Equities Research

First Edition - US Alert Wednesday, April 19, 2023

19 April 2023
Credit Suisse Global Product Marketing

Estimate / Target Price Changes:

Company Updates:

Industry Updates:

ESTIMATE / TARGET PRICE CHANGES:

Aerospace & Defense | Increase Target Price

19 April 2023

Lockheed Martin [LMT.N]
1Q23 Wrap – Space Growth Sets Foundation for 2023 Upside; Raising Target Price to $550

OUTPERFORM

Rating	OUTPERFORM
Price (18-Apr-23, US$)	501.41
Target price (US$) (from 510.00)	550.00
52-week price range (US$)	501.41 - 386.29
Market cap(US$ m)	127,618
Enterprise value (US$ m)	141,477

Target price is for 12 months.

Research Analysts

Scott Deuschle

Will Jackson

- **Bottom Line:** LMT reported 1Q results above Street across all major line items, including sales, EBIT, EPS, and FCF. The company is arguably hitting its stride, with sales beating Street in the last two quarters following consistent misses from 1Q-3Q of 2022. With TTM book:bill above 1.0x across all four businesses, 2Q bookings likely to show improvement, and DoD outlays set to accelerate, we think LMT may be positioned to return to growth this year (vs. guidance -1.5%-0%) and more meaningfully accelerate growth in '24. Front and center to delivering consolidated growth is Space Systems, which posted 16% growth in 1Q and the unrevised high-end of the guide implies that sales shrink 2% over the remainder of the year. This appears unlikely given the TTM book:bill of 1.15x and RDT&E outlay trends (+8% in 1Q). As such, we think Space Systems comprises the bulk of the upside case for LMT sales in '23, with optionality at MFC given demand trends / bookings. As the relative bear case hinges on relative growth, we view the path to closing the gap as key to the stock and see evidence in this quarter's results that the inflection is approaching.

- **Progress Payments:** Our understanding is that even though DoD progress payment rates could decline from 90% to 80%, LMT should see minimal impact to its FCF. This is contrary to our original expectation (we expected some level of impact) and an incremental positive. Key here is that portions of LMT's business (including F-35) use performance-based billings rather than traditional progress payments. Additionally, it appears that any change in progress payment rates would likely apply prospectively to future contracts, and therefore feed through only gradually over time. Finally, LMT still has accelerated some payments to suppliers, and therefore has offsets available from pressure on receivables.

- **Additional Considerations: (1)** We expect sales to ramp linearly through the year at Aeronautics/MFC, with RMS more 2H weighted. (2) We see 2Q FCF below 1Q given cash tax headwinds; (3) We expect share repurchases to ramp in 2H alongside FCF; (4) See strong ULA earnings in 2Q given Delta IV Heavy launch (+Vulcan…potentially). (5) See JP9102 booking in 4Q; (6) See competitive AIR 6500 outcome later this year.

- **Estimates:** Our '23-'25 EPS est. revise up to $26.86/27.50/29.54 (from $26.80/27.35/29.39). Our target price increases to $550 (from $510) as we roll our valuation to '25E, valuing LMT using a 4.5% applied FCF yield. Risks include execution on fixed price contracts, sector rotation, lower DoD budget growth.

Full Report

Date of Production: 18-Apr-2023 23:19:18 UTC Date of Dissemination: 19-Apr-2023 08:01:34 UTC

Previewing Barrick and Newmont Ahead of Q1-23 Results
Updating estimates based on pre-release

Research Analysts

Fahad Tariq, CPA, CA

Jessica Xu

- **Barrick pre-releases Q1-23 production:** On April 13, Barrick pre-released Q1-23 gold production of 952koz (954koz sales), a miss vs. 989koz consensus and 993koz CSe. The company also indicated Q1-23 cash costs are expected to be 13-15% higher q/q and AISC is expected to be 9-11% higher q/q, implying ~$990/oz and ~$1,366/oz, respectively. We understand that the higher costs sequentially are a function of lower production sequentially, and not underlying input cost inflation. Production is expected to improve through the year towards the company's 4.4Moz full-year guidance.
- **Not expecting major surprises in Q1 print:** Given Barrick's pre-release and Newmont's detailed quarterly guidance, we do not expect major operational surprises in the Q1-23 print for either company. Q1 is a weaker production quarter for both companies, with Barrick highlighting lower Carlin production (Goldstrike roaster maintenance, conversion of Goldstrike autoclave to conventional CIL process, and Nevada weather) and lower Kibali production (grades due to mine sequencing). Similar to last quarter, we expect Barrick to pay a $0.10/sh base dividend (i.e., no performance dividend). Newmont is guiding to ~21% of its 6.0Moz full-year guidance in Q1. The company highlighted lower Tanami production (record rainfall), lower Ahafo production (grades due to mine sequencing), and lower Musselwhite production (grades due to mine sequencing). For Newmont, we think most investors will look past the quarterly results to the potential Newcrest acquisition – the latest is that the two companies are in exclusive due diligence and Newmont's current offer is 0.40 NEM share for each NCM share.
- **Model updates:** We have updated our Barrick model to reflect the Q1-23 pre-release, and also updated for Nevada Gold Mines (NGM) and Pueblo Viejo (PV) in our Newmont model (Newmont owns 38.5% of NGM and 40% of PV). Our Barrick target price remains unchanged at $24.00, and our Newmont target price remains unchanged at $55.00. Commodity prices and operations are key risks to our view.
- **Barrick investment thesis:** We rate Barrick Outperform based on favourable valuation among senior gold peers, a stable production profile over the next decade, meaningful exploration upside (particularly in Nevada), and a strong management team that has shown discipline on M&A. We think the stock could re-rate higher on stable quarterly operational performance.
- **Newmont investment thesis:** We rate Newmont Neutral on valuation, near-term uncertainty around the proposed Newcrest transaction, and elevated capex, but recognize the company is a leader on ESG, has mines in low-risk jurisdictions, has a strong balance sheet, and is the preferred gold producer for U.S. investors.

Full Report

Date of Production: 18-Apr-2023 14:49:40 UTC Date of Dissemination: 19-Apr-2023 08:00:08 UTC

U.S. Alternative Asset Managers 1Q23 Earnings Preview – Macro Valuation Headwinds Apparently Lessened; But Seemingly Limited Catalysts Tactically

Research Analysts

Bill Katz

Michael Kelly

Cameron Phillips

We enter 1Q23 earnings season a bit mixed on the sector. On the one hand, our macro-related valuation construct is flashing improvement. On the other hand, we expect relatively muted 'flywheel' updates in concert with post-1Q23 earnings release conference calls, our revised 2023-24E Distributable Earnings (DE) expectations are mostly aligned with FactSet (FS) consensus, and our proprietary, bottoms-up Sum-of-the-Parts (SOTP) valuation is improved, but not broadly compelling. Tactically, we think the Traditionals may be a relatively attractive sector broadly at present and we remain selective in the Alternatives, with an eye towards idiosyncratic value opportunity.

- **Sector Valuations Round Tripped –** With FTM Price-to-DE (P/DE) and relative FTM P/DE effectively back to pre-C-Corp conversion (2018-20) and pre-Retail democratization (2H2021-2022) levels. A look at absolute/nominal/real/yield curve/credit spreads point to sector stabilization – though not enough to alter selective stance, particularly given likely uneven 'flywheel' updates and still looming recession expectations.
- **Lowering 2023E DE Estimates ~3% Broadly –** Mostly to reflect reduced realizations, selective NNA adjustments, YTD NAV (through 4/17), and revised interest rate expectations. Importantly, bulk of the adjustment reflects lower 1Q23E activity levels, notably for Underperform-rated BX, Outperform-rated CG, and Neutral-rated KKR. No material changes to 2024E, as we expect building 2H23 'flywheel' recovery into 2024 though we tweaked monetization dynamics. Our revised 2023-24E DE per share are generally in line with consensus, excluding SCU, the latter reflecting quite limited peer set, we believe.
- **Tweaking Sum-of-the-Parts (SOTP)-Derived Target Prices –** Favorably, we ease cost of cost of capital assumptions modestly for Comparable FRE and NPV of Future Performance Fees (PFs), while reducing our timing discount factor by three months to just six months (against 2024E – no change). Negatively, we tweak lower selected target FRE multiples in light of trading liquidity and/or asset class exposure. Targets edge up for BX, CG, KKR, OWL, SCU, and TPG and ease for BRDG. GCMG target price remains unchanged.
- **Favored Names –** Remain CG (back to nearly free play on FRE outlook); GCMG (attractive solutions provider, with building Absolute Return Strategies [ARS] option value); and SCU (change of control potential) – though rank migrated. Notwithstanding potential S&P 500 inclusion, we retain our contrarian Underperform rating on BX.

Full Report

Date of Production: 19-Apr-2023 05:17:14 UTC Date of Dissemination: 19-Apr-2023 08:03:12 UTC

Mercer International Inc. [MERC.OQ]
Meaningful Moderation; Taking Target to US$10.50 from US$15.50; Reiterate Neutral

NEUTRAL

Rating	NEUTRAL
Price (18-Apr-23, US$)	9.44
Target price (US$)	(from 15.50) 10.50
52-week price range (US$)	17.29 - 9.25
Market cap(US$ m)	625
Enterprise value (US$ m)	1,564

Target price is for 12 months.

Research Analysts

Andrew M. Kuske

James Aldis

Selena Zhou

- **Many Moving Parts:** In our view, **Mercer International Inc. (MERC)** continues to grow the business in a positive and incremental fashion supporting longer-term value creation. In the near term, we adjust our financial model for multiple factors – albeit mainly centered on a meaningful moderation of realizations across MERC's major business lines (i.e., pulp and lumber along with the power segment – given past extremes) for several reasons. With the past Q4 2022 results, some realizations were robust, however, parts of the business were decelerating as per *At-a-Glance: Fibre and FX in Focus* and *Margin Compressions; Downgrade to Neutral from OP; Target to US$15.50 (was US$18.50)*. Financial model moderation results in our MERC target price moving downward to US$10.50 from the prior US$15.50 and a reiteration of the Neutral rating.
- **Looking Ahead:** We continue to favour MERC's efforts for building the business along with an overall de-risking with acquisitions like Holzindustrie Torgau (HIT) and Mass Timber. Over time, as with the initial German lumber foray, these business line expansions will help reduce the exposure to more volatile pulp markets and diversify from more competitive price-taking markets. From our perspective, MERC's continued business evolution will be partly masked by the near-term evolution of European power markets that will act as a drag in the near term on the results. Yet, the overall business positioning is clearly becoming more positive for the company and the stock remains more of a timing issue, in our view.
- **Investment Thesis:** MERC is favourably positioned as a large NSBK producer along with an interesting amount of growing lumber exposure. Yet, some of the meaningful pricing cyclicality in pulp and lumber requires nimble trading - especially from more elevated levels.
- **Valuation:** Updates to our financial model included Q4 actuals as well as margin and commodity forecast updates. As a result, our 2023e and 2024e EPS moved to US$0.95 and US$1.06 from US$1.45 and US$1.39, respectively. Our revised US$10.50 (prior US$15.50) target and existing Neutral rating are based on a NAV, which includes: 2024e core pulp at 4.5x (prior 5.5x) EBITDA, 8x on Power and 5.5x on lumber. Risks to our rating and target price include commodity prices, FX rates and, among other things, trade policies.

Full Report

Date of Production: 18-Apr-2023 22:44:31 UTC Date of Dissemination: 19-Apr-2023 08:00:52 UTC

CDW Corp [CDW.OQ]
Canary in the Coal Mine?, Negative Preannouncement Driven by Large Customers & Transactional Sales

OUTPERFORM

Rating	OUTPERFORM
Price (18-Apr-23, US$)	190.29
Target price (US$) (from 230.00)	195.00
52-week price range (US$)	213.93 - 152.59
Market cap(US$ m)	25,715
Enterprise value (US$ m)	30,949

Target price is for 12 months.

Research Analysts

Shannon Cross

Ashley Ellis

- After market, CDW (CDW, OP) negatively preannounced 1Q23 results and significantly reduced full year guidance. Management now expects the US IT market to decline high-single digits in 2023 versus ~flat prior (CDW revenue to grow 200-300 bps faster) and non-GAAP EPS to be down modestly y/y versus up mid-single digits prior. We think the sell-off in the stock since early March was largely due to growing concerns on IT demand, especially given guidance from Dell (DELL, OP) and TD Synnex (SNX, N). Importantly, CDW's cash flow is counter-cyclical, supporting continued cash return to shareholders (bought back ~$200M during 1Q). CDW will host a call 5/3 to discuss results further.
- **Hardware & Large Customers Drive Miss:** Transactional sales and large commercial customers declined most significantly, likely reflecting weak demand for PCs, servers and storage. NetApp (NTAP, N) similarly missed estimates due to exposure to large US enterprises. The announcement did not specify which verticals were weak, but we believe CDW has notable exposure to tech and financials. Solution sales also missed expectations but to a lesser degree, therefore gross margin benefitted from mix-shift.
- **2023 Estimates:** 1Q23 revenue is expected to be ~$5.1B, well below our estimate of $5.52B and the Street at $5.58B. Fixed costs were an offset to better gross margin and operating margin was ~8.5% (we were at 8.9%). We now estimate 1Q23 non-GAAP EPS of $2.02, down from $2.33. CDW said customers are spending more cautiously, though revised guidance implies declines will moderate from 1Q23 (down ~14% y/y). We lower our 2023 revenue estimate by 8% to $22.40B and non-GAAP EPS to $9.43 and roll these assumptions through to 2024 (now $24.69B and $10.69, respectively).
- **Reiterate OUTPERFORM**: We think updated guidance will fairly de-risk 2023 estimates and continue to believe CDW's strong execution and customer relationships warrant a premium. However, we expect the stock to be weak until signs of improving end demand. Lower TP to $195 (from $230) based on 18x our reduced 2024 non-GAAP EPS estimate. Risks include weaker IT spending, supply chain and integration of M&A.

Full Report

Date of Production: 18-Apr-2023 23:37:41 UTC Date of Dissemination: 18-Apr-2023 23:38:37 UTC

CREDIT SUISSE

COMPANY UPDATES:

Media | Earnings

19 April 2023

Netflix Inc. [NFLX.OQ]

1Q23 Wrap: Revenue Reacceleration Pushed Off to 3Q

NEUTRAL

Rating	NEUTRAL [V]
Price (18-Apr-23, US$)	333.70
Target price (US$)	331.00
52-week price range (US$)	367.96 - 166.37
Market cap(US$ m)	148,612
Enterprise value (US$ m)	157,152

Research Analysts

Douglas Mitchelson

Jane Feng

Grant Joslin

Chirac Ndetan

Forecast Update: 1Q23 was slightly below on subs/revenue (by 249k/$41m), though EBIT was still slightly above (by $65m) and FCF well above (by $788m), while the 2Q23 guide was below CS for revenue/EBIT (by $405m/$373m) though subs were indicated as likely "similar" to 1Q23 (450k above CSe, and 2m below consensus). 2Q23 is colored by password sharing implementation essentially moved back from 1Q23 to 2Q23, pushing sub impacts and revenue growth back a quarter. Guidance for 2023 margins was unchanged and with password sharing/ad tier execution encouraging, our operating forecasts are little changed, while FCF is increased modestly (now 2023/2004/2025E $4.0b/$5.15b/$6.3b).

What We Learned: Favorable: (a) mgmt indicated results from four password sharing markets launched in 1Q validated their strategy, particularly with Canada subs and revenue now above pre-launch, and 3Q should have more net adds than 2Q following the impact from the bulk of markets launching sharing plans in 2Q, while Canada is a good proxy for sharing pricing in the U.S.; (b) the ad tier ARPU is above the basic tier already in their 12 ad markets, and in the U.S. it is also above the standard plan, they see 50+% incremental contribution post-MSFT and opexp costs for the ad tier, customers are not tiering down to the ad tier and engagement is above their expectations, and the sign-up rate for ad tiers are in the same range as other plans; (c) price cuts in 116 markets in 1Q23 (5% of revenue), to drive mass market adoption similar to India's success (where engagement grew 30% and revenue growth accelerated); (d) FCF guidance is increased $500m for '23 to $3.5+B due to lower cash content spend (post-COVID production and production incentive timing), though 2024 cash content maintained at ~$17B; and (e) noted stock buybacks would accelerate, confirming expectations.

Outlook: The revenue acceleration/margin expansion story for Netflix remains intact, albeit pushed off a quarter. Key remains sustainable growth post one-time password sharing benefits, especially with sub growth geared towards lower ARPU markets – the simple question remains whether Netflix will continue to be a must-have service as streaming content available on other services increases. Further, we prefer FCF after stock comps, and Netflix is trading at 25x '25E, suggesting modest returns from here.

Valuation: Our DCF target remains $331. We adjust 2023-25E EPS. Risks: content popularity and cost, competition, macro, and capital allocation.

Full Report

Date of Production: 19-Apr-2023 04:05:20 UTC Date of Dissemination: 19-Apr-2023 04:06:41 UTC

Bank of America Corp. [BAC.N]
Circling back… solid results from top to bottom; fine-tuning estimates; TP $42

OUTPERFORM

Rating	OUTPERFORM
Price (18-Apr-23, US$)	30.56
Target price (US$)	42.00
52-week price range (US$)	39.66 - 26.97
Market cap(US$ m)	244,458
Enterprise value (US$ m)	244,458

Target price is for 12 months.

Research Analysts

Susan Roth Katzke

Jill Shea

Earlier today Bank of America reported first quarter earnings of $0.94 per share—solidly north of CS at $0.78 and the FactSet consensus at $0.81. Upside was revenue driven and broad-based, operating leverage was clear; credit costs were manageable and lower than forecast (less LLR build, NCOs in line); ample capital supported a $2.2bn buyback. A solid set of results from the top line through to EPS/reported ROTCE of 17%+ on CET1 of 11.4%. **Looking forward, with respect to estimates…** factoring in the first quarter's upside, with no material change to our forecast net interest revenue trajectory (no need with conservative deposit flow/beta expectations already embedded; asset sensitivity retained), no change to the full year expense outlook, and conservatism embedded in the existing loan loss reserve, then fine tuning around market-related revenue expectations and the loss rate trajectory takes our 2023 estimate up to $3.30 per share (from $3.20); our 2024 estimate goes to $3.65 per share (from $3.70). **Risks (+/-) to the achievability of our estimates and target price** tie most closely to the macro and market backdrop (i.e., the level of interest rates, business and capital markets activity, credit quality migration) and to regulatory dynamics (including CCAR, the Basel III end game and the Fed's response to recent events/the holistic capital review).

- **For a snapshot of 1Q23 fundamentals and expectations coming into earnings,** we refer to this morning's note: BAC: A solid set of results from top to bottom; first thoughts on 1Q23. We also refer back to highlights from our February conference meeting with CFO Alastair Borthwick: BAC: Highlights from our Bank of America meeting at the 24th Annual CS Financial Services Forum
- **Our target price of $42** is derived by applying our weighted average valuation methodology using a 10% weight on our blue sky scenario of $59, a 50% weight on our DCF-derived base case scenario of $48, and a 40% weight on our grey sky scenario of $30; this target price translates to 12.7x our 2023 and 11.5x our 2024 eps estimates and 1.7x forecast year end 2023 tangible book value per share.

Full Report

Date of Production: 18-Apr-2023 23:29:44 UTC Date of Dissemination: 18-Apr-2023 23:31:01 UTC

Johnson & Johnson [JNJ.N]
1Q23 Second Opinion

NEUTRAL

Rating	NEUTRAL
Price (17-Apr-23, US$)	165.67
Target price (US$)	168.00
52-week price range (US$)	186.01 - 151.05
Market cap(US$ m)	430,475
Enterprise value (US$ m)	458,746

Target price is for 12 months.

Research Analysts

Trung Huynh

Carson Wong

- **Guidance upgrade following strong 1Q23 results.** Sales for 1Q23 came in ahead of expectations, benefiting from strong performance across all divisions. In Pharma (+7.2%cc YoY), we are encouraged by sales for most key growth drivers (Darzalex, Xarelto, Immunology) offsetting pressures in oncology (Imbruvica), which is occurring quicker than company expectations. Medtech performance was a highlight where growth (+11%cc YoY) came in above pre-COVID levels. Given the strong recovery of procedures, JNJ is now guiding for more stable Medtech growth throughout the year vs. prior guidance of a stronger 2H. 2023 sales guidance was increased by $1bn to $97.9bn - $98.9bn ex-COVID (CSe $99.3bn; $98.5bn ex-COVID) and adjusted EPS of $10.60 - $10.70 (CSe $10.68) from $10.45 – 10.65.

Confidence remains for 2025 Pharma sales and pipeline. Management reiterated its 2025 target, although adjusted this goal to $57bn from $60bn given the recent strengthening of the USD. We and consensus continue to believe this is ambitious, and need to see further commercial execution of its marketed portfolio (CSe $53.8bn and cons. $53.4bn). In the pipeline, all remains on track. However, the final analysis of the MARIPOSA 1L NSCLC study is now expected YE23, ahead of our expectations of 2Q24. Additionally on the call management noted interim analysis was passed, which was a bull case for some investors.

- **Reiterate Neutral rating and $168 TP:** We make minor changes to our model following updated guidance and management commentary for continued strength in Stelara. We have increased our FY23 EPS by 1% to $10.68 (vs. $10.52 prior).
- **Catalysts and Risks:** (1) P2 nipo RA and HDN PoC data in 2H23, (2) TARIS P2 data in bladder cancer, (3) Business review 5th Dec. Key risks are unexpected challenges or successes of pharma products, pipeline, and macro challenges.
- **Valuation:** Our TP of $168 is based on a 25:75 blended discounted cash flow (DCF) valuation of $169 and a relative P/E of $168. JNJ trades on a 2024 PE of 15.5x, in line with US peers, on 15.6x. On EV/NPV JNJ trades on 1.03x vs peers on 1.09x.

Full Report

Date of Production: 18-Apr-2023 21:20:44 UTC Date of Dissemination: 18-Apr-2023 21:22:05 UTC

Goldman Sachs Group, Inc. [GS.N]

Circling back… eps upside supports estimates (raising 2023); strategic actions a welcomed net positive; TP $410

OUTPERFORM

Rating	OUTPERFORM
Price (18-Apr-23, US$)	333.91
Target price (US$)	410.00
52-week price range (US$)	388.86 - 279.79
Market cap(US$ m)	111,457
Enterprise value (US$ m)	111,457

Target price is for 12 months.

Research Analysts

Susan Roth Katzke

Jill Shea

Earlier today Goldman reported first quarter earnings of $8.79 per share, well above our $7.65 estimate (in all fairness, we did reduce our estimate at quarter end) and the FactSet consensus of $8.14. Results in the core franchise were pretty much in line with expectations, in aggregate. At the bottom line: ROTE was ~13% with CET1 up to 14.8%. **Strategic actions a net positive…** following through on the intent to exit the Marcus loan portfolio, first quarter results included a partial sale and the shift of the remaining loans to HFS—the financial impact was nearly neutral ($470mn realized loss; $440mn reserve release); we view this action as strategically positive /progress against a determination to focus on Goldman's core Global Banking & Markets and Asset & Wealth Management franchises; management went one step further, disclosing the launch of a sale process for GreenSky, on this morning's earnings call—this too was and should be well received as a strategically consistent action. **With respect to estimates…** we had taken a heavy hand to our full year 2023 estimates at quarter end; with a reasonably conservative markets/macro outlook already embedded, we're adding in the first quarter's upside to bring that estimate up to $32.25 per share (from $31.25); our 2024 estimate is unchanged, and above consensus, at $44.00 per share. Our target price is unchanged at $410 (derivation below). **Risks (+/-) to the achievability of our estimates and target price** tie to the macro and market back drop as well as the successful execution against financial return and operational targets.

- **For a snapshot of 1Q23 fundamentals**, refer to this morning's note: GS: First thoughts on 1Q23; for a broader strategic review, we refer to our note recapping Goldman's February 2023 Investor Day: GS: First Thoughts Post Investor Day; see also our February Credit Suisse Financial Conference highlights, GS: Highlights from Goldman meetings at the 24th Annual CS Financial Services Forum
- **Our $410 target price** is derived by applying our weighted average valuation methodology using a 10% weight on our blue sky scenario of $641, a 50% weight on our DCF-derived base case scenario of $523, and 40% weight on our grey sky scenario of $210 our target price translates to 12.7x our 2023 eps estimates and 1.4x forecast year end 2023 tangible book value per share.

Full Report

Date of Production: 18-Apr-2023 23:14:01 UTC Date of Dissemination: 18-Apr-2023 23:15:16 UTC

Diversified REITs | Catalyst Alert

19 April 2023

Healthcare REITs
The White House Executive Order Endorses Skilled Nursing Minimum Staffing Requirement; Negative Readthrough for SNF Exposed REITs

Research Analysts

Tayo Okusanya, II, CFA, CPA

- **The White House Executive Order Endorses Minimum Staffing Requirement For Skilled Nursing Facilities (SNFs)**: The White House announced today that President Biden will enact "the most sweeping set of executive actions to improve care in history" which includes proposals related to skilled nursing ("SNF"). Specifically, Biden's executive order directs the Department of Health and Human Services ("HHS") to "build on the minimum staffing standards for nursing homes and condition a portion of Medicare payments on how well a nursing home retains workers". A minimum staffing initiative has been previously discussed by the White House and was confirmed to indeed be in the works for implementation this spring alongside CMS' recent 3.7% proposed increase to FY24 Medicare reimbursement. The set of executive actions is also focused on "improving the quality of long-term care jobs" also includes a direction to HHS to "consider issuing several regulations and guidance documents to improve the quality of home care jobs, including by leveraging Medicaid funding to ensure there are enough home care workers".

- **This is a Headwind for SNF Exposed Healthcare REITs:** Our Healthcare REIT Summit keynote speaker, Mark Parkinson, President of AHCA, believes the requirement will be at 4.1 hours per patient day vs ~3.6 nationally today. This minimum staffing would cost ~$10B a year (or ~625K per facility) per the AHCA, and the executive order provides no direct visibility into whether Medicare reimbursement rates will be adjusted to reflect a higher cost structure for SNFs. We note that the proposed increase to Medicare rates in FY24 sums up to just $1.2B which shows the large funding gap a minimum staffing level could potentially create. A 2022 study by the Gerontological Society of America also indicates that over 70% of SNFs would lose money at these minimum staffing levels without additional Medicare reimbursement funding. The key to success for any such minimum staffing rule remains implementation, specifically around i) what the actual minimum staffing requirement will be ; ii) how this will be phased in given the current worker shortage (the AHCA estimates ~187k nurses would have to be hired), iii) which group of workers count towards the minimum staffing requirement, iv) if any waivers will be granted, and v) the severity of the penalties for non-compliance (namely specifics around the proposal to "condition a portion of Medicare payments on how well a nursing home retains workers"). We believe the White House language around conditioning a portion of Medicare payments around worker retention bodes negative for the overall SNF industry. In our view, tying Medicare reimbursement to employee retention greatly increases the leverage of the typical SNF worker and we expect median wages to rise as a result. We also note the White House release fails to mention specifics around how minimum staffing will likely be paid for while mentioning punishments for not retaining staff (i.e., a loss of a portion of funding). Lastly, it feels odd to us that the executive order recommends Medicaid as a source of funding for improving staffing for home health but makes no mention of a source of funding to improve nursing home staffing. Healthcare REITs like OHI, SBRA, NHI, CTRE, and LTC as the most affected by this proposal given material SNF exposure.

Full Report

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CREDIT SUISSE

Food Products | Termination of Coverage

18 April 2023

Termination of Coverage
Packaged Food

- We are terminating coverage of the following companies due to the analyst's departure from Credit Suisse: Sovos Brands (SOVO), The Hershey Company (HSY), Mondelez (MDLZ), Bunge Limited (BG), Hostess Brands (TWNK), Utz Brands Inc (UTZ), Vital Farms (VITL), General Mills (GIS), Hormel Foods (HRL), Kellogg Company (K), TreeHouse Foods (THS), McCormick & Company (MKC), Archer Daniels Midland Inc. (ADM), Conagra Brands (CAG), Campbell Soup Company (CPB), Tyson Foods (TSN), J.M. Smucker (SJM), Ingredion Inc (INGR), Freshpet Inc. (FRPT), Nomad Foods (NOMD), B&G Foods Inc (BGS), The Kraft Heinz Company (KHC), Beyond Meat (BYND).
- Effective with this termination of coverage, our final ratings, target prices, and estimates for the above-mentioned companies are no longer in effect.
- Please refer to the report sections immediately preceding the Disclosure Appendix for the valuation methodology and risks associated with our last ratings and target prices.

Research Analysts

Credit Suisse US Eq. Res

Full Report

Date of Production: 18-Apr-2023 19:56:58 UTC Date of Dissemination: 18-Apr-2023 20:00:39 UTC

Life Sciences Tools & Services | Monthly

18 April 2023

China March Data Showed Sequential Improvement
Key Feature of Back-Half-Loaded Guidance

- **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. The latest March data show a 1.0% sequential improvement in high-value manufacturing from the Jan-Feb'23 period. Despite the improvement in March, the high-value manufacturing output growth, which more directly correlates to our sector, grew 1.0% in Q1'23 vs. 5.1% in Q4'22. The data support Tools mgmt.'s cautious outlook for China in Q1, and **we continue to expect China performance to improve Q/Q throughout 2023** (Q1 preview note). In our traditional Tools coverage, Agilent (A) is most exposed to trends in China (22% of sales) while Avantor (AVTR) is least exposed.
- **High-value manufacturing improved sequentially in March**: The overall manufacturing industrial output grew 3.9% in March vs. 2.4% in the Jan-Feb'23 period. The high-value manufacturing output growth, which is highly correlated to Tools' China growth, also saw sequential improvement at 1.5% in March vs. 0.5% in the Jan-Feb'23 period. Overall, the high-value manufacturing output growth grew 1.0% in Q1'23 vs. 5.1% in Q4'22, supporting Tools mgmt.'s cautious outlook for China in Q1. On a 4-year compounded basis, the high-value manufacturing output growth remains at a healthy level of 10.2%.

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HCM + Vertical Services Software
CDAY + SSNC poised to relatively outperform

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Given an uncertain and evolving macro environment we remain selective in HCM + Vertical Services Software into Q123. We believe CDAY and SSNC are poised to outperform in Q1 earnings and believe implied 5-7% intraday moves on earnings 5/3 + 4/27 offer attractive relative risk-rewards. Despite geopolitical and macro risk, these sectors offer high-quality secular growth—as evidenced by revenue outperformance—relative to nonfarm payroll [NFP] growth. ALIT, INTA, SSNC, and TNET have outperformed the broader market YTD. While consistent with our relative view, we also believe FDS and PAYC—both essentially flat—are discounting too much fear. In our view, SaaS operators are well positioned as cloud solutions capture whitespace amid increased penetration driven by technology-fueled generational shifts in consumption. Despite uneven path given where we are in the cycle, we prefer down market [1-9 employees] PAYX [OP, $135 TP]; mid-market [10-1,000], PYCR [OP, $35 TP] + PAYC [OP, $430 TP] over PCTY [N, $265 TP]; and upmarket [1,000+], ALIT [OP, $16 TP], CDAY [OP, $105TP] over ADP [N, $235 TP]. We also offer our relative preference over temp ASGN [UND, $75] + RHI [UND, $63 TP].

- **FDS + SSNC are top ideas in vertical services software**—we recently refreshed our vertical software framework ahead of earnings. As part of this exercise, we have even higher conviction that SSNC offers a well-positioned and durable model with meaningful valuation upside as the market becomes more confident in its accelerating organic growth. In January we also upgraded FDS stock to Outperform **and boosted its TP to $500 [~20% upside].** We see a multiple expansion story given its cloud pivot, deleveraging, cost levers, and ability to resume $180m+ buyback in H223. We believe the market awards healthy multiples to high-quality vertical services with strong balance sheets + FCF [~28-31% FCF margin], even despite slowing top-line
- **HCM [payroll] dividend aristocracy is another lever**—remain constructive as improving fundamentals, product offerings + services contribute to client retention. We believe these unique models enable ADP + PAYX to build on dividend aristocracy [ADP/PAYX ~2.3%/~2.9% yield] and invest long-term. Dividend aristocrats are high-quality S&P 500 companies that not only pay dividends but grow them for at least 25 consecutive years; most doing so for at least 40 years—a club few can claim to be part [<60].
- **Continued outperformance of CDAY [+7% YTD] relative to ADP [-9% YTD]**—in 2022 ADP wasn't impacted by multiple contraction, but expanded on scale, profitability, cash flow, and relative valuation. Conversely, Ceridian's multiple contracted the most in our HCM coverage consistent with an ~40% decline in 2022. This is despite a resilient growth story and Ceridian being the most levered to higher rates in the group from float income. This has impacted the spread between CDAY's and ADP's multiples narrowing [Figures 6 and 7] to almost 0x—suggesting little-to-no premium for Ceridian's stronger growth and higher retention [entirely enterprise end market vs. ADP's major SMB exposure]. We believe the Ceridian 2022 underperformance was mostly due to risk-off environment and anticipate that it will be a key beneficiary of more constructive 10-year treasury yields.

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