Equities Research

CREDIT SUISSE

First Edition - US Alert Thursday, May 18, 2023

18 May 2023
Credit Suisse Global Product Marketing

Estimate / Target Price Changes:

Company Updates:

Industry Updates:

CREDIT SUISSE

ESTIMATE / TARGET PRICE CHANGES:

Communications Equipment | Decrease Target Price

18 May 2023

Cisco Systems [CSCO.OQ]
F3Q23 Earnings Result – Strong Report Amid Macro Weakness

OUTPERFORM

Rating	OUTPERFORM
Price (17-May-23, US$)	47.63
Target price (US$)	(from 69.00) 65.00
52-week price range (US$)	52.31 - 39.27
Market cap(US$ m)	195,084
Enterprise value (US$ m)	178,587

Target price is for 12 months.

Research Analysts

Sami Badri

Radi Sultan, CFA

Andy Kellam

George Engroff

Ryan Cui, CFA

- **Bottom-Line:** Results beat expectations, mgmt. raised guidance for F4Q23/FY23, and GMs came in well ahead at +125bps q/q (product GMs +234bps q/q) driven by pricing and product mix, all positives that reinforce the robust execution of the mgmt. team. Product order growth was -23% y/y, worse than Street expectations and driven primarily by macro and digestion of prior equipment pre-ordering. We observed similar trends in the peer group reports that has largely led to pressure on the stocks (FFIV, JNPR and ANET all saw pressure post-prints). From here we believe investors should be focused on durability of earnings, product portfolio relevance, and valuation attractiveness, which we believe CSCO has clearly demonstrated, given the market as-a-whole is seeing macro pressure and elongating sales cycles. We reiterate our Outperform rating and view on CSCO post-results.

FY24 Model Guidance Better Than Feared: Given FY23 growth is coming in at ~10.25% rev growth, FY24 is being guided to grow modestly, which we peg at ~2.5% y/y, with EPS growing in the MSD range and faster than revenue driven by GM expansion (pricing, mix lifting margin) and share buy-backs supporting EPS growth. Backlog levels are expected to normalize by F2H24 to historical rates, another positive considering investors' expected normalized levels by the end of FY23, suggesting product order demand remains intact.

Secure, Agile Networks the Big Mover (Again): Results beat largely due to the performance of the Secure, Agile Networks segment reporting rev. of $7.55B (+28.6%) well ahead of CS/Street expectations of $7.08B (+20.6%)/$7.11B (+21.2%). Demand for switches grew DD in F3Q23 with strength in both campus and DC driven by their ability to win/ship, as well as winning new customers looking to build-out their AI networks. Additionally, CSCO continues to deliver on its LT strategic plan of growing recurring revenues with Software growth of +18% y/y, and Subscription growth of +17% y/y.

- **Valuation – Maintain Outperform, Slightly Lowering Target Price to $65 (from $69):** We value CSCO based on a 15.5x (from 17.5x) P/FY2 EPS multiple on our FY25E (from FY24) non-GAAP EPS of $4.22 (from $4.18). Potential risks include disruption to CSCO's distribution model, reliance on suppliers, market competition, and consolidation.

Full Report

Date of Production: 18-May-2023 04:29:03 UTC Date of Dissemination: 18-May-2023 04:29:51 UTC

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Payments, Processors and FinTech | Forecast Increase

18 May 2023

Wix.com Ltd [WIX.OQ]

Q1 2023 Recap; Updated Selling & Marketing Costs Breakdown, Business Solutions Build, and More

OUTPERFORM

Rating	OUTPERFORM [V]
Price (17-May-23, US$)	82.53
Target price (US$)	105.00
52-week price range (US$)	99.81 - 54.53
Market cap(US$ m)	4,689
Enterprise value (US$ m)	3,859

Research Analysts

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Jing Zhang

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Kyle Lindgren

- **Modest improvement in demand, with encouraging early results from marketing strategy shift:** With a beat & raise quarter, Wix is seeing early signs of a modest macro recovery (while remaining cautious), vs. last quarter's comment "yet to see improvement in customer demand". Operationally, despite a ~47% cut in acquisition spend, Q1 2023 cohort bookings (~0.9x CAC vs, historical Q1 cohort average of ~0.5x in the first quarter) was up YoY (~$30mm vs. ~$28mm) driven by strength in the Partners business (higher intent than Self Creators). Wix now expects acquisition spending to stay at this reduced level going forward, and believes the expected 4-5 months TROI will be sustainable (although we'd note higher total selling & marketing expenses are expected in 2H 2023 and beyond, as acquisition spend shifts to brand marketing for partners). The company remains committed to reaching Rule of 40 in 2025, which it expects to achieve mostly through OpEx leverage (along with some gross margin expansion) without the need for further revenue acceleration (from the Q2-Q4 2023 level of ~10-12%, but can potentially also be achieved with higher growth offset by higher investments). We continue to believe Wix has significant room for further slowdown in its headcount & expense growth in relation to revenue growth, with management now planning to keep headcount largely stable over the next few years following the 9% reduction in Q1 (-510 QoQ, well exceeding the 370 RIF in February). Moreover, new product rollouts (notably Wix Headless targeting developers for complex websites) and commerce integrations (Google Ads, Wix Shipping with Shippo, & Tap to Pay powered by Stripe) enable Wix to further push upmarket and enhance customer retention.

- **Selling & Marketing cost breakdown, Business Solutions granular build, & more:** We update some of the key analyses as part of our recent initiation report on Wix: "Margins Now in the Driver's Seat", all available in Excel upon request: 1) A granular build of the Business Solutions segment, illustrating the contribution to this segment's revenue growth & gross margin expansion by product; 2) An illustrative breakdown of revenue and margins by Self Creators vs. Partners business lines; 3) An updated S&M expenses breakdown in the light of Wix's shift to brand marketing; and 4) TROI & payback analysis for Q1 Cohorts.

- **Valuation and Risks:** $105 TP (unchanged) based on ~5x 2024E EV/gross profit. 2023/23E adjusted FCF increased to ~$180/$316mm vs. prior ~$161/$299mm, with margins increased by ~120bps. Risks: customer acquisition, product/cost execution, macro.

Full Report

Date of Production: 18-May-2023 04:54:52 UTC Date of Dissemination: 18-May-2023 04:56:11 UTC

Internet Software & Services | Increase Target Price

18 May 2023

Take-Two Interactive Software Inc. [TTWO.OQ]

Incremental Clarity on Fiscal 2025 Release Slate

NEUTRAL

Rating	NEUTRAL
Price (17-May-23, US$)	125.02
Target price (US$) (from 127.00)	128.00
52-week price range (US$)	136.59 - 93.57
Market cap(US$ m)	21,088
Enterprise value (US$ m)	21,499

Target price is for 12 months.

Research Analysts

Stephen Ju

Tyler Seidman

- **Event:** TTWO reported 4QFY23 results with net bookings/adj. EPS of $1394mm/$0.59 vs. CS $1326mm/$0.67 and cons. $1343mm/$0.68. We maintain our Neutral rating and our target price increases to $128 vs. prior $127. Our FY24/25 Adj. EPS is now $5.22/$12.97 vs. $5.73/$13.84 prior.
- **Investment Case:** The most important takeaway was the two-year horizon outlook which suggests significant growth in FY25 with this momentum expected to continue into FY26 buoyed by the release of "several high profile" and "long-awaited titles". As we can think of only one thing that can deliver an incremental ~$2.5b in revenue YOY, this is as clear a signal as any as to the potential timing of the release date for *GTA VI* (short of a press release from Rockstar). With that in mind, the $8b in bookings guidance for FY25 along with expectations for both bookings and cash flow to grow in FY26 suggests more of a late-FY25 release along with most of the capitalized software development and marketing costs to be incurred in earlier in the release cycle. While we have currently placed *GTA VI* to be released in 3QFY25 (Dec quarter), it could very well be released in 4QFY25 (Mar quarter). Results came ahead of our estimates driven by better-than-expected digital online sales and RCS due to strength from franchise titles including *GTA V, GTA Online, Red Dead Redemption 2*¸ and Zynga mobile titles. Adj. EBITDA fell modestly short of our expectations due to a $54.2mm charge for the cancellation of unreleased titles. Mgm't highlighted a robust product pipeline of 36 new releases over the next two years, with 12 anticipated to arrive in FY24. Take-Two also provided initial FY24/1QFY24 guidance which to us leans towards a conservative outlook but likely takes into account macro headwinds including elevated costs and weaker mobile spend. We raise our price target to $128 and maintain our Neutral rating.
- **Valuation:** Our discounted cash flow-based valuation, which uses an 11% weighted average cost of capital and 3% terminal growth, suggests a target price of $128. Risk to our estimates include lack of commercial traction with any of the upcoming releases, or loss of audience/share to new or updated products from competitors

Full Report

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Consumer Finance | Decrease Target Price

18 May 2023

Synchrony Financial [SYF.N]

Lowering EPS On Lower Buyback

OUTPERFORM

Rating	OUTPERFORM
Price (17-May-23, US$)	28.76
Target price (US$) (from 37.00)	36.00
52-week price range (US$)	40.23 - 26.76
Market cap(US$ m)	12,326
Enterprise value (US$ m)	(2,212)

Target price is for 12 months.

Research Analysts

Moshe Orenbuch

Hoang Nguyen

Investment conclusion: We lower our 2023/2024 EPS estimates to $4.93/5.55 (old: $5.00/5.75), on lower buyback than previously modeled. Our TP is now $36 (old: $37), 6x our 2024 EPS estimate. Our estimated buyback over the next five quarters is now equal to $1.3 Bn, which is the company's current authorization through 2Q24. SYF still has the ability to increase its repurchase authorization between now and 2Q24 by having the board approved a new plan mid-cycle. Risks to our TP and estimates include slower-than-expected growth and higher-than-expected provision.

Full Report

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Restaurants | Increase Target Price

18 May 2023

Jack in the Box Inc. [JACK.OQ]

Red Bull Gives SSS Wings

UNDERPERFORM

- **JACK reports strong F2Q print & raises FY23 guide.** JACK delivered EPS of $1.47 (consensus $1.22) & EBITDA of $78.8MM (consensus $70.4MM), with the beats largely driven by company revenue, RLM & rental income. Following beats in F1Q & F2Q, JACK raised its FY23 guide (as expected) for EPS to $5.90-6.10 (from $5.25-5.65), implying F2H EPS of $2.42-2.62 (prior consensus $2.66), which is likely viewed as conservative given SSS momentum & RLM. JACK also reiterated expectations for a return to positive JITB net unit growth in FY23, though we still believe the ability to convert its growing development pipeline into a more meaningful acceleration in unit growth remains a show-me story, particularly given broader concerns on franchisee health & financing (across the industry). JACK is also in the process of executing its refranchising strategy for DT.
- **JITB SSS momentum continues:** JITB system SSS were 9.5% (price 9.1%, mix 1.2%, traffic -0.8%), with franchise SSS of 9.4% & company SSS of 10.8% (traffic 3.2%, price 8.9%, mix -1.3%). JACK saw strong momentum in February/March, which has continued QTD, supporting its increased FY23 guide for JITB SSS in the MSD-HSD. During F2Q, JACK saw strong contribution from beverage innovation with the launch of Red Bull Infusions (contributed ~0.4%) & the Mint Mobile Shake in partnership with Ryan Reynolds (strong social engagement), value ($5 Jack Pack combo), core food innovation (improved Grilled Chicken Sandwich, Popcorn Chicken) and digital (digital hit record ~11.5% of sales, loyalty membership grew 45%). JACK highlighted strength across income cohorts, with outsized performance among its higher income group (2-yr basis). In F3Q, JACK will continue to focus on value ($5 Jack Pack, Munchies Under $3) & innovation (Ribeye Burger, Popcorn Chicken, French Toast Sticks), with benefits from increased operating hours (franchisees now down ~0.6 hrs vs pre-COVID) & digital to also contribute to SSS.
- **CS Estimates:** We are raising our FY23/FY24 EPS to $6.07/6.58 (from $5.73/6.51), primarily driven by the F2Q beat, higher SSS, higher RLM & higher franchise income, partially offset by the impact of greater Del Taco refranchising activity.
- **Valuation:** We are raising our TP to $88 (from $80) based on ~10x/12.5-13x our NTM EBITDA/EPS in 12 months & supported by our DCF. Risks: M&A, unit growth acceleration.

Rating	UNDERPERFORM
Price (17-May-23, US$)	95.56
Target price (US$)	(from 80.00) 88.00
52-week price range (US$)	95.78 - 56.06
Market cap(US$ m)	1,969
Enterprise value (US$ m)	3,608

Target price is for 12 months.

Research Analysts

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Raymon Wang

Full Report

Date of Production: 17-May-2023 21:58:33 UTC Date of Dissemination: 18-May-2023 08:01:05 UTC

Riskified Ltd. [RSKD.N]
Q1 2023 Earnings Recap

OUTPERFORM

Rating	OUTPERFORM [V]
Price (16-May-23, US$)	4.58
Target price (US$)	(from 8.00) 7.50
52-week price range (US$)	6.55 - 3.76
Market cap(US$ m)	765
Enterprise value (US$ m)	765

Research Analysts

Timothy Chiodo, CFA

Nik Cremo

Christopher Zhang, CFA

Dylan Wright

Jing Zhang

Patrick Ennis

Kyle Lindgren

- **FY 2023 Adj. EBITDA guidance raise; path to profitability reiterated:** Riskified delivered another quarter with better-than-expected results for GMV and gross profit (~2% and ~3% above Street/FS, respectively), while revenue came in roughly in line. While FY 2023 revenue guide was maintained at $297-303mm (roughly in line with Street at the midpoint), the EBITDA outlook saw a more meaningful positive revision to a ($12-17mm) range [up ~41% vs. the ($22-27mm) prior guidance that came in above Street expectation] driven by OpEx reductions (~6% YoY decline primarily resulted from G&A and Sales & Marketing vs. 17% revenue growth in Q1). This implies RSKD will exit 2023 with positive EBITDA margins (and for FY 2024), which combined with eCommerce normalization, vertical diversification (8 out of the top 10 new merchants are outside of the Tickets and Travel vertical in Q1), volume upsell opportunity [competitive Q1 win to capture additional volume for one existing merchant in Tickets and Travel (with ~$1b annual order volume)], and new products ramping (Policy as the biggest opportunity after Chargeback Guarantee with the target of ~10% of new revenue bookings currently on track) provide for a more constructive medium-term path. Longer term, we continue to believe the combination of brand-name enterprise clients, low penetration for chargeback guarantee solutions, and a large eCommerce end-market (CSe ~$7tr eCommerce TAM 2023E) provides attractive M-LT tailwinds [alongside call options in new products (higher gross margin), customer verticals, expanding partner channels, and geographies].
- **What we liked:** 1) While FY 2023 revenue guide remains unchanged at $297-303mm, Adj. EBITDA is positively revised by $10mm (~41%) to ($12-17mm) from ($22-27mm) prior driven by execution on OpEx (~$4mm outperformance in Q1 and ~$6mm expected in Q2-Q4); 2) Riskified expects to see Adj. EBITDA profitability in Q4 2023 and FY 2024, roughly in line with prior expectation; 3) Updated Adj. OpEx outlook at ~$43mm per quarter for the rest of 2023 (vs. ~$45mm prior); and 4) Continued upsell opportunity with management highlighting additional volume captured from competitors for a key, existing merchant in Tickets & Travel.
- **Valuation & estimates:** Target price to $7.5 (vs. prior $8) on ~5.5x adj gross profit, with our valuation supported by our illustrative DCF analysis. Our updated 2023/2024E revenue forecasts are ~$300/$364mm (vs. prior ~$303/$365mm). Risks are competition, macro, customer concentration, & regulatory.

Full Report

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COMPANY UPDATES:

Health Care Equipment & Services | Forecast Reduction

18 May 2023

Walgreens Boots Alliance [WBA.OQ]
Updating Estimates for Softer Covid Vaccines and a Less Steep 2HFY23 Healthcare Ramp

NEUTRAL

Rating	NEUTRAL
Price (16-May-23, US$)	31.35
Target price (US$)	41.00
52-week price range (US$)	43.83 - 30.52
Market cap(US$ m)	27,049
Enterprise value (US$ m)	38,335

Target price is for 12 months.

Research Analysts

A.J. Rice

Jonathan Yong

Enjia Cao

Carlos Penikis, CFA

Joseph Overman

- **Updating Estimates; Covid Volumes Soft, Also Recognizing Consumer Softness Across Retail:** We are updating our WBA forecast for 2H FY23. We are taking a more conservative stance on the US Retail business as Covid vaccine vols have continued to decline M/M per data from IQVIA. Further, the FDA provided an update with respect to Covid boosters that was less forceful than expected, which could further dampen Covid contribution in 3Q and 4Q of FY 23. Covid vaccines have above average margins, which could lead to some gross margin pressure. Further, strength in branded drug pressure is also noted as a potential gross margin headwind for the 2H. Recent datapoints across the retail sector point to a more cautious consumer, which could dampen front-end retail sales (we have not explicitly adjusted for this in our model as WBA's largest peer reported solid front-end stores recently; however, we flag the issue as a potential limiting factor relative to identifying offsetting sources of upside). The core prescription volume trends appear solid, with the company expected to benefit in 2H from more stores returning to normal hours (500 stores returned to normal hours in1H23 and 3,000 are expected to get there by FYE).

- **Moderating the Trajectory of the Move to Positive EBITDA for Walgreens Health:** In US Healthcare, we are reducing our Walgreens Health EBITDA forecast for the next two quarters (and into FY24). We now see the company achieving modestly positive EBITDA in F4Q23. Partially offsetting this more conservative view is a slightly lower tax rate and interest expense reduction. All-in, our FY23 EPS is reduced to $4.45 (was $4.56). We also reduce our FY24 EPS to $4.75 (was $4.85). Our target price is unchanged at $41 which is based on 8.5x our CY24 EPS. Risks to our rating and target price include higher costs, slower-than-expected ramp on US Healthcare/ VillageMD, and macroeconomic pressures.

- **340B Comments; ABC Sale Notes:** Regarding 340B, WBA says its current outlook already factors in essentially no growth in its 340B business this fiscal year. The recent developments in 340B are also not expected to impact WBA's Shields business. Regarding its recent forward sale of ABC shares, the sale proceeds will be used for debt paydown, which will continue to be a WBA priority post sale. As for the smaller size of the recent sale, WBA says sizing was driven by the structure of the transaction (forward contract).

Full Report

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LPL Financial Holdings, Inc. [LPLA.OQ]
April 2023 Monthly Metrics – Trends Mixed But Client Cash As Advertised

NEUTRAL

Rating	NEUTRAL
Price (17-May-23, US$)	195.54
Target price (US$)	192.00
52-week price range (US$)	269.17 - 172.42
Market cap(US$ m)	15,187
Enterprise value (US$ m)	15,187

Target price is for 12 months.

Research Analysts

Bill Katz

Michael Kelly

Cameron Phillips

- **Mixed (April 2023) Monthly Metrics –** Post-market close on 5/17, LPLA released key April operating metrics, which point to solid, albeit modestly weaker than expected, Net New Assets (NNA), along with ~7% M/M decline in cash balances to ~$51B – the latter consistent to recent CFO commentary on the post-1Q23 earnings release conference call.
- **Key Positives: 1)** $4.4B NNA in April, or ~4.5% annualized organic growth rate (AOGR) which is up nicely from 2% AOGR in April 2022; **2)** $3.4B Advisory NNA paced the month, or ~6.5% AOGR, up 200+ bps higher Y/Y; **3)** $7.7B quarter-to-date (QTD) recruited AUA (includes ~$3.1B CG Advisors Network [RIA]), down from ~$11B in 1Q but relatively consistent with 2Q22 through this point in the quarter, or $8.1B including $5.5B win from People's United Bank (now part of M&T Bank); **4)** $50.9B 4/30 Total Client Cash declined $3.7B M/M though consistent to prior intra-quarter update, and closer to ~$1.7B M/M decline when adjusting for seasonal tax-related payments/billing dynamics; and **5)** within client cash $37B Insured Cash Account (ICA) balances held up ~$1B better than modeled, bolstering cash sweep economics to some degree.
- **Key Issues: 1)** While the 4.5% AOGR for April accelerated Y/Y, results lagged us by ~200 Bps – both Advisory and Brokerage - and we suspect broader expectations; **2)** ~$1.188T 4/30 Total Client AUA rose 1% M/M but lagged our model by ~60 bps – both NNA and NAV; and **3)** $50.9B 4/30 Total Client Cash missed CSE by ~$300M and declined to ~4.3% of 4/30 Total Client AUA, down ~35 Bps M/M (albeit in line with CSE due to NAV-related interplay).
- **The Stock –** We expect the shares to rise on 5/18 reflecting the in-line client cash update (ICA balances holding up better than expected) and underlying NNA trends, the latter against uneven macro and more elevated seasonal trends at SCHW, which reported core attrition related to tax-related selling.

Full Report

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Health Care Services | Monthly

18 May 2023

CS Hospital Volume Tracker

May Survey: April Inpt Vols Up 0.6% Y/Y, Outpt Up 1.9%; Medicaid Redetermination Impact Discussed

Research Analysts

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- **Inpatient Admissions Up 0.6% in April, Outpatient Visits Up 1.9%:** The Credit Suisse monthly hospital survey (respondents representing 68 hospitals across 27 states) suggests that unadjusted April inpatient vols were up 0.6% Y/Y (vs. up 2.4% in March and 0.9% in February). Last year, our survey found that April 2022 inpatient vols decreased 0.9% Y/Y. April Commercial admits were up 1.5% Y/Y, after increasing 1.5% in March and +1.5% in February. Managed Medicare (MA) decreased 0.9% Y/Y after an increase of 1.3% in March and an increase of 3.3% in February. Volumes varied across geographies, with inpatient admits decreasing by 0.1% in the Northeast, up 4.0% in the Southeast, up 0.0% in the Central and down 1.9% in the Western regions.

- **Other Volume Metrics and Payer Mix**: Metrics in our survey this month were steady with most categories trending toward low-single-digit growth. Outpatient vols grew 1.9% Y/Y; Inpatient surgeries were down 1.0% Y/Y after a 1.0% increase in March; outpatient surgeries increased 0.4% (up 3.7% in March); and ER visits were up 2.5% after a 2.9% increase in March. Medicaid admits increased 0.3% (up 2.6% in March). Self-pay admits were down 3.4% (down 2.2% in March), and Medicare admits were up 2.9% (up 2.6% in March). Finally, births were down 1.8% Y/Y in April (down 0.7% Y/Y in March).

- **Medicaid Redetermination Expectations Discussed**: This month, we asked a series of questions to better understand the expectation of hospital operators for Medicaid redeterminations. For context, 73% of respondents are in Medicaid expansion states, the rest are not. **(1)** We first asked respondents the percentage of total Medicaid patient volume at risk of losing Medicaid coverage over the reverification process. Across all participants, hospitals expect ~15% of Medicaid patient volume to be at risk of losing Medicaid coverage in redeterminations. There isn't a significant difference in expectations across markets (rural, suburban, urban). (**2**) We then asked respondents about their expectation for the percentage of patients who lose Medicaid coverage through the redetermination process to obtain coverage via the ACA public exchanges/ marketplaces or via commercial insurance. Across all participants, hospitals expect ~20% of decertified Medicaid patients to obtain coverage on the ACA exchanges or commercial insurance. (**3**) We finally asked respondents what they believed to be the net financial impact of redeterminations to their hospital systems: 19.3% of respondents expect their health system to come out ahead financially due to higher reimbursement on public exchanges, 47.4% expect the impact of Medicaid reverifications to be neutral on their health system, and 33.3% of respondents expect Medicaid redeterminations to be a net financial negative because an insufficient number of individuals will obtain coverage elsewhere to offset the lost Medicaid revenue.

Full Report

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Mixed Signals from China Mfg
April Improved M/M but Pharma Lagging

Research Analysts

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Lu Li

Kyle Crews

- **Bottom Line**: We track China's monthly industrial output data as a key indicator for the China end market health in our Life Science Tools coverage. We consider the latest April data (reported this week) to be mixed. Growth in high-value manufacturing (which correlates to Tools' growth) improved month-over-month vs March (+2.5% vs +1.5%). That said, the divergence between pharmaceutical manufacturing vs broader manufacturing (for example, chemicals) that appeared first a year ago continues to persist. This divergence caught our attention this month since weakness in China biopharma manufacturing entered the earnings talk track of both Danaher (DHR) and Waters (WAT) during Q1; thus, these trends might be something to consider for investors looking to use Tools as a China reopening trade. Growth acceleration in China Q/Q is embedded into forecasts for all the Tools companies in 2023.
- **Manufacturing growth in April improved from March.** Chinese manufacturing industrial output grew 6.5% in April vs. 4.2% in March. High-value manufacturing output growth, which highly correlates to Tools' China growth, also saw sequential improvement at +2.5% in April vs. +1.5% in March. The sequential improvement in both metrics is encouraging but we note that the recovery in high value manufacturing is lagging the broader manufacturing recovery in China.
- **Subsector data showed mixed messages.** Pharmaceutical manufacturing continues to decline, down 7% in April (vs 8% March decline), a divergent trend vs other sectors of the manufacturing economy (e.g., chemicals, +7.5% in April). While many Tools companies have exposure to a diverse set of industries in China (and tend to lean more industrial in China than elsewhere), this trend caught our attention following commentary from Danaher and Waters this past earnings season. Danaher flagged biotech funding constraints in China, similar to elsewhere.

Full Report

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