Equities Research

CREDIT SUISSE

First Edition - US Alert
Wednesday, May 17, 2023

17 May 2023
Credit Suisse Global Product Marketing

Ratings Changes:

Estimate / Target Price Changes:

Company Updates:

CREDIT SUISSE

RATINGS CHANGES:

Electric Utilities | Upgrade Rating

17 May 2023

Gibson Energy Inc. [GEI.TO]
Gradual Growth with Attractive Risk Reward; Upgrade to Outperform from Neutral

Upgrade to OUTPERFORM

Rating (from NEUTRAL)	OUTPERFORM
Price (15-May-23, C$)	21.81
Target price (C$)	25.50
52-week price range (C$)	27.56 - 21.36
Market cap(C$ m)	3,108
Enterprise value (C$ m)	4,628

Target price is for 12 months.

Research Analysts

Andrew M. Kuske

James Aldis

Selena Zhou

- **Rating Action:** Largely on the basis of excess potential return to our unchanged C$25.50 target price, we upgrade **Gibson Energy Inc. (GEI)** to Outperform from Neutral. Coming off an impressive Q1 2023 print that beat both our and the Street expectations, we like the set-up for GEI's continued capital discipline, some market fundamentals along with potential growth projects later in the year (*Almost a Merger Monday – Musings on the Midstream M&A Movements*; *A Production Pause with Wildfire Impacts*; *Positives with Iso-Octane Proxy, but Poor Propane (FEI) Spread*; and, *At-a-Glance: Musings on the Marketing Momentum*). The marketing environment looks to be constructive in a window until Trans Mountain Expansion Pipeline line fill and operations start along with the potential for SPR replacement purchases accelerating. Such cash flows could provide upside to buybacks ahead of the Canadian share repurchase tax in 2024.
- **Ample Attraction:** As per GEI's past comments of an "increasing line of sight to exceeding the high end of our $100 million to $125 million growth capital target for the year," core capital looks to be well positioned. Other areas like selected M&A and diluent recovery unit capital could provide additional upside not within our existing estimates.
- **Investment Thesis:** We believe GEI's core business is well positioned in Alberta with high returning capital opportunities on the horizon. Beyond Alberta, growth remains more elusive, but several near-term dynamics are positive for the Marketing business with wider Western Canadian differentials - albeit that should structurally change in time.
- **Valuation:** Changes to our model included Q1 actuals and selected other updates. As a result, our 2023e and 2024e EPS moved to C$1.68 and C$1.35 from C$1.40 and C$1.26, respectively. Our C$25.50 target price and the new Outperform (prior Neutral) rating are based on several approaches, including: a 10.2x (prior 10.6x) EV/EBITDA multiple on 2024e, and, a dividend yield of 6.3%. Risks to our target price and rating include: operational issues; regulatory changes; commodity prices; developments in the US business faster than anticipated; and interest rate movements.

Full Report

Date of Production: 16-May-2023 18:29:07 UTC Date of Dissemination: 17-May-2023 04:03:22 UTC

Transports: Downgrade Trucking
Where's the Upside? Lower estimates on trucks and move to Neutral on KNX and WERN; Plus, one big thing we think the market is missing

Research Analysts

Ariel Rosa

Daniel Lai

We have become increasingly cautious on the trucking cycle as low rates persist. With trucking stocks posting solid year-to-date gains, we advocate trimming exposure; we lower our EPS estimates across the board and downgrade Knight-Swift (KNX) and Werner (WERN) to Neutral.

- **Lower for longer on rates now seems like base case:** Truckload stocks have been surprisingly resilient in the face of weak 1Q23 earnings. Last month, following JBHT and KNX earnings, we wrote that we think **investors should be cautious on the trucking cycle and look to trim exposure into strength**. With KNX and WERN up +5% and +10% year-to-date, respectively, despite persistently low trucking rates (down -25% since the start of the year) and a recovery that has failed to materialize, we see limited upside to stocks from current levels. In our view, **the market has already priced in a meaningful upturn in rates and a double-digit recovery in earnings for 2024**, leaving limited room for near-term upside and moderate risk of a 10-15% pull-back from current levels. While we stop short of a view that trucking stocks are significantly overvalued, the risk/reward does not appear compelling from our perspective. Additionally, as one trucking executive recently noted to us, the lack of near-term catalysts to drive a material inflection in spot rates could mean that an eventual recovery may take longer than expected.

- **One big thing the market is missing – recovery likely muted; upcycle not like '21:** Trucking is a notoriously cyclical business. Nevertheless, we were somewhat surprised by the relatively mild stock price reactions to significant y-y EPS declines at KNX (-46%) and WERN (-37%), both of which missed our and consensus 1Q23 estimates. Rather than focus on near-term results, investors appear to be positioning for an eventual upcycle in 2024. While we do believe rates are likely to move higher in the coming months, **we harbor concerns that the strength of the potential coming upcycle may disappoint, as the impressive freight market conditions of the last upturn in 2021-2022 are unlikely to repeat.** While consumer spending has slowed in the past year, it remains above its pre-Covid trend, leaving it vulnerable to a further pull-back, particularly if macro headwinds accelerate. Macro risks include a tightening in the credit cycle, the resumption of student loan payments, an unfavorable outcome to debt negotiations, and a move higher in the unemployment rate from its current 50-year low. Additionally, the lack of Covid-era economic stimulus, the shift in spending from goods to services, and **greater equipment availability dampening unprecedented gains on sale** of used trucks present headwinds.

- **Less-than-Truckload may be at an inflection point:** 1Q23 starkly demonstrated why LTL stocks trade at a premium to their truckload peers, with significant EPS declines in truckload met with resilient LTL results (ODFL -1%, SAIA -4%, and XPO +23%). Despite this, 1Q23 could mark an important inflection point in the history of the LTL industry given evident share-shift between carriers. We see opportunity for SAIA, XPO, and to a lesser extent, ARCB to pick up volume, while we see ODFL as vulnerable. The bull case on ODFL is now predicated on other carriers failing to provide adequate service. While ODFL has been a standout for years, we now see its business model at risk, and believe EPS growth will be below historical levels, posing risk to the stock given its premium valuation.

Full Report

Date of Production: 17-May-2023 05:18:02 UTC Date of Dissemination: 17-May-2023 08:00:19 UTC

ESTIMATE / TARGET PRICE CHANGES:

Consumer Discretionary | Decrease Target Price

17 May 2023

The Home Depot [HD.N]
It's A Marathon, Not A Sprint

NEUTRAL

Rating	NEUTRAL
Price (16-May-23, US$)	282.33
Target price (US$)	(from 320.00) 310.00
52-week price range (US$)	339.79 - 266.58
Market cap(US$ m)	285,907
Enterprise value (US$ m)	326,276

Target price is for 12 months.

Research Analysts

Karen Short

Zeyn Burak

Daniel Silverstein

Ryan Bulger

Our View: HD is a best-in-class retailer, so while the Home Improvement macro is challenged today – HD - longer term – will be one of the marathon winners in retail. On Results: HD reported softer-than-anticipated 1Q results and lowered its 2023 guidance to reflect the 1Q miss, weaker demand levels across the business vs. 4Q, especially for large and discretionary projects, lumber deflation (excluded from the prior 2023 guidance), and uncertainty related to the macro and consumer through the remainder of 2023. While we appreciate the fact that weather was a headwind in March and lumber deflation put a significant pressure (-220 bps) on the comp in 1Q, HD appropriately struck an incrementally cautious tone with respect to demand trends within home improvement, now anticipating the market to be down MSD-HSD vs. its previous expectation of a LSD decline. HD's updated guidance embeds a wide range of outcomes for the remainder of the year, now expecting a 2023 comp of -5% to -2% (vs. flat previously) and EBIT margin decline of 100-130 bps y/y (vs. down ~80 bps y/y previously). We believe it is likely HD will end the year towards the low-end of its full-year comp target, as we continue to see risk for transactions to fall below 2019 levels as the backdrop remains challenging and ticket to see declines depending on commodity prices, the big-ticket performance, and the pace of non-commodity disinflation. That said, HD's best-in-class ability to flex labor based on demand levels should provide some buffer to mitigate EBIT/earnings pressure. 1Q23 Results: 1Q comp came in at -4.5% vs. our forecast of -2.5% and FactSet at -1.6%, due to: 1) commodity deflation (a headwind of 335 bps); 2) unfavorable weather in March, particularly in California (~12% of US stores) and the West Coast in general, weighing on seasonal sales and project demand; and, 3) softness in big-ticket sales (down 6.5% y/y). From a cadence standpoint, March was the softest month (down 7.5%), due to inclement weather, the banking crisis, tighter credit levels, and lumber deflation. April showed some sequential improvement on a 1- and 2-year basis, but a slight deceleration on a 4-year compounded basis. Meanwhile, 2QTD comps are running in-line with HD's 2023 comp outlook of -5% to -2%. In 1Q, HD's benefited from a one-time legal settlement, which led to a better-than-expected SG&A margin, despite the sales shortfall. Maintain Neutral rating, lower Target Price to $310 from $320, lower FY23 EPS from $15.41 to $14.78 and FY24 EPS from $16.63 to $16.19 on 1Q23 results. Risks include weak macro and commodity deflation.

Additional Details

Pro: Importantly, Pro sales turned negative and were softer than DIY demand, which was also down y/y. HD's internal and external surveys suggest Pro backlogs remain healthy and elevated relative to historical norms, though lower y/y. Separately, HD saw a contraction in project sizes, as homeowners have become more judicious with respect to large-scale remodels.

Additional Takeaways from the Earnings Call and Our Follow-Up Call with Management

- While DIY sales outperformed Pro sales, each segment was negative in 1Q. HD commented that Pro backlogs are down y/y and the types of projects now being undertaken are both smaller in budget and less discretionary in nature. Both internal and external surveys (e.g., NAHB's RMI Index) indicate a move away from larger projects to smaller projects.
- 2QTD comps are running in-line with the company's full-year guidance of -5% to -2% - and while the range is wide – it is still too early to gain any visibility in to the quarter.
- HD did not provide the benefit of the legal settlement to the SG&A, but it noted that it was meaningful. The company plans to leverage that benefit to generate productivity, so the net impact of the settlement is expected to be neutral to full-year results.
- Gross margins are now anticipated to be under slight pressure due to higher shrink versus the company's previous guidance of flat y/y.
- HD seems confident in its ability to flex labor up or down depending on demand trends.
- The company's $1B labor investment was largely geared towards tenured associates.
- Core commodity deflation (primarily in lumber) provided ~335 bps of pressure to comps and poor Spring weather had a larger impact on Pro customers.

- Non-commodity inflation would have represented majority of the ticket growth (which would have been ~3.5% when adjusted for commodity deflation). HD expects non-commodity inflation to remain in the LSD range through the remainder of the year.
- Four out of fourteen categories posted positive comp sales: building materials, hardware, plumbing, and millwork.
- Traffic and Ticket Trends:
- Ticket was up 0.2%, while transactions were down 5.0%. Ticket average ticket was positively impacted by non-commodity inflation as well as demand for new and innovative products.
- Big ticket comps were -6.5%, with some strength in portable power, gypsum, and pipes & fittings.
- E-Commerce declined -2.9% in the quarter. ~45% of online orders are fulfilled through stores.
- HD provided an update on the impact of its Sidekick fulfillment tool, which alerts employees to which bays have low shelf availability or need updated merchandise.
- HD has seen the biggest impact from Sidekick on high velocity SKUs and has seen a 300 bps of improvement in customer service scores since the implementation of Sidekick.
- Comp Trends by Month:
- Total Company: -2.5% in February, -7.5% in March, -3.7% in April.
- HD US: -4.6% for the quarter, -2.8% in February, -7.5% in March, and -3.7% in April.
- The comp miss in March and April was largely driven by lumber deflation (220 bps of pressure) as well as unfavorable weather, particularly in the West, which was affected by record rainfall and other unusual weather patterns (e.g. snow in Southern California).
- In areas where weather was better in the quarter, HD saw better engagement with small, outdoor projects.
- HD reiterated that the company manages cost and price independently.

1Q23 Results

HD posted 1Q EPS of $3.82, which beat our estimate of $3.70, and was slightly ahead of FactSet Consensus (FS) of $3.80. That said, comps of -4.5% were below expectations (FS -1.6%/CS-2.5%) with avg ticket flat YOY and comp transactions of 390.9M, -4.8% YOY (essentially flat with 1Q19). On the lower comp, net sales were -4% YOY vs FS/CS expectations of -2%. GM decreased by ~10bps YOY to 33.7% compared to 33.8% last year, relatively in-line with CS/FS estimates of 33.8%, driven by increased shrink. HD only saw slight SG&A deleverage to 17.1% of sales despite the lower comp, better than our estimate of 17.8% and FS at 17.9%. The better-than-expected SG&A control was partially driven by a legal settlement, which muted the impact of wage investments ($1B to frontline workers throughout 2023). The SG&A beat drove operating profit margins to be better than expected – HD saw an EBIT margin contraction of ~30bps YOY to 14.9%, which compares to our in-line estimate of 14.4%. Inventory control was solid with levels flat YOY vs the sales decline of -4%.

Full Report

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Commercial mREITs
Lowering Estimates, Target Prices Following 1Q Earnings

Research Analysts

Douglas Harter, CFA

William Nasta

Cory Johnson

The risk remains to the downside for both book value (additional reserve builds) and earnings (realized losses) for the commercial mREITs at this point in the commercial real estate cycle. These risks will keep the sector trading at a discount to historical valuation levels.

- **Lowering estimates:** We are lowering our 2023 and 2024 distributable EPS (DE) estimates by 8.2% and 9.8% (on average) to reflect the impact of a higher level of nonaccrual assets and a continued decline in the loan portfolio given limited new loans. See Figure 1 for company details. The risk to estimates remains to the downside as we have minimal realized losses embedded in our estimates compared to the level of specific reserves already taken.
- **Lowering target prices:** We are lowering our target prices by 16% on average to reflect the more challenging commercial real estate environment; see Figure 2 for details. All of our target prices reflect a discount to book value given the continued downside risk given the potential for additional reserve additions. In addition, we have raised our target dividend yield to reflect wider CMBS spreads and high base rates.
- **Valuation:** The commercial mREITs are trading at 60% of book value (68% ex-GPMT), compared to the long-term average which is just below book value. Given the risk is to the downside for book values, as well as the uncertainty around CRE and the economy, a discount to book value is likely to persist.
- **CMBX correlation:** Over the past 5 years, commercial mREIT stock prices and CMBX BBB- prices have exhibited a high level of correlation (81% r^2). Based on this correlation, commercial mREIT prices are near fair value as both CMBX and mREIT prices are near their recent lows.

Full Report

Date of Production: 16-May-2023 19:36:44 UTC Date of Dissemination: 16-May-2023 20:16:05 UTC

Stratasys [SSYS.OQ]
1Q23 Review; Top & Bottom Line Beat, Establishes $1B 2026 Target

OUTPERFORM

Rating	OUTPERFORM [V]
Price (16-May-23, US$)	15.80
Target price (US$)	20.00
52-week price range (US$)	21.00 - 11.07
Market cap(US$ m)	1,070
Enterprise value (US$ m)	793

Research Analysts

Shannon Cross

Ashley Ellis

Stratasys (SSYS, OP) reported solid 1Q23 results with revenue of $149M (we were at $146M and the Street was at $145M) and non-GAAP EPS of $0.02 (we were at negative $0.07 and the Street was at negative $0.06). Better EPS was due to higher revenue, gross margin and operating margin as well as ~$0.02 benefit from non-operating items. Sales cycles continue to lengthen due to macro uncertainty though management reported some stabilization and improved visibility and narrowed 2023 revenue guidance by $10M. Key takeaways:

- **2026 $1B Revenue Target:** Stratasys is targeting $1B of revenue in 2026, based on a bottoms up approach and assuming increased penetration of the manufacturing market (yielding higher utilization and repeat orders). Other mid-term financial targets announced include gross margin over 50% and positive free cash flow in 2024 and adjusted EBITDA margin >15% in 2026. We are cautious on the revenue target given the current macro environment, although, the shift to high speed, production-oriented systems should inflect the growth trajectory and we point to better-than-expected 1Q23 Consumables revenue (300 bps faster than our estimate) as a sign the portfolio is resonating. We roll out our 2025 revenue estimate of $773M, which is conservatively below the implied CAGR but see room for upside potential as the economy improves.
- **Improving Margin Trajectory:** Operating margin was 380 bps above our estimate on better revenue and slightly lower opex. The company maintained spending guidance of ~$290-300M for the year, despite a higher revenue range. We think this underscores the company's strong spending discipline and go-to-market scale, especially as others in the industry have announced cost cutting initiatives. We now estimate 2023 operating margin of 2.6% (vs 2.5% prior – our EPS estimate of $0.12 is $0.01 lower due to non-operating items) and estimate 10.6% in 2025 (14.4% EBITDA margin), positioning the company very close to the >15% EBITDA target in 2026.
- **Reiterate Outperform and $20 TP:** Risks include pace of adoption, market consolidation, integration of M&A, supply chain.

Full Report

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Paysafe Ltd [PSFE.N]
Q1 2023 Earnings Recap

UNDERPERFORM

Rating	UNDERPERFORM [V]
Price (16-May-23, US$)	12.71
Target price (US$)	(from 19.00) 14.50
52-week price range (US$)	34.20 - 11.87
Market cap(US$ m)	7,739
Enterprise value (US$ m)	10,009

Research Analysts

Timothy Chiodo, CFA

Nik Cremo

Christopher Zhang, CFA

Dylan Wright

Jing Zhang

Patrick Ennis

Kyle Lindgren

- **FY 2023 guidance reiterated after Q1 beat:** Paysafe reported Q1 2023 total revenue of $388mm (~3% above Street), up ~5.5% YoY (~7.5% FXN, slightly higher ex-Russia/Ukraine war impact). However, we estimate organic FXN growth was ~6% YoY (CSe) in the quarter, with ~8% YoY Merchant Solutions growth was partially offset Digital Wallets reporting ~4% organic FXN (CSe). The FY 2023 guide continues to contemplate a more back-half weighted growth acceleration (i.e., 1H 2023 revenue expected to grow in the low-single digits, which is expected to accelerate to the upper-single digits in 2H 2023). Paysafe expects the 2H acceleration to be driven by a combination of easier comps for Digital Wallets (i.e., reduced FX headwinds and lapping the Russia/Ukraine war impact which represented ~9% and ~2% drags on Digital Wallets revenue in FY 2022, respectively) and improving Digital Wallet active users (Paysafe anticipates active users improving in Q2 2023), which is expected to drive a return to growth for the Digital Wallets business in FY 2023 (European regulation also presented a headwind in 2022). While Paysafe has decided to focus on providing guidance on a full-year basis (vs. quarterly guidance which was previously provided), we note that revenue growth in Q2 implies a meaningful sequential deceleration (implies flat to ~LSD growth in Q2). The overall 2H dependent FY guidance presents more uncertainty from a timing perspective (particularly in light of weaker incremental Merchant gross margins in Q1 [mix driven] and a second Digital Wallet leadership change in Paysafe's short history as a public company). Net leverage remains flat QoQ as of Q1 at ~5.8x with debt repayment as the capital deployment priority.
- **What we liked:** 1) Q1 revenue of $388mm (up ~5.5% YoY and ~7.5% YoY FXN) came in above CSe/Street by 3% each, which was also above prior guidance range; 2) Volume grew 8% to $33.8b, beat CSe/Street by 6%/4%, respectively; 3) EBITDA came in ahead of CSe/Street by 1% each at the high end of prior Q1 guidance. On a FXN basis EBITDA grew 5% YoY (vs. 4% reported); 4) FCF grew 30% YoY on a LTM basis, which represents ~74% conversion; and 5) Within the Merchant segment, eComm grew DD in both volume and revenue with management noted resiliency in US SMB.
- **Valuation & estimates:** TP to $14.50 (vs. prior $19) based on ~6.5x our updated 2024E EBITDA or ~9x Adj. EPS (or ~20.5x GAAP EPS) on reduced exit rates and a 2H weighted guide in an uncertain macro. 2023E EBITDA is $449mm (vs. $453mm prior). Risks to the upside include: 1) cost cutting initiatives ahead (albeit with prior initiatives already underway); 2) potential M&A (less clear path); and 3) faster-than-expected debt paydown.

Full Report

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Specialty Chemicals | Company Update

17 May 2023

International Flavors & Fragrances [IFF.N]
Why does IFF's Nourish ingredients appear malnourished?

OUTPERFORM

Rating	OUTPERFORM
Price (16-May-23, US$)	81.12
Target price (US$)	115.00
52-week price range (US$)	134.52 - 81.12
Market cap(US$ m)	20,693
Enterprise value (US$ m)	29,910

Target price is for 12 months.

Research Analysts

John Roberts

Edlain Rodriguez

Matthew Skowronski

- **Not undernourished, but a malady of results for ingredients in recent quarters.** IFF's Nourish ingredients business appears to be the primary source of recent underperformance.
- **Oscillations began with low inventories into Feb'21 closing of N&B deal.** Like many deals, the seller was incentivized to pull working capital out prior to close. But that coincided with beginning of post-Covid reopening of consumer demand, which also drove record cost inflation. Pricing decisions were also complicated by the coincident integration of the businesses, which had high customer overlap between IFF and N&B. The combination of stock-outs and pricing actions caused share loss. Then just as IFF was catching up on inventories, processed food demand has had an unusual drop as consumers & channels adjusted to the higher pricing. And during all this, IFF lost the head of its Nourish segment in 4Q22, with CEO doing double duty to run the largest segment. Our note following recent mtgs with CFO indicates a replacement is imminent, and IFF expects a relatively normal 2H23 with inventories in line with reduced demand.
- **Ingredients is a different business than rest of IFF.** The competitors for ingredients (e.g., ADM, Cargill, many others) are primarily different than the traditional Flavors & Fragrance firms IFF has competed against. The products are traditionally priced, rather than the briefing process used for F&F. And the return on invested capital appears to be lower than other IFF businesses. The customer overlap appears high with other IFF processed food products (e.g., flavors), but so far revenue synergies appear modest across the ingredients portfolio. The subsequent combinations of DSM-Firmenich & Chr. Hansen-Novozymes appear to confirm that bigger and broader is better, so IFF may just need a period of stability to demonstrate success.
- **Valuation & Risks.** Our $115 target price is based on ~15x our forward NTM (Q5-Q8E) EBITDA of $2.6B or ~20.0x x NTM EPS of $5.75. Downside risks include delays in divestments & related deleveraging, price/cost lags, and F/X (~70% of sales ex-US).

Full Report

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Blackstone Inc. [BX.N]

Thoughts On BREIT April NAV Update; Early Look Into May Flows – Trends Continue To Support Our Subdued View

UNDERPERFORM

Rating	UNDERPERFORM [V]
Price (15-May-23, US$)	83.13
Target price (US$)	70.50
52-week price range (US$)	121.71 - 72.16
Market cap(US$ m)	101,202
Enterprise value (US$ m)	108,731

Research Analysts

Bill Katz

Michael Kelly

Cameron Phillips

- **Updated BREIT Disclosure… –** Pre-market open on 5/16, BREIT filed its April prospectus, updating for 4/30 NAV and total return for the month; and BREIT's 1Q23 10-Q (filed on 5/12), which enables us to estimate third-party sales for May.

- **… Points To Mixed April… – Favorably: 1)** BREIT delivered 18 bps total net return for April versus 1.02% decline in March (albeit below our ~8% annualized return assumption); though **2)** total net return year-to-date totals negative ~33 bps, which is below the 2.5% 2Q hurdle rate to earn FRPR and suggests our expectation that BX will earn FRPR from BREIT in 4Q23 (based on our normalized returns for the remainder of the year) is becoming more unlikely. **Key Issues: 1)** 4/30 $14.54 NAV/share declined ~$0.03 M/M – below CSE of $14.61 (primarily total net return-related); **2)** estimate ~$330M in gross inflows (incl. management fee-related shares), lagging our ~$382M-E, with the shortfall seemingly centered on the impact from lower OP Units; **3)** lower third-party sales (incl. impact of OP Units), or ~$260M vs. CSE of ~$310M-E (which was in line with the gross sales disclosure from BX's 1Q23 earnings release); **4)** within gross inflows, 'Subscriptions Received in Advance' declined M/M to ~$97.3M in April vs. ~$137.7M in March – though compares to ~$1.48B in April 2022; and **5)** estimate ~$1B net outflows adjusting for already reported ~$1.3B gross redemptions (filled) – recall, total repurchase requests were ~$4.5B for April.

- **… And May 'Core' Third-Party Sales Appear Soft –** Using 4.591M public shares at 5/12 from the 10-Q, we estimate ~$130M third party sales for May (prior to DRIP impact) or ~$250M if we assume ~47% of distributions are reinvested in shares (consistent with 1Q23). The ~$250M would be down from ~$310M disclosed third-party gross sales (ex. impact of OP Units, but inclusive of DRIP) in April and ~40% below our ~$425M-E pre-10-Q release and vs. ~$2B a year ago. For May, we now project third-party net outflows of ~$1.1B (in line with April), or ~18.5% annualized organic loss rate, as we know that unfilled gross redemptions from April (or ~$3.2B) exceed the 2% monthly redemption limit.

- **The Stock –** We are not surprised that the shares are trading lower (both absolute/relative) on 5/16 as the update is consistent with our view around slow(ing) Retail product growth versus prior cycle and accompanying earnings-related drag. Maintain Underperform rating and $70.50 Sum-of-the-Parts (SOTP)-derived target price.

Full Report

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