Global Research Highlights

Plenty of opportunities in 2024

Investment Strategy

Sticking the soft landing

Michael Gapen and the US Economics team note that incoming data is signaling the US economy can enjoy both modest growth and disinflation simultaneously. Despite weak readings on consumer confidence, the consumer remains inclined to keep its spending up. The team revised their outlook for the US economy and now expects real GDP growth of 1.2% in 2024 (4Q/4Q), 0.6pp higher than before. They also revised their outlook for monetary policy in the direction of additional cuts. Previously, they had the Fed easing by 75bp in 2024 with quarterly 25bp cuts beginning in June. They now look for four-25bp cuts in March, June, September, and December, or 100bp of cuts for the year. They maintained their expectation that the Fed will end balance sheet runoff in June. They also believe potential growth has picked up to around 2.2% presently versus 1.7% pre-COVID, with rising participation behind a surge in total hours worked.

Top 10 questions about US Banks

Ebrahim Poonawala and the US Banks team expect the Bank stock rally to have legs, given the potential for positive inflection in EPS revisions in 2H24, discounted valuations. A hard landing is the biggest risk to stocks with credit normalization priced in. The team sees investors likely to look past margin pressures. Furthermore, relative valuation vs. the S&P, attractive dividend yields, potential for regulatory relief, and US elections are among positive catalysts.

Cybersecurity laggards should do well in 2024

2023 was a strong year for cybersecurity stocks as IT budgets remained robust despite tough macro conditions. Heading into 2024, we remain positive on sector fundamentals, supported by growing enterprise cybersecurity budgets, platformization, and cloud transformation. Yet, we also flag a few risk factors. The industry reported on weaker billings, longer sales cycles, and increased spending scrutiny, and only time will tell if these are just minor adjustments to the business environment or the beginning of a slower cycle. In addition, valuation levels are fairly rich after the strong stock performances in 2023. The team favors the relative 2023 underperformers going into 2024.

Backdrop keeps Biopharma attractive

2023 was a roller coaster for the Biopharma industry, with quality growth names continuing to win, but COVID / commercial execution stories falling flat. Indeed, despite having a strong year for new product approvals / launches and a big uptick in M&A/ licensing activities, both Pharma (DRG index: +5%) and Biotech (NBI index: +4%) underperformed the market (S&P500: +24%). Looking to 2024, Geoff Meacham and the US Biopharmaceuticals team think valuation looks reasonable across Pharma (18X) and Biotech (14X), with the resurgence of M&A demonstrating a more proactive stance towards filling patent cliffs (i.e. LOEs). Importantly, given the current macro backdrop (uncertainty on the timing and magnitude of Fed rate cut) and what's likely to be higher Healthcare policy noise but no real action, Geoff and team are optimistic about the performance of Biopharma in 2024.

Refer to important disclosures on page 29 to 32. Price Objective Basis/Risk on page 10.
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05 January 2024

Global

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Top Macro reports

Top Industry reports

Top Stock reports

BofA SECURITIES

US Economic Viewpoint

Sticking the landing

18 December 2023

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Forecast revision: Faster growth, lower inflation

Incoming data is signaling the US economy can enjoy both modest growth and disinflation simultaneously. Despite weak readings on consumer confidence, the consumer remains inclined to keep its spending up.

We revise our outlook for the US economy and now expect real GDP growth of 1.2% in 2024 (4Q/4Q), 0.6pp higher than before. With stronger final sales, we have nudged up our outlook for employment, with private payrolls rising 88k per month on average in 2024, versus 56k previously. This results in a slightly lower path for the unemployment rate, with a peak of 4.2%, down two-tenths from our prior forecast. Finally, we now look for 4Q/4Q headline and core PCE inflation to fall to 2.2% and 2.5%, respectively, from 2.4% and 2.6% previously.

Updated Fed outlook: 100bp of cuts in 2024

We also revise our outlook for monetary policy in the direction of additional cuts. Previously we had the Fed easing by 75bp in 2024 with quarterly 25bp cuts beginning in June. We now look for four-25bp cuts in March, June, September, and December, or 100bp of cuts for the year. This would bring the target range for the federal funds rate to 4.25-4.50% in December 2024 and 3.25-3.50% in December 2025.

Our projection is for fewer rate cuts than financial markets currently expect. We attribute the gap between our funds rate forecast and market pricing to a combination of market expectations of a faster slowdown in inflation and/or higher recession risk. We have shifted in the direction of lower recession risk while maintaining a forecast for inflation that is stickier than the market-implied path.

Balance sheet: We maintain the end of runoff in June 2024

We maintain our expectation that the Fed will end balance sheet runoff in June. In the December press conference, Chair Powell said it would be possible to let quantitative tightening continue while the policy rate was normalized (as opposed to ending runoff from signs of material economic weakness). This may indeed be the trade that participants make to get the rate cut cycle started in March; begin rate cuts but let a shrinking balance sheet provide some additional tightening in the background to counter concerns financial conditions may have eased too much.

Is the US economy structurally different?

We believe potential growth has picked up, to around 2.2% presently versus 1.7% pre-COVID, with rising participation behind a surge in total hours worked. Without evidence of a sustained pickup in productivity, we are skeptical the US economy is structurally different. That said, the boost in total hours and loosening of global supply chains has provided a supply-induced impulse to disinflation which could last for a while longer.

Click US Economic Viewpoint for full report including important disclosures.

US Banks

2024 Year Ahead: Top ten questions asked (and answered)

Industry Overview

04 January 2024

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United States
Banks

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#1 Will bank stocks continue their year-end rally?

Yes, if a hard landing is avoided. We see the potential for bank stocks to build on their recent gains on the back of easing credit concerns (= P/E expansion) and the possibility (not a done deal) of positive EPS revisions later in the year. Stocks are trading at 11x/10x FY24/25e EPS vs 13.7x pre-pandemic median. Top stock tip ideas: Prepare for an overshoot.

#2 Will credit quality deteriorate?

Yes, but not a blind spot with credit normalization priced in. Net charge-offs (NCOs) tightly correlated to the unemployment rate (100bp increase = +20bp in NCOs). While banks will realize losses tied to CRE exposures, these should be manageable in an otherwise benign credit backdrop. Our sensitivity analysis implies -11% risk to EPS from higher losses assuming a spike in the unemployment rate. Exhibits 7-10.

#3 Will Fed rate-cuts hurt EPS?

Yes, but we expect investor tolerance for negative revisions if hard landing avoided. Lower rates to reduce investor concerns tied to deposit liquidity, MTM losses on bond books (= accelerated TBV growth). Sensitizing for lower rates implies -1.2%/-1.4% risk to BofA's large-cap and mid-cap coverage universe. Exhibits 11-14.

#4 Will Basel III Endgame proposal change?

Most likely, for the better. Potential catalyst for GSIB banks. Regional banks to witness increased regulatory scrutiny (= higher compliance costs, capital/liquidity requirements).

#5 Will M&A activity pick up?

Yes and no. Regulatory backdrop not conducive for larger bank M&A. But the need for sticky deposits (= lower cost funding), rising regulatory burden motivating factors.

#6 Will US Presidential elections matter?

Yes. Financials have historically outperformed S&P 500 by 400bp in election years. Potential for a Republican win could improve sentiment on regulations/M&A.

#7 Will customer activity rebound?

Maybe. Potential for debt/equity issuance to rebound following a dismal 2023. Capex to benefit from fiscal spending, but subject to GDP growth, geo-politics, elections.

#8 Will trading revenues prove resilient?

Hard to say, but drivers of volatility prevalent with 60% of global GDP headed for elections, pent-up issuance demand, uncertainty tied to rate-cuts, geo-politics.

#9 Will AI transform the industry outlook?

Evolutionary vs revolutionary for now, serve as another productivity enhancement tool.

#10 Will private credit disintermediate banks?

Unclear, but larger banks positioned to compete with private credit.

Click US Banks for full report including important disclosures.

Acronyms:
B3E: Basel III Endgame
CRE: Commercial Real Estate
FRTB: Fundamental Review of the Trading Book
GFC: Global Financial Crisis
GSIB: Global systemically important bank
MTM: Mark to market
RWA: Risk-weighted assets
TBV: Tangible book value
UE: Unemployment

Ratings changes:
Truist Financial- Upgrade to Buy: Three reasons to buy the stock
State Street Corporation- Downgrade to Underperform

Cyber Security

Year Ahead 2024: Cybersecurity is still the place to be; now we favor the laggards

Industry Overview

04 January 2024

Equity
United States
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Key trends to focus on in 2024

2023 was a strong year for cybersecurity stocks as IT budgets remained robust despite tough macro conditions. Heading into 2024, we remain positive on sector fundamentals, supported by growing enterprise cybersecurity budgets, platformization, and cloud transformation. Yet, we also flag a few risk factors. The industry reported on weaker billings, longer sales cycles, and increased spending scrutiny, and only time will tell if these are just minor adjustments to the business environment or the beginning of a slower cycle. In addition, valuation levels are fairly rich after the strong stock performances in 2023, and our note delves closer into this topic. We maintain our Buy ratings on CrowdStrike and Zscaler, but favor the relative 2023 underperformers, namely Fortinet and CyberArk.

Rich valuation for the outperformers

With leading cyber stocks up 75%-130%+ in 2023, we ran our cybersecurity universe through a valuation exercise, modeling three scenarios of revenue growth and FCF margin assumptions and valuing the stocks on an EV/FCF multiple basis. As an example, for CrowdStrike, we assumed revenue would grow from $3.05bn in 2023E to $10bn in 2028, and FCF margin would grow from 30% to 36%, respectively. We discount the FCF to 2024 values using a 10% discount factor and apply a 25x FCF multiple. Our model suggests that despite a healthy set of growth and margin assumptions, the fair value of CrowdStrike offers -4.3% downside in the base case, with similar conclusions for all the good stock performers in 2023, namely Palo Alto Networks, Zscaler, and others. Our model suggests the laggards offer healthy potential valuation upside and we mainly highlight the model conclusions for Buy-rated Fortinet. One of the key concerns on Fortinet is a prolonged absorption period, but we show in a separate note (here) that true excess Firewall deployments are limited and order growth should resume in 2H24.

Our top picks: Fortinet and CyberArk

Valuation considerations alone rarely drive the performance of tech stocks, especially in times of strong momentum, and our year-ahead report discuss the key fundamental growth drivers in the industry, namely Zero Trust, SASE, Cloud Security (CNAPP) and the impact of Artificial Intelligence on Cybersecurity. However, we also grow our focus on companies that have both business momentum drivers as well as a long-term valuation case. We highlight Fortinet as a top pick for 2024, as we believe the stock performance should improve once the business momentum improves in 2H24. We also favor CyberArk, which continues to exhibit strong business momentum, yet trades at a discount to other successful cybersecurity stocks. We maintain our Buy ratings on CrowdStrike and Zscaler, though highlight the growing valuation risk into 2024. Lastly, on Okta, our model suggests high valuation upside, but it also assumes solid execution, while the execution history has been challenging and the fundamentals are challenged.

Investment decisions should not be made prior to reading the research report, which includes important information and disclosures.
Click Cyber Security for full report including important disclosures.

US Biopharmaceuticals

The 2024 US Biopharma Outlook

Industry Overview

03 January 2024

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See abbreviation list, p. 71-74

Biopharma remains attractive with current backdrop

2023 was a roller coaster for the Biopharma industry with quality growth names continuing to win (Lilly, Vertex) but COVID / commercial execution stories falling flat (Pfizer, Moderna, Bristol). Indeed, despite having a strong year for new product approvals / launches and a big uptick in M&A/ licensing activities, both Pharma (DRG index: +5%) and Biotech (NBI index: +4%) underperformed the market (S&P500: +24%). Looking to 2024, we think valuation looks reasonable across Pharma (18X) and Biotech (14X) with the resurgence of M&A demonstrating a more proactive stance towards filling patent cliffs (i.e. LOEs). Importantly, given the current macro backdrop (uncertainty on the timing and magnitude of Fed rate cut) and what's likely to be higher HC policy noise but no real action, we are optimistic on the performance of Biopharma in 2024. To be sure, major innovation in very large therapeutic categories such as obesity, pain, and oncology is quite evident and should help orient generalist investors towards the sector. Among SMiD caps, we continue to expect volatility with a positive bias to names that have commercial products / phase 3 pipelines over pure platform technologies; this also likely the case when evaluating strategic attractiveness. Overall, we remain positive on the group in 2024 with a preference for higher growth names in Biopharma. **For more detailed stock-specific thoughts, see our accompanying report and join us TODAY at 10:30 am ET for our Biopharma outlook webinar.**

Where would we put money to work in 2024?

In large cap Biopharma, the sector continues to diverge into the 'haves' and the 'have-nots' based primarily on the strength of new product cycles. Indeed, we anticipate conversations around GLP-1 to continue unabated, with a heavy focus on Lilly's Mounjaro/ Zepbound launch trends as well as competitive/ non-incretin readouts. Nevertheless, Lilly is well-positioned to weather competitive threats with its breadth of portfolio, making it our top pick. Merck is another one of our favorites given its top-tier revenue growth profile (anchored by Keytruda/ Gardasil) at a reasonable multiple (12x vs. peer average 14x) and multiple launches/ catalysts (sotatercept, HER3-DXd, TROP2) this year. Importantly, management still has time to execute on BD to diversify Keytruda risk. For large-cap Biotech, Gilead is a favorite as we expect its HIV / Oncology portfolios to have another year of solid performance, with upside potential from Trodelvy uptake/ data readouts and improving sentiment on Gilead's overall Oncology strategy (Arcus and Arcellx collaboration). For SMid caps, we like the risk/reward of Amylyx going into TUDCA-ALS and PHOENIX readouts, with potential to be a top takeout target this year, and we like Neumora given the multiple shots on goal opportunities going into J&J's aticaprant readout in mid-24, KOSTAL-1 in 2H, and Cerevel's pivotal data in 2H, with potential to unlock significant opportunities in the neuropsych markets.

Favorite Large Cap Biopharmas: Eli Lilly (LLY) and Merck (MRK)
Favorite Biotechs: Gilead (GILD)
SMid Biotechs: Neumora (NMRA) and Amylyx (AMLX)
Least Favorites: Regeneron (REGN), Curevac (CVAC)

Investment decisions should not be made prior to reading the research report, which includes important information and disclosures.
Click US Biopharmaceuticals for full report including important disclosures.

US Semiconductors

State of the union: 180 or 360 degree rotation?

Industry Overview

02 January 2024

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More of the same, or rotation into laggards?

After a solid 65% run in the SOX index in 2023 (fourth best in last three decades), the key investor question is whether 2024 will bring: 1) *More of the same*? Inevitable strength in growthier/secular albeit crowded cloud/AI, memory, semicap, EDA stocks, OR 2) *Rotation into last year's laggards* in cyclical/"value" groups inc. industrial/autos, small-caps, smartphone, foundry. The arbiter could be macro: if interest rate cuts prove to be proactive/stimulate the global cyclical economy (esp. China), it supports the laggard rotation scenario. However, if the global economy remains tepid despite rate cuts, investors are likely to rotate back into tried and tested secular growth stocks. Our approach is to be consistently exposed to durable growth themes across **Cloud** (NVDA, AVGO, AMD, MRVL), **Cars** (NXPI, ON) and **Complexity** (KLAC, SNPS, ARM, CDNS).

Risks to owning chip stocks in 2024?

1) *Premium valuation:* SOX at 25x NTM PE vs SPX at 20x or 5-trun premium vs 1.2x historically (though partly due to higher multiples of cyclically depressed auto/industrial and memory stocks); 2) *Market rotation*: away from beta tech. Early days but this rotation abundantly clear in today's trading when SOX index declined -3.6% well below broader SPX down -57bps; 3) *Enhanced volatility*: influenced by unpredictable events including geopolitics, trade conflicts and upcoming elections in US and Taiwan.

But also potential rewards, we are bullish on the sector

1) *New Upcycle*: As outlined in our Year-Ahead 2024 report (see report), we could be at start of upcycle from -11% YoY sales decline in CY23 to 15%/14% industry sales growth in CY24/25E. Upcycles last 2-2.5years, with last three driving 67% average SOX returns; 2) *Generative AI in early stages*: we are only in Year 2 of what is normally a 3+ year upfront hardware deployment cycle and 10+ year success-driven cycles in new technologies (similar to 3G/4G rollouts), so too early to predict a peak; 3) *Reshoring additive to demand*: funding from global CHIPS Acts across US, Europe, Japan, China, Korea etc. could continue to provide new sources of funding for semi manufacturing.

Top 5 items on our radar

1) *Generative AI monetization*: we see solid hardware deployment and supply constrains through CY24, but AI chip stock sentiment will be driven by end-user (cloud customer, enterprise) monetization, key to NVDA, AVGO, AMD, MRVL, MU, CAMT; 2) *US CHIPS Act Grants*: start within Q1, part of reshoring thesis, most benefit to INTC, TXN, MU, semicap eqp. stocks also exposed to sustainability of China fab builds; 3) *Industrial chip inventory correction*: could last through Q1 and any recovery will require sustained global demand/ stimulus, but key to recovery in TXN, ADI, MCHP; related we also monitor any slowdown in auto/EV demand that has kept a lid on auto chip stocks ON, NXPI, WOLF and their European peers; 4) *Potential EDA industry consolidation*: see comments published in related note published on Jan 2, 2024; and 5) *Bottoming in telco demand*: likely more 2H weighted, but any troughing signs could raise interest in small-caps LITE, COHR. Telco upside could also further benefit MTSI (remains key beneficiary of strong defense exposure).

Investment decisions should not be made prior to reading the research report, which includes important information and disclosures.
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Medical Technology

Medtech in 2024: focus on estimates after the big 2023 multiple reset

Price Objective Change

02 January 2024

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At least bar lower for medtech in 2024 (a different setup)

We kick off 2024 at one of the lowest relative valuations in a decade (+2.8% vs S&P). This creates a much lower bar for stocks to work in 2024. EPS revisions likely drive stocks in 2024 as it's not clear what changes medtech multiples in 2024 outside of macro (soft vs hard landing). Medtech multiples would likely benefit the most with a hard landing. We don't see the GLP-1 overhang going away but we also think we are beyond GLP-1 data driving outsized stock moves (needs to impact estimates now).

We keep ISRG, BSX, SYK as best ideas even if consensus

We continue to stick with ISRG, BSX, and SYK as top ideas for 2024 (multi-year double digit EPS growth plus 2024 catalysts that drive 2025 upside). We admit these are so consensus, the bull thesis doesn't even need repeating. But they were consensus in 2023 and were also the few medtech stocks that kept up with the S&P in 2023.

But for some non-consensus ideas …

In large cap value, we prefer MDT as EPS can likely grow a little ex spin and there are a few pipeline items to help turn sentiment. BDX and SWAV are the two stocks where investor sentiment could shift significantly more positive over 2024. INSP, which we think trades more on estimates than GLP-1 data, can work if margins expand (we think better chance they do in 2024). AXNX and NARI both keep beating/raising/expanding margins and as long as this keeps happening, these stocks likely move higher.

Macro could be an important consideration in 2024

We are not making a macro call and our best ideas/stock thoughts above are independent of macro. But here's how we see macro scenarios impacting medtech.

Hard landing: medtech sees most relative multiple expansion. ABT/BDX more in favor. Cardio over ortho. SYK likely lag on capex exposure. We think large caps would initially outperform SMIDs until the macro was closer to bottoming.

Soft landing: Stocks likely move most with estimates so EPS growers can still work. But we think investors would have more appetite for large cap value (MDT/ZBH/BAX), and unprofitable SMIDs where there's a turnaround narrative (NVRO/TNDM).

Higher inflation/higher rates: medtech out of favor. Large cap growth could hold up better (BSX/SYK/ISRG) as these companies can grow fast enough to get margin expansion. Large cap value out of favor with more margin risk. SMIDs lag but profitable growth (PODD/SWAV) more in favor than unprofitable growth.

2023 wasn't great for medtech but starting point higher

Medtech started 2023 at a 22.4% premium to S&P with stocks priced for the good fundamentals we saw in 2023. But relative multiples compressed 19.6% over the course of 2023. We attribute about half of this multiple compression to GLP-1s and about a quarter of the compression to Fund flows into Mag 7/Tech. We attribute the other quarter of multiple compression to tools buy the dip, peak medtech growth fear, lack of major catalysts, and only a select few companies driving outsized EPS growth. We separately raise our PO on DXCM, INSP, and PODD given higher peer multiples.

Investment decisions should not be made prior to reading the research report, which includes important information and disclosures.
Click Medical Technology for full report including important disclosures.

Tickers mentioned in this report

ABT = Abbott Laboratories
AXNX = Axonics
BAX = Baxter
BDX = Becton Dickinson
BSX = Boston Scientific
CNMD = CONMED
DXCM = Dexcom
EMBC = Embecta
EW = Edwards Lifesciences
INSP = Inspire Medical
ISRG = Intuitive Surgical
MDT = Medtronic
NARI = Inari Medical
NVRO = Nevro
OM = Outset Medical
PODD = Insulet
SILK = Silk Road Medical
SWAV = Shockwave Medical
SYK = Stryker
TNDM = Tandem Diabetes
ZBH = Zimmer Biomet

Acronym glossary

GLP-1 = Glucagon-like peptide-1

SMID = small and mid

continues page 65

Packaging & Paper/Forest Products

Year-ahead, 2024 – Trough on trough is what we crave

Rating Change

02 January 2024

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Trough on trough is what we crave in January 2024

We prefer value with a cyclical bias heading into 2024, and believe our sector is reasonably attractive and well-positioned for the new year, the 4Q rally notwithstanding. Valuations are at relatively low levels after a yearlong (or greater) volume and earnings recession. This limits downside, and we particularly like stocks who look relatively inexpensive v. past trough periods. Our strategists believe cyclicals (and lower quality names) are comparatively better positioned. Given how quickly consensus moved to "soft landing" we'll try to be very tactical should macro trends reverse.

Two big ideas if you can take the risk: SEE and GPK

Our top Buy-rated idea is SEE, formerly known as Sealed Air. Probabilities are high that SEE could look quite different in the next few years. No doubt cyclical downturns in key markets have hurt but we foresee SEE needing aggressive go-to-market, cost reduction and portfolio optimization changes. Fortunately, valuation limits potential downside from here; see inside for some deep dive channel checks we've done recently for SEE. Next, we rate Graphic Packaging as Buy. GPK is discounted to its historical valuations because of boxboard supply concerns but op. rates will likely be better than expected given our analysis. Moreover, it's the "matched short" for many clients' "containerboard longs" but market worries about containerboard at some point could prompt unwinding and further GPK buying.

Other particularly unloved names: SON, OI

Sonoco Products is partly a valuation call, selling at a 50% relative P/E. It also could benefit should investors pare containerboard longs, partly as boxboard trends improve. It is also inexpensive v. other specialty companies (Amcor, Avery, Aptar and Sealed Air). At a depressed, 7x P/E and 5x EV/EBITDA multiple, O-I Glass should improve on a weaker dollar (BofA's call) and as European macro trends improve – Europe is ~55% of earnings.

Other: AVY & BALL to U/P, BRC & PTVE to Buy

While Ball Corp and Avery have long been amongst our favorite companies, we move both to U/P. This is partly a valuation call as both stocks have gotten close to our POs in recent weeks with AVY at 22x 2024E EPS and BALL at 18x, and also given our ratings distribution. Additionally, we upgrade Brady (BRC) and Pactiv Evergreen (PTVE), both to Buy. BRC currently trades at 15x our 2024 EPS estimate, while PTVE is at 13x.

Sectors: Specialty, & boxboard relatively positive

We are most positive on specialty packaging – multiples are less expensive and there is more of a cyclical catalyst (i.e., foodservice, protective) though rigid packaging is also fairly inexpensive. Containerboard would seem to be well positioned (we're early in the recovery, we did upgrade WestRock several quarters ago) but containerboard is not relatively inexpensive v. past, early-cycle periods. In beverage cans, multiples have also expanded. Lastly in wood/timber, we clearly could have been quicker with rating adjustments – U/P-rated Louisiana-Pacific and Boise Cascade have rebounded off lows – but we expect a potential pullback. See Exhibits 34 – 40 for summary of rating, PO, estimate and valuation changes.

Investment decisions should not be made prior to reading the research report, which includes important information and disclosures.
Click Packaging & Paper/Forest Products for full report including important disclosures.

Exhibit 1: Rating changes
A summary of rating changes

	New	Old
Packaging		
AVY	Underperform	Buy
BALL	Underperform	Neutral
BRC	Buy	Underperform
PTVE	Buy	Neutral

Source: BofA Global Research
BofA GLOBAL RESEARCH

Exhibit 2: Price objective changes
A summary of PO changes in this report

	New	Old
Packaging		
AMCR	$9.90	$9.30
ATR	$150	$146
AMBP	$4.40	$4.20
AVY	$208	$208
BALL	$59	$61
BERY	$83	$78
BRC	$65	$51
CCK	$105	$95
GEF	$77	$75
OI	$22	$22
PTVE	$16	$14
SEE	$42	$40
SLGN	$53	$48
SON	$70	$63
Paper/Forest		
BCC	$132	$112
GPK	$30	$29
IP	$37	$34
LPX	$65	$62
PKG	$176	$170
PCH	$56	$57
SLVM	$59	$55
WRK	$48	$45
WY	$37	$37

Source: BofA Global Research

Amazon.com

Still see room for margin upside in 2024, with Prime video ads providing nice boost

Maintain Rating: BUY | PO: 168.00 USD | Price: 149.93 USD

03 January 2024

Equity

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2024 should be a solid year for Amazon advertising

Advertising checks for ad spend on Amazon remain strong (Skai 4Q marketplace ad spend increased 48% y/y through Nov), and we expect Amazon's 2024 ad growth to aided by new initiatives, including more ads in Prime Video and the ramp of new ad partnerships. Ad revenue strength has the potential to contribute to our margin upside thesis on the stock, as our analysis suggests advertising revenue will contribute 370bps to '23 North America (N.A.) margins. In addition to retail efficiencies (see Retail Margin Checkup), we see potential for ad revenue upside to drive margin upside in 2024.

Time for more returns on Prime content investment

CEO Andy Jassy indicated that $7bn of Amazon's $17bn 2022 media content spend was for Prime Video content production & licensing. Amazon's recent announcement of a $3 N.A. monthly premium for ad-free Prime Video (starting 1/29 in US & 2/5 Intl) suggests that Amazon will more aggressively ramp video ads in '24. Netflix commentary suggests that an ad sub can monetize better than an ad-free sub, and if we assume Prime has 150mn Video users and 70% choose lower-cost subscription with ads, we estimate $3bn in potential incremental ad rev, and $4.8bn in total incremental ad+subscription revenue.

New ad partnerships could drive ad spend or aid GMV

Amazon signed a 3P advertising deal with Pinterest for Sponsored Product ads in April and recently signed deals with Meta and Snap to boost Amazon's ad performance on their sites. While financial details are limited, for the Sponsored product deals, we see potential for modest expansion in Amazon's network ad revenues. For the separate Meta and Snap deals, there is potential to improve ROIs of Amazon's ads, boosting GMV.

Ad growth to help drive margin growth and upside; Buy

Amazon made big progress with N.A. margins in 2023; we estimate N.A. margins at 3.5% vs. -0.9% in 2022. Still, backing out est. advertising margin contribution, we estimate N.A. retail margins at -0.2% in 2023 vs. an average of 3.0% in 2018-2019. Therefore, we believe Amazon's N.A. retail margins still have significant room to grow with potential to reach 7% based on Amazon's commentary and our advertising estimates, well above Street estimates at 5.7% in 2025. We also think the 130bps improvement in Street models for 2024 NA margins (to 4.8%) is conservative given the 450bps expected improvement in 2023, and our ests. for close to a 50bps contribution from Prime Video.

Estimates (Dec) (US$)	2021A	2022A	2023E	2024E	2025E
EPS	4.12	1.19	4.72	6.52	7.78
GAAP EPS	3.24	(0.27)	2.74	3.78	4.64
EPS Change (YoY)	51.5%	-71.1%	296.6%	38.1%	19.3%
Consensus EPS (Bloomberg)			3.57	4.51	5.67
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	36.4x	126.0x	31.8x	23.0x	19.3x
GAAP P/E	46.3x	NM	54.7x	39.7x	32.3x
EV / EBITDA*	22.2x	21.5x	15.1x	11.8x	10.2x
Free Cash Flow Yield*	-0.6%	-0.8%	1.9%	3.1%	4.8%

Investment decisions should not be made prior to reading the research report, which includes the opinion key and other important information and disclosures. Click Amazon.com for full report including important disclosures.

Stock Data

Price	149.93 USD
Price Objective	168.00 USD
Date Established	27-Oct-2023
Investment Opinion	B-1-9
52-Week Range	81.43 USD - 155.63 USD
Mrkt Val (mn) / Shares Out (mn)	1,524,938 USD / 10,171.0
Free Float	87.7%
Average Daily Value (mn)	7070.88 USD
BofA Ticker / Exchange	AMZN / NAS
Bloomberg / Reuters	AMZN US / AMZN.OQ
ROE (2023E)	28.6%
Net Dbt to Eqty (Dec-2022A)	62.5%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

N.A.: North America

GMV: Gross Merchandise Value

ROI: Return on Investment

AVOD: Advertising-based video on demand

Price objective basis & risk

Abbott Laboratories (ABT)

Our $115 PO is based on 25x our 2024E EPS. This multiple is a premium for a high single digit organic grower but ABT's forward multiple has averaged 27x over the last three years. ABT likely deserves a premium for its balance sheet, above average durability in recession, and upside optionality with COVID testing.

Downside risks to our PO are: 1) durability of COVID testing revenue, 2) product or pipeline setbacks, 3) lower-than-expected growth in emerging markets, 4) unfavorable FX moves.

Advanced Micro Devices, Inc (AMD)

Our $165 PO is based on 32x our 2025E non-GAAP EPS, which is towards the middle of AMD's historical 17x-64x range, justified by AI upside offset by slowdown in cyclical embedded/console markets.

Downside risks: 1) M&A integration risks, 2) Strong competition from larger names, 3) Lumpy nature of consumer and enterprise spending that could create delays in acceptance and success of new products, 4) High reliance on one outsourced manufacturing partner, 5) Maturity of current game console cycle.

Amazon.com (AMZN)

Our PO of $168 is based on our SOTP analysis that values the 1P retail business at 0.9x 2024E Revenue (including subscription/Prime membership fees), 3P retail business at 3.0x 2024E Revenue, AWS at 7.5x 2024 Sales, and the advertising business at 3.5x 2024 Sales. For 2024E, our 7.5x AWS multiple is relatively in line with our SaaS comps at 7.9x, our 0.9x GMV multiple is a discount to our retail comps at 1.1x, and our 3.5x advertising multiple is a discount to our digital advertising comps at 3.6x. We think some conglomerate discount is warranted with elevated regulatory/antitrust risk, but long-term we believe that in-line to discount multiples are warranted given growth rates in-excess of peers.

Downside risks to our price objective are increasing competition from offline and local retailers, AWS client cost optimization impact on revenues and margins, and regulatory pressure on the 3P marketplace. The stock has been subject to heavy volatility in the past, based on margin trends, and this volatility could increase due to economic uncertainty.

Amcor PLC (AMCR / AMCCF)

Our $9.90 price objective (AU$14.75) is derived from a three-part valuation approach, which includes (1) a 16-17x calendarized 2024E P/E multiple, (2) a 10-12x calendarized 2024E EV/EBITDA multiple, (3) a normalized FCF estimate of $1,100mn, an estimated cost of equity of 10% and forecast rate of growth of 0%. We believe the multiples (in-line to a slight premium) are appropriate relative to peers given the company's quality, size, and low leverage.

Risks to our PO are: (1) plastic packaging markets' potential sustainability challenges, particularly in rigid plastic bottles, (2) food, beverage and other packaging fundamentals' potential to disappoint relative to expectations, (3) unfavorable resin price volatility relative to our forecasts could impact results despite contractual pass throughs, (4) competitive factors, (5) unfavorable volume and pricing trends relative to our forecasts, (6) unfavorable macroeconomic trends. Should risk factors cited here and the company fundamentals prove more benign/favorable versus our forecasts, AMCR results and its PO could exceed our forecasts over time.

Amylyx Pharmaceuticals (AMLX)

Our $42 PO is based on probability-adjusted NPV analysis of AMX0035 in ALS ($37/sh) and net cash ($6/sh). We model AMX0035 revenues through 2035 in key markets including US, Canada, and Europe, and apply a 15% WACC and -35% terminal growth rate.

Upside Risks to our PO
1) Positive confirmatory phase 3 PHOENIX trial readout in 2024 that drives strong market uptake, especially in OUS markets, 2) better than expected reimbursement and market uptake.

Downside Risks to our PO
1) failure to receive approval in EU, 2) commercial pushback from payers and providers, 3) failure of confirmatory phase 3 PHOENIX trial, resulting in pushback from payers and providers and drug could be withdrawn from the market.

Analog Devices Inc. (ADI)

Our $225 PO is based on 34x CY2025E EV/FCF, within its historical 15x-33x range, and justified based on ADI's best in class profitability and differentiated/secular comms exposure.

Downside risks to our price objective: 1) Economic downturn, which could reduce demand for automotive, industrial products, impacting gross margins, especially given recent capital expenditures and higher fixed cost footprint. 2) Inability to realize the planned cost synergies from the Maxim combination. 3) Competition from larger vendors, such as TXN, which have lower-cost production facilities.

AptarGroup Inc. (ATR)

Our $150 PO is based on a two-part valuation approach: (1) Sum-of-the-parts (SOTP) valuation based on our projection of ATR's 2024 segment results. Given our evaluation of peer and market multiples, we project ATR's Pharma business will be valued at 26x our 2024E EBITDA forecast given where peers currently trade. We value Aptar Closures at 7-8x EV/EBITDA and we value Aptar Beauty segment at a 7x multiple given a longer than expected rebound in the beauty and fragrance market. (2) Normalized FCF valuation which reflects our expectation that it will generate nearly $300mn of FCF on a normalized basis, an estimated COE of 10%, and a forecast growth rate of 5%.

Upside risks: (1) strength of ATR's project backlog given conversions to dispensing products, (2) specialty packagers' ability to surprise in performance in the mid-to-late cycle, (3) a stronger-than-expected recovery from Asian beverage market destocking, (4) depreciation of USD, (5) ATR's restructuring program which could add materially to forecasts.

Downside risks: (1) should consumer trends remain unfavorable for the stock, (2) acquisition risks, given ATR's balance sheet, (3) unfavorable resin swings, (4) unfavorable international growth and potential effects from coronavirus, (5) mgmt transitions, (6) should trends reverse in the policy or regulatory outlook for the US or other countries.

Ardagh Metal Packaging S.A. (AMBP)

Our $4.40 price objective is based on a three-part valuation approach, which takes: (1) a 15x 2024E P/E multiple, (2) a 10-12x 2024E EV/EBITDA multiple and (3) our intrinsic free cash flow (FCF) valuation, which assumes $200mn of normalized FCF, 10% cost of equity, and a 2% growth rate. These multiples are consistent with comparable company multiples and we'd expect the company to trade slightly below peers.

Downside risks to our price objective are (1) AMBP's ability to compete with well established peers, (2) growth, pricing and valuation considerations should volumes slow,

(3) a more concentrated customer base relative to peers, (4) end-market mix given its weighting to hard seltzer, (5) raw material availability in light of recent supply-chain disruptions and the need to pass through primary raw materials (i.e. aluminum can sheet), (6) leverage relative to other rigid packaging companies, (7) energy cost volatility in Europe, and (8) future equity dilution related to existing warrants and an earnout agreement with Ardagh Group.

As with all paper/forest and packaging companies a multitude of micro and macro factors are at work and, coupled with operational leverage, results could be better- or worse-than-expected with downside & upside risks to our PO should fundamentals wind up above or below expectations.

Arm Holdings (ARM)
We assign a $80 PO, which is based on 44x our CY25E non-GAAP EPS. This is at the high end of peers trading at 30x-36x and is justified, in our view, given Arm's superior growth profile.

Downside risks: 1) historically cyclical nature of semiconductor units, 2) high exposure to mature smartphone market, 3) competition against established x86 in the data center, 4) emerging competition from RISC-V in low-end consumer markets, 5) rising geopolitical tensions and deterioration of Arm China relationship, 6) ongoing Qualcomm/Nuvia litigation, 7) small trading float

Avery Dennison Corp. (AVY)
Our $208 price objective is derived from a three-part valuation approach, which includes the use of (1) a 20x 2024E P/E multiple, (2) a 16-17x 2024E EV/EBITDA multiple, and (3) our intrinsic free cash flow (FCF) valuation, which estimates $800mn of normalized FCF (please see our free cash flow model for additional information), 9% cost of equity and a 5% growth rate. Based on history, we think our valuation multiples are appropriate for a late-cycle period with limited inflation.

Downside risks to our price objective are (1) risk relative to AVY's ability to execute on its cost reduction plans, (2) volume and pricing trends in core Materials Group and Solutions Group segments, (3) growing dependence on emerging economies, (4) dilution from radio frequency identification (RFID) and (RBIS) investments, (5) unfavorable volume and pricing trends, (6) unfavorable macroeconomic environment, (7) variability in governmental policy, (8) potential volatility from coronavirus.

Axonics (AXNX)
Our $75 PO is based on 8x EV/2024E sales. This multiple is relatively in line with other high growth medtech peers which is justified, in our view, given we expect roughly 30% /20% growth for AXNX in 2023 /2024 with an in-line margin profile relative to the group (mid-70s).

Downside risks to our PO are: SNM market slowing if potential patients are unwilling to undergo surgery, increased competitive pressure, or AXNX hitting an unforeseen roadblock with payers. COVID related headwinds also pose a risk as SNM has proven to be elective.

Ball Corp. (BALL)
Our $59 price objective is based on a three-part valuation approach, which takes: (1) a 18-19x 2024E P/E multiple, (2) a 14x 2024E EV/EBITDA multiple and (3) our intrinsic free cash flow (FCF) valuation, which assumes $1.2bn of normalized FCF, 11% cost of equity and a 3% growth rate. Multiple ranges are higher vs. past valuation levels given packaging group valuations and the growth trajectory offered by the beverage can market.

Downside risks to our PO are (1) increasing operational challenges from new capacity onboarding, (2) potentially increased competition arising from new entrants, (3) BALL's ability to realize benefits from prior capital spending (e.g., new capacity, custom cans, productivity, etc.), (4) input cost volatility including energy cost volatility in Europe, (5) overseas/emerging market risks (for example, currency), (6) demand trends in beverages, including the risks to overall valuation, demand and pricing should growth slow, (7) seasonal-weighting of full-year earnings to the key 2Q/3Q period, (8) potential governmental policy and regulatory changes in the US and elsewhere, (9) increasing risk from Russia and South America.

And, as with most packaging companies, there are numerous macro risks and other risks around volumes, pricing, input costs and other factors that could negatively affect fundamental and stock price performance. Similarly should these factors prove more constructive than expected, BALL's performance/PO could exceed our forecasts.

Baxter International Inc (BAX)
Our price objective of $40 is based on an earnings multiple of approximately 14x our 2024E EPS estimate. This multiple represents a several turn discount to the large cap medtech comp group as we see BAX revenues growing below the medtech average particularly with hospitals likely to pull back on replacement capital spending. We do not see any major upside revenue growth catalysts for BAX.

Upside/Downside risks to our PO are: 1) whether BAX can create value with its portfolio repositioning (business exits/spins) and 2) deflation/inflation given BAX has outsized exposure to inflationary pressures.

Becton Dickinson (BDX)
Our price objective of $305 is based on 22x our CY24E EPS. We believe this multiple is warranted for a mid-single digit grower with the ability to raise prices in an uncertain microenvironment.

Risks to our PO are: 1) COVID testing could decline quicker than expected, 2) potential delays in Alaris approval, 3) inflation and cost pressures, and 4) slower growth in emerging markets.

Berry Global (BERY)
Our $83 price objective is derived from a three-part valuation approach, which includes: (1) a 13x calendarized 2024E P/E multiple, (2) a 9x calendarized 2024E EV/EBITDA multiple, (3) a normalized FCF estimate of $900mn, an estimated cost of equity of 11% and forecast rate of growth of 0%. We believe the multiples (in-line to a slight discount) we use are appropriate relative to peers given the increased leverage.

Downside risks to our PO are: (1) plastic packaging markets' potential sustainability challenges, including in Europe, (2) food, beverage and other packaging fundamentals could disappoint relative to expectations, (3) unfavorable resin price volatility could impact results despite contractual pass-through, (4) competitive factors, (5) financial leverage, (6) unfavorable volume and pricing trends, (7) unfavorable macroeconomic trends.

Overall, energy, commodity and macro volatility represent ongoing risks for packaging companies. We have tried to forecast and model accurately. However, industry and economic trends could prove weaker or stronger than we modeled.

Boise Cascade Company (BCC)
Our $132 PO is based on the average of (a) a free cash flow (FCF) valuation based on our estimate of $400mn in FCF, a calculated cost of equity of 11% and forecast rate of growth of 3%, (b) a sum-of-the-parts (SOTP) value that values BCC's Wood segment at

6x EBITDA (which is consistent with Wood multiples at this stage of the cycle) and 0.8x sales while its Building Materials Distribution segment will be valued at 8x and 0.5x, respectively. We then discount this valuation back to derive our 12 month PO.

Downside risks to our price objective being achieved are: (1) a slower housing recovery, (2) downwards commodity pricing volatility, (3) demand, supply-chain, (4) distribution business inventory and inflation trends, (5) potential volatility in actual performance relative to consensus given operating and financial leverage, (6) potential increases in Brazilian exports of plywood to the US.

Upside risks are: (1) increases in single and multi-family construction, and/or greater-than-expected usage of BCC products in construction, (2) upwards commodity pricing volatility, (3) reduced imports of plywood from Brazil.

BCC is impacted by numerous macro, inflation, currency and other considerations. To the extent that the points above are more negative than expected, BCC's results and stock price could wind up below our forecasts. Similarly, to the extent that the points above are more positive than expected, BCC results and stock price could wind up above our forecasts.

Boston Scientific (BSX)
Our PO of $60 is derived from 28x our 2024E EPS estimate, which is a premium to the large cap medtech comp group. We believe this multiple is justified given our view of BSX's accelerating earnings growth outlook based on opportunities to drive above average top line growth.

Downside risks to our PO are: 1) Watchman slowdown if ABT becomes more competitive than expected, 2) supply chain/inflationary pressures impact margins more than expected, 3) BSX sees a major setback in a clinical trial or product pipeline failure, 4) unexpected COVID related headwinds.

Brady Corp. - Cl A (BRC)
Our $65 PO is based on a three-part valuation approach, which includes: (1) a 17-18x calendarized 2024E P/E multiple, (2) a 10-11x calendarized 2024E EV/EBITDA multiple, and (3) our intrinsic free cash flow (FCF) valuation, which assumes $185mn normalized FCF, 10% cost of equity, and a 3% growth rate. We apply multiple ranges to reflect a more normalized environment.

Downside risks to our PO: (1) risk relative to BRC's ability to generate performance from its comprehensive industrial track and trace investments & other efforts, (2) unfavorable organic growth (volume/pricing) trends in key economies, (3) acquisition/integration risk, (4) senior management succession and bench development risk, (5) unfavorable macroeconomic environments, (6) potential for BRC's future valuation to be impaired relative to our expectations given secular headwinds, or other factors, (8) risks associated with trade & other administration policies.

Broadcom Inc (AVGO)
Our $1250 price objective for Broadcom is based on 22x CY25E P/E, the upper end of its 8x-23x historical range, though justified given double-digit EPS growth and best-in-semis profitability, FCF generation, and returns.

Downside risks to our price objective are 1) semiconductor cycle risks, including sensitivity to US/China trade relations, 2) high exposure to Apple and Google with potential design out risks, 3) competitive risks in networking, smartphone, storage, enterprise software markets, 4) frequent acquirer of assets, which increases financial and integration risks, and 5) recent strategy towards moving into non-core software businesses creates execution risks.

Cadence (CDNS)

Our $315 PO is based on 46x FY25E P/E, at upper end historical 22x-52x trading range and justified in our view given the strategic importance of EDA in an increasingly fragmented global electronics supply chain.

Downside risks are: (1) Share loss in existing markets to primary competitors, (2) a broader economic downturn dampens semis R&D spending and corresponding spend on EDA tools and services, (3) escalation of US-China trade war limits CDNS' ability to sell to key customers, (4) semiconductor industry consolidation accelerates which could diminish customer spending power, (5) venture into adjacent system analysis market fails to meaningfully accelerate revenue growth and incremental investments suppress margin expansion.

Camtek (CAMT)

We assign a $75 PO which is based on 26x our non-GAAP CY25E EPS adjusted for net cash. This is well within Camtek's long-term 8x-40x range and in-line with other semicap peers which we think is fair given similar growth prospects.

Upside risks: (1) accelerated share gains vs. key competitor, Onto Innovations. (2) stronger than expected electronics demand that would tighten up semiconductor capacity further, driving increased semiconductor equipment sales. (3) potential as a target of industry consolidation.

Downside risks: (1) Slower than expected capital spending cycle. (2) heightened competition with larger players like KLA Corp. (3) historically cyclical nature of semiconductor capital spending, particularly on packaging equipment. (4) further restrictions on companies in China/Asia given high relative exposure, 5) Geopolitics conflicts.

Coherent Corp (COHR)

We assign a $48 PO based on 14x CY25E P/E, in the middle of historical 7x-26x range, given potential sales upside from hyperscaler upgrades, but partially offset by lower margin profile (versus industry).

Upside risks to our PO are 1) better than expected telco capex trends, 2) more resilient iPhone sales trends as well as continued share growth in 3D sensing, 3) quick rebound in cloud activity

Downside risks to our PO are 1) lumpy telecom/hyperscaler capex trends, 2) frequent M&A activity increasing leverage limiting valuation multiples, 3) persistent supply constraints impacting topline growth, 4) heightened trade tensions impacting opportunities in growing Asia markets.

CrowdStrike Holdings Inc. (CRWD)

Our PO of $250 is based on roughly 14x our CY24E EV/Sales. We choose EV/Sales as our target valuation metric due to CrowdStrike's early growth stage and investment period making the profitability level still in early stages. We believe the valuation is warranted due to CrowdStrike's higher growth profile and potential to take meaningful share in new markets that would increase TAM and potentially accelerate growth. The positives of CrowdStrike's high growth and long-term opportunities are somewhat offset by lower margins and expected growth deceleration.

Downside risks to our PO are 1) investor sentiment and sensitivity to the premium valuation levels, 2) a lower take-rate of new offerings, 3) potential slowdown in new customer adoption and expansion deals, 4) risk of security breaches, and 5) an increase in competition from incumbent vendors and newer next-generation players.

Crown Holdings Inc. (CCK)

We calculate our PO of $105 by using our 2024 estimates and averaging the fair values derived from (1) a 16-17x 2024E P/E multiple (adj. for asbestos), (2) a 10-13x 2024E EV/EBITDA multiple, and (3) our intrinsic FCF valuation, which assumes $900mn normalized FCF, a 11% cost of equity and a 2% growth rate. Multiple ranges are in line with past valuation levels reached when fundamentals are positive, and are targeted with past normalized ranges in mind for rigid packaging (10-17x).

Downside risks to our PO are (1) weather uncertainties during key seasonal periods in 2Q-3Q, (2) asbestos liabilities that could present a greater drain on cash flow than we currently expect, (3) FX translation, as the majority of sales are outside the US, (4) increasing investment, particularly in EM, (5) share loss to aseptic or plastic/flexible pkgg or other materials, particularly as regards its food can ops, (6) unfavorable demand trends in key food & beverage end markets, and the overall risks to valuation, demand and pricing should growth slow, (7) unfavorable volume and pricing trends, (8) potential governmental policy and regulatory changes in the US and elsewhere.

And, as with most packaging companies, there are numerous macro risks and other risks around volumes, pricing, input costs and other factors that could negatively affect fundamental & stock price performance. Similarly should these factors prove more constructive than expected, CCK's performance/PO could exceed our forecasts.

CureVac (CVAC)

Our $6.40/share PO is based on a probability-adjusted net present value (NPV) of CureVac's pipeline, including its oncology program and its other prophylactic vaccines. We apply a 10% weighted-average cost of capital (WACC) and a terminal value ranging from -15% to -5% depending on the program (we project revenues out through 2035), in line with other biotech companies of similar size and stage of clinical development. We also include approximately $2/share from CureVac's current cash position.

Upside risks are 1) faster-than-expected clinical development, 2) competitor failures, 3) better than expected clinical data.

Downside risks are 1) clinical risk to early stage programs, 2) regulatory risk from newer mechanisms, 3) competition to key assets.

CyberArk (CYBR)

Our PO of $230 is based on roughly 9x 2025E EV/Sales. This is near the middle of SaaS security peers at 10-12x. CyberArk's transition to SaaS is gaining additional momentum, which should support the multiple.

Upside risks to our price objective are difficulties in sizing the market given its newness and low market awareness, stronger conversion of qualified customers that are currently in the pipeline, and higher average deal sizes from rising license attach rates.

Downside risks are FX risk exposure (40% international exposure), difficulties sizing the market, and competition from large, well-established operators.

Dexcom (DXCM)

Our $170 PO is based on 45x our 2025 EBITDA, a premium given DXCM can grow EBITDA faster than mature large caps. High quality large cap names (BSX/SYK) trade at 19x EBITDA. We maintain our Buy rating as we see multi-year, increasingly profitable revenue growth coming from basal with some potential new insights into TAM expansion over the next 1-2 years with the non-insulin product coming to market.

Upside risks are strategic activity, less of an impact than expected from competition, and faster approvals for DXCM's pipeline products. Downside risks are introduction of a pharmaceutical that better treats diabetes, increased competition in glucose sensing, inability to move into new market opportunities or geographies (i.e. setbacks with expected TAM expansion due to regulatory/reimbursement coverage delays), or pricing pressure.

Eli Lilly and Company (LLY)
Our $700 price objective is based on a probability-adjusted net present value (NPV) analysis of franchise verticals including Endocrinology ($393/share), Oncology ($127/share), Cardiovascular ($4/share), Neuroscience ($12/share), Immunology ($28/share), other pharmaceutical products and early pipeline assets ($150/share), as well as approximately -$15/share in net cash. We use a WACC ranging from 5% for approved products to 9% for pipeline products, depending on the stage of development. We apply terminal values ranging from -12% (cardiology) to 1% (endocrinology) based on projected sales decline following loss of exclusivity within each business vertical.

Risks to our price objective are 1) better-than-expected launches of competing products, 2) emerging clinical data for pipeline assets that does not confirm prior observations, 3) failure to effectively commercialize approved products, 4) potential drug pricing system restructuring in the US.

Fortinet (FTNT)
Our $65 PO is based on roughly 23x 2024E EV/FCF. Our multiple is slightly below the hardware peer group average multiple of 25-35x and a discount to software peers as well. We believe the slightly below multiple to the hardware peer group is appropriate at this stage given the current business environment despite some recent share gains, shift to more recurring software, and expansion into adjacent security markets. New market tailwinds, such as software defined wide area networking (SD-WAN) should drive further market share gains.

Upside risks to our price objective are growth of non-FortiGate products, which could support high growth and acceleration from current levels and could result in more SaaS-like multiples and drive up the valuation.

Downside risks to our price objective are 1) product convergence leading to a shrinking market with larger competitors, 2) exposure to public spending and EMEA, 3) reputation risk if major threats missed and 4) early ordering that occurred during CY21/CY22 creates tough comps heading in CY23

Gilead Sciences Inc. (GILD)
Our $95 price objective is based on a sum-of-the parts net present value (NPV) analysis. We forecast sales of key franchises or products to 2030 using a weighted average cost of capital (WACC) of 8%, and include a terminal value where appropriate. Under these assumptions, we value the HIV franchise at $80/share, HCV and HDV at $7/share, the Kite platform at $8/share, remdesivir at $2/share, Trodelvy at $9/share, with the pipeline at $5/share and net cash at -$15/share.

Upside risks: 1) stronger-than-expected sales of Biktarvy in HIV and faster uptake of Descovy in PrEP, 2) greater durability of HCV revenues, 3) rapid uptake of Kite, 4) and success of the oncology pipeline may lead investors to assign further value to these programs.

Downside risks: 1) moderating sales of Biktarvy, Genvoya, Odefsey, and Descovy due to competition, which may include long-acting injectable formulations, 2) greater than expected erosion of HCV revenues, 3) limited upside from Gilead's CAR-Ts, 4) the oncology pipeline may have limited clinical success or be meaningfully delayed.

Graphic Packaging (GPK)

Our $30 PO is based on the average of (a) an EV/EBITDA valuation calculated by applying a 7.5x EV/EBITDA multiple to our 2024 EBITDA estimate of $1.8bn (our multiple is consistent with where comparable companies have traded), (b) a P/E valuation calculated by applying a 14x P/E multiple to our 2024 EPS estimate of $2.75 (our multiple is consistent with where comparable companies have traded), (c) a free cash flow (FCF) valuation based on our estimate of $676mn in FCF, a calculated cost of equity of 10% and forecast rate of growth of 2%.

Risks to our PO: (1) closing and integration risks associated with the acquisitions, (2) demand trends in food & bev and other GPK end markets, (3) potential volatility in fiber, energy, other input costs, (4) paper/board sector volatility & demand trends, including trade flow volatility created by exchange rates, (5) fundamental trends that could wind up being worse than expected, (6) should trends reverse in the policy outlook for the current Administration, that would present a source of volatility and risk for the shares, (7) various factors associated with its new CRB machine

Also, industry & economic trends could prove weaker or stronger than modeled. Greater-than-expected weakness could lead to valuation multiples and earnings below our forecasts, even as better-than expected trends could lead to a higher relative multiple premium & stock price.

Greif Inc. (GEF)
Our $77 PO for Class A shares is based on (1) a 14x calendarized 2024E P/E, (2) an 10x calendarized 2024E EV/EBITDA which derives a value for the combined equity market cap of Class A and B shares. We believe the multiples (a discount versus market and peers) are appropriate given weaker fundamentals against past normalized ranges (PE of 10-17x) and 5-10x EV/EBITDA for peers. We assume the elimination of a premium or discount to our combined equity value will occur equally for Class A and B, driving our target for Class A shares on this method, and (3) our intrinsic FCF valuation assumes $400mn normalized FCF, 10% cost of equity and 2% growth rate.

Risks to our PO: (1) unfavorable demand in GEF's markets and geographies, (2) volatility in steel, resin, OCC, energy and other inputs, (3) acquisition/integration risks, (4) Class B share ownership, which retains voting power, is 70% held by insiders, (5) Regulatory review or litigation, (6) trade policy.

Inari Medical (NARI)
Our $68 PO (derived using 5x EV/2025E sales) is based on NARI's high growth potential in a large, underpenetrated market where NARI offers among the safest and most effective alternatives for acute pulmonary embolisms and deep vein thrombosis. The EV/sales multiple we apply is in line with NARI's peers. We believe NARI should trade in line with high growth peers as its market opportunity, growth outlook and margin outlook are similar to those companies'.

Upside risks are if NARI can generate meaningful international sales, significantly beat Street expectations and become consistently profitable quicker than expected. Downside risks to our PO are a failure to meaningfully convert pulmonologists and develop the market, increased competition from new and existing players, and covid.

Inspire Medical (INSP)
Our $230 PO is based on 7x our 2025 rev. With INSP executing and revenue growth remaining strong there are reasons to believe that INSP can eventually achieve profitability. This allows us to assign INSP an EV/Sales at the high end of the medtech SMID group which trades in the 1-7x sales range.

Risks are 1) future competitors could pose a risk, 2) procedure interruptions due to

COVID-19, 3) lack of ability to train doctors and have doctors want to do the procedure, and 4) heavier weighted OUS exposure to Germany.

Insulet (PODD)

Our $255 PO is based on 45x our 2025 EBITDA. We use the same multiple we use for DXCM, given PODD is growing EBITDA faster than mature large caps so deserves a premium for its faster profit growth. We maintain our Buy rating as PODD is the clear market leader in the fastest-growing segment of the pump market with a wide moat.

Upside risks are a faster penetration in Type 2 or a greater than expected share gain with Omnipod 5, pharmacy channel, and pay-as-you-go. Downside risks are slowdown in the overall pump market or patients converting from multiple daily injections, pricing pressure, new competitors with patch pumps, or additional competition particularly from AID systems in OUS markets.

Intel (INTC)

Our $50 price objective is based on 25x our 2025E pf-EPS ex-stock comp expense, in the middle of compute peers (15x-40x), which we view as appropriate given manufacturing uncertainties and risks of new foundry strategy.

Upside risks to our price objective are 1) clarity or breakthrough on yields for 7nm process technology, 2) new products allowing Intel to limit share loss, 3) improving product mix which can drive upside to gross margins, 4) manufacturing slip up at key foundry competitors.

Downside risks to our price objective are 1) weaker-than-expected trends in a mature PC market, which is largest revenue generator for Intel, 2) further delays in 7nm process technology and roadmap, 3) accelerated share loss to AMD, 4) more competition in profitable data center market.

International Paper Co. (IP)

Our $37 price objective is based on an average of (a) an EPS forecast of $2.25 in 2024E and a P/E of 14x, which is consistent with historical ranges, (b) a normalized free cash flow (FCF) estimate of $1bn, a calculated cost of equity of 10% and forecast rate of growth of 2%, (c) our IP sum-of-the-parts (SOTP) value, based on normal EBITDA, which is an average of historical periods 2016-22 and our forecasts through '25E.

Risks to our price objective are (1) the broader employment & macro picture, (2) paper/board sector volatility & demand trends, (3) wastepaper/input cost volatility, (4) trends in the US$ and its effect on trade flows, (5) emerging market risk, (6) operational risks related to investment projects, (7) IP's pension, (8) the potential for new capacity to come into the market, (9) potential volatility coming from any future Administration policy changes. Fundamental trends could wind up worse than expected, causing further downside to the shares relative to our PO. Better performance or macro news could cause the shares to perform better than our price objective.

Intuitive Surgical (ISRG)

Our $400 PO is based on roughly 53x our 2025E EPS. We think the premium multiple relative to average large cap peers is justified given ISRG's expected mid-teens top-line growth over the next several years, nearly 3x that of the medtech market, and ISRG is well ahead vs competition in one of the most significant growth markets in medtech (soft tissue robotics). ISRG pipeline also justifies our multiple as ISRG is spending over $500m a year in R&D and it's a matter of time before the fruits of these investments show up in estimates.

Downside risks are 1) lower surgical volumes due to covid, 2) slowdown in hospital capital spending, 3) other competitive entrants and 4) supply chain headwinds.

KLA Corporation (KLAC)

We assign a $600 PO based on 25x CY24E P/E, at higher end KLAC's historical range of 10x-26x. KLAC's leading profit margin and less cyclical topline supports a slightly higher multiple vs. semicap peers, in our view.

Downside risks to our PO are the cyclical nature of the semiconductor capital spending and its impact on earnings, competitive price and market share issues, particularly against Applied Materials, ability to get new products and technologies into the market in a timely manner.

Louisiana-Pacific Corp. (LPX)

Our $65 PO is based on an average of (a) a normalized free cash flow (FCF) estimate of $383mn, a calculated cost of equity of 13% and forecast rate of growth of 4%, (b) a SOTP value, using our evaluation of normal EBITDA, which is an average of historical periods 2016-22 and our forecasts through '25E. We project LPX's OSB segment will be valued at 5x our 2024E EBITDA forecast and its Siding segment will be valued at 10x EBITDA given building product/siding peer comps. We apply 6-8x EBITDA multiples to its other businesses. Separately, we value LPX's OSB business at 1.5x sales, its siding business at 2.5x sales and its other businesses at 1-2x sales. We assume the average of our EV/EBITDA and EV/Sales valuations, and then discount this to derive our 12-month PO.

Downside risks: (1) the broader housing picture, (2) weak demand and supply-chain, (3) changes in average home size, (4) OSB supply/demand dynamics, (5) cost volatility (wood fiber, resin, and foreign exchange), (6) operational risks associated with the expansion of LPX's siding segment, (7) should trends reverse in the policy outlook for the current Administration, that would be a source of volatility for the shares, and (8) should the trends in supply/demand for its products prove worse-than-expected, then LPX stock could perform below our forecasts.

Upside risks: Should housing and related demand trends or supply/demand in LPX's various product markets prove better-than-expected, LPX stock could exceed our PO.

Lumentum Holdings (LITE)

We assign LITE a $45 PO based on 11x CY25E P/E, at the upper end of its 9x-18x historical range, justified given opportunities from potential catalysts (merger with NeoPhotonics, AI/datacom, macro rebound) that could drive sales/EPS acceleration from trough levels in the longer-term.

Downside risks are 1) continued 3D sensing share loss at large customer Apple, 2) delayed upgrades made by hyperscaler/telecom network slowing rollout of emerging high speed optical equipment, 3) competitive pressures in optical communications market weighing on price/margin, 4) consistent M&A weighing on long-term multiple.

Upside risks are 1) quick rebound in cloud activity, 2) more resilient iPhone sales trends as well as limited share loss, 3) gross margin resilience if demand comes in better than expected.

M/A-Com (MTSI)

Our $105 PO is based on a 29x CY25E P/E, within historical 14x-37x trading range and justified, in our view, as opportunities in the data center are offset by telecom weakness.

Downside risks to our price objective are: (1) Semiconductor cyclicality driven by weak macroeconomic conditions, demand or inventory corrections, (2) Large private ownership with limited public float could add volatility to the stock price, (3) Demand fluctuations in optical, aerospace and defense markets, and (4) High degree of leverage could limit M/A-Com's flexibility and ability to engage in buybacks/dividends.

Marvell Technology Group Ltd. (MRVL)
Our $68 PO is based on a 27x FY26E/CY25E pf-EPS, which is well-supported by the 20%-30%+ longer-term compounded annual EPS growth potential, and within the normal 1x-2x range for high growth semi peers.

Downside risks: 1) Integration risks in recent deals, 2) Financial risks related to going to net debt from net cash position, and in achieving expected cost synergies in a timely manner, and 3) Cyclical industry risks including potential slowdown in legacy hard disk drive, infrastructure spending, and storage assets, 4) Competitive risks against larger well resourced rivals.

Medtronic (MDT)
Our $100 price objective for MDT is based on 18.5x our calendar 2024E EPS. This multiple is in line with the average medtech multiple 2023 EPS and is warranted for a company with a mid single digit (MSD) growth profile that competes in MDT's markets.

Downside risks to our price objective are 1) RDN data disappoints, 2) slower-than-expected revenue growth from new products, 3) other pipeline setbacks, 4) increased competition or share losses, and 5) China VBP.

Merck & Co. (MRK)
Our $130 price objective (PO) is based on the intrinsic value of Merck standalone. We use a 50/50 blended average of our P/E multiple applied to 2024E EPS (we think the current 17x vs.18x peer average makes sense to reflect continued strength of Merck's core growth franchises but broader Keytruda concentration risk concerns) and risk-adjusted DCF (7% WACC and -2% terminal growth rate).

Risks to our PO are 1) impressive competitor readouts results in key immuno-oncology (I/O) indications, 2) more rapid declines across the diabetes franchise than expected, 3) negative outcomes from the company's later-stage assets in ongoing development, and 4) pressures from headline risks facing the sector (including drug pricing reform).

Microchip (MCHP)
We assign a $105 PO based on 24x our 2025E EV/FCF. This is in line with the comparable peers trading at 16x-27x range and justified due to MCHP's mix of growth, execution, profitability, and leverage, which is in line with/quickly approaching analog peers.

Upside risks to our PO: FCF returns that are the upper end of the peer group, but not fully reflected in the company's multiple which trades at a discount to peers, inflecting/greater FCF growth going forward as MCHP deleverages its balance sheet and accelerates returns to shareholders. Downside risks to our PO: macro headwinds related to trade/COVID-19, increased competition capping any market share gains, tougher compares, GMs approaching the upper end of historical range and long term model

Micron Technology, Inc (MU)
Our $100 PO is based on 2.1x our CY25E P/B, which is within MU's long term range 0.8x-3.0x as we potentially enter the next memory upcycle.

Downside risks: (1) larger than expected memory ASP decline, (2) greater competition from China newcomers, (3) share loss to other large competitors like Samsung or SK Hynix, (4) softening of demand across major end markets such as data center, smartphones, or PCs.

Neumora Therapeutics (NMRA)
Our 12-month price objective of $20 is based on our NPV analysis on key products, including navacaprant for MDD, bipolar depression, and NMRA-266 for schizophrenia. We

assign a valuation of $14/sh to navacaprant in MDD, $1/sh to navacaprant in bipolar depression, and $2/sh to NMRA-266 in schizophrenia, with the remaining $2/sh coming from net cash. We model sales through patent exclusivity with zero terminal value and apply a 14% WACC.

Upside risks to our PO:
1) Positive navacaprant MDD readouts in 2H24/1H25, 2) readthrough from competitor J&J's aticaprant's positive phase 3 adjunctive MDD data in 2H24, 3) readthrough from competitor Cerevel's emraclidine phase 2 EMPOWER data in 2H24.

Downside risks to our PO:
1) Failure of MDD trial readout, 2) failure of competitors' data in MDD, 3) weak market uptake for Karuna's schizophrenia drug and Axsome's MDD drug could dampen investor enthusiasm for the neuropsychiatric markets.

Nevro (NVRO)
Our PO of $17 is based on a 1.0x 2025 EV/Sales multiple, which represents the low end of the historical 1-5x EV/Sales range smid cap medtech has historically traded at since sustainable profitability seems far out and there's uncertainty with underlying market growth/share. Upside risks are a material acceleration in the SCS market, a setback at a competitor that helps NVRO, strategic activity, or a material inflection in PDN. Downside risks are a slowdown in the core SCS business or SCS market, a failure to expand the market for PDN, or new competitive entrants that take market share.

NVIDIA Corporation (NVDA)
Our $700 PO is based on 27x CY25E PE ex cash, within NVDA's historical 26x-69x forward year PE range, justified given stronger growth opportunities ahead as gaming cycle troughs and data center demand potentially faces strong, long-term demand dynamics.

Downside risks to our price objective are: 1) weakness in consumer driven gaming market, 2) Competition with major public firms, internal cloud projects and other private companies in accelerated computing markets, 3) Larger than expected impact from restrictions on compute shipments to China, or additional restrictions placed on activity in the region, 4) Lumpy and unpredictable sales in new enterprise, data center, and autos markets, 5) Potential for decelerating capital returns.

NXP Semiconductors NV (NXPI)
Our PO of $280 is based on 19x 2025E EV/FCF, in line with median diversified auto/industrial compares which trade in a range of 16x-32x CY24E EV/FCF.

Downside risks: 1) Semiconductor cycle risks, 2) Lumpy nature of projects in key identification segment, 3) Some exposure to and growth driven by Apple, which could add volatility, 4) Execution risk surrounding management's capability to reengage following two-year hiatus, 5) Macroeconomic supply/demand disruption.

O-I Glass Inc (OI)
Our $22 PO is based on an average of P/E, EV/EBITDA and intrinsic free cash flow (FCF) valuations. We use a 8x 2024E P/E multiple, a 6-7x 2024E EV/EBITDA multiple, and our intrinsic FCF valuation, which assumes $350mn normalized FCF, 13% cost of equity, and a -3% growth rate. Multiples are in line with those of metal/rigid packaging peers. Similar to CCK, OI has a larger international presence relative to its peers.

Risks to our PO are: (1) unfavorable demand and pricing, (2) the potential for pension or asbestos risks/claims to consume greater amounts of earnings or cash flow, (3) unfavorable international market volatility and FX risks, (4) integration risk with acquisitions, (5) risks in Mexican pricing and pack mix, (6) potential governmental policy changes in the US and other portions of the world. As is the case with all our coverage, packaging and paper/forest stocks are highly sensitive to macro, FX, commodity inflation and other factors which could create variances with our forecasts and POs. Similarly, should the factors discussed above prove less negative or more positive to forecasts, OI's price could exceed our PO.

Okta Inc (OKTA)
Our PO of $64 is based on 5x FY25E EV/Sales. We note this multiple is at a discount to high growth cybersecurity peers that trade at 8-12x, yet we believe this is warranted giving potential headwinds to revenue growth and the operational challenges the company currently faces.

Upside risks to our PO are 1) higher growth rates on greater adoption of Okta's Customer Identity products, 2) higher growth rates if Okta's products warrant a premium compared to other IAM vendors and 3) margin uplift from a more efficient sales force.

Downside risks to our PO are 1) continued price erosion of Okta's core products due to more intense competition, 2) purchase pushouts of additional products should customer budgets come down and 3) lower margin ramp if execution issues worsen.

onsemi (ON)
Our PO of $100 PO is based on 17x 2025E P/E, in line with ON's 7x-27x trading range, in our view justified given improving profitability, though partially offset by the heavier capex required for SiC ramp.

Downside risks to our PO are: 1) Macro/cyclical risks, given high exposure to automotive and industrial markets, make ON susceptible to any potential global trade tensions/tariffs, 2) Prolonged COVID-19 headwinds limiting pace of automotive/industrial recovery, impacting utilization levels, 3) Difficulty in ramping 300mm fabrication facility limiting gross margin improvement, 4) sustained elevated capex levels relative to peers.

Packaging Corp. of America (PKG)
Our $176 price objective is based on an average of (a) an EPS forecast of $8.15 in 2024E and a P/E of 20x, in line with peer multiples, (b) a normalized free cash flow (FCF) estimate of $750mn, a calculated cost of equity of 9% and forecast rate of growth of 4%, (c) a sum-of-the-parts (SOTP) value, based on forecast midcycle EBITDA or per ton(ne) replacement values.

Risks to our price objective being achieved are (1) PKG's leverage to economic cycles, (2) containerboard market volatility and demand trends, (3) input cost volatility, (4) demand, supply-chain and other risks created by the Covid-19 pandemic, (5) potential structural changes in the economy, (6) the potential for mill or converting operations to perform less well than anticipated, (7) the potential for new capacity to come into the market, (8) volatility coming from changes by the Administration. While we've tried to be conservative in our modeling, fundamental trends could wind up worse than expected, causing downside risk to the shares relative to our price objective. Similarly, PKG results could wind up stronger than our forecasts, causing the shares to move beyond our PO.

Pactiv Evergreen (PTVE)
Our $16 price objective is derived from a three-part valuation approach using our estimates, which includes (1) a 13x 2024E P/E multiple, (2) an 9x 2024E EV/EBITDA multiple, (3) a normalized FCF estimate of $250mn, an estimated cost of equity of 11% and forecast rate of growth of 0%. Our multiples represent discounts to foodservice/food packaging peers given the company's leverage and its weak earnings performance from 2018 to 2020.

Risks to our PO are (1) financial leverage, (2) rising labor and other costs, (3) Rank Group majority ownership, (4) unfavorable resin price volatility and/or price/cost, (5) the competitive landscape, (6) potential missteps with its Strategic Investments, (7) potential volatility in food, beverage and other packaging fundamentals, (8) COVID-related volatility, (9) macro and geopolitical risks, (10) sustainability trends. We have tried to forecast accurately, but risk factors could significantly affect results relative to forecasts.

PotlatchDeltic Corp. (PCH)
Our $56 PO is based on: (a) an assumed mid-cycle dividend yield of 3% and dividend of $1.80-2.00/share, (b) a 21-25x mid-cycle AFFO multiple, and (c) a sum-of-the-parts (SOTP) value. Our SOTP model values PCH's Resources business based on our estimates of the per acre values for its timberlands, and values its Wood Products business based on our forecast for mid-cycle EBITDA and applying a 5x EV/EBITDA multiple. Meanwhile, we value its Real Estate operations based on the average premium generated over time, and assuming properties sold are ultimately replaced with other timberlands.

Risks to our PO being achieved are: (1) Flattening yield curve, (2) Housing market weakness, which can impact PCH's Wood Products and Real Estate operations, as well as timberland profits, (3) Broader housing and economic trends, which can impact timberland and REIT valuations, including the threat of deflation, (4) Risk that synergies with CatchMark is not realized (5) Dividend trends, (6) Demand, supply chain and other risks created by the Covid-19 pandemic, (7) Regulations on tax status of REITs. Upside risks to our PO are better-than-expected improvement in the housing market and dividend trends.

While we have tried to be conservative in our modeling, certain fundamental trends could wind up worse than expected, causing further downside to the shares relative to our price objective. Similarly, PCH performance could prove better than our forecast, lifting the shares above our PO.

Regeneron Pharmaceuticals Inc. (REGN)
Our $700 price objective is based on a probability-adjusted net present value (NPV) analysis of Eylea, including outside of US (OUS) revenues from the Bayer collaboration ($164/share), Sanofi collaboration revenue including Dupixent and other product revenues ($329/share), Libtayo ($56/share), early pipeline assets ($60/share), and the rest from net cash. We use a weighted-average cost of capital (WACC) ranging from 7% for approved products to 10% for pipeline products and terminal growth ranging from -3 to 3%. Upside risks to our price objective are 1) better-than-expected Eylea growth trajectory, 2) a larger contribution of Dupixent to Regeneron's topline from commercial uptake in new indications, and 3) better-than-expected economics realized by Regeneron from joint ventures. Downside risks to our price objective are 1) slower-than-expected growth from product sales, particularly Eylea and Dupixent, 2) failure to obtain approval for additional indications for Dupixent, and 3) pipeline setbacks.

Sealed Air Corp. (SEE)
Our $42 price objective is derived from a three-part valuation approach, which includes: (1) a 14-15x 2024E P/E multiple, (2) a 10x 2023E EV/EBITDA multiple, and (3) our intrinsic free cash flow (FCF) valuation, which assumes $450mn of normalized FCF, 11% cost of equity, and a 3% growth rate. Our target multiples are based on SEE's past trading history and also peer multiples. SEE has been able to trade in the high teens to low twenties on a P/E basis, and a premium to the market when fundamentals improve.

Downside risks to our price objective are (1) risks relative to the company's ability to manage pricing and spreads, given (2) energy volatility, resin price volatility and agricultural market risks, (3) international business risks (approximately 65% of sales derived abroad), including FX and emerging market trends, (4) competitive and other factors negatively impacting volume to a greater degree than expected, (5) risks relative to execution of the company's transformation strategies over the last several years, (6) challenges associated with management transitions.

Overall, energy and commodity volatility represent ongoing risks for packaging companies. Industry and economic trends could prove weaker or stronger than we modeled. Greater-than-expected weakness could lead to valuation multiples and earnings that are below our forecasts.

Shockwave Medical (SWAV)

Our $250 PO is derived using a 30x EV/2025E EBITDA multiple. This represents a premium given SWAV can grow EBITDA faster than mature large caps. High quality large cap names (BSX/SYK) trade at 20x EBITDA and large cap growth (ISRG) trades at 30x EBITDA.

Downside risks: SWAV's success has gotten the attention of competitors, and while it's not clear how successful a competitive technology would be, it seems quite likely that SWAV will eventually face competition. Other downside risks are any major changes in reimbursement and an inability to expand in new geographies. COVID and staffing challenges are a risk as well.

Silgan Holdings Inc. (SLGN)

Our $53 PO is based on a 15x 2024E P/E multiple, a 11x 2024E EV/EBITDA multiple, and our intrinsic FCF valuation which assumes $375mn normalized FCF, 9% cost of equity and 1% growth rate. We believe SLGN should trade about in line with to slightly below its packaging peers given its relatively defensive profile.

Downside risks: (1) potential for metal cans to lose a greater amount of share over time, (2) potential for raw material costs to swing sufficiently so as to alter normal purchasing patterns, (3) food can business' heavy seasonality during 2Q/3Q pack, (4) SLGN's ability to integrate its recent acquisitions, (5) potential for bisphenol A (BPA) concerns to again impact demand, (6) operational considerations related to SLGN's new metal and plastic packaging ops, (7) risks related to policy changes.

Energy and commodity volatility represent ongoing risks for packaging companies. We have tried to forecast accurately. However, industry and economic trends could prove weaker or stronger than we modeled.

Sonoco Products Co. (SON)

Our $70 price objective is derived from a three-part valuation approach, which includes: (1) a 13-14x 2024E P/E multiple, (2) an 9-10x 2024E EV/EBITDA multiple, and (3) our intrinsic free cash flow (FCF) valuation, which assumes $600mn of normalized FCF, 10% cost of equity, and -2% growth rate. The P/E and EV/EBITDA multiples are consistent with past valuation multiples within packaging.

Downside risks to our price objective are: (1) potential volatility in old corrugated container (OCC) prices, (2) execution on restructuring and integration initiatives, (3) integration of present acquisitions, (4) periodic volatility in its business, (5) execution of its consumer/growth strategies in packaging, (6) unexpected volume and pricing trends, (7) macroeconomic trends, (8) potential trend reversals related to Administration policies. In addition, energy and commodity cost volatility represent ongoing risk for all packaging companies.

Upside risks to our PO are: (1) Sonoco's ability to acquire businesses accretively, making our forecasts too pessimistic, driving SON above our PO, (2) Additionally, should volumes accelerate while input costs stay benign, this could lead to higher earnings than we are projecting and result in the stock exceeding our PO, (3) The factors noted earlier could play out in a way that causes results to exceed our forecast and drive the shares above our PO.

Stryker (SYK)
Our $315 PO is based on 27x our 2024 EPS which is a premium to medtech but in line with where higher-quality, higher-growth names trade today on 2024 EPS.

Downside risks to our PO are a slowdown in hospital capital spending, supply chain disruption, or more inflation pressure on costs and materials. Upside risks to our PO are new product launches and continued share gains driving upside to revenue growth. Moderating inflation/improving supply chains could also drive upside.

Sylvamo Corp. (SLVM)
Our $59 price objective is based on an average of: (a) an EPS forecast of $4.75 in 2024E and a P/E of 12x, which is within the range in which paper companies have traded, (b) a normalized FCF estimate of around $258mn, a calculated cost of equity of 8% and forecast rate of decline of 3%, (c) our SLVM sum-of-the-parts (SOTP) value, based on forecast midcycle EBITDA values and applying multiples of 4-7x across the regions.

Risks to our PO are: (1) Broader employment and macro picture, (2) Paper sector volatility and demand trends, (3) Changes in the cost or availability of key inputs, energy and transportation, (4) Demand, supply chain and other risks created by the pandemic, (5) Potential cash outflow related to the pending tax ruling on the deductibility of goodwill from IP's 2007 acquisition of the Luis Antonio mill, (6) Emerging market risk, including potential for volatility in Latin America, (7) Potential dis-synergies and operational risks related to the spin-off from IP, (8) Operational risks associated with the Svetogorsk recovery boiler project, (9) Potential for supply/demand imbalances in UCFS, (10) Potential loss of a key customer, (11) Risks of fragmentation in Europe. Volatility in macro and micro factors and the earnings leverage that exists could mean fundamental trends wind up worse than expected, causing further downside to the shares relative to our PO. Alternatively, better performance could cause the shares to perform better than our PO.

Synopsys (SNPS)
Our $650 PO is based on 40x 2025E P/E, at upper end of company's historical trading range (19x-49x), justified in our view as EDA investment accelerates as chip complexity rises.

Downside risks are: (1) Variability in IP/hardware sales creates issues in timing of revenue recognition, (2) competitors develop unique software capabilities displacing SNPS at core customers, (3) heightened geopolitical tensions lead to further restrictions on supplying firms in China with EDA technology.

Upside risks are: (1) Share gains in existing markets vs primary competitors, (2) increased government investment in semiconductor R&D and development as nations develop internal ecosystems, (3) material M&A that enables consistent margin expansion or further accelerates sales CAGR, (4) faster than expected cost improvements driving higher operating margin.

Tandem Diabetes Care (TNDM)
Our $18 PO is based on a 1x EV/2025E Sales multiple. We use 1x sales, the low end of the 1-5x EV/Sales range smid cap medtech has historically traded at given sustainable profitability is far out along with more competitive pressure.

Upside risks to our PO are driven by increased market share gains, an acceleration in the overall pump market, or less competitive pressure than expected. Downside risks to our PO are increased competition in the pump market, Type 1 pump penetration peaking earlier than expected, the Type 2 opportunity not opening for TNDM, and potential pipeline delays.

Texas Instruments Inc. (TXN)
Our $175 PO is based on 34x CY25E EV/FCF. In-line with historical 15x-42x range, which we believe is warranted based on TXN's best in class FCF generation and returns, and based on incremental cash flow from US CHIPS Act grants.

Risks to our price objective: 1) Macro/cyclical risks given high exposure to automotive, industrial, and telco capex markets, also makes TXN susceptible to any potential global trade tensions/tariffs, 2) Increasing capex intensity and higher depreciation burden could be a headwind to gross margins, 3) Increased R&D spending pressure to maintain an edge versus the competition, 4) Inventory cycles and potential double ordering by customers that can often create mismatches between real supply and demand, 5) Exposure to several mature markets such as PC and other consumer.

WestRock (WRK)
Our $48 PO is based on an average of (a) a calendarized EPS forecast of $2.38 in C24 and a P/E of 16x, given optionality with the potential Smurfit Kappa deal, (b) a normalized free cash flow (FCF) of $1.1bn, a cost of equity of 11% and forecast growth rate of 3%, (c) our WRK sum-of-the-parts (SOTP) value, based on our evaluation of normal EBITDA, which is an average of historical periods 2020-22 and our forecasts through '25E. Based on current market and sector valuations, we estimate 9x to 10x EV/EBITDA multiple for Corrugated Packaging and an 8x to 9x multiple for Consumer Packaging. Separately, we apply 6x EV/EBITDA multiple for WRK's Global Paper business and a 5x EV/EBITDA multiple for WRK's Distribution businesses.

Risks to our PO are (1) the broader employment, macro and consumer spending outlook, (2) potential volatility in OCC prices, (3) paper/board sector volatility and demand trends across end markets, (4) supply-chains, (5) potential governmental policy and regulatory changes, (6) risks related to the closing of the Smurfit Kappa transaction. As with all our packaging and paper/forest product companies, WRK must contend with a variety of macro, FX, commodity inflation and other considerations. Should the factors above impact WRK more negatively than expected, its results and stock price will have difficulty achieving our forecasts. Similarly, should these factors combine more positively than expected, WRK's results and stock price could exceed our forecasts.

Weyerhaeuser Co. (WY)
Our $37 PO is based on the average of (a) an assumed mid-cycle dividend yield of 1.8% and dividend of $0.80-0.90/share, (b) a 21-25x mid-cycle AFFO multiple, and (c) a sum-of-the-parts (SOTP) value. Our SOTP model values WY's Timberlands business based on our estimates of the per acre values for its timberlands, and values its Wood Products business based on our forecast for mid-cycle EBITDA and applying a 5.5x EV/EBITDA multiple. Meanwhile, we value its Real Estate operations based on the average premium generated over time, and assuming properties sold are ultimately replaced with other timberlands.

Risks to our PO being achieved are (1) weak employment, (2) weak housing fundamentals, (3) regulations on the tax status of REITs - given WY's REIT status, some elements of the company's future performance (i.e., tax rate, corporate expense) could prove difficult to forecast, (4) Emerging market and FX trends, which could impact demand and pricing for WY timber, (5) dividend trends, (6) trends in China. As with all of our stocks, WY will be sensitive to changes in the domestic and global macro outlook, input cost trends, and potential policy and regulatory changes.

Wolfspeed Inc (WOLF)

We assign a $40 PO on 4x CY25E EV/S, in line auto tech peers, justified given the leverage to high growth prospects in automotive and communication markets, partially offset by near term profitability headwinds.

Upside risks to our PO are: (1) Faster than anticipated EV adoption with higher SiC penetration, (2) Accelerated ramp of Mohawk Valley driving stronger than expected cost improvements, (3) Slowdown in competitor investment in SiC technology, (4) Market share gains in autos or telecom.

Downside risks to our PO are: (1) lumpy 5G telecom capex and rollout of next generation base stations, (2) long-term impacts of COVID-19 reducing automotive demand, (3) higher than expected investment to sustain SiC factory production.

Zimmer Biomet (ZBH)

Our $130 PO is based on 16x our 2024E EPS. This multiple is in line with large cap medtech peers. We think in line is appropriate given ZBH is growing revenue and eps in line with average large cap medtech peers.

Upside risks to our PO are 1) orthopedic backlog caused by covid comes through faster than expected, 2) pipeline product adoptions happens quicker than we had modeled and 3) an acquisition that accelerates top-line growth.

Downside risks are 1) a slowdown in the hip/knee market, 2) pressure on margins from supply chain/inflation/ increased pricing pressure in hips/knees and 3) slower than expected benefit from robotic utilization and new product mix and 4) strategic activity that is not well received.

Zscaler (ZS)

Our PO of $205 is based on roughly 11x CY25E EV/Sales. The multiple is a premium versus high-growth software peers (7-10x), which we justify by the higher growth profile. We believe a premium is warranted due to Zscaler's higher growth profile and potential to take meaningful share in new markets that would increase the TAM and potentially accelerate growth.

Upside risks to our PO are 1) faster-than-expected adoption of Zscaler's new products, such as Zscaler Private Access, 2) higher ASP uplift due to adoption of high-end offerings like the Cloud Next-generation firewall and Cloud Sandbox, and 3) a more significant shift to cloud-based security across enterprises of all sizes.

Downside risks to our PO are 1) a lower take-rate of new offerings, 2) material slowdown in new customer adoption and expansion deals, 3) risk of network outages or security breaches, and 4) an increase in competition from incumbent vendors and newer start-ups.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster[R1]
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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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