Equities Research

First Edition - US Alert
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ESTIMATE / TARGET PRICE CHANGES:

Software | Increase Target Price

04 May 2023

Fastly [FSLY.N]
Q1 Suggests Progress Towards Profitable Growth and Cohesive Platform Synergy

NEUTRAL

Rating	NEUTRAL [V]
Price (03-May-23, US$)	13.53
Target price (US$)	(from 11.50) 14.00
52-week price range (US$)	17.76 - 7.44
Market cap(US$ m)	1,716
Enterprise value (US$ m)	1,524

Research Analysts

Rich Hilliker

Victoria Petrenko

Key Takeaways. Results were marginally better than estimates, with guidance for revenue inline and op. income slightly shy of expectations. We're encouraged by FSLY's new partner program which we believe is set to complement its underlying platform efforts, suggesting early signs of scalable progress could be ahead—especially when coupled with streamlined pricing, packaging, and operational rigor. We await further partner and cross-sell traction in FY2023+.

Results. FQ1 total revenue of $117.6 million was above consensus of $116.1 million and guidance of $114.0-117.0 million, primarily driven by both new logo traction and healthy traffic expansion from existing customers. Fastly's enterprise customer cohort grew 12.5% y/y to 514 in Q1 while average enterprise spend grew 7.8% y/y to $778K, as the company continues to operationalize its land and expand motion, recently announced partner program, and simplified product pricing and packaging initiatives which we're optimistic will drive durable, more predictable momentum and broader portfolio adoption. Gross margin of 55.6% was above consensus of 55.1% and management remains confident it can approach 60% exiting FY2023. We'll continue to monitor **1)** traffic levels and therefore Fastly's ability to both negotiate better bandwidth rates and increase peering relationships, and **2)** the impact of hardware optimization coupled with more effective capacity planning, as well as **3)** its ability to drive operational rigor as we evaluate the company's path towards sustainable profitability.

Guidance and Estimates. Fastly expects FQ2 revenue of $117-120 million, operating loss of ($18)–(16) million, and EPS of ($0.11)–(0.09). Management also reiterated FY2023 guidance. We revise our FY2023/2024 revenue and EPS estimates to $502 / 568 million and ($0.27) / 0.07 from $501 / 566 million and ($0.25) / $0.05, respectively.

Outlook. In our view, Fastly must continue to improve its operational rigor, standardize its go-to-market and product packaging, and reinvigorate deal velocity to meaningfully augment its path towards durable value creation. (See FSLY: Taking It Slowly to Eventually Move Fastly – Initiating at Neutral.) Our TP of $14.00 (from $11.50) equates to an EV/NTM Revenue multiple of 3.5x. Risks: macro pressure on deal cycles; operational and packaging improvement.

Full Report

Date of Production: 04-May-2023 06:28:12 UTC Date of Dissemination: 04-May-2023 06:29:11 UTC

MercadoLibre Inc. [MELI.OQ]

Another High Quality Result with Balanced Revenue and Profit Growth

OUTPERFORM

Rating	OUTPERFORM [V]
Price (03-May-23, US$)	1279.99
Target price (US$)	(from 1700.00) 1730.00
52-week price range (US$)	1321.47 - 612.70
Market cap(US$ m)	64,265
Enterprise value (US$ m)	60,693

Research Analysts

Stephen Ju

Tyler Seidman

- **Event:** MELI reported 1Q23 results with GMV of $9.4b vs. CS/cons. $8.8b/$8.9b, TPV of $36.9b vs. CS/cons. $31.2b/$34.9b, revenue $3037mm vs. CS/cons. $2.7b/$2.9mm, and Adj. EPS $5.37 vs. CS $0.54. Our updated 2023/2024 Adj. EPS estimates are now $16.36/$15.72 respectively vs. prior $4.91/$14.65.

- **Investment Case:** MercadoLibre posted another high-quality quarter, with Commerce and Fintech outperforming on higher take rates, strength from ads (~1.4% of GMV, +30bps YOY), and greater-than-expected TPV. Items sold was +16% YOY (vs 11% in 4Q22) while delivery times continue to improve with items delivered same-day/next-day increased 17% YOY; more than 77% of Mercado Envios shipments were delivered within 48 hrs. On the Fintech side, adoption continued with users up 24% YOY to 45mm; acquiring TPV grew 74% FXN, accelerating vs 61% in 4Q22 and 56% in 3Q22. Shifting to the competitive environment, mgm't noted that it likely gained market share across a broad range of categories, particularly in BR where a step up in marketing, couponing and logistics investments is producing attractive returns given lingering issues with certain brick-and-mortar competition. Turning to our model, we take off some (but not all) of our admittedly conservatism-oriented hand brakes from our projections, and flow through the GMV/TPV outperformance, increase financing revenue for Credito, offset by higher Product Development expenses. Our price target increases to $1730 vs prior $1700; MercadoLibre remains one of the best open-ended secular growth stories in our coverage and we maintain our Outperform rating based on the following: 1) take rate/monetization rise from ~16% to ~20% of GMV, and ~5% to ~6% of TPV over the next several years, 2) potential to consolidate market share amidst rising adoption of e-commerce, 3) optionality to layer on incremental sources of Payments revenue.

- **Valuation:** Our DCF-derived target which uses an 11% WACC and 3% terminal growth rate is $1730. Greater-than-expected macroeconomic headwinds in any of MercadoLibre's operating regions are risks to our estimates and target.

Full Report

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Equinix, Inc. [EQIX.OQ]

1Q23 Results – Very Strong Results, Little Impacted by Negative Macro Dynamics

NEUTRAL

Rating	NEUTRAL
Price (03-May-23, US$)	697.63
Target price (US$) (from 753.00)	768.00
52-week price range (US$)	752.98 - 505.39
Market cap(US$ m)	65,239
Enterprise value (US$ m)	64,731

Target price is for 12 months.

Research Analysts

Sami Badri

George Engroff

Ryan Cui, CFA

Radi Sultan, CFA

Andy Kellam

- **Bottom Line:** EQIX reported rev./adj. EBITDA/AFFOS all ahead of Street expectations. Stabilized growth ex-PPI (EMEA, APAC) was very strong at +7% y/y (CC basis), well ahead of est's driven by pricing power. EQIX also increased its 2023 guidance, with a tailwind from FX to rev. and outperformance on EBITDA and AFFOS. Interconnection (IXC) revs. were ahead of CSe, growing +8.9% y/y (+12% normalized) and trailed colocation growth of +15.5% y/y (inclusive of EMEA and APAC PPI). Net-net, the company has demonstrated superior execution in an increasingly challenging macro where deal cycles have elongated, with EQIX seeing a modest increase in its sales cycles in 1Q.

- **Volume Solid Amid Strong Pricing:** EQIX posted solid bookings in 1Q23, even noting a record figure when including large power price increases. For 2023, mgmt. expects even performance across their three regions – calling out HSD and DD growth in EMEA and APAC excl. PPI, implying international pipelines remain strong. Customers are increasingly utilizing EQIX's services like Fabric and Metal, and these solutions are likely to play a larger role as AI (see DC ChatGPT note), specifically inference, gains traction in EQIX's facilities.

- **Costs Well Contained:** SG&A moved lower q/q which likely surprised many investors, and while EQIX adds to its sales team, mgmt remains cautious on macro. Flatter G&A is likely to be a key piece of the op. leverage story ahead (monitor this point at Analyst Day).

- **Churn Is Not Always a Bad Thing (for EQIX):** 2023 churn guidance is 8-10%, but mgmt. highlighted how a 440 cabinet churn event in EMEA is an opportunity for the company rather than a setback. The churned customer had a low IXC attach rate compared to the typical EQIX tenant (e.g. 0.1x vs 1.4x IXC per cab in EMEA), thus EQIX can now re-lease the space, and mgmt believes it's possible to see a 50% rev. increase on the same space. If macro worsens, challenged companies may churn, likely resulting in more accretive deployments (at higher pricing levels) from customers more suited to EQIX.

- **Model Updates:** Following results, we adjust our 2023 rev./AFFOS estimates to \$8,228M/\$31.64 from \$8,206M/\$31.36. The rev. increase is being driven purely by \$30M of FX. Our 2023 EBITDA rises to \$3,682M from \$3,663M due to lower G&A, driving most of our AFFOS estimate increase.

- **Valuation — Neutral, Target Price to $768 from $753:** Our target price of $768 is based on 22x our FY23E AFFOS of $34.90 per share. Key investment risks include technological disruption, competition, rising interest rates, and REIT qualification loss.

Full Report

Date of Production: 04-May-2023 04:12:05 UTC Date of Dissemination: 04-May-2023 04:13:15 UTC

Yum! Brands, Inc. [YUM.N]
Craving Value, Innovation & Broad-Based SSS

NEUTRAL

Rating	NEUTRAL
Price (03-May-23, US$)	137.31
Target price (US$) (from 141.00)	145.00
52-week price range (US$)	142.90 - 105.25
Market cap(US$ m)	38,462
Enterprise value (US$ m)	50,070

Target price is for 12 months.

Research Analysts

Lauren Silberman

Alex Stansbury, CFA

Raymon Wang

- **YUM 1Q23 EPS misses, while top-line beats across global brands.** YUM 1Q EPS was $1.06, missing consensus' $1.13, with a top-line beat offset by elevated costs (company, franchise, G&A) and below-the-line items. YUM's global SSS of 8% reflect broad-based momentum (and beats) across brands, including global SSS of 9% at KFC, 8% at Taco Bell and 7% at Pizza Hut, and strength has continued into 2Q. While unit growth came in light for the quarter, YUM remains confident in the power of its development infrastructure and expects 2023 unit growth to be similar to 2021/2022 (~6%). We suspect outsized contribution from the China recovery could support upside to the LT algorithm in 2023 (LT algo: system sales ~7%, unit growth ~5%, core operating profit growth ~8%). We believe YUM's high-growth, pure play franchised business model is supportive of a premium multiple, but at current valuation, we remain Neutral.
- **Unit growth story remains intact:** YUM opened 322 net units in 1Q23, implying underlying growth of 5.3% (ex-Russia), light relative to consensus & recent quarters, though this appears to be more related to timing, with opens expected to be more heavily weighted in 2H23 (YUMC spoke to headwinds in 1Q given labor shortages, delays, etc.). YUM remains confident in its ability to deliver unit growth similar to 2021/2022, supported by visibility into its development pipeline (commitments for 80%+ of 2023 planned units at KFC & Pizza Hut outside of China), as well as the strength of its well-capitalized (and consolidated) franchisee base, noting large franchisees tend to have greater access to capital and more growth-focused strategies. Looking ahead, we believe YUM is well positioned for unit growth of 5%+, with expectations for KFC to remain the powerhouse with ~60% contribution to growth, and incremental upside from stabilization at Pizza Hut and Taco Bell International. TB has now reached 100+ units in four international markets, which YUM has highlighted is generally an inflection point for accelerated growth.
- **CS Estimates:** We are trimming our 2023 EPS to $5.05 (from $5.08) due to the 1Q miss and increasing our 2024 EPS to $5.85 (from $5.82) driven by higher revenue.
- **Valuation:** We are increasing our TP to $145 (from $141) based on 18.5x/24x our NTM EBITDA/EPS in 12 months. Risks: consumer, competition, inflation, FX, COVID-19.

Full Report

Date of Production: 03-May-2023 21:11:52 UTC Date of Dissemination: 04-May-2023 08:00:13 UTC

HubSpot [HUBS.N]
Strong Q1; Landing, Expanding…and Now "Guiding" Customers

OUTPERFORM

Rating	OUTPERFORM [V]
Price (03-May-23, US$)	417.99
Target price (US$)	(from 480.00) 550.00
52-week price range (US$)	429.09 - 256.09
Market cap(US$ m)	20,726
Enterprise value (US$ m)	19,391

Research Analysts

Rich Hilliker

Victoria Petrenko

Key Takeaways. Q1 growth and profitability were well ahead of consensus and guidance was better than expected. Top of the funnel momentum and multi-hub adoption continued, demonstrating the power of HubSpot's platform and its ability to land-and-expand customers despite persistent macro and spend optimization pressures. Execution appears strong and balanced while spend diligence is revealing leverage – strengthening our conviction further.

Results. Revenue of $501.6 million equated to 26.8% y/y reported growth (30.0% y/y in constant currency [CC]) and easily exceeded consensus of $474.9 million or 20.0% y/y. Strong results were driven HubSpot's product-led growth motion primarily through its starter tier, adding 9,912 new customers while also converting multi-hub deals. Management shared 45% of ARR installed base is now on 3+ hubs, as Sales Hub has emerged as a legitimate front door and Ops Hub's value is resonating with customers: specifically, two-thirds of the top 25 deals closed in Q1 included Ops Hub. We're encouraged by the diversity of the expansion strategy, highlighted by consistent upgrade rates, building upon a stable high 80% gross retention rate. Looking ahead, we're particularly optimistic that AI will be a primary color as HubSpot evolves from a connected CRM into a system of intelligence that guides growth sand supercharges productivity. Finally, EBIT of $67.7 million was well above consensus of $46.3 million due largely to the 7% RiF announced in January but represents a commitment to spend discipline.

Guidance and Estimates. HubSpot guided Q2 rev and op. income of $503-505 million / $54-56 million. Mgt. increased FY2023 rev and op. income guidance to $2.080-2.088 billion / $275-$279 million. We revise our FY2023/2024 rev and EPS estimates to $2.087 / 2.585 billion and $4.83 / $5.93 from $2.059 / 2.543 billion and $4.29 / $5.75, respectively.

Outlook. FQ1 results reinforce our view that diligent product development, coupled with a well-established product-led growth motion have resulted in a deeply compelling profitable growth algorithm. (See HUBS: Hooked on Hubs – Initiating at Outperform.) Our target price of $550 (from $480) equates to an EV/SNTM Revenue multiple of 10.0x. Risks: further macro pressure, deal elongation, less free to paid conversion and a degradation in upgrade rates.

Full Report

Date of Production: 04-May-2023 05:00:19 UTC Date of Dissemination: 04-May-2023 05:03:35 UTC

Confluent [CFLT.OQ]
CQ1 Recap - Full Stream ahead

OUTPERFORM

Rating	OUTPERFORM [V]
Price (03-May-23, US$)	19.96
Target price (US$)	31.00
52-week price range (US$)	33.73 - 17.76
Market cap(US$ m)	5,896
Enterprise value (US$ m)	6,750

Research Analysts

Fred Lee

Tim Jausovec

Key Takeaways: CFLT reported a strong quarter amid a largely unchanged choppy macro environment. We are positively surprised by the sequential cRPO acceleration and mgmt's conviction that seq Cloud revenue adds will continue increasing through year-end. Consumption trends saw a step-down in late March driven by weakness in financial services but were followed by a strong bounce back in April – returning to the previous trajectory.

(+) Strong top-line performance. CFLT reported revs of $174.3m vs $167.3m consensus ests, growing +38% y/y vs 41% last qtr and 71% last year. Confluent Cloud grew +89% y/y, in-line with guidance, with revenue outperformance driven by Confluent Platform growing +16% y/y. Op margin was negative (23%) vs (41%) last year and 4ppts better than guidance, as the entire revenue outperformance was passed through.

(+) Strong cRPO and gross retention trends point to increased mission-criticality. We believe the robust KPIs amid a choppy macro environment are the result of continued product innovation increasing the platform's mission-criticality. We are encouraged by cRPO growth accelerating 1ppts sequentially to +44.3% y/y and gross retention remaining above 90%, amid a choppy macro environment, which remained largely unchanged from last quarter. Consumption trends did see an impact in financial services in late March, followed by a bounce back in April – returning consumption trajectory back on-track.

CS Estimates. We revise our 2023 revenue and EPS ests to $761.0m and $(0.24) from $761.9m and $(0.25), respectively.

Valuation & Risks. We maintain our Outperform rating and $31 TP based on 10.6x our CY24 revenue est. Risks: Increased competition from data infrastructure peers and/or failure to achieve market adoption of Confluent Cloud, a reduction in existing customer renewals with usage-based commitments or contraction in converting open-source Apache Kafka users.

Additional Information:

(+/-) FY guidance remains unchanged. The company re-iterated FY guidance of 30% revenue growth and Q4 op margin breakeven. We believe the guidance now reflects an increased degree of conservatism, which we welcome in this environment. Cloud seq revenue add is expected to be in the range of $7.5 – 8m, up from $5.2m this qtr, and to continue increasing for the rest of the year.

Full Report

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CREDIT SUISSE

Forest Products | Company Update

04 May 2023

West Fraser Timber Co Ltd. [WFG.N]
Cost Corrections and Market Moderation

OUTPERFORM

Rating	OUTPERFORM
Price (03-May-23, US$)	73.02
Target price (US$)	92.50
52-week price range (US$)	101.99 - 68.92
Market cap(US$ m)	5,935
Enterprise value (US$ m)	5,599

Target price is for 12 months.

Research Analysts

Andrew M. Kuske

James Aldis

Selena Zhou

- **Results Review:** On April 25, **West Fraser Timber Co Ltd (WFG)** reported Q1 2023 adjusted EBITDA of US$58m that missed our view, the Street consensus and was at the bottom end of the US$56m-US$142m range (*At-a-Glance: Pondering the Pricing*). As per our past upgrade (*Upgrade to Outperform (from Neutral); Views on Value with Highlighted Headwinds*), we remain constructive on WFG's business exposure – albeit the re-rate path is unlikely to be linear and rather rocky at times. Moderate language from the recent FMOC release continues the ever-present rate debate that is critical to housing market dynamics and, among other things, WFG's underlying commodity exposure. Beyond the reported results impact, we moderated selected aspects of the forecasts with a focus on costs.
- **Cyclicality Considerations:** As per past work, we remain concerned about the near-term impact of negative housing market data points – albeit with positive potential in a severely cyclical industry. In this context, we believe WFG is a well-positioned cyclical stock with, at times, accentuated moves – in both directions and the "perfect timing" is typically elusive. Potentially declining rate in H2 2023 along with the current housing price compression bode well for affordability and return to improved prices and solid wood demand.
- **Investment Thesis:** We believe West Fraser has an enviable position in the lumber and OSB markets, however, pricing and housing dynamics are not currently overly supportive.
- **Valuation:** Model updates included: Q1 actuals and other updates and, as a result, our 2023e and 2024e EPS moved to US$(0.37) and US$4.71 from US$0.98 and US$4.74, respectively. On the more important EBITDA, our 2023e and 2024e moved to US$621m and US$1,166m from US$801m and US$1,245m, respectively. Our US$92.50 target price and Outperform rating are based on multiple methods, including: **(a)** a 2024e-driven NAV that includes a 7.5x multiple on the Lumber segment; a 4x multiple on the Pulp & Paper segment; and 5.5x multiples on North American and European EWP segments; **(b)** an implied 16.2x (prior 16.1x) P/E valuation on 2024e; and, **(c)** an implied 5.5x (prior 5.7x) EV/EBITDA multiple on 2024e. Risks to our rating and target price, include: **(a)** housing market dynamics; **(b)** interest rates; **(c)** commodity prices; **(d)** FX; **(e)** input costs; and, **(f)** operating risks from the underlying business including regulatory and political.

Full Report

Date of Production: 03-May-2023 23:08:51 UTC Date of Dissemination: 04-May-2023 04:01:23 UTC

Altice USA [ATUS.N]
1Q23 Wrap – One Last Estimate Cut?

NEUTRAL

Rating	NEUTRAL [V]
Price (03-May-23, US$)	3.14
Target price (US$)	5.00
52-week price range (US$)	11.79 - 2.65
Market cap(US$ m)	1,428
Enterprise value (US$ m)	25,924

Research Analysts

Douglas Mitchelson

Grant Joslin

Jane Feng

Chirac Ndetan

1Q23 Mixed: Altice reported 1Q23 HSI net adds just below and video better, ARPUs below leading to a 70bp revenue miss, but more cost cutting progress resulting in Adj EBITDA right in-line. Capex was well above driven by timing – better weather pulled forward buildout progress; the full year capex guide was maintained (as was positive 2023 FCF). 2Q HSI net adds should see seasonal pressure, though less than normal (CSe -32k, 13k lower Q-Q vs. 30k 10-yr avg) and we see EBITDA down LDD% again, before 2H22 opex comps normalize. In all we lower HSI net adds for the year 19k to -60k, and we trim full year Adj EBITDA $13M to $3.574B (-7.6% Y/Y) and FCF $12M to $115M. Our 2024 and beyond EBITDA estimates are little changed, but we slightly tweak capex timing and update cost of debt, helping 2024 FCF by $39M ($75M less capex but more interest) but hampering out years (by 6%-8%).

What We Learned: Management shared numerous statistics speaking to palpable progress in service incidents, NPS, speed, and usage. The West “competitive environment remains intense”. The first macro non-pay churn impacts showed up in 1Q (a 9k sequential pressure vs 4Q22, or 7bps), while bad debt expense remains muted. Fiber gross adds come in at ARPUs $10 to $15 above the HFC base. Altice hopes to launch 8Gbps service across the entire East fiber footprint in 2H23. Mobile accelerated significantly to 15k net adds excluding the mid-’22 free line churn, even before the first Optimum Complete benefits arrive in 2Q. Construction will be heavily 1H-biased and 2Q should be a record quarter for net new fiber passings, above 3Q22’s 321k, while per passing costs and total fiber spend this year benefit from focus on MDUs and RFoG.

Outlook: New CEO Dennis Mathew detailed what seems to us quite rapid execution progress across virtually every aspect of their business in 1Q, and he suggested underlying trends are already improving, and that reported trends will make that clear by 2H23 post 2Q seasonality and when lapping mid-2022 opex investments. The new management team’s outlook is certainly encouraging, though we expect investors will want to see efforts bear more fruit before stepping in, in particular given the balance sheet. We maintain our Neutral.

- **Valuation:** Our DCF-based TP remains $5 (8% WACC; 0% term. growth). ATUS trades at 7x ’23 EBITDA. Risks: competition, macro, allocation of capital, M&A, timing of fiber benefits.

Full Report

Date of Production: 04-May-2023 01:47:41 UTC Date of Dissemination: 04-May-2023 01:49:14 UTC

Eli Lilly [LLY.N]
TRAILBLAZER-ALZ 2 KOL feedback positive; Increasing TP to $490

OUTPERFORM

Rating	OUTPERFORM
Price (03-May-23, US$)	431.19
Target price (US$)	(from 420.00) 490.00
52-week price range (US$)	431.19 - 285.70
Market cap(US$ m)	409,317
Enterprise value (US$ m)	418,086

Target price is for 12 months.

Research Analysts

Trung Huynh

Carson Wong

- **Positive KOL feedback on TRAILBLAZER-ALZ 2 data:** Post the TB-2 results, we spoke to two KOLs for their first take on the data. Importantly, both KOLs thought the data were approvable, and gave further validation of the amyloid-beta thesis in Alzheimer's. Overall, they thought efficacy was in-line with Biogen's Leqembi, although noted higher ARIA-E rates present a challenge. While both KOLs needed to see more data (onset of curve separation, ApoE4 efficacy, overall ARIA rate), they saw c.40% of their patients receiving an amyloid-beta therapy with LLY taking 50% market share. While we are positive, we still see hurdles around screening, infusion capacity, and reimbursement and expect the launch to be slow. CSe unadjusted global peak sales of $8bn.
- **Cleaner story with TRAILBLAZER-ALZ 2 overhang removed.** There were investors waiting on the sidelines for the TB-2 data to pass given the uncertainty in the result. With TB-2 in the rear mirror, we see a less risky setup with sales momentum from Mounjaro to continue, and multiple derisked catalysts for the rest of the year (oral GLP-1 and GGG data at ADA, TRAILBLAZER-ALZ 2 at AAIC, and SURMOUNT-3/4 by mid-2023).
- **Reiterate Outperform and increasing TP to $490 from $420.** We increase our donanemab PoS to 90% from 60% of $8bn peak sales. Our 2023 EPS of $8.81 is unchanged. We now estimate 9% and 12% lower donanemab sales in FY24/25. This translates to our revised EPS forecasts of $11.81 and $15.92 in FY2024 and FY2025, respectively given our anticipation of a slower ramp driven by access challenges.
- **Catalysts and Risks:** (1) ADA 2023, (2) TRAILBLAZER-ALZ 2 data at AAIC, and (3) SURMOUNT-3/4 in mid-2023. Risks include worse-than-expected commercialization of Mounjaro, regulatory setbacks with donanemab, and clinical study failures.
- **Valuation:** Our target price of $490 is based on a 25:75 blended discounted cash flow (DCF) valuation of $489 and a relative P/E valuation of $490. LLY currently trades on a 2024 P/E of 37x, a premium to US peers of 16.2x. On EV/NPV LLY trades on 1.74x vs. peers on 1.10x.

Full Report

Date of Production: 04-May-2023 00:04:32 UTC Date of Dissemination: 04-May-2023 00:05:50 UTC

CREDIT SUISSE

Electronic Arts, Inc [EA.OQ]
Updating Estimates for Product Release Date Changes

OUTPERFORM

Rating	OUTPERFORM
Price (03-May-23, US$)	125.07
Target price (US$) (from 132.00)	138.00
52-week price range (US$)	141.50 - 109.19
Market cap(US$ m)	34,298
Enterprise value (US$ m)	33,210

Target price is for 12 months.

Research Analysts

Stephen Ju

Tyler Seidman

- **Event:** We preview EA's 4QFY23 earnings results, which it will be reporting on 9 May. We raise our target price to $138 vs $132 prior as we update our release slate assumptions, recalibrate our in-game bookings, adjust for FX, and cost cuts. Our FY24/FY25 Adj. EPS are now at $6.50/$8.78 vs. $6.79/$8.71 prior.

- **Investment Case:** All of the near-term model changes reflect the movement of various releases between quarters (*EA Sports PGA Tour 23* and *Super Mega Baseball 4* new release dates are April 7 and June 2, respectively). EA also confirmed that *F1 2023* will launch on June 16 followed by *Immortals of Aveum* on July 20. The more thesis-moving intra-quarter data point arrived in the form of EA's announcement that *The Sims 4* reached 70mm players worldwide since it went free to play in October 2022. Although we do not have further details beyond that a franchise sequel is in early development, a user base this large points the way toward the creation of a Live Services stream of revenue which could reach a $500mm-$1b annual run rate longer term. Turning to mobile, EA confirmed that *The Lord of the Rings: Heroes of Middle-Earth* will launch on May 10 which is in-line with our prior 1QFY24 expectation. Otherwise, we maintain our mobile release slate assumptions, eliminate contributions from *Apex Legends Mobile* and *Battlefield Mobile,* and adjust our booking estimates. We have also updated our model for the headcount reductions announced on March 27 affecting roughly 6% or ~800 employees. We raise our target price to $138 vs prior $132, and we maintain our Outperform rating as our focus remains on the ongoing multi-pronged secular shift for the industry: 1) further positive mix shift to digital, 2) consumer adoption of microtransactions driving incremental monetization, as well as 3) the expansion of EA's addressable market to target the global online user base.

- **Valuation:** Our DCF-based valuation suggests a target price of $138 (vs prior $132), as we use an 11% weighted-average cost of capital and a 3% terminal growth assumption. A lack of commercial traction for any of its upcoming releases and failure to transition existing console and PC properties to online free to play are risks to our estimates and rating.

Full Report

Date of Production: 03-May-2023 22:12:58 UTC Date of Dissemination: 04-May-2023 01:00:20 UTC

CREDIT SUISSE

Investment Banking & Brokerage | Increase Target Price

03 May 2023

AssetMark [AMK]

Adding platform assets in uneven environment

OUTPERFORM

Rating	OUTPERFORM
Price (03-May-23, US$)	28.83
Target price (US$)	(from 34.00) 35.00
52-week price range (US$)	32.93 - 17.16
Market cap(US$ m)	2,131
Enterprise value (US$ m)	2,024

Target price is for 12 months.

Research Analysts

Kevin McVeigh

Victor Khong

Marc Vitenzon

BOTTOM LINE—while we are cognizant of heightened market volatility, we believe the AMK stock should react well to reaffirmed guidance as it suggests strong performance amid challenging macro. Net revenue rose ~25% driven by 5.2% sequential platform assets growth [~15% Q4] as household counts grew 13%. We highlight the platforms value-add in these uncertain times as it was able to notch quarterly net flows of $1.6b—YTD annualized net flows were 7.1% [% of beginning-of-year platform assets]. Spread-based revenue rose ~13% sequentially [~57% in Q4 and ~192% in Q3] and mostly flowed through to EBITDA. The Adhesion deal is on track and won $63m of assets from new firms in Q1. Remain Outperform on long-term turnkey asset management program [TAMP] value proposition allowing advisors to streamline processes, focus on clients, and offer more products vs. internally built.

- **Results [Q1]: FINE**

Net revenue: $132.6m [vs. CSe/Street $133.7m/$132.4m].

EBITDA: $58.8m [vs. CSe/Street $60.0m/$59.8m].

EPS: 53¢ [vs. CSe/Street of 54¢/54¢].

- **FY 2023 Outlook: REAFFIRMED**

Net revenue: 18-22% YoY [vs. CSe/Street ~21.9%/~22.2% YoY].

EBITDA growth: 20%+ YoY [vs. CSe/Street ~20.8%/~19.9% YoY].

- **CS EBITDA [23E/24E]:** unchanged at $244.5m/$265.0m.
- **Positives**—platform assets increased sequentially, strong spread-based revenues.
- **Negatives**—macro, assets from engaged advisors (at period end) fell 3%.
- **$35 [up from $34] TP is ~9x 2024E EV/EBITDA**—which we see as reasonable given macro volatility despite ongoing execution + Voyant acquisition optionality. **Risks**—fee pressure & market volatility.

Full Report

Date of Production: 04-May-2023 01:10:33 UTC Date of Dissemination: 04-May-2023 01:12:28 UTC

The Manitowoc Company, Inc [MTW.N]
The Cranemaker

NEUTRAL

Rating	NEUTRAL [V]
Price (02-May-23, US$)	16.91
Target price (US$)	(from 16.00) 19.00
52-week price range (US$)	19.80 - 7.75
Market cap(US$ m)	595
Enterprise value (US$ m)	893

Research Analysts

Jamie Cook, CFA

Chigusa Katoku

Anika Dholakia

- **Thoughts Post Call:** MTW's stock closed up 3% after beating Q1'23 consensus sales and EBITDA estimates by 6.6% and 36.7% respectively although reiterating FY2023 guidance of $2.0-$2.1B in sales on EBITDA of $130-$160M. Incremental margins in the first quarter were 28% above the companies targeted range of 20-25% helped by 3-5 points of pricing as well as favorable mix. Additionally, non-machines sales were up 16.7% to $151M and nearly 30% of total sales which is also accretive to margins. Orders remain solid at $525M compared to $734M last quarter and $482M last year with strength coming largely from North America and the Middle East. Orders for tower cranes in Europe were down 20% whereas demand for mobile cranes remains solid with backlog nearly full through year end. More important, run rate EBITDA over the past two quarters is approaching $100M compared to $143M for the full year 2022 and MTW's FY 2023 guide of $145M at the midpoint. Despite outperformance over the past two quarters, MTW maintained guidance for the FY2023 tied to broader macro uncertainty, higher interest rates and weakness experiencing in Europe which MTW sees as a risk to EPS. Furthermore, MTW sees less favorable mix and tougher pricing comps and supply chain continues to be challenging. While MTW remains on the cautious side today with regards to the macro, over the medium term, does see the opportunity for a crane renaissance driven by a number of factors including China, US stimulus/onshoring, spend in the Middle East and an aged fleet. Therefore, we tweak our FY23-25 EBITDA estimates to $152M, $156M and $170 based on a 6.0x multiple and TP to $19 from $16. Risks: supply chain, material costs, macro risk.

Details on Outlook: MTW reaffirmed 2023 guidance provided in Q4'22 which includes adjusted EBITDA of $130-160M vs consensus at $148M, net sales in the range of $2.0-2.1B vs consensus of $2.07B, and adjusted EPS at $0.35-1.15 which compares to consensus at $0.97. Looking out, MTW sees a slowdown in the European tower crane business and is cautious regarding the impact higher interest rates could eventually have on demand. The next 12-24 month remain uncertain given the current macro and geopolitical backdrop, yet crane fleets remain aged and infrastructure spending is likely a multi-year tailwind ahead.

Full Report

Date of Production: 03-May-2023 21:09:46 UTC Date of Dissemination: 03-May-2023 21:10:40 UTC

AvidXchange Holdings, Inc. [AVDX.OQ]
Q1 2023 Earnings Recap

OUTPERFORM

Rating	OUTPERFORM [V]
Price (03-May-23, US$)	7.74
Target price (US$)	(from 10.50) 11.00
52-week price range (US$)	11.60 - 6.14
Market cap(US$ m)	1,556
Enterprise value (US$ m)	1,436

Research Analysts

Timothy Chiodo, CFA

Nik Cremo

Christopher Zhang, CFA

Dylan Wright

Jing Zhang

Patrick Ennis

Kyle Lindgren

- **Q1 2023 saw Adj. EBITDA profitability, raised FY 2023 revenue / EBITDA guide driven by Q1 beat:** AvidXchange delivered ~20+% organic revenue growth for the seventh straight quarter (since IPO), with Q1 2023 revenue +22% organic YoY, with ~2/3rds of the increase driven by the combination of new buyer invoice and payment transactions, with the remainder driven by float revenue. AVDX continues to execute towards its accelerated path of Adj. EBITDA profitability with positive EBITDA in Q1 of $0.4mm driven by revenue growth (benefitting from incremental float revenue), adj. gross margin expansion (+500bps YoY), and operating leverage efficiency. FY 2023 revenue was guided up ~1% at the midpoint (~55bps at the high-end), and EBITDA was guided to ~$2-4mm profitability (vs. $0-3.5mm prior) – with the updated guidance driven by the Q1 beat alongside some degree of conservatism. We believe that the whitespace for AP automation provides attractive longer-term tailwinds for AVDX, supportive of revenue growth ahead (expected to be below 20% in FY 2023 given a softer macro), alongside potential support/upside which resides in interest income (supportive near-term), product innovation (Invoice Accelerator – launching 2H 2023), new vertical entry, and international (cross-border, new country launches). Additionally, AVDX has established a track record for beating its guidance since IPO and we note the company's upcoming Investor Day on June 1st, 2023 (first Investor Day). Further, we see strategic value in B2B payments, particularly as it relates to AVDX which has a rare, relatively scaled, two-sided network.

- **What we liked:** 1) Adj. EBITDA of $0.4mm beat CSe/Street of -$2.6mm; 2) Q1 revenue +22% YoY to $86.8mm, ~5% beat vs. CSe/Street; 3) Transaction yield of $4.76 (+12.5% YoY) beat CSe/Street of $4.50/$4.58, respectively; and 4) Gross margin of 67.3% (+500bps YoY) beat CSe/Street of ~65.3%/64.7%, respectively.

- **Valuation & estimates:** TP to $11 ($10.50 prior) on ~6.5x 2024E gross profit of $300mm ($299mm prior). Our valuation is supported by an illustrative DCF & relative multiples-to-growth comparison. Risks are primarily macro, competition, electronic payments preferences, & regulatory.

Full Report

Date of Production: 03-May-2023 23:11:19 UTC Date of Dissemination: 03-May-2023 23:12:33 UTC

CREDIT SUISSE

Health Care Technology | Decrease Target Price

03 May 2023

American Well [AMWL.N]
1Q23 Results a Touch Light; Still Aiming for the Back Half Ramp

NEUTRAL

Rating	NEUTRAL [V]
Price (03-May-23, US$)	2.12
Target price (US$)	(from 4.00) 3.50
52-week price range (US$)	5.30 - 2.00
Market cap(US$ m)	595
Enterprise value (US$ m)	411

Research Analysts

Jonathan Yong

A.J. Rice

- **1Q23 Soft; Focus Remains on Back Half Ramp:** AMWL's 1Q23 came in below expectations on revenue and EBITDA, although did seem to come in-line with how the company was thinking with some outperformance on visit revenue. That said, subscription revenue was a touch lighter than we/cons had expected and carepoint/services revenue was also below. Gross margins came in below expectations which does create some questions on operating leverage and achievability of EBITDA guidance, but mgmt. attributed this to onboarding and timing ahead of anticipated revenue growth. All-in, with a soft quarter and timing of return to growth back half weighted, we expect the stock will continue to tread water until further data points materialize showcasing a return to growth and operating leverage, despite AMWL expressing a positive view on trends in bookings.
- **1Q23 Results Soft; Likely to Persist into 2Q:** AMWL posted revenues of $64 mln (CS/cons $66/65 mln). Subscription revenue was down sequentially at $29 mln (flat Y/Y) as churn continues to factor into revenue. Carepoint revenue also stepped down significantly to $2.8 mln (-43% Y/Y), which was more than expected. This was slightly offset by stronger than expected Visit revenue of $33 mln (6% Y/Y) . AMWL posted an EBITDA loss of $(45) mln below cons of $(41) mln but essentially in-line with our estimate. Gross margins came in well below expectations at 39.5% compared to CS/cons estimates of 42/43% which was attributed to onboarding. Looking to 2Q, subscription revenue is expected to be flat with 1Q while Visit revenue is expected to step down from 1Q. Carepoint revenue is expected to stepup, offsetting the seasonal weakness in visit revenue. Gross margins are also expected to be pressured in 2Q as revenue ramps up. All-in, the results continue to point towards a back half ramp to achieve the company's guidance.
- **Estimates Unchanged; Lowering TP:** AMWL reaffirmed 2023 guidance with revenues of $275-285 mln and adj EBITDA of $(160)-(140) mln with 1.45-1.65 mln visits. We essentially leave our 2023/2024 revenue unchanged at $278/311 mln and adj EBITDA loss of $(155)/(116) mln. We are lowering our target price to $3.50 from $4.00 which is based on 1x our NTM revenues as market multiples have retrenched and macro headwinds persist. Risks to our rating and target price include macroeconomic headwinds, slower than anticipated contract signings, and customer churn.

Full Report

Date of Production: 04-May-2023 02:46:16 UTC Date of Dissemination: 04-May-2023 03:27:19 UTC

Ceridian HCM [CDAY.N]

Continued commanding case for multiple story

OUTPERFORM

Rating	OUTPERFORM [V]
Price (03-May-23, US$)	62.61
Target price (US$)	(from 105.00) 83.00
52-week price range (US$)	77.99 - 44.05
Market cap(US$ m)	9,560
Enterprise value (US$ m)	10,150

Research Analysts

Kevin McVeigh

Victor Khong

Marc Vitenzon

BOTTOM LINE—we expect the CDAY stock reaction to be paced by the overall markets given strong Q1A and FY23 Dayforce recurring and adj EBITDA boost. The FY23 adj EBITDA guidance boost was fueled by cloud operating efficiencies—cloud recurring gross margin rose 320bps YoY to 78.7% en route to long term 80% goal. Sales and marketing efficiencies also improved as Ceridian modernizes its support organization shifting work to lower cost jurisdictions and incorporating automation. Ceridian is integrating AI to transform its HCM suite and improve productivity. It is also developing talent acquisition copilot for recruiters and employees, and automating HR policies and payroll. Further, there are internal initiatives with generative AI focused on support group dealing with knowledge-based inquiries. Despite recent volatility, the stock offers investors an underappreciated payments opportunity, upmarket strength given differentiated product offerings [Dayforce + continuous calculating payroll], and unique international M&A playbook, in our view. Ceridian is a top idea given below-average EV/sales and potential upside amid increasing adoption of wallet.

- **Results [Q1]: BEAT**

Total revenue: $370.6m [vs. CSe/St. ~$361.1m/$361.1m].

EBITDA: $105.4m [vs. CSe/St. ~$93.7m/$93.6m].

EPS: $0.31 [vs. CSe/St. $0.30/$0.31].

- **Guide [2023]: Revenue MAINTAINED, adj. EBITDA RAISED**

Revenue: $1.48b-$1.50b [vs. CSe/St. $1.49b/$1.49b].

EBITDA: $366m-$379m [vs. CSe/St. $367.0m/$367.5m, $360m-$375m prior].

- **CS EBITDA [23E/24E]**: to $373.5m/$435.0m from $367.0m/$435.0m.
- **Positives**—Dayforce Wallet achieves 50% penetration, with 80% attach on new deals
- **Negatives**—Q2 guide weaker-than-expected
- **$83 TP [from $105] is ~8x 2024E EV/Sales** vs. three-year range/average of 5.4-17.3x/11.0x. A modestly below-average multiple is only due to macro uncertainty. Long-term investors should use this uncertainty as a potential entry point. **Risks**—pace of economy, competition [incumbent + SaaS], and growth initiative traction.

Full Report

Date of Production: 04-May-2023 02:19:52 UTC Date of Dissemination: 04-May-2023 02:21:42 UTC

CREDIT SUISSE

Fertilizers & Agricultural Chemicals | Decrease Target Price

03 May 2023

Mosaic Co. [MOS.N]

Slight 1Q23 miss; Potash price pressure to continue

UNDERPERFORM

Rating	UNDERPERFORM [V]
Price (03-May-23, US$)	42.87
Target price (US$)	(from 42.00) 41.00
52-week price range (US$)	66.77 - 42.08
Market cap(US$ m)	14,237
Enterprise value (US$ m)	16,142

Research Analysts

Edlain Rodriguez

John Roberts

Matthew Skowronski

- **Adj. EBITDA/EPS of $777M/$1.14 vs. $763M/$1.23 CSe and $788M/$1.24 FactSet consensus.** Call at 11AM ET Thursday (+1 877-883-0383 Code: 4434358). Grain fundamentals are solid, but they have not provided support for fertilizer prices as channel inventories remain somewhat elevated and we believe lower prices may be needed to continue to incentivize demand. The restart of Mosaic's Colonsay potash mine (idled since December) has been deferred to 2H23 from 1H23 and the company will wait for a stronger recovery in demand to restart. The company repurchased $456M worth of stock and distributed a $0.25/share special dividend in 1Q.
- **Potash EBITDA $474M vs. $408M CSe.** Potash gross profit was $413M, down 23% Q/Q on flat volume and 25% lower gross margin per ton. This reflects a lack of volume pickup due to inventory destocking and lower realized prices ($421/ton vs $581/ton). JunQ midpt. guide is for volume to be up ~10% Q/Q, and price down 17% to $350/ton.
- **Phosphate EBITDA of $382M vs. $367M CSe.** Gross profit was $259M, essentially flat Q/Q on 15% higher volume. & 16% lower gross margin per ton. JuneQ midpt. guide is for ~5% higher volume Q/Q, and for DAP price to be ~$85/ton, or 13% lower, at $575/ton, but stripping margins are expected to increase sequentially as lower ammonia costs more than offset the decline in product prices.
- **Fertilizantes EBITDA of $3M vs. CSe $43M.** Brazil fertilizer & distribution gross profit was a loss of $1M, versus +$29M in 4Q22, on 100%% lower gross profit per ton and 16% lower volume.
- **Valuation & Risks.** Reflecting lower price realizations, we lower our 2023E EPS to $4.65 from $5.45 and 2024E EPS to $5.00 from $5.20. Our $41 (from $42) target price represents ~5.0x our forward NTM (ending MarQ25E: Q5-Q8E) EBITDA of $3.0B (from prior $3.3B, ending DecQ24E). Key risks to the upside include prolonged disruption in potash supply and higher grain prices and farmers' income, which would incentivize farmers to increase fertilizer consumption.

Full Report

Date of Production: 03-May-2023 22:34:03 UTC Date of Dissemination: 03-May-2023 22:35:37 UTC

CDW Corp [CDW.OQ]

1Q23 Review; PCs, Servers and Storage Under Pressure While Networking, Cloud and Software Remain Solid

CDW (CDW, OP) reported revenue of $5.10 billion and non-GAAP EPS of $2.03, in line with the preannouncement on April 18 (we were at $5.09 billion and $2.02, respectively). Demand softened more than expected through the quarter due to macroeconomic events that resulted in increased caution and scrutiny of investments, especially at commercial customers.

- **What Happened?** Demand for client devices weakened further (industry-wide layoffs were a contributing factor) and servers and storage were impacted by customers sweating assets, although networking remained strong (both backlog and higher than expected demand). CDW said customers are now more focused on in-year ROI and subsequently are delaying or breaking up previously planned IT projects but not cancelling them entirely. Deferred spending is impacting transactions and solutions (e.g., firewall products that are typically sold with endpoint devices), though cloud spend remained strong and netted down revenue grew 2% y/y against total revenue down 14%.

- **Updating Estimates:** CDW expects higher overall spending in 2H (full-year split to be more back-end weighted than normal seasonality) primarily due to: 1) demand in the Public sector which is seasonally strong in 3Q; 2) significant reductions already made in corporate spend making it difficult to further cut investment; 3) sweating of assets that are due for refresh (servers, PCs); and, 4) continued investment in transformation projects. Overall, we now estimate revenue down 8% for the full year, versus guidance of down ~7% (outperformance is lower as mix of netted down revenues increases) but we increase our 2023 non-GAAP EPS estimate by $0.02 to $9.45 on better margins (op margin now expected to be in the range of 9% vs mid to high 8% prior).

- **Reiterate OP But Lower TP To $190.** Our valuation is based on 18x 2024 non-GAAP EPS which we lower to $10.43 from $10.62 as we expect some margin contraction as transactional sales recover (albeit our EPS estimate is still up 10% y/y). Risks include further macro deterioration, supply chain challenges and integration of M&A.

Full Report

Date of Production: 03-May-2023 22:33:42 UTC Date of Dissemination: 03-May-2023 22:34:41 UTC

OUTPERFORM

Rating	OUTPERFORM
Price (02-May-23, US$)	167.86
Target price (US$) (from 195.00)	190.00
52-week price range (US$)	213.93 - 152.59
Market cap(US$ m)	22,684
Enterprise value (US$ m)	27,781

Target price is for 12 months.

Research Analysts

Shannon Cross

Ashley Ellis

Adaptive Biotechnologies [ADPT.OQ]
Q1 In-Line, Guidance Reaffirmed; Staying Cautious on Margin Decline and 2H Ramp

UNDERPERFORM

Rating	UNDERPERFORM [V]
Price (03-May-23, US$)	7.50
Target price (US$)	7.00
52-week price range (US$)	12.67 - 6.26
Market cap(US$ m)	1,082
Enterprise value (US$ m)	888

Research Analysts

Dan Leonard

Lu Li

Kyle Crews

- **Bottom Line:** Our Underperform rating on Adaptive Biotechnologies (ADPT) reflects our view that its various efforts to create value from its immune characterization expertise will take longer to materialize than investors appreciate. Q1 results have mixed implications for our thesis.
- **Q1 in line with expectations; maintaining clonoSEQ momentum, but margins weak.** Q1 results were in line with our expectations, with y/y revenue decline of ~(3.0)%. Year-on-year operational sales (ex-milestones, Genentech amortization) were also in-line with expectations, up ~30.2% (vs ~31.9% CSe). By segment, performance was mixed y/y with Immune Medicine declining ~(22.1)% while MRD grew ~45%. Most surprising to us were gross margins, which came in significantly below our expectations at ~50.4% (vs ~67.0% CSe) driven by a decline in high margin (~100% margin) milestone revenues.
- **FY2023 Guidance Reaffirmed.** Adaptive reaffirmed its 2023 guidance on sales ($205M-$215M, back half loaded) and operating expenses.
- **Model updates.** We have taken our sales and margins down in light of Q1 results. Our 2023/ 2024 EPS is updated to -$1.32/-$1.27 from -$1.24/-$1.18. Risks: faster clonoSEQ adoption, faster adoption of pharmaceutical services, success in drug discovery pipeline adoption, and further progress in therapeutics in oncology with Roche or otherwise in areas like autoimmune.

Full Report

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CREDIT SUISSE

COMPANY UPDATES:

Software | Forecast Change

04 May 2023

Informatica Llc [INFA.N]

CQ1 Recap: Cloud expansion

NEUTRAL

Rating	NEUTRAL
Price (03-May-23, US$)	14.80
Target price (US$)	22.50
52-week price range (US$)	23.72 - 14.80
Market cap(US$ m)	4,237
Enterprise value (US$ m)	5,289

Target price is for 12 months.

Research Analysts

Fred Lee

Tim Jausovec

Key Takeaways: INFA reported a strong quarter. We are particularly impressed by cloud net retention improving sequentially and compared to a year ago; as well as continued stability in best-in-class gross retention rates. The company has been successfully transitioning to a cloud-centric sales model. While the environment remains choppy, mgmt has continued to drive 40%+ cloud growth, in-line with growth last year.

(+) Strong top-line result. INFA reported revs of $365.4m vs $358.2m consensus ests and above the high end of guidance. Subscription ARR was $1,021m, +20% y/y vs +24% y/y last qtr and +32% last year. Cloud ARR grew +41% y/y vs 42% y/y last qtr and 40% last year. Cloud now represents 47% of subscription ARR, up from 41% last year. GM deteriorated to 80.4%, contracting (160bps) q/q and down (30bps) y/y on increased mix-shift to the cloud. OPM of 23.2% was down (530bps) q/q but increased +20bps y/y.

(+) Increasing cloud NRR. Cloud NRR (a new metric) increased to 118%, up from 117% last qtr and 111% a year ago. 90% of cloud new bookings came from new workloads rather than on-prem migrations. Maintenance and subscription gross retention rates remained flat vs a year ago at 96% and 93%, respectively. An impressive result given the changed environment vs a year ago.

(-) Macro remains challenging. Choppy macro environment remained substantially unchanged from prior quarter, with restrained demand and elongated sales cycles.

CS Estimates: We revise our CY23/CY24 revenue and EPS estimates to $1,580.4m/$1,703.9m and $0.87/$1.00 from $1,580.0m/$1,683.1m and $0.90/$0.97.

- **Valuation and risks:** We maintain our Neutral rating and TP of $22.5, which is based on 4.4x our CY24 rev estimate. Risks: a faster-than-expected shift to cloud is an upside risk; downside risks include more durable incumbency of legacy vendors and faster innovation by hyperscale cloud providers and data management vendors.

Full Report

Date of Production: 04-May-2023 07:07:55 UTC Date of Dissemination: 04-May-2023 07:09:29 UTC

CREDIT SUISSE

Asset Management & Custody Banks | Forecast Reduction

04 May 2023

Artisan Partners [APAM.N]

Off The (1Q23) Call – Gearing Up For Fixed Income/Alternatives Opportunities But Likely Slow Build

NEUTRAL

Rating	NEUTRAL
Price (03-May-23, US$)	32.94
Target price (US$)	30.00
52-week price range (US$)	40.13 - 25.72
Market cap(US$ m)	2,634
Enterprise value (US$ m)	2,634

Target price is for 12 months.

Research Analysts

Bill Katz

Michael Kelly

Cameron Phillips

- **Key Takes** – **1)** APAM, in our view, remains among the more consistent alpha generators, with likely rising demand against ongoing market volatility and allocation shifts; **2)** management continues to evolve the franchise into faster/larger TAM opportunities – notably Fixed Income (FI)/Alternatives (Alts); though, **3)** such flow leverage will likely take time to more meaningfully scale; with **4)** puts and takes into 2Q23 for volume(s).

- **Flow Puts/Takes** – Like many management teams reporting to date, market uncertainty continues to weigh on both timing/allocations. Interestingly, management noted ~$1B+ of foregone gross inflows in 1Q due to volatility though also noted elevated International Value fundings, suggesting moderate "core" outflows in 1Q23 as reported.

- **Other Notables** – **1)** No change to capital return policy, or ~80% quarterly payout for dividends and year-end special to ~90%+ of FY adjusted net income; **2)** ~$130M seed capital mostly seasoned, though likely to trend up over time as skewed into private credit/EM and other Alts opportunities; **3)** within lumpy flow Q, management noted positive flows in B/D channel, leveraging credit and income themes; and, **4)** no change to key expense guidance, including Long-term Incentive Compensation (LTIC).

- **No Change To 2023 Expense Guide** – Which already factors in ongoing platform extension and team build-outs. Management guidance: **1)** fixed compensation costs up mid-single digits y/y; **2)** fixed OpEx ~+5% y/y; **3)** ~$55M 2023 LTIC; **4)** occupancy ~flat y/y; and, **5)** interest expense -$1.5M y/y due to Aug. '22 note refinancing.

- **2023-24E Adjusted EPS Outlook Stable** – Revised '23E/'24E are $2.85/$2.86 vs. $2.87/$2.88 prior. We are encouraged by further reduction in Visible Alpha (VA) consensus expectations.

- **Stay Neutral** – No change to $30 price target. Prefer Outperform-rated AB among yield-oriented Traditionals as a way for exposure to FI/Alts, and given better margin expansion and bit better base fee rate dynamics.

Full Report

Date of Production: 04-May-2023 03:33:23 UTC Date of Dissemination: 04-May-2023 08:02:19 UTC

Canadian National [CNI.N]
Investor Day shows reinvigorated CN executing at a high level; valuation concerns offset by double-digit EPS growth potential

NEUTRAL

Rating	NEUTRAL
Price (03-May-23, US$)	117.98
Target price (US$)	133.00
52-week price range (C$)	175.15 - 145.48
Market cap(US$ m)	79,598

Target price is for 12 months.

Research Analysts

Ariel Rosa

Daniel Lai

- **Undeniable progress, CN operating at high level:** On Wednesday, Canadian National hosted an Investor Day in Chicago, its first under CEO Tracy Robinson who joined in early 2022 (previous Investor Day was in 2019). Following a number of challenging years during which CN appeared distracted and reactive, the company now seems reinvigorated, with its operations and financial performance running near the top of the industry. CEO Robinson discussed how she has prioritized a scheduled operating model over CN's prior approach of running long trains. The latter strategy was blamed for delays, deviations from trip plans, and poor customer service. These metrics have all shown strong improvement in the past year, with a corresponding improvement in financial results. **CN had the highest EPS growth among Class 1 rails in 2022 (+25% y-y) after significantly trailing peers in EPS growth and shareholder returns over the prior 5 years.** The company has increased its focus on collaboration and replaced several senior executives. **CN set an outlook for 10%-15% annual EPS growth from 2024-2026, which we view as aggressive but feasible**, helping to justify its premium valuation (20.4x our 2023e EPS).

- **Network strength continues to be a key competitive advantage:** CN also hosted a tour of its Chicago area facilities, including its Homewood training center, its Kirk Hump Yard and a ride on its EJ&E track around Chicago. With 25% of North American rail traffic passing through Chicago, **CN emphasized how its EJ&E bypass represents a key competitive advantage, facilitating faster transit times** (24-48 hours of savings) versus alternatives. Its diversified book of business, newly formed partnerships with Union Pacific, Ferromex, and Norfolk Southern, and its high quality network should create a long runway for growth, with CN expecting +800k-900k net new carloads (+15%) by 2026.

- **Outlook met with a shrug, perhaps reflecting macro concerns and valuation:** CNI shares were down slightly (-0.3%) following Investor Day, likely reflecting macro fears, as CN expects a mild recession in '23. Its double-digit EPS growth target was in-line with our forecast, suggesting investors may have priced this in, with upside as growth materializes.

- **We remain Neutral; PT unchanged at $133**, based on a 23x target PE. We leave our estimates for 2023e, 2024e, and 2025e unchanged at $7.80, C$8.65, and C$9.60, reflecting +5%, +11% and +11% EPS growth, respectively. Downside risks include weak macro conditions and competition. Upside risks include share gains and efficiency savings.

Full Report

Date of Production: 04-May-2023 07:54:51 UTC Date of Dissemination: 04-May-2023 07:56:17 UTC

Equitable Holdings [EQH.N]
1Q23 Results: EPS Misses on Unfavorable Mortality; Underlying Trends Largely In-line

OUTPERFORM

Rating	OUTPERFORM
Price (03-May-23, US$)	24.54
Target price (US$)	40.00
52-week price range (US$)	32.88 - 23.46
Market cap(US$ m)	8,811
Enterprise value (US$ m)	12,892

Target price is for 12 months.

Research Analysts

Andrew Kligerman

Joel Hurwitz, CFA

Michael Domiano

Alfred Miller

- **Adjusted operating EPS of $0.96 vs. CS/cons $1.03/$1.17.** Reported EPS included $(0.25) of net unfavorable items: ~$(0.14) of unfavorable mortality vs. CS est. $(0.11), and $(0.11) of unfavorable variable investment income (VII) vs. CS est. $(0.06). **Operating EPS ex-notables of $1.21 was largely in-line with CS comparable $1.19**. Net EPS was $0.45.
- **Buybacks were $214M (vs. CS at $225M)**. Holdco cash & liquid assets of ~$1.8B at 1Q23-end (which reflects the $520M April debt repayment) vs. $2.0B q/q and $0.5B target. EQH also expected to increase its quarterly dividend to $0.22 (from $0.20).
- **Individual Retirement operating earnings of $200M, above CS est. of $189M on modestly better fees and tax rate.** AUM of $78.8B, down (1)% y/y primarily due to lower markets that was largely offset by solid net in flows. Net flows of $932M vs. $665M y/y. Sales of $2.8B were up 3% y/y and largely in-line with CS at $2.9B.
- **Group Retirement earnings were $89M, below CS est. of $94M**. Better fee income was more than offset by weaker spread income. Net flows $30M vs. $523M y/y and CS est. of $143M.
- **Investment Management earnings were $99M modestly better vs. CS est. of $97M**. Ending AUM of $676B off (8)% y/y due to down markets performance.
- **Protection reported a loss of $(35)M, worse than CS est. of $24M**. EQH noted $(77)M pre-tax of unfavorable mortality results vs. CS est. ~$(50)M and $(19)M pre-tax VII vs. CS est. ~$(7)M. Results ex-notables were weaker on seasonality.
- **Wealth Management earnings were $32M, above CS estimate $26M** on better margin**.** Net flows were solid at $1.4B.
- **Legacy business reported earnings of $60M, in-line with CS est. of $60M.**
- **Corporate loss of $(81)M vs. CS est. $(100)M,** and was below guided run-rate.
- **Stock Reaction:** Modest underperform vs. peers on 5/4 due to the headline miss, including elevated mortality.
- **Conference Call Details:** May 4 call at 8 a.m. ET – Register for the call.

Full Report

Date of Production: 04-May-2023 01:10:30 UTC Date of Dissemination: 04-May-2023 01:11:47 UTC

Royal Gold, Inc. [RGLD.OQ]
First Read: Q1-23 EPS Miss

NEUTRAL

Rating	NEUTRAL
Price (03-May-23, US$)	137.50
Target price (US$)	140.00
52-week price range (US$)	143.88 - 86.46
Market cap(US$ m)	9,031
Enterprise value (US$ m)	9,502

Target price is for 12 months.

Research Analysts

Fahad Tariq, CPA, CA

Jessica Xu

- **Royal Gold reports Q1-23 results:** On May 3, Royal Gold reported Q1-23 adj. EPS of $0.96 (reported EPS of $0.97), a miss vs. $0.99 consensus (Reuters) and $1.07 CSe. Q1-23 CFPS (pre-WC) was $1.66, splitting $1.65 consensus and $1.69 CSe. Q1-23 EBITDA was $135mm, a beat vs. $128mm consensus and matching CSe.

- **Recapping 2023 guidance:** Recall that on April 11, Royal Gold provided overall 2023 production guidance of 332.5koz (320-345koz). 2023 production guidance for gold is 242.5koz (235-250koz) and for other metals is 90.0koz (85.0-95.0koz). Using the same commodity price assumptions as the company, we are currently modelling 344koz GEO.

- **Operational highlights:** Recall that on April 11, Royal Gold pre-released Q1-23 stream segment sales of 60.8koz (GEO), comprising 42.1koz gold. Royal Gold highlighted lower grades at Andacollo and Penasquito (lower grade and harder ore at Chile Colorado pit), as well as timing of shipments at Mt. Milligan at Pueblo Viejo. Q1-23 GEO production was 90.2koz, a beat vs. 81.8koz CSe (using the same commodity assumptions as the company). Royal Gold noted a Record of Decision for Goldrush is expected in H2-23, and first production from Bellevue is expected in H2-23.

- **Recapping deals:** Recall on January 5, Royal Gold announced it acquired two portions of a gross smelter royalty (GSR) on Cortez from private holders (successors in interest to Idaho Mining Corporation) for $204mm. The royalty covers the Cortez mine (in operation), Fourmile (development project), and notably, Robertson (development project; Robertson was excluded from the 1.2% Cortez royalty that Royal Gold acquired in August 2022 for $525mm).

- **Balance sheet and dividend:** Royal Gold ended Q1-23 with $127mm cash and $500mm debt (available revolver is $500mm), after repaying $75mm debt in the quarter. The company maintained its quarterly dividend of $0.375/sh, which on an annualized basis implies a ~1.1% yield.

- **Royal Gold to host a conference call on May 4 at 12:00PM ET (1-833-470-1428; passcode: 594830).**

Full Report

Date of Production: 03-May-2023 23:28:54 UTC Date of Dissemination: 03-May-2023 23:32:28 UTC

Sabra Health Care REIT [SBRA.OQ]
1Q23 Beat; Quiet Quarter But Improving SNF Outlook Is A Plus

NEUTRAL

Rating	NEUTRAL
Price (03-May-23, US$)	11.34
Target price (US$)	13.00
52-week price range (US$)	16.55 - 10.15
Market cap(US$ m)	2,622
Enterprise value (US$ m)	5,090

Target price is for 12 months.

Research Analysts

Tayo Okusanya, II, CFA, CPA

- **Overall Thoughts**: Normalized AFFO/sh of $0.34 beat CS/consensus at $0.32/$0.33. The beat vs CS was primarily driven by better-than-expected results from its senior housing (managed) JVs. SBRA continues to not issue 2023 guidance given ongoing portfolio transitions. However, management continues to "remain optimistic that we (SBRA) will return to earnings growth in 2024". This implied decline in earnings in FY23 is reflected in CS/consensus at $1.30/$1.37 Normalized AFFO/sh vs FY22 of $1.47. Investors should be pleased to see no incremental negative news regarding rent collections or lease restructurings. In addition, we note pro forma SNF EBITDARM rent coverage (reported on a 1Q lag and also excluding provider relief funds) improved q/q (1.55x in 4Q22 from 1.48x in 3Q22). We also believe the exit from the Enlivant JV is a positive given the earnings drag and leverage risk associated with the platform. At the current discount valuation (~8.6x P/AFFO vs 5-year average of ~9.6x), a lot of risk feels priced into the stock. A better-than-expected outcome on the imminent minimum staffing rule would likely be a catalyst, even though internal and external growth will likely remain challenging in 2023.
- **SBRA Withdraws From The Enlivant JV.** Auditors of SBRA's Enlivant JV recently expressed "substantial doubt" about the JV's ability to continue as a going concern given the combination of occupancy loss, OpEx pressures, and rising interest rates that drove up rates on the highly levered vehicle to ~7% in 2022 from ~2.5%in 2021. SBRA had previously written down its stake to zero and announced that on May 1, they had withdrawn and resigned membership in the JV. We believe this to be a positive outcome as it relieves SBRA from the earnings drag and leverage risk associated with the joint venture.
- **Key Questions**: 1) Tenant credit outlook and potential for additional rent deferrals/abatements (especially in the senior housing leased portfolio which still has weak EBITDARM rent coverage at 1.14x as at 4Q22); 2) Transaction market commentary given limited investment activity in 1Q23 ($~91M; 3) Potential impact from regulatory headwinds (i.e., end of the PHE, impending SNF minimum staffing rule). Earnings call May 4, 1pm EST; 888-880-4448; Pw: 1382596

Full Report

Date of Production: 03-May-2023 23:06:14 UTC Date of Dissemination: 03-May-2023 23:09:23 UTC

MGIC Investment Corporation [MTG.N]
Prior Period Reserve Releases Drives EPS Upside; Lower than Expected NIW

NEUTRAL

Rating	NEUTRAL
Price (03-May-23, US$)	14.56
Target price (US$)	15.00
52-week price range (US$)	15.56 - 11.42
Market cap(US$ m)	4,229
Enterprise value (US$ m)	4,891

Target price is for 12 months.

Research Analysts

Douglas Harter, CFA

William Nasta

Cory Johnson

MTG reported first quarter operating EPS of $0.54, $0.04 higher than our estimate as well as the FactSet consensus. Lower than expected incurred losses ($0.08/sh) was the driver of the upside vs. our estimate more than offsetting higher operating expenses ($0.03/sh). Book value increased by 4.7% in the quarter to $16.57, which was 0.2% lower than CSe.

- **Revenue:** Total revenue was 1.3% lower than our estimate driven by differences in other income. Net premiums earned totaled $242 million, down 0.9% quarter-over-quarter but 0.6% higher than our estimate. The net premium yield decreased by 0.2 bps from last quarter to 32.9 bps, higher than our estimate by 0.2 bps. A smaller-than-expected drag from ceded premiums was the main driver behind the better-than-expected net premium yield. The in force premium yield was down 0.2 bps at 38.7 bps in the quarter.
- **IIF:** IIF ended the quarter at $292.4 billion, up 5% from a year ago but 0.5% lower than our estimate. Lower than expected NIW was the reason for the slower IIF growth vs. our estimate. NIW was $8.2 billion, 12% lower than our estimate. With 5 of the 6 MIs having reported we estimate that MTG lost ~350 bps of market share in the quarter to the 13.5% range. Persistency improved by 220 bps in the quarter to 81.0%, modestly weaker than our estimate.
- **Incurred losses:** Total incurred losses were $6.4 million, which was $30.7 million lower than our estimate. The prior period reserve release totaled $56 million in the quarter (vs. our estimate of $5 million) and was the driver of the lower incurred losses. Current period losses ($62.1 million) were $20.0 million (48%) above our estimate on a higher-than-expected loss per NOD ($5,501 vs. $3,500 CSe). Total NODs decreased 5% Q/Q and were 6% below our estimate. Total defaults decreased 6.2% in the quarter and were 6.8% lower than our estimate given the lower-than-expected NODs and higher cures.

Full Report

Date of Production: 03-May-2023 23:58:24 UTC Date of Dissemination: 04-May-2023 00:00:12 UTC

Radian Group, Inc. [RDN.N]
Reserve Release Drives EPS Upside, Stronger NIW

NEUTRAL

Rating	NEUTRAL
Price (03-May-23, US$)	23.68
Target price (US$)	23.00
52-week price range (US$)	24.27 - 18.07
Market cap(US$ m)	3,714
Enterprise value (US$ m)	5,127

Target price is for 12 months.

Research Analysts

Douglas Harter, CFA

William Nasta

Cory Johnson

Radian reported 1Q adjusted operating EPS of $0.98, $0.23 above CSe and the FactSet consensus. Higher than expected reserve releases accounted for the upside relative to our estimates. Book value per share increased 5.1% Q/Q to $26.23, 2.7% higher than expected.

- **Premium Yield:** Net premiums earned (for the MI segment) increased 0.7% Q/Q to $231.5 million, which was 0.4% above our estimate. The net premium yield was unchanged in the quarter at 35.4 bps, in line with expectations as a higher in force yield (+0.4 bps Q/Q) offset higher than expected ceded premiums (lower profit commission).
- **IIF Trends:** IIF amounted to $261 billion, up 5% from a year ago and 0.5% higher than our estimate. The higher-than-expected IIF growth was driven by better-than-expected NIW (+19% vs. CSe). NIW totaled $11.3 billion vs. our estimate of $9.5 billion. With 5 of the 6 MIs having reported it appears that RDN's NIW upside was both from a larger than CSe NIW market in the quarter and market share gains (~150 bps in the quarter). Quarterly persistency (annualized) improved 30 bps in the quarter (to 84.4%).
- **Incurred Losses:** Total incurred losses were -$16.9 million, which was $47 million lower than our estimate. This better-than-expected result was driven by prior period reserve releases ($67 million vs. $15 million CSe); current period losses were above our estimate ($50 million vs. $45 million CSe) given a higher level of incurred per NOD. Total defaults declined 5% in the quarter, 6% better than expected primarily as a result of better-than-expected cure activity.
- **Capital return:** RDN repurchased 716,000 shares totaling $15 million in the first quarter compared to our estimate of 2.3 million shares. In April RDN repurchased an additional 229,000 shares for a total of $5 million.
- **Homegenius:** Homegenius reported revenue of $13.0 million, down 30% from 4Q. Adjusted pretax operating income was -$23 million, a $8 million improvement from last quarter despite the lower revenue given lower expenses.

Full Report

Date of Production: 03-May-2023 23:47:12 UTC Date of Dissemination: 03-May-2023 23:48:28 UTC

Costco Wholesale Corporation [COST.OQ]
April 2023 Sales Results

NEUTRAL

Rating	NEUTRAL
Price (03-May-23, US$)	490.06
Target price (US$)	520.00
52-week price range (US$)	560.96 - 416.43
Market cap(US$ m)	217,333
Enterprise value (US$ m)	209,418

Target price is for 12 months.

Research Analysts

Karen Short

Zeyn Burak

Daniel Silverstein

Ryan Bulger

- AMC, COST reported solid April sales for the four weeks ending April 30, 2023. Sales and traffic trends accelerated a bit in April, following what seemed to be a soft March, when there was a broad-based pullback in consumer spending in general related to fears surrounding the economy and headlines on the banking sector, as well as unfavorable weather (colder y/y) across much of the US. In April, COST's total sales rose 3.0% y/y to $17.3B, on a company-wide comp ex. gas/FX of +4.3% vs. Consensus Metrix ("CM") at +3.8%, +2.6% in Mar., +5.0% in Feb., and +7.4% in Jan. US comp ex. gas/FX came in at +2.9% vs. CM at +3.3%, Canada comp ex. gas/FX was +8.3% vs. CM at +4.5%, and Other International comp ex. gas/FX was +7.5%, vs. CM at 7.6%. US traffic accelerated slightly to 4.0% in April from 3.6% in March.

- In the US, 2-year compounded adjusted comp ex. gas/FX was 13.6% in April vs. 11.9% in Mar.,18.0% in Feb., and 17.1% in Jan. In the US, 3-year compounded adjusted comp ex. gas/FX came in at 39.0% in April vs. 26.6% in Mar., 30.1% in Feb., and 36.3% in Jan.

- On a non-adjusted 2-year compounded basis, US comp ex. gas/FX was 11.2% in April vs. 13.7% in Mar., 16.9% in Feb., and 17.1% in Jan. On a non-adjusted 3-year compounded basis, US comp ex. gas/FX was 38.9% in April vs. 26.6% in Mar., 28.9% in Feb., and 36.3% in Jan.

- E-commerce sales ex. FX were down 4.9% y/y in April vs. -11.6% in Mar., up 1.3% on a 2-year stacked basis in April vs. down 2.4% in Mar., and up 15.6% on a 3-year stacked basis in April vs. up 52.1% in Mar.

- World-wide ("WW") traffic was up 5.2% in April vs. +4.6% in Mar. and +4.9% in Feb. On a 2-year stacked basis, WW traffic was +10.1% in April vs. +12.8% in Mar. and +12.9% in Feb. On a 3-year stacked basis, WW traffic was +44.1% in Apr. vs. +16.1% in Mar. and +12.9% in Feb.

- In the US, traffic was up 4.0% in April vs. +3.6% in Mar., +3.1% in Feb., +5.1% in Jan. On a 2-year compounded adjusted basis, US traffic was 10.1% vs. +9.0% in Mar. and +12.6% in Feb.

Additional Details

- From a category standpoint, food and sundries were up HSD in April vs. up HSD in March, fresh foods were up MSD in April vs. up MSD in March, non-foods were down LSD in April vs. down M-HSD in March, and ancillary was down MSD in April vs. down HSD in March.

Excluding ancillary, we estimate non-discretionary comps at ~7% on a 1-year basis, vs. ~7% in March, ~15% on a 2-year compounded basis in April vs. ~21% in March, and ~24% on a 3-compounded basis in April vs. ~15% in March.

Excluding ancillary, we estimate discretionary comps at -2.0% on a 1-year basis in April vs. –6.5% in March, +3% on a 2-year compounded basis in April vs. -1.8% in March, and +52% on a 3-year compounded basis in April vs. +52% in March.

- Inflation in food, sundries, and fresh foods was lower in April compared to March.

- Average transaction value was -3.6% in April vs. -5.8% in March, -1.3% in February, and -0.5% in January. Average transaction ex. gas/FX was -0.7% in April vs. -2.1% in March, and +0.2% in February.

- Average fuel price per gallon was down 11% y/y, dragging reported comps by 1.7%.

- FX was a headwind of 1.2% to the comp vs. -1.7% in March and -1.5% in February.

- The strongest regions were the Northeast, Midwest, Southeast in the US, and Spain, the UK, and Mexico in Other International.

Please see pages 4, 5 and 6 for our detailed tables on COST's monthly results.

Full Report

Date of Production: 03-May-2023 22:27:54 UTC Date of Dissemination: 03-May-2023 22:29:36 UTC

New York Mortgage Trust Inc [NYMT.OQ]
Net Interest Spread Contracts, Impairment on Multifamily Assets

NEUTRAL

Rating	NEUTRAL
Price (03-May-23, US$)	9.60
Target price (US$)	12.00
52-week price range (US$)	13.08 - 8.68
Market cap(US$ m)	875
Enterprise value (US$ m)	631

Target price is for 12 months.

Research Analysts

Douglas Harter, CFA

William Nasta

Cory Johnson

NYMT reported first quarter GAAP EPS of $0.11, $0.06 higher than our estimate given higher than expected unrealized gains. Our view of adjusted EPS (including other income, but excluding unrealized gains, depreciation, and one-time expenses) totaled -$0.20, which was $0.25 lower than our estimate. An impairment of the value of owned real estate ($0.11/sh), lower other income ($0.07/sh), and higher interest expense ($0.05/sh) accounted for the miss relative to our estimate. Economic return (on adjusted book value) totaled -0.5% for the first quarter.

- **Book value:** NYMT's book value was down 2.4% in the quarter to $12.95, which was 2.0% lower than our estimate. Adjusted book value was down 3.0% to $15.41.
- **Net interest income:** Net interest income (excluding debt on owned real estate) was down $7.4 million in the quarter and was $6.5 million lower than our estimate given a 45 bp increase in costs of funds. Interest income was 2.1% higher than expected, driven primarily by higher-than-expected single family income. The net interest spread on the single-family portfolio was weaker than expected (0.29% vs 1.06% CSe) given the continued rise in funding costs.
- **Investment Portfolio:** NYMT had $219 million of new investment activity in the quarter vs. $106 million last quarter. Single family average earning assets were $3.1 billion, 7.6% higher than CSe, while multi-family average earning assets were $124 million, 0.9% above CSe. In addition to new loans NYMT repurchased $60 million of securitized debt at a discount ($1.6 million) during 1Q. In the first and second quarter, NYMT executed letters of intent to sell 6 multi-family properties held by joint venture equity investments worth $62.1 million.
- **Repurchases:** NYMT repurchased 0.4 million shares (0.4% of shares outstanding) for $3.6 million in 1Q. NYMT also increased their common share repurchase program to $246 million.

Full Report

Date of Production: 03-May-2023 23:18:00 UTC Date of Dissemination: 03-May-2023 23:19:13 UTC

CREDIT SUISSE

MetLife [MET.N]
1Q23 Earnings: EPS Miss on Unfavorable Variable Investment Income; Underlying Results Mixed

OUTPERFORM

Rating	OUTPERFORM
Price (03-May-23, US$)	58.71
Target price (US$)	74.00
52-week price range (US$)	76.95 - 54.30
Market cap(US$ m)	45,084
Enterprise value (US$ m)	45,084

Target price is for 12 months.

Research Analysts

Andrew Kligerman

Joel Hurwitz, CFA

Michael Domiano

Alfred Miller

- **Adjusted EPS of $1.52 vs. CSe/consensus $1.65/$1.81.** Results included $(0.55) of unfavorable variable investment income (VII) vs. $(0.35) in CS est. Adjusted earnings ex-VII were modestly above our estimate on better base spread in Retirement, and Income Solutions (RIS) and favorable underwriting in LatAm that more than offset weaker Group Benefits results (on underwriting and expenses). Net EPS was $0.02, as MET took realized losses on opportunistically repositioning the Japan portfolio and increased the mortgage loan allowance for credit losses. The company provided additional real estate exposure detail and we expect more color on the earnings call about potential stress scenario impact.
- Buybacks of $787M (vs. CS est. of $675M). Holdco liquidity of $4.2B vs. $5.4B q/q and $3-4B target, with cash flows to the holding company typically weaker in 1Qs.
- **Group Benefits after-tax adjusted earnings (earnings) of $307M vs. CS est. $384M,** on weaker underwriting and expenses. Premium, fees, and other revenues (PFOs) of $6.0B compared with CS est. of $5.9B. **Ex. the impact of participating policies, underlying PFO growth was 5.4%.** Group life mortality ratio of 90.5%, vs. 103.3% y/y and 85-90% target. Non-medical health interest adjusted benefit ratio was 72.9% vs. 72.6% y/y and guided 70-75%. MET saw higher dental utilization, but continued favorable disability claims.
- **RIS earnings of $400M vs. CS est. of $382M.** VII was unfavorable, and worse than our expectations, but base investment spreads of 137 bps (vs. 124 bps in 4Q22) were better.
- **Asia earnings of $280M missed CS est. of $338M,** driven largely by weaker-than-expected VII. Sales (on constant currency basis) were up 18% y/y.
- **LatAm earnings of $215M compared with CS est. of $182M.** Results benefitted from favorable underwriting results. Sales were up 36% y/y.
- **EMEA earnings were $60M vs. CS est. of $54M.** Sales were up 27% y/y.
- **C&O losses of $(236)M vs. CS est. of $(217)M,** largely due to weaker VII.
- **MET Holdings earnings of $158M was slightly below CS est. of $170M.** VII was below our expectations but partially offset by favorable underwriting results (relative to CS).
- **Stock reaction:** Modest underperformance vs. peers likely on 5/4 on headline EPS miss.
- **Conference call details:** May 4 at 9 a.m. ET, 877-692-8955 (ID# 2510803).

Full Report

Date of Production: 04-May-2023 03:05:16 UTC Date of Dissemination: 04-May-2023 03:06:19 UTC

Corteva Inc. [CTVA.N]

Upside MarQ23; Implied in-line guide for remainder of 2023

OUTPERFORM

Rating	OUTPERFORM
Price (03-May-23, US$)	60.00
Target price (US$)	74.00
52-week price range (US$)	67.31 - 50.93
Market cap(US$ m)	42,756
Enterprise value (US$ m)	42,257

Target price is for 12 months.

Research Analysts

Edlain Rodriguez

John Roberts

Matthew Skowronski

- **MarQ23 Adj. EBITDA/EPS of $1.23B/$1.16 vs. $1.1B/$0.95 CSe and $1.09B/$0.94 FactSet Cons.** Call at 9AM (888-256-1007 #3171781). Implied EBITDA guide midpt. for remaining 9 months of 2023 is $2.4B v $2.4B CSe (now includes biologicals deals). CTVA noted it remains on track for its 2025 plan which includes 2025E midpoint EBITDA target of $4.4B . Overall adj. EBITDA rose 18% Y/Y primarily on price/mix catching up with earlier higher costs (overall volume growth was slightly negative).

- **MarQ23 Seed EBITDA of $652M vs. CSe/consensus of $604M/$612M.** Operating EBITDA rose 15% Y/Y in spite of 7% lower volume. Price/mix rose 17% Y/Y on combined cost recovery & new products. Local price/mix Y/Y gains ranged from 7% in North America to 29% in EMEA (which had the most mix improvement, we believe). The largest markets saw volumes +5% in North America, and -10% in EMEA (due to Ukraine/Russia conflict). The smaller LatAm seed business had a 41% YoY volume decline (weather & supply constraints), and volume was up 8% in Asia Pacific (India corn).

- **MarQ23 Crop Protection EBITDA of $603M vs. CSe/consensus of $526M/$488M.** Operating EBITDA rose 23% Y/Y in spite of 1% lower volume. Price/mix rose 11% Y/Y on combined cost recovery & new products. Local price/mix Y/Y gains ranged from 1% in LatAm to 20% in EMEA (which had the most mix improvement, we believe). Volume was flat in North America, up 15% in EMEA (new products), and down 18-20% each in LatAm (seasonal shift) and Asia Pacific (weather & low pest pressure).

- **Valuation & Risks.** We modestly raise our 2023/2024E EPS to $2.90/$3.45 from $2.80/$3.40. Our target price of $74 represents ~13.5X our forward NTM (end MarQ25E: Q5-Q8E) EBITDA of 4.1B. Key risks to the downside include new product failures/recalls, a major drop in farm profitability, or a major decline in interest rates (which would raise pension liabilities).

Full Report

Date of Production: 03-May-2023 22:47:04 UTC Date of Dissemination: 03-May-2023 22:48:34 UTC

Allstate [ALL.N]
1Q23 Results: Significant Pre-Announced Cat Losses; EPS Miss, But Q/Q Improvement in Underlying Combined Ratio

On April 20, ALL pre-announced 1Q23 rate increases and catastrophe (cat) losses of $(1.69)B.

- **Adj. EPS of $(1.30) vs. CS/cons' $(0.88)/$(1.05) and $2.58 y/y, with the miss due to net investment income (NII) and other smaller items.** Net EPS of $(1.31). Buybacks were $153M, lower vs. CS est. $300M and $354M in 4Q22. NII of $575M vs. CS est. $616M, primarily on lower performance-based NII.
- **Property Liability underwriting (u/w) loss of $(1)B vs. $280M y/y.** Underlying combined ratio (C/R) of 93.3%, vs. 99.2% q/q, 90.9% y/y, and CS est. 93.6%. C/R of 108.6%, vs. 97.3% y/y and CS est. 108.4%. Expense ratio (E/R) of 21.1% vs. 24% y/y. CEO Tom Wilson stated **auto loss costs "continued to increase rapidly and essentially offset higher premiums"** in the quarter.
- **Implemented auto Allstate brand rate increases of 1.7% in 1Q23,** after 6.1% in 4Q22. Total auto written premium (WP) of $8.3B, up 10.4% y/y, driven by a 16% increase in Allstate brand average WP, offset by a (3.8)% decline in Allstate brand policies in force (PIF) as profit actions impacted new applications and retention.
- **Total auto C/R of 104.4% vs. 102.1% y/y and CS est. 106.7%**, including unfavorable prior-year reserve re-estimate (PYRR) of (0.1) p.p., cats of (1.2) p.p., and amortization of purchased intangibles (APIA) of (0.5) p.p. Underlying C/R of 102.6% vs. 98.8% y/y and CS est. 102.7%. Auto u/w loss of $(346)M vs. $(147)M y/y.
- **Homeowners C/R of 119% vs. 83.9% y/y, included elevated cats of (51.6) p.p.**, favorable PYRR of 0.5 p.p., and APIA of (0.3) p.p. Underlying C/R of 67.6% vs. 68% y/y and CS est. 71%. U/w loss of $(534)M vs. $400M y/y. WP of $2.5B, up 11.1% y/y, with Allstate brand average gross WP up 10% y/y and total PIF of 7.3M up 1.4% y/y.
- **Protection Services adjusted net income of $34M off vs. CS est. $47M and $53M y/y** on higher claim severity, growth investments at Protection Plans, and lower-than-expected earned premiums. Net WP of $619M, off (1.7)% y/y. PIF of 144.2M, off (2.2)% y/y. ~57% of revenue from Protection Plans and ~22% from Dealer Services.
- **Health & Benefit adjusted net income of $56M vs. CS est. $59M and $57M y/y.** Premiums & contract charges of $463M off (1)% y/y. Benefit ratio 55.5% vs. 55.6% y/y.
- **Stock Rx:** In-line vs. peers May 4, on EPS miss, but q/q improvement in underlying C/R.
- **Conference Call Details:** May 4 at 9:00a.m. ET, webcast available.

Full Report

Date of Production: 04-May-2023 01:06:52 UTC Date of Dissemination: 04-May-2023 01:07:48 UTC

OUTPERFORM

Rating	OUTPERFORM
Price (03-May-23, US$)	111.50
Target price (US$)	176.00
52-week price range (US$)	141.37 - 105.11
Market cap(US$ m)	29,343
Enterprise value (US$ m)	29,343

Target price is for 12 months.

Research Analysts

Andrew Kligerman

Joel Hurwitz, CFA

Michael Domiano

Alfred Miller

Lemonade [LMND.N]
1Q23 Initial Read: Top and Bottom Lines Beat Estimates, 2023 Guidance Raised

UNDERPERFORM

Rating	UNDERPERFORM [V]
Price (03-May-23, US$)	11.09
Target price (US$)	14.00
52-week price range (US$)	32.02 - 10.57
Market cap(US$ m)	770
Enterprise value (US$ m)	484

Research Analysts

Andrew Kligerman

Joel Hurwitz, CFA

Michael Domiano

Alfred Miller

- **EPS of $(0.95) vs. CS/cons' $(1.11)/$(1.13) and $(1.21) y/y.** Beat due to better-than-expected revenue and operating expenses. Adjusted EBITDA of $(50.8)M vs. $(57.4)M y/y and CS est. $(60)M. Cash and investments of $0.99B, off (4)% q/q.
- **Revenue of $95M up 115% y/y and 8% q/q, and above guided $87-89M,** due to an increase in gross earned premium (GEP) and a reduction in premiums ceded to reinsurers (as the earned premium cession rate declined to ~56% in 1Q23 from ~58% in 4Q22).
- **2Q23 Guidance:** In-force premium (IFP) of $665-$668M, GEP of $156-$158M, revenue of $96-98M, and Adjusted EBITDA loss of $(58)-$(55)M.
- **2023 Guidance:** IFP of $700-$705M vs. CS est. $697M, GEP of $645-$650M vs. CS est. $634M, revenue of $392-396M vs. CS est. $379M, and Adjusted EBITDA loss of $(205)-$(200)M vs. CS est. $(237)M and $(225)M in 2022.
- **Shareholder letter commentary:** 1) LMND's gross loss ratio (ex. cats) improved 7 p.p. q/q to 72%. While the company has "line of sight" on its target loss ratios, it expects to continue constraining growth until losses are reigned in further. 2) However, the company has been challenged to constrain growth until more price changes are approved, causing LMND to raise its 2023 IFP guidance. 3) LMND also raised its adjusted EBITDA guidance due to "concurrent improvements in both top and bottom lines" in the quarter.
- **Gross written premium (GWP) of $164M,** up 48% y/y, and vs. CS est. $160M. GEP of $154M, up 61% y/y, vs. CS est. $149M and above LMND's guidance of $148-150M.
- **In-force premium (IFP) of $653M,** up 56% y/y, and above LMND's guided $635-637M. Annual dollar retention was 87% in 1Q23 vs. 86% q/q and 82% y/y. Premium per customer of $352, up 26% y/y. Total customers of 1.86M, up vs. 1.5M y/y and 1.81M q/q, helped by 3Q22 acquisition of Metromile including nearly 100K customers.
- **Gross/net loss ratios of 87%/93% vs. CS est. 91%/91% and 90%/89% y/y**; Operating expenses of $(96)M vs. $(93)M y/y.
- **Stock Reaction:** Outperform vs. peers on May 4, on improved 2023 guidance, including adjusted EBITDA of $(205)-(200)M vs. prior guided $(245)-(240)M.
- **Conference Call:** May 4 at 8:00 a.m. ET, 888-210-4149 (ID# 5819404).

Full Report

Date of Production: 04-May-2023 03:30:16 UTC Date of Dissemination: 04-May-2023 03:31:32 UTC

Enact Holdings Inc [ACT.N]

Reserve Release Drives Earnings Upside, Stronger Than Expected NIW

UNDERPERFORM

Rating	UNDERPERFORM
Price (02-May-23, US$)	24.05
Target price (US$)	24.50
52-week price range (US$)	26.37 - 19.97
Market cap(US$ m)	3,899
Enterprise value (US$ m)	3,899

Target price is for 12 months.

Research Analysts

Douglas Harter, CFA

William Nasta

Cory Johnson

ACT reported 1Q operating EPS of $1.08, $0.26 higher than our estimate and $0.27 higher than the FactSet consensus. A larger than expected positive reserve development on COVID-related delinquencies ($0.26/sh) led to the upside relative to our estimate. Book value increased 5.3% during the quarter to $26.53 and was 0.7% higher than our estimate given larger reserve release.

- **Revenue:** Total revenue was 0.1% higher than our estimate. Net premiums earned totaled $235.1 million in 1Q, up 1.0% Q/Q and higher than our estimate by 0.7%. The net premium yield decreased 0.4 bps from last quarter to 37.6 bps, which was 0.1 bps higher than our estimate given lower ceded premiums. The base premium rate decreased by 0.5 bps in the quarter, 0.1 bps lower than our estimate.
- **IIF growth:** Primary IIF totaled $253 billion, up 9% from a year ago and 1.2% higher than our estimate. NIW of $13.2 billion was above our estimate by 28%. With 5 of the 6 MIs having reported it appears that ACT's NIW upside was both from a larger than CSe NIW market in the quarter and market share gains (~150 bps in the quarter). Persistency decreased Q/Q to 85% (from 86%), which was modestly lower than our estimate.
- **Incurred Losses:** Total incurred losses were -$11 million, which was $53.4 million lower than our estimate. Favorable cure performance on the 2020/early 2021 COVID-related defaults resulted in a $69 million reserve release compared to our estimate of a $14 million release. Current period losses were $1.6 million (3%) higher than expected on higher incurred per NOD partially offset by lower-than-expected NODs (down 7% Q/Q and 6% lower than CSe). Defaults decreased 7% in the quarter and were 11% lower than CSe given the lower NODs and higher cure activity.

Full Report

Date of Production: 03-May-2023 23:23:29 UTC Date of Dissemination: 03-May-2023 23:24:24 UTC

Fidelity National Financial [FNF.N]
1Q23 Earnings: Earnings Miss as Title Margins, Premiums Continue to Face Pressure

OUTPERFORM

Rating	OUTPERFORM
Price (03-May-23, US$)	34.95
Target price (US$)	47.00
52-week price range (US$)	44.74 - 32.11
Market cap(US$ m)	9,513
Enterprise value (US$ m)	7,227

Target price is for 12 months.

Research Analysts

Andrew Kligerman

Joel Hurwitz, CFA

Michael Domiano

Alfred Miller

- **Adjusted EPS of $0.52 vs. CS/cons' $0.85/$0.81 and $1.36 y/y.** Adjusted EPS ex. F&G notable items was $0.78. Net EPS of $0.22. Share repurchases were $3.8M vs. CS est. $50M. Holdco cash of $834M, down vs. $939M q/q.
- **CEO Mike Nolan said,** "Looking forward, **we remain cautiously optimistic as we are seeing encouraging indications of a seasonal pattern in the residential purchase market**, albeit at lower volume levels resulting from soft existing home sale activity and low refinance activity."
- **Title after-tax adjusted earnings of $115M vs. $334M y/y,** and vs. CS est. $154M, on pre-tax adj. operating margin of 10.0% vs. CS est. 12.0% and 17.1% y/y. Personnel costs were $(598)M, off (23)% y/y and (10)% q/q but above CS est. $(594)M. Total title and escrow revenues were $1.45B vs. $2.53B y/y and CS est. $1.65B. Direct title premiums off (44)% y/y, and agency title premiums off (50)%. Closed purchase orders off (33)% y/y and (9)% lower than CS est. Closed refi orders off (78)% y/y. Commercial revenues of $241M down (36)% y/y; (34)% y/y decrease in closed orders.
- **Title total fee per file of $3,446 up 19% vs. $2,891 y/y,** given mix shift toward higher-fee purchase and commercial. Commercial fee per file of $9.8K down (2)% vs. $10K y/y, and down (13)% vs. $11.3K q/q. Residential fee per file of $2,601 up 19% y/y, up 2% q/q, and (12)% lower vs. CS est., likely due to upward pressure on home prices.
- **FG operating earnings were $49M (vs. CS est. of $58M)**. Total premiums of $365M vs. CS est. $315M, but premiums are noisy due to pension risk transfers; total gross sales of $3.3B up 27% y/y. For more details, please refer to our separate note on F&G's 1Q23 earnings results.
- Corporate & Other loss of $(16)M vs. $(28)M y/y.
- **Stock Reaction:** Underperform vs. peers 5/4 on worse-than-expected Title margin and revenues, partially offset by better-than-expected F&G sales. Though the magnitude was not clear, FAF's EPS miss last week signaled at least some pressure.
- **Conference Call Details:** May 4 call at 11 a.m. ET, 877-407-0784 (Code: 13735004).

Full Report

Date of Production: 04-May-2023 03:17:04 UTC Date of Dissemination: 04-May-2023 03:18:17 UTC

Amedisys [AMED.OQ]

Option Care Health to Acquire Amedisys in Stock for Stock Deal

OUTPERFORM

Rating	OUTPERFORM [V]
Price (03-May-23, US$)	78.63
Target price (US$)	115.00
52-week price range (US$)	131.14 - 69.79
Market cap(US$ m)	2,559
Enterprise value (US$ m)	2,723

Research Analysts

A.J. Rice

Jonathan Yong

Enjia Cao

Carlos Penikis, CFA

Joseph Overman

- **OPCH To Acquire AMED in an All-Stock Transaction:** After market close on May 3rd, 2023, Option Care and Amedisys announced that they have entered into a definitive merger agreement to combine in an all-stock transaction. AMED stockholders will receive 3.0213 shares of OPCH common stock for each share of AMED common stock. At OPCH's closing price, each AMED share would receive the equivalent of $97.38 in value in Option Care stock, an approximate 26% premium to AMED's closing price on May 2nd. The transaction values Amedisys at $3.6 bln, including the assumption of its net debt. Option Care Health shareholders will hold 64.5% of the combined company, and Amedisys shareholders will hold the remaining 35.5%. The transaction is expected to close in 2H23.
- **EBITDA Synergies and Rationale:** The transaction anticipates $75 mln in EBITDA synergies by year three following deal close of which $25 mln are revenue synergies from enhanced care coordination and cross-selling opportunities and $50 mln are cost synergies related to technology efficiencies, resizing geographic infrastructure, and improving purchasing power. The combined company will have comprehensive offerings across the alternative site spectrum to drive growth and lower costs from better coordination of care (one clinician vs three clinicians serving the same patient). The larger platform and broader relationships will allow the company to further penetrate MA and managed Medicaid contracting. Management notes that the deal will be accretive first year post-close.
- **Our Take on the Deal:** We believe the combination has long-term merit. We feel that being a fully integrated provider of home health services will be preferred over time. We believe MCOs would prefer working with national, broad-based platforms. OPCH and AMED overlap with respect to their patient bases, and synergies can be realized from lower overhead and by leveraging local infrastructure. We recognize the home health industry continues to be challenged by the on-going mix shift to MA with its meaningfully lower payment rates, uncertainty regarding the 2024 Medicare FFS home health rate update and on-going labor pressures. As a result, investors are likely not confident that 2023 and 2024 have clear visibility. Still, it seems possible that OPCH will have picked up the home health industry leader at an attractive price, even if it takes time for the market to recognize it.

Full Report

Date of Production: 04-May-2023 03:23:25 UTC Date of Dissemination: 04-May-2023 03:24:28 UTC

Realty Income Corporation [O.N]
1Q23 In-Line; Slight Guidance Raise as Transaction Activity Remains Elevated

OUTPERFORM

Rating	OUTPERFORM
Price (03-May-23, US$)	60.97
Target price (US$)	74.00
52-week price range (US$)	74.75 - 55.54
Market cap(US$ m)	40,273
Enterprise value (US$ m)	59,002

Target price is for 12 months.

Research Analysts

Tayo Okusanya, II, CFA, CPA

Corey DeVito

- **Overall Thoughts:** 1Q23 AFFO/sh of $0.98 was in line with both CS and consensus estimates. The company continues to execute on the acquisition front as investment activity remained elevated and cap rates moved notably higher compared to prior quarters, which suggests investment spreads remain attractive, especially given management's ability to lock in attractively priced capital. Given a robust 2Q acquisition pipeline supported by low leverage and plenty of liquidity, management raised the low-end of its AFFO/sh guidance range by penny. We believe the solid quarterly result and guidance raise will likely bode well for the stock performance at market open.
- **Operating Metrics Hold Steady; Same-Store NOI Growth Improving:** Same-store (SS) rental revenue was up 20bps y/y (vs. flat in 4Q22), while no additional reserves associated with Cineworld were recognized. We expect continued improvement in this metric given O is guiding to over 1.25% of SS rent growth. Other operating metrics held steady. Occupancy remained unchanged q/q at 99.0%, while weighted average lease term declined slightly q/q to 9.4 years from 9.5 years. As a percentage of ABR, the portfolio's exposure to investment grade tenants declined 10bps q/q to 40.8%, while exposure to Europe increased 80bps q/q to 11.7%. Rents on expiring leases were recaptured at 101.7% in 1Q23, a deceleration from the 103.8% in 4Q22.
- **2023 FY Guidance Increased:** O raised its 2023 AFFO/sh guidance by a penny at the low-end to $3.94-4.03 from $3.93-$4.03 prior. Updated guidance is in line with CS/consensus at $3.96/$3.99. The increase in guidance is driven by lower cash G&A expenses as a percentage of revenue (now 2.9%-3.4% vs. 3.0%-3.5%) and higher acquisition volume (now over 6.0B+ vs. 5.0B+).
- **Key Questions:** 1) Insight into updated acquisition outlook (by property type/location/tenant credit/size) and why it is driving just a penny increase to guidance (timing?), 2) Funding sources for remainder of 2023 acquisition pipeline, 3) Tenant credit outlook given inflationary pressures on retail margins, and rising rates on cost of capital. Conference call tomorrow (5/3) at 2:30pm ET (Dial-in: 833-816-1264).

Full Report

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CREDIT SUISSE

Globe Life [GL.N]
1Q23 Results: Solid Results, Strong Underlying Sales / Agent Trends; Some Focus on Capital Plans Given Exposure to Failed Banks

OUTPERFORM

Rating	OUTPERFORM
Price (03-May-23, US$)	106.22
Target price (US$)	140.00
52-week price range (US$)	123.37 - 88.38
Market cap(US$ m)	10,252
Enterprise value (US$ m)	12,330

Target price is for 12 months.

Research Analysts
Andrew Kligerman
Joel Hurwitz, CFA
Michael Domiano
Alfred Miller

- **Adjusted operating EPS of $2.53, better vs. CS/Cons $2.46/$2.47,** primarily on better Life Insurance margin. Buybacks were $135M (vs. CS at $90M). Net EPS of $2.28, on $(0.25) of realized investment losses, primarily on an increase in allowance for credit losses on Signature Bank exposure. GL noted it also has $39M of exposure to First Republic debt, with no allowance for credit losses as of 3/31/23.
- **GL provided updated 2023 EPS guidance of $10.28-10.52 (vs. prior $10.20-10.50).** CS/cons 2023 estimates are $10.35/$10.33.
- **Agent count up y/y and q/q,** with Liberty National up 16% y/y (vs. 2023 guidance of low double-digit growth), and American Income up 6% y/y and 9% q/q (vs. 2023 guidance of high single-digit growth. Quarterly average producing agents up 4% y/y at American Income, up 13% y/y at Liberty National, and up 18% y/y at Family Heritage.
- **Life Insurance underwriting (U/W) income of $291M (vs. CS est. of $283M), up 1% y/y**. Premiums up 3% y/y (vs. 2023 guide of 4% growth), incl. up 5% at American Income, 6% at Liberty National; and up 1% in DTC. **Life sales were up 1% y/y,** with American Income off (2)%, **but up 19% q/q (vs. 2023 guide of flat)**, Liberty National up 27% (vs. 2023 guide of high-single to low double-digit growth), and DTC off (4)% (vs. 2023 guide of flat).
- **Health U/W income of $91M (vs. CS est. of $93M), up 4% y/y,** with 2% premium growth (vs. 2023 guidance of 3%). Premiums up 1% y/y at United American, 7% at Family Heritage, 3% at American Income but off (2)% y/y at Liberty National. Health sales up 17% y/y, driven by Family Heritage up 21% (vs. 2023 guidance of high single-digit growth) and United American up 19% (vs. 2023 guidance of low single-digit growth).
- **Investment earnings of $29M is slightly below our comparable $31M, but up 13% y/y.** Portfolio yield of 5.18%, in-line q/q. New money yield was 5.8% on fixed maturities.
- Corporate loss (inclusive of debt costs) was $(101)M vs. $(95)M y/y, and CS at $(102)M.
- **Stock Rx:** Outperform on 5/4, on agent count growth and better-than-expected sales. That said, we expect there to be heightened focus on capital deployment plans in 2023 given the elevated investment losses due to GL's bank exposures.
- **Conference Call Details:** May 4, 11 a.m. ET, 786-697-3501 (Code: Globe Life).

Full Report

Date of Production: 04-May-2023 01:02:00 UTC Date of Dissemination: 04-May-2023 01:03:04 UTC

CREDIT SUISSE

Forest Products | Results

03 May 2023

Acadian Timber Corp. [ADN.TO]
At-a-Glance: Continued Contractor Concerns Combined with Woeful Weather

NEUTRAL

Rating	NEUTRAL
Price (03-May-23, C$)	16.12
Target price (C$)	17.00
52-week price range (C$)	19.32 - 14.60
Market cap(C$ m)	275
Enterprise value (C$ m)	380

Target price is for 12 months.

Research Analysts

Andrew M. Kuske

James Aldis

Selena Zhou

- **Preliminary Results Review: Acadian Timber (ADN)** reported adjusted Q1 2023 EBITDA of C$5.6m that missed our C$6.25m view, the Street's C$6.42m and fell below the C$6m-C$7.2m range. In a continuing theme, contractor challenges translated into a weaker than anticipated harvest profile that was also exacerbated by unusually warm weather in Maine. Despite rather robust pricing, those challenges had a cascading impact into margin realizations in the US operating business. The outlook remains rather mixed with some inflationary pressures declining, however, in the near-term some end markets are also mixed. Beyond these issues, the path to realizing benefits from changes to the Crown timber royalty rates along with the monetization of benefits associated with carbon credits should be of interest on the call, in our view. On the quarter, in considering the reality of the timber business and asset values, we do not place undue emphasis on quarterly results and focus more on longer term value.
- **Selected issues:** Largely on a Q1 2023 versus Q1 2022 basis, notables included: **(a)** New Brunswick sales volumes of ~155k m^3 vs. ~203k m^3 and Maine sales volume of ~50k m^3 vs. ~98k m^3; **(b)** sales of ~C$22.4m vs. ~C$26.6m; **(c)** adjusted EBITDA of C$5.6m vs. C$6.9m; **(d)** New Brunswick Adj. EBITDA of ~C$4.88m (27% margin) vs. C$4.67m (26% margin); **(e)** Maine Adj. EBITDA of C$1.1m (25% margin) vs. C$2.75m (32% margin); and, **(f)** operating costs and expenses of C$17.1m vs. C$19.8m.
- **Conference Call:** ADN will hold a results call at 1pm (ET) on May 4th. The call will be available via webcast with registration required.
- **Investment Thesis**: Acadian's niche regional timber exposure is positioned to benefit from specific dynamics affecting local wood markets, carbon related activities, greater potential for biomass values along with the US housing market balances on a longer-term basis.
- **Valuation:** Our C$17 target price and Neutral rating are obtained from a 6.8% implied dividend yield on 2024e, an 18.1x P/E multiple and a 15.8x EV/EBITDA multiple. Risks to our valuation consist of possible duties imposed by the US, regional wood flow dynamics and US housing market weakness.

Full Report

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CREDIT SUISSE

INDUSTRY UPDATES:

Consumer Staples Merchandise Retail | Industry Primer

04 May 2023

1Q23 Store Manager Survey

Our Takeaways from Manager Surveys at Seven Key Retailers

Research Analysts

Karen Short

Zeyn Burak

Ryan Bulger

Daniel Silverstein

Within this report, we detail key takeaways from store manager surveys we conducted in an exclusive partnership with a third-party provider. This quarter, we surveyed store managers/assistant store managers at WMT, COST, DG, DLTR, Ace Hardware, Meijer, and Menards on: store sales vs. plan/the prior year or quarter, promotional cadence, traffic and ticket trends, outlook, competitive environment, category trends, customer health, inventory levels, etc. Questions were tailored for each specific retailer, and responses this quarter were compared to the same question from 4Q22 when applicable for sequential comparison. The surveys were conducted in mid-April. This report highlights key takeaways for all retailers as well as company specific takeaways and responses to each question asked.

Key Takeaways:

1. **Respondents Remain Positive on their Consumer/Business Outlook:** Across all retailers, 100% of survey respondents indicated they are not planning for a recession in 2023. Most continue to view their customers' financial health as better than last year, though DG managers noted some sequential decline in their customer financial profile vs 3 months ago.
2. **Operating KPIs Are Largely Tracking to Plan:** Most store managers view current quarter sales/traffic/demand trends as "on plan".
3. **Sequentially More Pressure on Discretionary Categories:** In April, most retailers still characterized demand for Discretionary products as "Steady" vs the previous quarter, but we note a significant decrease from January in responses calling for "modest accelerations" in Discretionary (biggest sequential declines at WMT and DG).
4. **Wage Growth Expectations Lowered Significantly at Dollar Stores:** Most drastically, 89%/99% of store managers at DG/DLTR expect wages to be flat YOY in 2023, compared to nearly 100% expecting wage growth in 2023 per our Jan survey. At WMT and Ace, respondents also cooled wage expectations (with more shifting to expecting flat wage growth vs higher in Jan). COST and Menards were the outliers, with most respondents (>80%) still indicating they expect higher wage growth in 2023, similar to Jan responses. We note several retailers have called out stabilizing wage trends as neutral/slight positive to margins in 2023/2024.
5. **Trip Consolidation Trends Remain Intact at WMT and Meijer, but Diverge at DG:** 90%/77% of WMT and Meijer managers saw lower traffic, but larger basket sizes (similar to Jan survey). Interestingly, this trend was reversed at DG, with more than half (58%) of respondents indicating customer traffic was higher but basket size was smaller (vs 28% in Jan).

1. **Price Competition Ticked Higher at COST, But Elsewhere Promos Remain at Similar Levels:** 28% of COST managers said Club competitors were getting more competitive on price, up significantly from 0% in our Jan survey. That said, most respondents (>90%) at WMT, DG, and Meijer noted promos/markdowns remained similar to the prior quarter. Similar to our 4Q22 survey, nearly all of COST managers view an MFI increase/special dividend in 2023 as unlikely.
2. **Traffic to DLTR Remains Steady Despite Price Increases:** Most respondents continue to view the overall impact of moving most items to a $1.25 price point as neutral to the business, and state traffic was steady relative to prior quarter.

We provide detailed takeaways and graphics by retailer below.

Full Report

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Innovation in Payments & FinTech
Stripe Sessions 2023 keynote & product talks recap; Broader industry takeaways

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- **Stripe Sessions 2023:** We attended Stripe Sessions 2023 in San Francisco. This report serves as a recap related to recent updates and disclosures provided as part of the event, a conference that is targeted towards Stripe users and broader industry participants, featuring Stripe's products and the ways in which the platform can be utilized to facilitate global commerce and money movement. We closely monitor Stripe's announcements, product pipeline, and disclosed platform & merchant partnerships, with Stripe Sessions serving as a concentrated means for further assessing Stripe's impact on the competitive landscape. Our team has attended the prior year sessions with our key takes from the event published in our 2022 and 2021 reports. *The content herein is sourced from the presentation by the company at the Stripe Sessions 2023 Conference. Any estimates or projections for companies not covered by the analyst are those provided solely by the company during its presentation and do not represent the views, estimates or forecasts of Credit Suisse.*

- **Broader industry context:** Given the importance of Stripe to the payments landscape and as a key competitor in multinational payments and in many ways leading the innovation path for the industry, we continue to believe it is important for investors to be kept abreast of the company's evolution. We note Stripe's global scale and ability to serve the most complex enterprise platforms & merchants, particularly as it pertains to competitive dynamics vs. Adyen, PayPal (Braintree), Fiserv, FIS (Worldpay), Global Payments, Shift4, Nuvei, and others under coverage.

- **Stripe's recent annual letter recap:** Stripe published its 2022 annual letter on April 5th, 2023, disclosing ~$817b in volumes, representing ~26% YoY growth (vs. 2021 volumes of $640b, which were up ~60% YoY). This compares to Adyen +49% YoY, Braintree +41% (CSe), FIS +6%, Fiserv +13%, and Global Payments +10%. We note that the overall US eCommerce industry grew M-HSD in 2022 (data points include eCommerce sales and non-store retail sales from US Census, Mastercard SpendingPulse, Adobe, Salesforce, etc.). As to Stripe's success with enterprise platforms & merchants (numerous named customers disclosed in the letter), there are now more than 100 customers doing ~$1b+ in annual volumes via Stripe, with the company that noting more than 50% of these have grown ~10x while with Stripe. While the US remains the largest market for Stripe, 55% of the new businesses joined in 2022 were based outside of the US (total number of new businesses in 2022 increased by 19%). Additionally, Stripe now supports businesses in 50+ countries.

- **Key themes in 2023:** This year's keynote focused on "powering growth for the internet economy," with a discussion on how Stripe is helping users accelerate their growth led by CEO Patrick Collison and other Stripe leaders. Stripe emphasized its goal to not only help companies do business online, but also to empower customers to grow revenue and reduce costs in the face of mounting economic uncertainty. During the opening remarks, Stripe highlighted the three structural changes happening at Stripe, including: 1) expanding product suites to solve adjacent problems in payments through a cohesive and unified way (i.e., marketplace management, card issuance, identify verification, etc.); 2) strategic investments into expanding its products lead to growing adoption and new enterprises joining the platform; and 3) "payments as a revenue booster" where Stripe helps businesses grow topline.

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Managed Care
Lilly Announces Phase 3 Results for Alzheimer's Drug Donanemab; May Account for Today's MCO Weakness

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Lilly's Donanemab Phase 3 Results Showed Slowdown in Decline from Alzheimer's: On May 3rd, Eli Lilly and Company announced positive results for its Phase 3 study on the company's Alzheimer's Drug donanemab. 47% of participants on donanemab had no clinical progression at 1 year (compared to 29% on placebo). The Phase 3 trial met its primary endpoint and all secondary endpoints measuring cognitive and functional decline. Donanemab treatment slowed clinical decline by 35% compared to placebo and results in 40% less decline on the ability to perform activities of daily living. This has been the strongest phase 3 data for an Alzheimer's treatment to date, according to the Alzheimer's Association.

- **Potential Impact on MCOs:** Recently, MCO stocks have tended to react adversely to news of potential new drug launches/approvals, particularly those that are likely to carry higher price tags. The early announcement by Lilly should provide MCOs time to consider how, if at all, to reflect costs of the drug in their offerings as the treatment progresses towards the market. By way of background, MA bids for 2024 will be submitted in early June. Further, the drug is not yet formally approved by the FDA and a national coverage determination (NCD) from CMS could take significant time. Prior to the NCD, MCOs will be able to employ utilization management tools to limit the scope of treatment directing it toward those patients considered highly likely to benefit from treatment (by way of background, previous Alzheimer's drugs have been limited to narrow groups of those suffering from the illness who are deemed most likely to benefit from treatment).
- **Market Scope:** An estimated 6.7 million American aged 65 and older are living with Alzheimer's in 2023. 73% are age 75 and older. About 1 in 9 people aged 65 and older have Alzheimer's dementia. By 2050, the number of Americans expected to develop Alzheimer's will be 12.7 million. The total national cost is projected to reach $345 billion this year. Of this total cost, 45% is covered by Medicare, 19% by Medicaid, 25% out-of-pocket, and 11% by other sources.

Full Report

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