expects Q2 rev of $140.0-142.5 million, EBIT of ($2.0)-0.0 million, and EPS of $0.00-0.02. Management tightened and raised its FY2023 revenue guide to $580.0-592.5 (or 16.5-19.0% / 17.0-19.0% CC y/y) and materially increased its EBIT expectations to $2.0-8.0 million. We revise our FY2023/2024 rev and EPS estimates to $588 / $683 million and $0.10 / 0.16 from $587 / $665 million and $0.01/ 0.11, respectively.

Outlook. We believe FRSH is well positioned to capture incremental wallet share once it **1)** finalizes its B2B and B2C unified customer record rollout, **2)** discovers how to fully unlock its expansion motion, and **3)** establishes, optimizes, and operationalizes repeatable multi-line of business sales. (See FRSH: Waiting For UCR and Meaningful Multi-Solution Muscle-Memory – Initiating at Neutral.) Our target price of $16 equates to an EV/NTM Revenue multiple of 5.8x, respectively. Risks: macro pressures, +/- execution, and pace of multi-product adoption.

Full Report

Date of Production: 03-May-2023 02:57:43 UTC Date of Dissemination: 03-May-2023 02:58:50 UTC

Cummins Inc. [CMI.N]
Keep Your Engine Up

OUTPERFORM

Rating	OUTPERFORM
Price (02-May-23, US$)	227.64
Target price (US$) (from 291.00)	290.00
52-week price range (US$)	258.06 - 185.89
Market cap(US$ m)	32,220
Enterprise value (US$ m)	33,059

Target price is for 12 months.

Research Analysts

Jamie Cook, CFA

Chigusa Katoku

Anika Dholakia

- **Thoughts Post Call:** CMI's stock closed down 3% after beating Q1'23 consensus EPS by 20% on better sales and margins while raising sales and margins estimates for the full year. While performance was strong across the portfolio, Power Systems and Distribution margins stood out at 16.3% and 13.9%, respectively. Total adjusted EBITDA margins were solid as well at 16.3% up 140 bps y/y, although there was approximately $65M in one-time items boosting margins. Looking ahead and similar to other industrials, CMI sits with above-average visibility in 2023 supported by strong orderbooks across the portfolio in particular NA truck and large engines while CMI continues to be cautiously optimistic on China. For FY 2023, CMI raised its sales guidance to up 15-20% from up 12-17% and now expects adjusted EBITDA margins of 15.0-15.7%, an increase from prior guidance of 14.5-15.2%. The bulk of the margin raise was Power Systems and Distribution whereas Engine and Component margins were held flat with the prior guide on a slighter higher sales forecast. The Meritor acquisition appears on track and guidance unchanged and cash flow expected to improve year on year. On the negative, CMI disclosed there is a high probability CMI is at risk of paying civil penalties related to emissions systems most notably pick-up trucks based on discussions with the EPA in the near term which could be material but not quantified. While CMI sits with a very strong balance sheet, this could be a short term overhang on the stock. We tweak our FY2023-25 EPS estimates to $20.40, $18.15 and $22.40, from $18.20, $16,60, and $19.75, respectively, and our target price to $290 from $291, based on 16x FY'24 EBITDA, on revised estimates. Risks: macro, supply chain, inflation.

- **Details on Outlook:** CMI expects FY'23 sales to be up 15-20% (prev. up 12-17%), which implies $32.285B-$33.689B. This reflects an improved outlook in North America including stronger demand for Meritor. CMI is forecasting higher demand in HD truck and power systems and expects aftermarket revenues to increase compared with 2022. EBITDA margins are seen at 15.0-15.7% (prev. 14.5-15.2%). implying EBITDA of $4.843B-$5.289B. Effective tax rate is seen at 22.0%. Earnings from JVs are seen up 5-15% (prev. flat to up 10%). D&A is seen at $980-1,030M, capex at $1.2B-$1.3B, and interest expense of $380M.

Full Report

Date of Production: 03-May-2023 00:08:46 UTC Date of Dissemination: 03-May-2023 00:09:55 UTC

MeridianLink [MLNK.N]
Q1 2023 Earnings Recap

NEUTRAL

Rating	NEUTRAL
Price (02-May-23, US$)	14.35
Target price (US$)	15.00
52-week price range (US$)	18.52 - 13.18
Market cap(US$ m)	1,158
Enterprise value (US$ m)	1,439

Target price is for 12 months.

Research Analysts

Timothy Chiodo, CFA

Nik Cremo

Christopher Zhang, CFA

Dylan Wright

Jing Zhang

Patrick Ennis

Kyle Lindgren

- **Strong Q1 revenue beat; updated 2023 guide (better-than-feared):** MeridianLink delivered Q1 revenue ~5% above Street driven by strength in consumer lending and ~in-line adjusted EBITDA (albeit management calling out an incremental ~$1mm of likely one-time expenses which were not added back). The updated 2023 revenue guide flowed through the ~$2mm beat vs. the high-end of the Q1 guide but reiterated the EBITDA guide for the full year (better-than-feared), with management continuing to see resilient sales activity (i.e., no slowdown) and a healthy pipeline. The Q2 2023 revenue guide is flattish QoQ at the mid-point, lower than typical seasonality (Q1/Q4 the lowest and Q2/Q3 the highest), reflecting a modest slowdown in April lending volume growth. Meanwhile, MeridianLink highlighted another strong quarter of cross-sell execution, contributing ~70% of Q1 bookings with a ~60% YoY increase in cross-sell bookings for lending software solutions. We continue to believe that MeridianLink is well positioned within its large ~$10b TAM alongside both idiosyncratic (sales investments, etc.) and secular digital transformation trends benefiting the outlook. Further, the resilient financial model (usage-based, SaaS, recurring revenue model, with minimums), alongside a track record of M&A (and prospects for more adjacent capability and/or customer additive transactions) and low leverage following its IPO (now at ~3.4x) are factors supportive of the business ahead.
- **What we liked:** 1) Management called out a healthy pipeline with no slowdown in sales cycles in Q1, with a ~60% YoY increase in lending software solutions cross-sell bookings; 2) Outperformance in lending solutions (ex. mortgage) with Q1 organic growth coming in at 11% YoY (vs. 6% CSe) with the company noting some strength in unsecured lending product transactions; 3) Management called out increased demand for account opening solutions as customers look to increase deposits, highlighting the benefits of MeridianLink's diversified offerings portfolio; and 4) The company repurchased $3.5mm of shares during Q1.
- **Valuation:** Our $15 price target (unchanged) is based on ~12x our 2024E EBITDA. Our 2023E/2024E EBITDA remain relatively unchanged at ~$112mm and ~$130mm (vs. prior $112mm and $131mm). Downside risks include accelerating consolidation and related competition, and usage/volume-based pricing. Upside risks include accretive M&A, accelerating bank IT spend, & greater-than-anticipated share gains.

Full Report

Date of Production: 03-May-2023 01:45:52 UTC Date of Dissemination: 03-May-2023 01:47:04 UTC

Community Health Systems [CYH.N]
Post Conference Call Follow-up: Labor, Professional Fees Continue to be Medium-Term Headwind

NEUTRAL

Rating	NEUTRAL [V]
Price (02-May-23, US$)	3.81
Target price (US$)	(from 8.50) 7.40
52-week price range (US$)	7.94 - 2.05
Market cap(US$ m)	521
Enterprise value (US$ m)	11,739

Research Analysts

A.J. Rice

Jonathan Yong

Joseph Overman

Enjia Cao

Carlos Penikis, CFA

CYH reported 1Q23 adj. EBITDA of $335 mln, below CSe/Cons of $379 mln/$373 mln. Revs for the quarter, at $3.108 bln, modestly exceeded expectations, but EBITDA margin of 10.8% was down 230 bps Y/Y (down 100 bps relative to 1Q22 margin ex-PRF).

- **Payor Mix and Acuity Create Drag on Revs:** Net revenue per adj. admit (pricing) was down 7.1% Y/Y, primarily due to a tough comp from Covid. Although acuity was slightly improved relative to 4Q22, net rev per adj. admit still dropped 60 bps sequentially due to an unfavorable shift in payor mix. Nearly all of the sequential growth in adj. admissions came from an increase in Medicare Advantage vols, which CYH says pays roughly 85-90% as much as Medicare fee-for-service. This potentially creates longer term concerns, as Medicare Advantage continues to grow much faster than Medicare FFS. The company hopes that ongoing investments in certain service lines, such as OB, NICU, trauma, and cardio, will attract a better payor mix from an age perspective. CYH is also attempting to introduce specific direct-to-employer contracting models to further improve payor mix.
- **Labor Expenses, Professional Fees Outpace Revs:** Combined SWB and contract labor expenses improved $65 mln Y/Y but were up $13 mln sequentially. The company reported a 5.9% average hourly rate increase, above the 5% expected at the beginning of the year. Contract labor increased from $80 mln in 4Q22 to $85 mln in 1Q23, but the company expects this to come down over the course of the year. Medical specialist fees were up $40 million Y/Y, and professional liability expense was up $20 mln Y/Y, contributing to a 6.9% increase in nonlabor expenses over the prior year. Increased medical specialist fees are partially attributable to broader inflation as well as fallout from the No Surprises Act. CYH is also seeing an overweighting of anesthesia service hours, a further source of increased specialist spend. The company is attempting to renegotiate contracts and in-source providers to mitigate some of these fees, but progress is expected to be slow.
- **Lowering Estimates, Target Price:** We have lowered our 2023 adj. EBITDA est to $1.514 bln (from $1.551 bln) and our 2024 adj. EBITDA est to $1.609 bln (from $1.636 bln) to reflect underperformance in the quarter and future uncertainty. Our target price of $7.40 ($8.50 prior) is based on 8.0x our 2024 adj. EBITDA est. Risks include high leverage, reimbursement uncertainty, and labor pressures.

Full Report

Date of Production: 02-May-2023 23:16:47 UTC Date of Dissemination: 02-May-2023 23:17:57 UTC

Air Freight & Logistics | Earnings

03 May 2023

AerCap Holdings [AER.N]
Q1 2023 Earnings Recap; Strong Lease Rates and Interest costs Manageable

OUTPERFORM

Rating	OUTPERFORM [V]
Price (02-May-23, US$)	56.35
Target price (US$)	82.00
52-week price range (US$)	65.47 - 37.88
Market cap(US$ m)	13,921
Enterprise value (US$ m)	60,141

Research Analysts

Moshe Orenbuch

1Q 2023 Recap: Reported adjusted/GAAP EPS of $2.34/$1.79, above CSe $2.20/$1.66 and consensus $1.97/$1.63. 1Q saw strong maintenance revenue beat by +$0.17 ($187 mil vs $121 mil CSe). Lease revenue contributed +$0.08 of EPS impact as air traffic is strong and catching up 2019 levels, offset by higher leasing expenses (-$0.15). Sales revenue saw strong improvement with 41 transactions in 1Q23 vs. 30 in 1Q22, with an 18% margin. Interest expense was in line with our estimates, but impairment was higher than CSe (-$0.07). In 1Q, AER continued high level of leasing activity with 155 lease agreements and 56 purchases vs. 159 and 43 in 4Q and 102 and 25 in 1Q22. AER exited 1Q with a leverage ratio comparable to Q4 at 2.56x ahead of its target of 2.7x and it has mid- BBB ratings from all three major rating agencies. Secured debt-to-total-assets ratio was ~14%, and cost of debt remained stable at 3.3%. AER currently sees ~$18b of liquidity with NTM sources-to-uses coverage of 1.3x. AER completed $500 mil of share repurchase (from GE) during March at $56.89, and re-upped its authorization for $500mm additional repurchase. Raise estimates to 2023/2024 GAAP EPS of $7.18/$7.48 (old: $7.02 /$7.30) and adjusted operating earnings of $9.40/$10.00 (old: $9.20/$9.75), slightly better lease revenue and higher share repurchase. Reiterate Outperform rating. Risks to EPS/TP /rating/thesis include stronger USD, airline health, and traffic.

AER now expects to be at the higher end of its 2023 guidance ($7.00-7.50 ex GOS). Revenue is expected to be ~$6.8b, and ~$2.5b of sales. GOS margins of 18% were strong and management noted buyer base is very diverse including, financial investors, airlines, specialists, and other lessors. Management also stated that airlines are now significantly more interested in purchasing aircraft due to the concerns over OEM delivery delays.

Share Repo: AER repurchased $500mm of stock as part of the GE sale during Q1, faster than previously contemplated and at a lower price. AER announced a new $500 mil share buyback program through September. The company has ~$900mm of excess capital and should generate excess capital each quarter. We expect repurchase of $1.5 billion in 2023. Management indicated that they would consider selling more assets should markets remain strong and repurchase more shares. In addition to creating value by buying stock at a significant discount to book, it would reduce funding needs and continue to help reduce the GE position. AER is likely to begin open market repurchases, and GE’s lockup will expire in June.

Full Report

Date of Production: 03-May-2023 04:35:37 UTC Date of Dissemination: 03-May-2023 04:36:41 UTC

Unum Group [UNM.N]
1Q23 Results: UNM Delivers Another Strong Quarter; Substantially Raises 2023 Outlook

NEUTRAL

Rating	NEUTRAL
Price (02-May-23, US$)	40.96
Target price (US$)	47.00
52-week price range (US$)	46.09 - 31.36
Market cap(US$ m)	8,093
Enterprise value (US$ m)	8,093

Target price is for 12 months.

Research Analysts

Andrew Kligerman

Joel Hurwitz, CFA

Michael Domiano

Alfred Miller

- **Adjusted EPS of $1.87 vs. CS/cons' at $1.65/1.66.** Net EPS was $1.80. Adjusted EPS was better on net favorable underwriting, with Group Disability being the largest driver. Alternative returns were $(0.03) unfavorable in the Closed Block (vs. $(0.04) in CS est.). UNM repurchased $54M of shares (vs. CS at $50M).
- **FY 2023 EPS growth outlook increased to 20-25% from 8-12%**, implying a range of $7.45-7.76 (vs. CS/cons est. $6.80/6.79). Our understanding is that UNM expects Group Disability underwriting to remain highly favorable driving the upward guidance.
- **Capital remained strong**, with RBC ending the quarter at ~425% (vs. 420% q/q) and holdco cash of $1.3B (vs. $1.6B at 4Q22-end), with the drop driven by a ~$200M contribution to Fairwind, as the company expects to fund the remaining $800-900M premium deficiency reserve in 2023. Statutory capital generation was $276M, putting the annual run-rate at the top-end of guidance, with likely upside potential.
- **UNM US pre-tax earnings (p-t earnings) of $313M up 86% y/y and well ahead of CS est. of $262M.** Premiums were up 4.3% y/y (vs. CS est. of 5.4%). **Group Disability** p-t earnings of $146M, much better than CS est. $109M on favorable underwriting (benefit ratio (B/R) of 60.0% was better than CS est. of 65%). **Group Life and AD&D** p-t income of $40M modestly above CS est. $34M on better underwriting. B/R 75.0% vs. CS est. of 77.3% as impacts of COVID-19 eased. **Supplemental & Voluntary** p-t earnings of $127M vs. CS est. $118M, supported by better underwriting results.
- **UNM Int'l p-t earnings of $38M up 48% y/y** and better compared to CS est. of $33M on strong U.K. underwriting. Inflation remained a tailwind, although it diminished q/q.
- **Colonial Life p-t earnings of $94M down (9)% y/y** and worse vs. CS est. of $117M driven by unfavorable cancer underwriting (i.e., B/R of 53.0% vs. CS est. of 48.5%).
- **Closed Block p-t earnings (ex. notables) of $58M vs. $79M y/y and CS est. of $42M.** LTC B/R was 86.6% vs. UNM's long-term expected range of 85-90%.
- **Corporate p-t losses of $(34)M vs. $(40)M y/y and CS est. of $(41)M.**
- **Stock Rx:** Outperform peers on 5/3 given the strong 1Q23 results and increase to FY 2023 outlook, which should support better-than-expected capital generation.
- **Conference Call Details:** May 3 call at 8 a.m. ET, 1-833-470-1428, passcode: 451193

Full Report

Date of Production: 03-May-2023 01:42:58 UTC Date of Dissemination: 03-May-2023 01:44:03 UTC

Artisan Partners [APAM.N]

1Q23 First Impression – Adjusted Operating Meets; Below The Line Drag However

NEUTRAL

Rating	NEUTRAL
Price (02-May-23, US$)	33.40
Target price (US$)	30.00
52-week price range (US$)	40.13 - 25.72
Market cap(US$ m)	2,671
Enterprise value (US$ m)	2,671

Target price is for 12 months.

Research Analysts

Bill Katz

Michael Kelly

Cameron Phillips

- **Adjusted Operating Meets; Below The Line EPS Miss However** – $0.64 1Q23 adjusted EPS (GAAP = $0.72) below our $0.69E but exceeded the $0.62 FactSet/Visible Alpha consensus. Relative to us, $70M adjusted operating income matched, with the EPS shortfall centered on higher add back of investment gains.
- **Key Positives** – **1)** $138.5B 3/31 AUM known, up 8%+ Q/Q though likely flattish NAV impact QTD through 5/2; **2)** $5.5B gross inflows up 15% Q/Q – though narrowly led; **3)** 70.2 bps fee rate relatively stable Q/Q versus our 69.8 bps-E, leading to ~$1M beat on base management fees; **4)** within checkered flow update (though mostly known based on monthly AUM releases), ~17% International Value annualized organic growth rate (AOGR) and ~36% Credit AOGR clear highlights, while Global Funds broadly generated ~3% AOGR; and **5)** $0.55 quarterly dividend annualizes to ~6.5% run-rate yield.
- **Key Issues** – **1)** $1.231B net outflows, a tad lower (better) than our ~$1.35B-E based on monthly metrics but ~4% annualized organic loss rate (AOLR); **2)** Flows decidedly mixed by asset class, generation, client segment and team – ~10% AOLR for Separate Accounts; 10% and 6% AOLR for Gen II and III, respectively; and though small, Alts suffered ~50% AOLR; **3)** 29.9% adjusted margin fell ~30 bps below us on higher long-term incentive (LTI) comp costs; and, **4)** supplement scan points toward strong long-term alpha generation at the fund level but no stock value creation vs. SPX over the last decade.
- **Key Questions For Conference Call** –**1)** non-comp expense guidance; LTI outlook for '23; **2)** drivers to EMSights platform, sluggish in 1Q23; **3)** incremental team pipeline; **4)** new product launches vs capacity constraints; **5)** 2023 dividend total payout range given seed capital and compensation outlooks; and, **6)** institutional investor allocation trends.
- **The Stock** – We expect the shares to trade mixed on 5/3 reflecting ~$3M adjusted operating beat to the "Street" against choppy markets and uneven flow dynamics pending **1pm ET 5/3 post-Q Conference Call (Dial-in: +1 877-328-5507; ID: 10176082).** Prefer Outperform-rated AB among more yield oriented Traditional Managers to leverage better flow, fee rate and margin drivers.

Full Report

Date of Production: 02-May-2023 22:03:03 UTC Date of Dissemination: 02-May-2023 22:04:40 UTC

Omega Healthcare Investors [OHI.N]
1Q23 Beat; Tough Quarter as Expected but Solid Progress on Operator Transitions

UNDERPERFORM

Rating	UNDERPERFORM
Price (02-May-23, US$)	26.54
Target price (US$)	25.00
52-week price range (US$)	33.56 - 25.73
Market cap(US$ m)	6,220
Enterprise value (US$ m)	11,251

Target price is for 12 months.

Research Analysts

Tayo Okusanya, II, CFA, CPA

- **Overall Thoughts**: 1Q23 AFFO/sh of $0.66 beat CS/consensus at $0.63/$0.60. The beat vs CS was primarily driven by ~1c of interest income and ~1c each of better than expected G&A and interest expense. A tough 1Q23 result was expected and long communicated by OHI management given ongoing tenant restructurings announced with 4Q22 earnings. As such, investors will likely be pleased to see generally positive results from said restructurings. Also on the positive side is OHI taking advantage of its strong liquidity position and recent asset sales to complete ~$233M of investments already in 2Q23 which should drive earnings growth. With valuation at ~9.5x P/AFFO (vs. 5-year average of ~11.2x), there is likely enough momentum from these results to drive the stock higher in the near-term. That said, the tough SNF fundamental backdrop (namely on the regulatory side with the coming end to PHE and imminent minimum staffing rule) still suggests some caution is still warranted. We note that OHI is also still expecting LaVie (its #1 tenant) to undergo "additional restructuring … in the next several months". Lastly, while management expects the FAD dividend payout ratio to improve as the year progresses (it was 111% in 1Q23), we believe dividend risk overall remains elevated as long as fundamentals remain weak and several tenants still have weak rent coverage (LaVie being the most obvious but there is also another group of smaller tenants which make up 29.1% of rents with EBITDAR rent coverage <1.0x).

- **Tenant Restructurings Progressing, But Still Some Work to Do**: 1) LaVie (#1 tenant, ~9.0% of rents) and Maplewood (#4 tenant, ~7.2% of rents) fully paid their lowered, agreed upon 1Q23 rents; 2) Agemo (just outside top 10 tenants) and Healthcare Homes (2.5% of 4Q22 rents) are back to paying full rent; and 3) the troubled 2.4% of 1Q22 rents operator and 2.2% of 2Q22 rents operator have been fully transitioned with the new operators paying full rents. OHI is expecting LaVie (its #1 tenant) to undergo "additional restructuring … in the next several months".

- **Key Questions**: 1) Thoughts on earnings & dividend outlook given ongoing restructurings; 2) Thoughts on SNF regulatory outlook (namely on the minimum staffing rule & Medicaid outlook in key markets). 3) Thoughts on leverage and liquidity given the ramp up in acquisition activity in 2Q23. Earnings Call May 3rd, 10AM EST; 877-407-9124.

Full Report

Date of Production: 03-May-2023 02:11:34 UTC Date of Dissemination: 03-May-2023 02:12:53 UTC

CREDIT SUISSE

Health Care Technology | Company Update

02 May 2023

Premier Inc [PINC.OQ]

Q&A Our Way: Making Sense of this Quarter's Headwinds and their Impacts on PINC

NEUTRAL

Rating	NEUTRAL
Price (02-May-23, US$)	26.96
Target price (US$)	37.00
52-week price range (US$)	38.53 - 26.96
Market cap(US$ m)	3,205
Enterprise value (US$ m)	3,661

Target price is for 12 months.

Research Analysts

A.J. Rice

Jonathan Yong

Carlos Penikis, CFA

Enjia Cao

Joseph Overman

PINC released F3Q23 results and updated guidance. The company's results were mixed, with revs of $322 mln below cons of $352 mln, EBITDA of $117 mln at cons, and EPS of $0.58 below cons of $0.59. PINC cut its Supply Chain Services revenue guidance to $895 mln - $925 mln (prev $930 mln -$980 mln) due to weakness in direct sourcing and cut its Performance Services revenue guidance $440 mln - $460 mln (prev $450 mln - $470 mln) due to softening demand and slowing decision making from customers. See our first look note for initial takeaways: 3Q FY23 Results Show a Solid GPO but Pressures Elsewhere.

- **Expecting a GPO Rebound**: While the company's GPO revenue grew less than its long-run expectations (MSD in non-acute, versus a HSD to LDD expectation; negative LSD in acute versus LSD expectation), PINC expects the GPO to be back on trend next quarter and opted to not modify its full year guidance. The company noted that over the next three to five years, the non-acute portion of the GPO could increase to 50% of the total GPO (from 40% today). That change in mix should drive GPO growth overall.
- **Will Destocking End?:** PINC continues to be affected by destocking in its Direct Sourcing business. Premier stated that it is starting to see destocking subside and orders increase, though the company acknowledged that it has incorrectly called the bottom for destocking before. Over the longer run, the company noted that PPE demand may be affected by the fact that health systems have learned to use (and reuse) PPE more efficiently than before the pandemic. On the other hand, we have heard from other companies that a lesson of the pandemic was to use more PPE and more often; whether the long run utilization of PPE is higher or lower than before the pandemic could be a swing factor for PINC.
- **Performance Services Sill Facing Challenges:** PINC noted that its reduction in Performance Services guidance related to contracts that were being pushed out and not contracts that had been lost. With respect to Remitra, the company continues to believe in the business and work to support it, but the company noted that any turnaround is a long-term project.

Full Report

Date of Production: 03-May-2023 04:17:59 UTC Date of Dissemination: 03-May-2023 04:20:56 UTC

Prudential Financial [PRU.N]

1Q23 Results: Solid EPS Guide, but 1Q23 Miss and Elevated PGIM Flows to be in Focus

NEUTRAL

Rating	NEUTRAL
Price (02-May-23, US$)	83.54
Target price (US$)	95.00
52-week price range (US$)	111.57 - 77.23
Market cap(US$ m)	30,657
Enterprise value (US$ m)	30,657

Target price is for 12 months.

Research Analysts

Andrew Kligerman

Joel Hurwitz, CFA

Michael Domiano

Alfred Miller

- **Adj. EPS of $2.66 vs. CS/cons each at $2.96.** Results included $(0.35) of unfavorable variable investment income (VII) and PGIM other related revenues, vs. CS est. of $(0.18). Ex-VII results were modestly weaker on higher Corporate expenses (due to timing) and unfavorable Individual Life mortality, which was partially offset by strong Retirement and Annuities earnings. Buybacks were $250M, as expected. Net EPS was $3.93.
- **Holdco cash was $4.6B at 1Q23-end vs. $4.5B q/q**. PICA RBC remains at 375%+. PRU will redeem $1.5B of subordinated notes in June via its solid holdco cash position.
- **Guided 2Q23 baseline EPS (ex. buybacks/growth/markets) of $3.20 vs. CS/cons $3.15/$3.09.** The 2Q23 guided earnings suggest much better results in Retirement and Annuities (likely on interest rates) that is partially offset by weaker PGIM earnings outlook.
- **PGIM pre-tax adj. op. income (earnings) of $151M** was below CS est. $188M. The results included ~$(15)M of unfavorable other related revenues, which was not in our estimate. Even after adjusting for that item, results missed on weaker margins. **Third party net outflows of $(14)B** vs. CS est. of $(1.5)B, driven by $(10.2)B of Institutional outflows and elevated redemption in-part due to client liquidity needs.
- **Retirement earnings of $396M** were above CS est. of $372M, despite modestly worse VII relative to our expectations. Ex-VII underlying results were supported by favorable underwriting and better net investment spreads.
- **Group earnings of $25M** were in-line with CS est. of $19M.
- **Annuities earnings of $441M** were above CS est. $397M, due to greater-than-expected benefits from higher short-term interest rates on derivatives collateral positions.
- **Life reported a loss of $(102)M** vs. our $(45)M loss. The company called out ~$(90)M of unfavorable underwriting (relative to seasonal expectation of ~$(25)M).
- **Life Planner earnings were $522M** vs. CS est. of $532M, while **Gibraltar earnings were $318M** vs. CS est. of $352M. The weaker results largely driven by VII.
- Corp. operating loss of $(485)M vs. CS est. of $(400)M, due in part to timing of expenses.
- **Stock Reaction:** Modest underperform peers on 5/3 as solid 2Q23 guide is more than offset by the 1Q23 miss and challenged PGIM flows.
- **Conference Call Details:** May 3 at 11 a.m. ET, (877) 407-8293.

Full Report

Date of Production: 03-May-2023 01:55:09 UTC Date of Dissemination: 03-May-2023 01:58:37 UTC

02 May 2023

Lincoln National [LNC.N]
Reinsurance Transaction with Fortitude Re Expected to Support Improved Capital and Free Cash Flow Generation

NEUTRAL

Rating	NEUTRAL
Price (02-May-23, US$)	20.55
Target price (US$)	24.00
52-week price range (US$)	65.07 - 20.30
Market cap(US$ m)	3,484
Enterprise value (US$ m)	9,139

Target price is for 12 months.

Research Analysts

Andrew Kligerman

Joel Hurwitz, CFA

Michael Domiano

Alfred Miller

- **LNC has entered into a reinsurance transaction with Fortitude Re to cede ~$28B of in-force statutory reserves**, with $9B or ~40% of Universal Life with Secondary Guarantees (ULSG) reserves, $12B or ~80% of MoneyGuard reserves, and the remaining $8B being fixed annuity reserves. The transaction is expected to improve LNC's balance sheet risk profile, and improve its capital and free cash flow generation.
- **The transaction is expected to improve RBC by ~15 points, bringing LNC closer to its 400% near-term target** (reported RBC at end-1Q23 was 377-380% vs. 377% at end-2022). Furthermore, LNC expects the transaction to improve its annual free cash flow generation by over $100M. It expects the improvement in cash generation to be driven by the removal of the ULSG block that had been expected to produce cash flow strain in the coming years. As for the RBC benefit, **LNC noted that the 15-point benefit is to be driven by a release in required capital that is offset by a $(375)M negative ceding commission and other tax impacts**.
- **Improved free cash flow will provide LNC flexibility to reduce leverage.** Management noted that reducing leverage will be a focus and would not provide color on potential resumption of buybacks. Furthermore, in terms of RBC, LNC views the 400% as a floor and it sounds like the company could target a higher level moving forward. We would expect further guidance later in 2023.
- **Impact to GAAP adjusted operating earnings to be ~$150M dilutive annually**, LNC estimates, with over 85% of the impact in Life Insurance (remainder in Annuities). The impact would equal ~$(0.87) or ~(9)% decline to our 2024E EPS (currently $9.80).
- **Pre-announced 1Q23 results:** LNC expected 1Q23 adjusted op. EPS to be in the range of $1.47-1.56, below CSe/cons. $1.64/$1.78. The estimate includes a loss on the Life Insurance business of $(8)-(23)M vs. our $26M gain estimate. LNC also expects a net loss per share of $(5.34)-(5.43), driven by the new accounting for market risk benefits.
- **Stock reaction:** Modest outperformance vs. peers likely on 5/3. The transaction provides LNC with much needed capital relief, but questions remain over other benefits of the transaction. There also remain questions over LNC's capital generation and timing to return to a more stable capital level that would allow for the company to resume share buybacks.

Full Report

Date of Production: 03-May-2023 03:08:10 UTC Date of Dissemination: 03-May-2023 03:09:40 UTC

Douglas Emmett, Inc. [DEI.N]
1Q23 Miss Amidst Slower Leasing in Office; FFO/sh Guidance Maintained

NEUTRAL

Rating	NEUTRAL
Price (02-May-23, US$)	12.17
Target price (US$)	16.00
52-week price range (US$)	30.42 - 10.84
Market cap(US$ m)	2,140
Enterprise value (US$ m)	7,009

Target price is for 12 months.

Research Analysts

Tayo Okusanya, II, CFA, CPA

- **Overall Thoughts**: 1Q23 FFO/sh of $0.47 missed CS/consensus at $0.49/$0.48. The miss vs CS was primarily driven by ~1c of lower than expected rental revenue and ~1c of higher than expected operating expenses. DEI reaffirmed 2023 FFO/sh guidance of $1.87-$1.93; CS/consensus are generally in-line (midpoint of $1.90 vs CS/consensus at $1.93/$1.89). That said, several key drivers of 2023 guidance were revised downwards including: 1) average occupancy decreased 1% at the midpoint (81%-83% from 82%-84%), 2) SS cash NOI growth decreased by 0.5% at the midpoint ((1.5%)-(0.5%) from (1.0%)-0%). DEI had a weak leasing quarter that lead to negative net absorption of (1.46%). DEI management provided commentary around leasing that "larger tenants have become more conservative in response to recessionary concerns". While management also cited continued active leasing activity with small, <10k sq ft tenants, we see the overall weak operating metrics as indicative of the weak office fundamentals backdrop. Hesitancy from large tenants is also not great news for DEI given their top tenant (Warner Bros, ~3.9% of rent) has a ~456k sq ft lease maturing in 2024, especially post the Warner Bros/Discovery merger in 2022. We also note that DEI now has ~$1B of floating rate debt with ~$1B of swaps expiring in 2024, keeping interest rate risk elevated. As a result of these challenges, we continue to believe earnings growth in 2023/24 will be difficult and find it hard to get excited about the story. This however feels heavily priced into the stock given the current valuation discount (~7.2x P/AFFO vs 5-year average of ~21.0x).
- **1Q23 Operating Metrics Were Soft**: Like a number of its office REIT peers in 1Q23 (i.e., BXP, HIW, BDN), DEI saw challenges in 1) leasing (~625k sq ft in 1Q23 vs ~772k sq ft in 4Q22 and the five-quarter average of ~869k sq ft); 2) occupancy (20 bps q/q drop to 83.5%); and 3) SS y/y NOI growth of -1.9% GAAP/-1.5% cash in 1Q23.
- **Key Questions**: 1) Updates on developments yields, costs, and timelines (namely Bishop Place & Landmark); 2) Thoughts on the leasing outlook (especially the 2024 Warner Bros lease); 3) Any updated plans for swap maturities (previous commentary suggested the debt would be left to go floating). Earnings Call May 3rd, 2 PM EST; 888-349-0488

Full Report

Date of Production: 03-May-2023 03:07:46 UTC Date of Dissemination: 03-May-2023 03:09:00 UTC

Welltower Inc. [WELL.N]
1Q23 Beat; Slight Guidance Raise Amidst Strong Investment Quarter

OUTPERFORM

Rating	OUTPERFORM
Price (02-May-23, US$)	77.35
Target price (US$)	80.00
52-week price range (US$)	90.69 - 57.37
Market cap(US$ m)	38,388
Enterprise value (US$ m)	53,103

Target price is for 12 months.

Research Analysts

Tayo Okusanya, II, CFA, CPA

- **Overall Thoughts**: NFFO/sh of $0.85 beat CS/consensus at $0.80/$0.82. The beat vs CS was primarily driven by ~1c SHOP and ~3c other segment revenue outperformance (primarily driven by acquisitions) along with ~1c of better than expected interest expense. WELL raised 2023 NFFO/sh guidance to $3.39-$3.54 ($3.465 midpoint; from $3.35-$3.53, $3.44 midpoint) with CS/consensus remaining in-line at $3.44/$3.47. The midpoint increase is mainly driven by 1) 1Q23 acquisition activity; and 2) an increase at the low end of y/y SHOP SS NOI growth (new 17%-24%, 21% midpoint, from 15%-24%, 19.5% midpoint) which drove up portfolio y/y SS NOI growth guidance to 9%-13% (from 8%-13%). SHOP portfolio performance remained strong (~23.4% y/y SS NOI growth) but was a step behind 4Q22's record metrics (i.e., 28.1% y/y SS NOI growth). The quarter was defined by strong net investment activity (~$750M in 1Q23 vs ~$253M in 4Q22). While WELL trades at a premium valuation (~24.7x P/AFFO vs 5-year average of ~21.0x), we remain attracted to mid-to-long term earnings growth story driven by acceleration in SHOP fundamentals, and WELL's acquisition engine beginning to roar back to life.
- **Strong Investment Activity in 1Q23**: WELL completed ~$785M of pro rata gross investments (vs $412M in 4Q22), including ~$529M in acquisitions and loan funding (~$223M in 4Q22) and ~$257M in development funding (~$188M in 4Q22). A standout metric is the ~$348M of MOB acquisitions at a very attractive 6.9% initial yield. It appears WELL has begun to use its cost of capital advantage vs peers to drive external growth.
- **Seniors Housing Triple Net Continues to Underperform**: SS NOI growth in the seniors housing triple-net portfolio was 0.2% y/y in 1Q23, a drop-off from 4.3% y/y in 4Q22. EBITDAR rent coverage (reported in arrears) for the segment remained flat q/q at 0.86x in 1Q23. We believe this remains cause for investor concern as coverage remains meaningfully below 1.0x. We note the portfolio makes up ~19.0% of NOI as of 1Q23.
- **Key Questions**: 1) Updates on the Integra transition; 2) Expected SHOP trends for the rest of 2023 (i.e., agency labor, RevPOR expectations); 3) Outlook for the senior housing triple-net portfolio given still weak rent coverage; 4) Acquisition outlook given strong 1Q23 investments. Earnings call May 3rd, 9 AM EST; 888-340-5024; Pw: 8230248

Full Report

Date of Production: 02-May-2023 22:54:14 UTC Date of Dissemination: 02-May-2023 22:55:26 UTC

Phillips Edison & Company, Inc. [PECO.OQ]
1Q23 Beat; Guidance Maintained, Though Appears Conservative

OUTPERFORM

- **Overall Thoughts:** 1Q23 CFFO/sh of $0.59 came in ahead of both CS and consensus estimates at $0.58/$0.57, with the beat driven primarily by lower-than-expected G&A. Continued strength in leasing resulted in record highs in occupancy, renewal leasing spreads and retention, and was complimented by increased activity on the acquisition front. The solid start to the year puts PECO on track to achieve, and potentially exceed, the high-end of its guidance in terms of CFFO/sh ($2.28-$2.34) and acquisition volume ($200M-$300M). We believe the solid quarterly result will likely bode well for the stock performance at market open.
- **Continued Strength in Operating Metrics:** Economic occupancy rose 30bps q/q to 96.7%; Small shop occupancy expanded 100bps q/q to 93.5%, while anchor occupancy remained unchanged q/q at 98.4%. Leased occupancy increased 10bps q/q to 97.5%. The spread between leased and economic occupancy narrowed by 20bps q/q to 80bps and represents an additional $2.8M of annualized base rent. The expansion in leased occupancy was driven by 1.1msf signed in 1Q23, with blended spreads on comparable leases increasing 17.9% as new and renewal leases increased 27.4% and 16.1%, respectively. The strong operating trends resulted in solid same-store NOI growth of 4.9%.
- **Investment Activity Starts to Ramp:** During the quarter, PECO acquired four shopping centers totaling $78.7M at a weighted average cap rate of 6.3%. The company did not dispose of any properties during the quarter.
- **Solid Balance Sheet:** At quarter end, liquidity totaled $634.2M, comprised of $622.2M of available capacity on its revolver and $12.0M of cash, while leverage remained unchanged q/q at 5.3x net debt to adjusted EBITDA. Meanwhile, the company executed a forward-starting swap effective September 15, 2023, with a notional value of $200M at a rate of 3.36% during the quarter.
- **Key Questions:** 1) Leasing & pricing trends for the foreseeable future given concerns around a recession and changing consumer behavior, 2) Update on transactions markets, 3) Drivers of the low-end vs. high-end of FY23 guidance given strong start to 2023. Call on 5/3 at 12pm ET (Dial-in: 888-210-4659; Conference ID: 2035308).

Rating	OUTPERFORM
Price (02-May-23, US$)	31.06
Target price (US$)	36.00
52-week price range (US$)	35.39 - 27.33
Market cap(US$ m)	3,642
Enterprise value (US$ m)	5,508

Target price is for 12 months.

Research Analysts

Tayo Okusanya, II, CFA, CPA

Corey DeVito

Full Report

Date of Production: 03-May-2023 00:12:22 UTC Date of Dissemination: 03-May-2023 00:13:25 UTC

NMI Holdings, Inc. [NMIH.OQ]
Expense Control Drives EPS Upside

OUTPERFORM

Rating	OUTPERFORM
Price (02-May-23, US$)	22.71
Target price (US$)	27.00
52-week price range (US$)	24.24 - 15.48
Market cap(US$ m)	1,896
Enterprise value (US$ m)	2,248

Target price is for 12 months.

Research Analysts

Douglas Harter, CFA

William Nasta

Cory Johnson

NMIH reported first quarter operating EPS of $0.88, $0.07 higher than our estimate and $0.06 higher than the FactSet consensus. Operating expenses were lower than expected ($0.10/sh) partially offset by higher-than-expected incurred losses ($0.03/sh). Book value increased by 6.1% during the quarter to $20.49, which was 0.5% lower than our estimate.

- **Incurred Losses:** Total incurred losses were $6.7 million, which was $2.2 million more than expected. Prior period reserve release (adjusted for IBNR changes) was $17.4 million, which was $12.9 million higher than expected. Current period incurred losses were $15.1 million higher than our estimate. NODs were down 5% Q/Q and 13% below CSe. In total, defaults increased 0.6% Q/Q, 0.9% lower than our estimate.
- **Premium Yield:** Net premiums earned totaled $121.8 million this quarter, up 1.8% Q/Q and 2.0% higher than our expectations. The net premium yield was flat at 0.26%, and 0.5 bps higher than our estimate. On a core basis (net of reinsurance), the yield was also flat at 34 bps. Management expects core yield to remain relatively stable through 2023.
- **Expenses:** Underwriting and operating expenses totaled $25.8 million, down 4% from last quarter but 25% lower than CSe. Management expects expenses to grow modestly in the coming quarters, but remain below the early 2022 levels. The expense ratio of 21.2% (lower than CSe by 764 bps) is in line with management's long-run goal of a low/mid 20s expense ratio.
- **IIF growth:** Primary insurance-in-force totaled $187 billion, up 1.5% Q/Q, which was roughly in line with our estimate. NIW totaled $8.7 billion, $0.3 billion (4%) higher than expected. As the second MI to report it is too soon to have a clear picture of market share, but we expect NMIH gained ~100 bps of share in the quarter. Persistency improved by 160 bps in the quarter to 85.1%, in line with our expectations.

Full Report

Date of Production: 02-May-2023 23:34:48 UTC Date of Dissemination: 02-May-2023 23:35:47 UTC

Voya Financial [VOYA.N]
1Q23 Results: EPS Miss on Elevated Expenses; Positive Capital Developments, Announced Plan to Increase Dividend Yield

OUTPERFORM

Rating	OUTPERFORM
Price (02-May-23, US$)	74.82
Target price (US$)	83.00
52-week price range (US$)	77.55 - 56.76
Market cap(US$ m)	7,346
Enterprise value (US$ m)	7,346

Target price is for 12 months.

Research Analysts

Andrew Kligerman

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- **Adjusted operating EPS of $1.44 vs. CS/cons' $1.60/$1.71.** Reported operating EPS included $(0.25) of unfavorable variable investment income (VII), vs. $(0.21) in CS est. Operating EPS ex-notables of $1.69 was lower compared to CS comparable of $1.81 on weaker earnings in Wealth and Investment Management (IM), that was partially offset by strong Health results (on favorable underwriting). Net EPS was $0.63, lower primarily on $(0.51) of closing and integration costs associated with Benefitfocus (BNFT) and Allianz Global Investors (AGI) transactions.
- **2023 guidance** was adjusted to high single digit EPS growth given LDTI recast and elevated warrant dilution. **High single digit EPS growth implies 2023 EPS of ~$8.00-8.19 vs. CS est. $8.15 and FactSet consensus $8.17.**
- **Excess capital of ~$0.5B** compared to the pro-forma ~$0.3B at 4Q22-end (pro-forma for BNFT acquisition). As expected, there were no buybacks given the BNFT acquisition, but **VOYA expects to resume buybacks in 2Q23** (in-line with prior commentary). The board extended the expiration of the remaining ~$275M authorization to the end of 3Q23 from the end of 2Q23. **VOYA plans to increase its dividend yield to ~2% in 2H23**.
- **Wealth Solutions pre-tax adj operating core earnings** (i.e., ex. VII above/(below) long-term target) **of $166M vs. $176M y/y and CS $183M on higher administrative costs** (which VOYA expects to decline by $25-30M in 2Q), and to a lesser extent lower base spread income. Full Service net flows were flat vs. $0.4B y/y and CS est. $1.2B, on elevated tax-exempt surrenders. Recordkeeping flows of $0.1B vs. $(0.9)B y/y.
- **Health Solutions core earnings of $97M vs. $56M y/y, and above CS est. of $65M,** primarily on continued favorable stop loss underwriting results. Stop Loss business loss ratio (L/R) of 70.1% vs. 76.5% y/y and CS est. of 78.5%, but Group Life L/R was 84.9% vs. 115.8% y/y and CS est. of 81.5%. Voluntary results were modestly better.
- **IM core earnings** (before AGI non-controlling interest) **of $40M vs. $37M y/y, below CS est. of $47M** on elevated expenses. Net flows (ex. divested businesses) were $(0.6)B, incl. $(0.9)B in Institutional, offset by $0.3B in Retail, supported by the Int'l distribution.
- **Corporate normalized loss of $(69)M, in-line with guidance of $(65)-(75)M**.
- **Stock Reaction:** Modestly underperform vs. peers on May 3, on EPS miss and mixed flows.
- **Conference Call Details:** May 3 call, 10:00 a.m. ET at 877-524-8416.

Full Report

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Franco Nevada Corporation [FNV.N]
First Read: Q1-23 EPS Miss

NEUTRAL

Rating	NEUTRAL
Price (02-May-23, US$)	157.31
Target price (US$)	160.00
52-week price range (US$)	157.31 - 111.58
Market cap(US$ m)	30,591
Enterprise value (US$ m)	28,579

Target price is for 12 months.

Research Analysts

Fahad Tariq, CPA, CA

Jessica Xu

- **Franco Nevada reports Q1-23 results:** On May 2, Franco Nevada reported Q1-23 adj. EPS of $0.79, a miss vs. $0.84 consensus (Reuters) and $0.90 CSe. Against our model, the EPS miss was driven fundamentally by lower revenue (lower GEOs). Q1-23 CFPS (pre-WC) was $1.17, a miss vs. $1.18 consensus and $1.20 CSe. Q1-23 adj. EBITDA was $229mm, a miss vs. $243mm consensus and $265mm CSe.
- **Recapping 2023 and long-term guidance:** FNV reiterated 2023 overall GEO guidance (including Energy) of 670koz (640-700koz), comprising precious metals GEO guidance of 510koz (490-530koz). Using the same commodity price assumptions as the company, we are currently modeling 527koz precious metals GEOs. Looking further ahead, the company still expects 790koz GEOs (760-820koz) in 2027.
- **Operational highlights:** Q1-23 GEO production was 145koz (including Energy), a miss vs. 166koz CSe using the same commodity price assumptions as the company. Q1-23 Precious Metals revenue was $212.2mm, a miss vs. $226.4mm CSe. Diversified (iron ore, other metals, Energy) revenue was also a miss ($64.1mm vs. $82.4mm CSe). The Q1-23 revenue mix was ~77% Precious Metals and ~23% Diversified. The company expects higher production from Cobre Panama and Antapaccay in Q2-23 on normalized operations and concentrate shipments.
- **Portfolio update:** On April 14, Franco Nevada acquired a 1% NSR on Gold Candle's Kerr-Addison project in Ontario for $10mm and agreed to purchase Gold Candle's common shares for a minimum of $4.4mm by July 14. Recall that on February 22, Franco Nevada acquired five gold royalties from Trident Royalties for a total consideration of $15.6mm.
- **Balance sheet:** The company ended Q1-23 with $1.2bn cash and no debt (undrawn $1.0bn revolver).
- **Franco Nevada will host a conference call on May 3 at 10:00AM ET (1-888-390-0546).**

Full Report

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INDUSTRY UPDATES:

Consumer Finance | Sector Review

03 May 2023

Specialty Finance
1Q23 Card: Growth Remains Strong; Credit Continues To Normalize As Expected; Buyback Lower In Near-To-Medium Term

Research Analysts

Moshe Orenbuch

Hoang Nguyen

Credit Card 1Q23 Earnings. Loan growth continued to be strong in 1Q, aided by a continued decline in payment rate and still moderating but resilient purchase volume. Credit normalization has also accelerated but as expected, and is now happening across the credit spectrum, as we believe consumers have used up most of their excess liquidity during the pandemic. Our expectation for 2023 card loan growth calls for low-to-mid-teen loan growth, a function of moderating payment rates, with the exception of BFH which will likely see lower organic growth. We believe AXP and COF will have the highest card growth in 2023. While competition and marketing continue to be intense, issuers are now more wary of the macro environment, and have begun to rationalize marketing. NIM generally performed in line to better than expected, though as CD repricing continues to ramp, NIM improvement will likely be limited from here. That said, we expect the pace of deposit cost increase at our companies to slow in 2Q vs 1Q. Management teams generally expect a less favorable macro backdrop for the balance of 2023. We believe this has also impacted buyback appetite in the near to medium term. We are Outperform-rated on DFS, SYF and COF, Neutral-rated on BFH, and Underperform-rated on AXP.

- **Loan Growth.** 1Q23 y/y loan growth was mostly similar to 4Q22 at the majority of issuers, with the card-centric names growing faster than the large banks. Loan growth continues to be strong and was slightly above our estimates in the quarter. This was primarily helped by continued decline in payment rates (Figure 2), though the decline moderated vs 4Q, and to a lesser extent still resilient consumer spending (generally above our estimates in 1Q). We attribute this to continued growing mix of revolvers in card spending as consumers have used up their excess savings since the pandemic. Payment rates generally are still considerably above pre-pandemic level, and as they continue to moderate, this should drive strong loan growth through this year. The most rapid y/y loan growth in the quarter was still seen at issuers who had the biggest decline at the front end of the pandemic and the most convenience usage such as AXP (very strong card acquisitions for fee-based products) and COF (continued focus on building heavy-spender franchise). DFS, a primarily revolver issuer, was a standout with strong growth in the quarter as well.

- Current industry forecasts assume a moderate decline in the payment rate going forward, which will continue to be a tailwind for fast balance growth through 2023. The new normal could be higher than the pre-pandemic level as the shift away from cash usage has accelerated during Covid (DFS management believes the new normalized payment rate could be 100-200 bps above pre-Covid as a result), and for an issuer like COF which continues to build a heavy spender franchise it could be even higher (heavy spenders have high payment rate). At present, the higher end of the credit spectrum is further above the pre-pandemic payment rate. We note that revolving balances are likely to grow faster than total balances in 2023, driven by this tailwind of moderating payment rate.

- Based on our framework for forecasting card balances and 1Q data, we continue to assume payment rate to moderate only slightly in 2023. We also assume purchase volume to now mostly follow historical seasonality. This should result in most issuers in our coverage seeing low-teen to mid-teen loan growth in 2023 (Figure 7, Figure 8, Figure 9 and Figure 10), higher than our previous expectation. The only exception is BFH which should see organic growth in the 7% range (adjusted for the sale of the BJ's portfolio), given lower-than-expected go-forward credit sales in 2Q. On an organic basis, AXP and COF should have the highest growth in 2023.

- The industry generally continues to see opportunities for card acquisitions despite some tightening, and has continued to spend a considerable amount on marketing. That said, most notably, COF's marketing spend was lower than estimate as well as lower y/y in 1Q, indicating the industry is starting to rationalize marketing more closely vs last year. Competition has continued to remain intense, though issuers are now somewhat more cautious on the environment and marketplace risks. Issuers expect originations to slow down in 2023 vs very strong 2022. AXP expects marketing expense to be flat y/y, while DFS has tightened on the affiliate marketing channel. New account acquisition in the industry is still ahead of pre-pandemic levels despite increasing macro uncertainty. We believe the competitive environment highlights DFS' advantage, as it owns its own brand and has lower cost per new account than peers. Given its partnerships with retailers, SYF also has less pressure from marketing costs than most issuers.

Credit/reserving/macro. Credit loss continues to normalize in 1Q, with pace of normalization picking up as expected, as delinquencies continue to tick up. Credit card losses at our companies were slightly better than expected, with the exception of AXP. For most of the recovery, credit had been normalizing faster in the lower part of the credit spectrum. That said, more pronounced normalization trends have now extended to the broad portfolios, across various FICO and income segments. We believe this is evidence of the general consumers having used up most of their excess savings accumulated through the pandemic. Credit trends are now divergent across issuers. Some will see pronounced mathematical impact of the seasoning of large vintages over the past 1.5 years on loss rate (DFS), others will see less of that impact though will have loss normalized by mid-year (COF), some will not see loss rate fully normalizing until the end of or after 2023 (SYF and AXP), some will see very elevated loss rate right away in 2023 from macro pressures and idiosyncratic reasons (BFH). Management teams now generally expect a less favorable macro backdrop in 2023 and vs last quarter, and most have taken qualitative reserves to account for the recent turbulence in the banking sector. As a result, reserve rate on aggregate was up in 1Q vs 4Q, even when 1Q included a one-time benefit from CECL TDR accounting. As a result, all issuers in our coverage had higher provision in the quarter, mostly from higher reserve build though losses were generally in line. Going forward, SYF expects reserve rate to be generally growth driven in the short to medium term, while AXP and BFH expect reserve rates to increase from here (likely a modest increase by year-end vs 1Q). The lower level of reserves at AXP relative to day-1 CECL increases the risk of an earnings shortfall if there is any adverse performance in the portfolio, and AXP's premium multiple could compress if there are signs of weaker credit quality. We note that in recent month, losses at AXP have ticked up more than other issuers, indicating that higher quality borrowers are now seeing the normalization previously seen at lower quality borrowers.

Deposit pricing and NIM. Most issuers in our coverage met or beat our estimates in 1Q card NIM (except SYF), as benefits to asset yields from higher revolving mix outweigh deposit repricing. We believe competition for deposit and deposit beta remain high (relative to Fed funds), though the absolute level of increase in 1Q was smaller than 4Q, a function of fewer and smaller hikes in 1Q. COF was less exposed to increase in deposit cost than peers as its branch deposits reprice more slowly. Going forward, we expect deposit repricing to continue, though we believe the pace of deposit cost increase in 2Q will be considerably less than see in 1Q. Nonetheless, that will result in limited upside for NIM in 2023 as asset yields have repriced before deposits, though continued increase in revolving mix will continue to be a benefit. We are starting to see some online banks starting to lower rates on their very long-term CDs (e.g. 5 years). Though these generally are not a big part of the deposit base, this could be very early signs of companies starting to rationalize deposit cost. As such, we are encouraged, though this doesn't mean that overall deposit beta has subsided. To-date, headline rate beta for 1-year CDs and savings at online banks have all exceeded 65%, particularly for 1-year CDs (80-90%). Some issuers believe that betas will likely be higher this cycle in aggregate than past ones given the low rate at the start of this rate hike cycle. BFH has continued to be a price leader in deposit pricing. We have thought that the fact that branch banks have not been raising deposit rates, coupled with slowing rate hikes, could allow this pressure to ease in the coming months.

Expense and operating leverage. AXP and DFS missed our opex estimates in 1Q, COF beat, while SYF and BFH were in line. Issuers continue to commit to achieving positive operating leverage. Most notably, AXP missed on expenses across most items in both engagement and non-engagement categories, despite billed volume slightly below our estimate. DFS guides to less than 10% y/y opex growth, but cautions on the risk of overshooting guidance, while SYF's guidance implies 6% growth. COF continues to expect its operating efficiency to be roughly flat to modestly improved in 2023, while AXP assumes its customer engagement expense as % of revenue to continue to increase in 2023 to 43%. We believe the competitive rewards environment and a younger card base more prone to attrition could make it difficult for AXP to lower engagement costs as a percent of revenue going forward.

Payment rates. As mentioned above, payment rates continued to decline sequentially in 1Q across most issuers (Figure 2), though the decline was smaller than in 4Q. On average, payment rate in 1Q was 19% above 2019, down from 20% in 4Q. Generally, at the lower end of the credit spectrum, the greater the degree of normalization in payment rate, as BFH's payment rate is now only 8-9% above 2019 level. That said, issuers note that the normalization in payment rate and loss rate, while more pronounced in the lower-credit segment earlier, has now extended to the prime and super-prime segment. We assume payment rate to continue to show gradual moderation from here throughout 2023. This should be a major contributing factor to industry growth going forward. For 2023, we estimate most of our issuers could see low-teen to mid-teen card loan growth.

- **Purchase volume.** Purchase volume was still resilient in 1Q, and generally better than our estimates (except AXP), though continued to moderate. This should be expected given higher macro uncertainties and as consumers have now used up their excess liquidity accumulated through the pandemic. Going forward, issuers that rely more on revolvers will likely benefit more than those that rely on transactors.

- **Capital return.** Most issuers bought back less stock than we expected in 1Q, and some have given indication of lower-than-expected buyback in the short-to-medium term, as macro uncertainties continue to weigh on management's capital decision. At DFS, the new program represents 11% of market cap, but is less than we had expected. Both COF and AXP did a very small amount of buyback in 1Q. We believe buyback at COF will continue to be low in the short term, coupled with strong loan growth at the same time. For SYF, the company has recently authorized only $1.3 Bn of buyback through 2Q24, though it could still do a mid-cycle authorization.

Full Report

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CS Beverage Can Tracker
Total Bev Can Volume Growth Remains Muted as Strong Alcoholic Consumption Trend Offset By Weak CSD Demand

Research Analysts

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As per the latest Nielsen scanner data (4-weeks ending Apr 22), **total can volumes growth remain muted at -0.3% y/y (vs. -1.3% y/y last month) as improving alcoholic bev can demand trend (+2.7%) was more than offset by weaker Non-alcoholic volumes (-1.4%).** Amongst the major categories - Spirits (+47% y/y) and Energy Drinks (+2.8% y/y) continue to deliver positive volume trends while CSD (-2.9% y/y), FMB (-3.8% y/y) and Beer (-0.5% y/y) still remain in negative growth territory. **On a 3-year stacked growth basis (vs. April 2020), can vol were up 3.2% for non-alcoholic and down 2.6% for alcoholic bevs.** While US bev can demand tracked below expectations in 1Q23 , we remain long-term bullish on US can demand and expect 2H23 volumes to be supported by seasonal tailwinds, import displacement and on-shoring trends.

- **Softness in Non-Alcoholic Can Demand:** For the 4wk period ending 04/22, total NA bev can volumes were down 1.4% y/y (vs. -0.6% y/y in Q1 2023). On ytd basis, NA can volumes were down .9% vs. overall vol decline of 2.1%, implying continued gain for canned volumes as a share of total market.

Weak CSD Trend: In the latest 4-wk period, CSD can volumes were down -2.9% y/y (-2.4% ytd) while total CSD volumes were down 2.7% y/y. This compares to -2.0% in Q1 and 2022 CSD can vol growth of +1.1% y/y.

Other Key Can Categories – Energy Remains Steady: Energy bev (~16% of total NA cans) can volume growth came at +2.8% y/y (up +39% vs. 2020). Sparkling down 0.3% y/y. Seltzer water up 3.1%y/y while RTD coffee was 4.6% y/y.

Aluminum Gains Share from Glass/PET: In the latest 4-week period, aluminum can volume was down 0.3% y/y, but still outperformed glass (-4.3% y/y) and PET (-3.1% y/y).

- **High 'Spirits' in Alcoholic Bev Can Demand:** For the 4-week period ending 04/22, alcoholic bev can vol (~63% of total alcoholic vol) improved to +2.7% y/y vs. -1% y/y last month as we noted strong Spirits / Wine bev can sales along with some deceleration in the rate of Beer / Hard seltzer volume decline.

Beer Volumes Remain Muted: Beer (~76% of AB can vol) can volumes remain weak at 0.5% y/y but improved +6.3% m/m, a positive read-across for bev can manufacturers like Ball/CCK which have meaningful exposure.

Weak Hard Seltzer Continues to Weigh on FMB: For the latest 4-week period, FMB can volumes were down 3.8% y/y with hard seltzer (HS) vol down ~20% y/y. On ytd basis, FMB / HS are down 4.3% / 20%, respectively.

Spirits Growth Accelerates: While Spirits share of AB can vol is relatively small (~7% for 2022 volumes), the category continues to grow at a very fast pace posting +47% y/y growth in latest 4wk. This shows some improvement vs. last month growth of ~42% but a slowdown vs. 2022 growth rate of ~56% y/y.

Full Report

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