

Morning Meeting Notes

QuickNotes

Morning Call

US EQUITIES RESEARCH

Rating Changes

[Vertex](#) | NEUTRAL | VERX US | Mkt Cap:USD2,046mn | Brad Sills
Turning a corner on balanced growth and margin, Upgrading to Neutral

- Q4 results starting to yield results, and GTM partnerships are driving acceleration across key metrics.
- See path for multi-year expansion given that investments in partner channels and customer support are largely over.
- Upgrade to Neutral for improving visibility to rule-of-40.

PO Raised

[Autodesk](#) | NEUTRAL | ADSK US | Mkt Cap:USD55,765mn | Michael Funk
4Q24 Wrap: Core business healthy

- Autodesk reported 4Q24 total revenue that was 2.4% ahead of our estimate and introduced FY25 guidance that was broadly solid.
- While there are several moving pieces impacting FY25, mgmt commentary reduced modeling opaqueness/uncertainty.
- We are increasing our PO to \$300 (from \$280) on a more positive NT growth outlook, implying 26x CY25E EBITDA.

[Birkenstock](#) | NEUTRAL | BIRK US | Mkt Cap:USD9,393mn | Lorraine Hutchinson

Sales off to a strong start

- Maintain Neutral as we think the stock's premium valuation fairly reflects a stronger sales/margin profile relative to peers
- 1Q Adj EBITDA margin declined 230bp; we expect factory expansion inefficiencies to persist through 2024
- Management expressed confidence in its medium-term plan of 60% gross margin and low 30s adj EBITDA margin

01 March 2024

Equity
United States

Investor Support
BofAS

Today's Events: Economic Indicators

N/A

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QuickNotes is a list of today's Global Research activities. Please use the links to read the full Research report before making investment decisions. The reports also contain important disclosures.

[Blackstone Secured](#) | NEUTRAL | BXS US | Mkt Cap:USD5,499mn | Derek Hewett

Another strong quarter; momentum heading into 2024

- BXS reported a strong 4Q with core EPS of \$0.96 above Street ests & NAV/share modestly higher to \$26.66
- BXS continues to showcase best-in-class credit, with only 1 non-accrual loan at 4Q representing just 0.1% of the portfolio
- 1Q24 dividend stable at \$0.77/share; we raise our '24/'25 EPS ests and increase our PO to \$30

[Certara](#) | BUY | CERT US | Mkt Cap:USD2,698mn | Michael Ryskin
4Q23 CERT and DNA earnings review and model updates

- In this note, we provide our 4Q23 earnings review for CERT and DNA
- CERT reported solid 4Q23; FY24 sales ahead on M&A but adj. EBITDA inline as investments continue; PO moves to \$21; Reit. Buy
- DNA 4Q23 results and FY24 guide below expectations as Core Foundry disappoints; PO moves to \$1.25; Reiterate Underperform

[Eli Lilly](#) | BUY | LLY US | Mkt Cap:USD716,120mn | Geoff Meacham
Can you take me higher? PO to \$1000

- We've increased our PO for Lilly to \$1000 (from \$800) after accounting for label expansions for tirzepatide nextgen assets
- In 2030, we now forecast global tirzepatide sales at >\$60B, a 4x increase from 2024
- We expect continued strength given a scarcity of high growth stories along with upward commercial momentum throughout 2024

[ESAB Corp](#) | BUY | ESAB US | Mkt Cap:USD6,046mn | Sherif El-Sabbahy
Progress marches ahead

- ESAB reported better than expected results and provided initial 2024 outlook in line with consensus. Demand remains firm.
- Unique growth vectors are driving margin improvement, ESAB has balance sheet flexibility, and FCF generation is significant.
- Reiterate Buy: ESAB continues to compound and valuation is attractive. PO to \$109 as performance merits higher multiple.

[ExlService Holdi](#) | BUY | EXLS US | Mkt Cap:USD5,223mn | Kunal Tayal
Solid growth to continue into CY24; reiterate Buy

- Q4 was an in-line, strong quarter while CY24 rev growth outlook of 9%-12%yoy is encouraging.
- More evidence of company likely benefitting from spends around AI. Recent partnerships with Microsoft and AWS to help.
- Uptick in buyback quantum to provide additional stock support. Reiterate Buy with new PO of \$36.5

Flywire | BUY | FLYW US | Mkt Cap:USD3,434mn | Jason Kupferberg**4Q earnings roundup**

- Following 4Q results and management commentary, we adjust F24 revs/adj. EBITDA and roll out initial F26 estimates
- We raise our PO to \$34 (from \$31) based on 6x C24 revs less ancillary services and our DCF; reiterate Buy.

Haleon | BUY | HLN US | Mkt Cap:USD38,849mn | Victoria Petrova**FY23 results: strong finish to the year and shareholder returns to start**

- Haleon 4Q23 beat on OG (6.7% vs Cons 5.3%) with better volume and price. FY24 GBP 500m SBB announced and dividends step up.
- For FY24, we expect 5.2% OG (market share gains in VMS and Oral) and 22.9% margin with cost savings offset by FX and scope.
- Haleon is a steady compounder. We expect 9.6% 3Y CAGR EPS. valuation undemanding at 18.3x FY24 PE. PO to GBp400. Reit Buy.

Hayward Holdings | UNDERPERFORM | HAYW US | Mkt Cap:USD3,264mn |**Rafe Jadrosich****2024 outlook in-line with consensus; Destocking is over, but end market still down**

- HAYW reported 4Q23 adjusted EPS of \$0.20 in-line with our forecast and above consensus. Revenue increased 8% YoY.
- Management initiated FY 2024 guidance for revenues 2-7% YoY and EBITDA generally in-line with consensus.
- Reiterate Underperform given challenging macro and soft end market trends for pool equipment.

Montrose | BUY | MEG US | Mkt Cap:USD1,257mn | Andrew Obin**DEM #566: Industry inventory and pricing: a closer look at the data**

- Aggregate manufacturing inventories-to-sales were flat sequentially in December at 1.48. Inventories remain elevated...
- ...vs pre-pandemic levels. In January, US manufacturing prices were down (2)%y/y
- However areas of relative strength include fluid power pump and motor and electrical equipment

NetApp | UNDERPERFORM | NTAP US | Mkt Cap:USD18,361mn | Wamsi**Mohan****Strong quarter but we remain cautious**

- NTAP reported F3Q rev/EPS of \$1.61bn/\$1.94 above expectations. GM grew 70bps to 72.7% with product GM 150bps to 62.5%.
- Revs benefited from strength in all-flash arrays and benefit from go-to-market changes.
- Reiterate Underperform. PO to \$78 on 12x (unchanged) C24 EPS.



[NRG Energy](#) | BUY | NRG US | Mkt Cap:USD11,508mn | Julien Dumoulin-Smith

Raising the bar as Retail reigns supreme – Reiterate Buy, PO to \$66

- New KPIs showcase strength and profitability of Retail power business - look for power fundamentals to drive shares higher
- See FCFbG/sh as still above mgmt plans thru '27 even off higher share price - solid start to '24 yields added confidence.
- Raising PO to \$66- see further upside as Retail biz shines, Vivint integration derisks concerns. Reiterate Buy

[Pentair plc](#) | NEUTRAL | PNR US | Mkt Cap:USD13,893mn | Andrew Obin
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[The Cooper Companies](#) | BUY | COO US | Mkt Cap:USD18,602mn | Craig Bijou

Solid FQ1: beats all around as lens business moves past supply issues

- COO remains top pick for 2024 after strong FQ1 - rev 2% beat, EPS 8% beat, Raised top and bottom guide; Raise PO to \$114
- Contact lens business grows 7% org despite supply issues, could return to DD growth as early as FQ2
- Fertility grows DD for 13th consecutive quarter, added more than 100bps to overall COO growth

[Veeva Systems, Inc.](#) | NEUTRAL | VEEV US | Mkt Cap:USD36,311mn | Brad Sills

Mixed Q4 results and outlook; Business remains in transition

- Better than expected Q4 results suggest stabilizing macro headwinds; balanced upside across R&D and commercial
- See pot'l reacceleration in R&D, but commercial weighed down by replatforming
- Reiterate Neutral, raise our PO to \$240 for multiple expansion

[Vertiv](#) | BUY | VRT US | Mkt Cap:USD25,829mn | Andrew Obin
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PO Lowered

[Ginkgo Bioworks Hold](#) | UNDERPERFORM | DNA US | Mkt Cap:USD2,509mn |

Derik De Bruin

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Significant EPS Change

[Best Buy](#) | UNDERPERFORM | BBY US | Mkt Cap:USD17,421mn | Robert

Ohmes

4Q ahead; See computing up, but everything else flat-to-down in F25

- BBY reported 4Q EPS of \$2.72 on a comp decline of (4.8%), which compares to consensus of \$2.52 and (5.3%), respectively.
- We lower F25E EPS on lower sales forecast but expect computing category will lead comp improvement through the year.
- Maintain cautious outlook on the CE industry but see potential for stabilization in 2H. Reiterate Underperform and \$70 PO.

[Elastic](#) | BUY | ESTC US | Mkt Cap:USD13,332mn | Koji Ikeda

Good F3Q, subscription revs (ex-monthly) growth accelerates; Reit Buy, \$150 PO

- Good F4Q with revs & PF op income above our forecast. But Cloud at 29.5% y/y growth likely below expectations
- We think Subs revs (ex-Monthly) is a better gauge of growth, and it grew 23.6% y/y, accelerating from 21.2% last qtr
- Reit. Buy and \$150 PO is 11x EV/CY24E revs, and 0.7x EV/R/G, compared to peers at 8.5x / 0.7x.

[Goldman Sachs BDC](#) | NEUTRAL | GSBD US | Mkt Cap:USD1,646mn | Derek

Hewett

Good Quarter; NAV/share and the dividend are stable

- GSBD missed BofA/Cons core EPS ests by \$0.02, but we think 4Q overall was good: NAV was stable and credit improved
- Portfolio was flat at \$3.4B and NAV was \$14.62; the 1Q dividend will be flat at \$0.45/share



- Maintain our \$14.50 PO and think risk/reward at current valuation is balanced. Reiterate Neutral.

[Inari Medical](#) | BUY | NARI US | Mkt Cap:USD2,673mn | Travis Steed

Closer look at VTE market model post the NARI 21% stock move

- NARI sold off 21%; we think half of the move due to more detailed rev reporting implying less cushion for share loss in 2024.
- We scrub our VTE market model (see inside) to see what's required to get to NARI's 2024 guide.
- NARI 2024 share needs to stay roughly stable with Q423 share to hit 2024 revenue (or see more upside from noncore revenue).

[Kimbell Royalty](#) | BUY | KRP US | Mkt Cap:USD1,486mn | John Abbott

Earnings catch up: Solid and straight forward 4Q keeps KRP as defensive, Buy

- The 4Q23 was relatively solid and straight forward with a 2024 production outlook in-line with our expectations
- KRP still sees itself as a consolidator in the oil and gas mineral and royalty space, but nothing seems imminent
- We reiterate our Buy rating as we continue to see KRP as defensive in a more volatile commodity environment. \$17 PO unchanged

[Paragon 28](#) | BUY | FNA US | Mkt Cap:USD1,034mn | Craig Bijou

2024 guidance creates opportunity for upside

- Q4 revs of \$60.6m (17% y/y) at high end of prelim range
- FY24 revenue guide of \$249-259 (15-20%) brackets Street, but back half loaded on new product launches
- Q4 EBITDA close to breakeven (ex-one times), should have positive EBITDA in 2024

[Xenon Pharma](#) | BUY | XENE US | Mkt Cap:USD3,560mn | Jason Gerberry

4Q wrap: details on MDD pivotal program + narrowing of FOS topline

- XENE's 4Q EPS offered details on 1101 MDD pivotal program narrowing of FOS enrollment (which slots topline to 1H/mid-'25)
- XENE's pivotal MDD program is expecting 1st trial initiation in 2H24; trials designed to maximize POS comm'l opp'y
- We maintain Buy at \$56 on our view that 1101 is a best-in-class anti seizure drug on future de-risking catalysts

[Xponential Fitness](#) | NEUTRAL | XPOF US | Mkt Cap:USD586mn | Alexander

Perry

4Q ahead as XPOF looks to replicate Pure Barre playbook with CycleBar

- XPOF reported 4Q adj. EBITDA slightly ahead given other service revenue upside.
- We lower our C24E adj. EBITDA to reflect higher SG&A expenses. We model 475 net new openings in 2024.
- We reiterate Neutral as Club Pilates / SL strength is partially offset by risk for closures at less scaled brands.

Buy Reiterations

Consumer Discretionary

[Bath & Body Works](#) | BUY | BBWI US | Mkt Cap:USD12,476mn | Lorraine Hutchinson

Many strategies in place to stabilize sales and grow margins

- BBWI reported a strong 4Q beat; mgmt reiterated expectation for a sales inflection in 2H fueled by new categories and SKUs
- Avg unit retail (AUR) grew 2% in 4Q; mgmt expects AUR to be flat in 1Q and guided to moderate growth in F24
- We are lowering our F24/F25 EPS estimates by 1% to \$3.35/\$4.00 but see upside potential to both sales and margins

[Magna Intl](#) | BUY | MGA US | Mkt Cap:USD16,692mn | John Murphy
Automotive Industry

- The accompanying valuation framework is one of the most important fundamental factors when buying or selling Auto stocks.
- This report also includes a snapshot of current US Auto industry metrics, including sales, inventory, pricing and Econ data.
- **BofA Global Auto Summit on March 26-27, and will include fireside chats w/OEMs, suppliers & dealers and key topic panels.**

Consumer Staples

[Target Corp.](#) | BUY | TGT US | Mkt Cap:USD74,839mn | Robert Ohmes
F4Q Preview: Expect comps to inflect in 2Q24, see LT share gain opportunities; Buy

- TGT will report F4Q earnings on Tuesday, March 5th. We expect sales to remain challenged but continue to see GM upside.
- While comps in recent quarters have underperformed large broadline peers (incl WMT & COST)...
- ... we believe recent initiatives should improve TGT's value perception and support traffic & share gains going forward.

Energy

[Kinetik](#) | BUY | KNTK US | Mkt Cap:USD4,758mn | Indraneel Mitra
Strong '24 guidance and a path to investment grade despite headwinds

- 4Q EBITDA was above cons and '24 is strong guide despite 1) lower 4Q exit vols 2) Alpine High delays and 3) lower comm. px
- We believe a GCX sale is unlikely as holding it helps KNTK's goal of reaching IG as it moves closer to \$1bn EBITDA annually
- We Reiterate Buy & \$39 PO as KNTK has 9% yield and is actively deleveraging. '24/'25/'26 EBITDA est. are \$940/\$983/\$1,028mm.



Financials

[FleetCor](#) | BUY | FLT US | Mkt Cap:USD20,067mn | Mihir Bhatia
Restatement not ideal, but fundamentals unchanged; Maintain Buy

- FleetCor has restated the balance sheet and cash flow statement for 1Q23-3Q23 due to incorrect accounting.
- The issue pertains to the recognition of customer deposits, which we believe is related to the accounts payable business.
- The restatement does not impact the income statement and we do not view this as a fundamental business issue. Maintain Buy.

[Northern Trust](#) | BUY | NTRS US | Mkt Cap:USD16,847mn | Ebrahim Poonawala
Diamond in the rough: CFO meeting takeaways

- Our investor meetings with CFO Jason Tyler highlighted mgmt's laser focus on improved execution (expenses, WM growth)
- Hard to replicate wealth franchise (catering to UHNW) combined with wallet share opportunities offer ample growth runway
- Shareholders should accrue value via improved execution or potential strategic actions, including M&A; Maintain Buy

Health Care

[Jazz Pharmaceuticals](#) | BUY | JAZZ US | Mkt Cap:USD6,828mn | Jason Gerberry
Takeaways from investor meetings: oxybate defense, late-stage pipe, M&A

- Yesterday, we hosted investor meetings with Jazz management (COO and Head of R&D), where the focus was on post-4Q topics
- Overall, management sounded upbeat around the durability of its top selling oxybate business and pending Ph3 zani GEA data
- Other topics: status of orexin program, Ph2b essential tremor data in 1H4 and M&A outlook

[Thermo Fisher](#) | BUY | TMO US | Mkt Cap:USD221,509mn | Derik De Bruin
Takeaways from Mgmt meetings: LT strength, China, FY24 guide, PPD in focus

- We hosted TMO's CFO / IR for client meetings in London; LT 7-9% core growth target is still viable given mix, markets shifts
- Markets are stable and the FY24 guide range was not signaling weakness; China & Biotech are key variables for the guide
- Biopharma services make TMO stronger in the long run, stacks up well vs peers; Many M&A opportunities remain; Maintain Buy

Industrials

[Driven Brands](#) | BUY | DRVN US | Mkt Cap:USD2,261mn | Jason Haas

DRVN Bloomberg card data shows y/y growth in observed sales

- Bloomberg data shows that there is a 46% correlation between DRVN's total revenue growth and average transaction value growth
- Quarter-to-date, Bloomberg card data shows positive y/y change in DRVN's observed sales
- We maintain our Buy rating and PO of \$20 based on 22x '24E P/E given our confidence in DRVN's long term growth

[Eaton Corp PLC](#) | BUY | ETN US | Mkt Cap:USD124,964mn | Andrew Obin

Industrials/Multi-Industry

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- ...vs pre-pandemic levels. In January, US manufacturing prices were down (2)%y/y
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[Emerson](#) | BUY | EMR US | Mkt Cap:USD67,080mn | Andrew Obin

Industrials/Multi-Industry

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Information Technology

[Broadcom](#) | BUY | AVGO US | Mkt Cap:USD642,442mn | Vivek Arya

Q1 Preview: raise PO to \$1500 on resilient FY24, AI upside

- Maintain Buy, raise PO to \$1500 on AI upside, upcoming Mar-20 AI analyst event
- Q1: upside to \$7-8bn AI sales from accelerated Google capex, 51T Ethernet Switch adoption, addl. ASIC (Meta) project...
- ...Offset by risks from muted enterprise/telco headwinds, inventory adjustments, VMWare integration conservatism

[Zscaler](#) | BUY | ZS US | Mkt Cap:USD35,892mn | Tal Liani

2Q First Take: Healthy results, but mixed signals under the surface

- Healthy 2Q, but some risks under the surface. 2Q billings/rev growth of 27%/35% vs Street's 25%/31%
- Implied 4Q billings guidance of 53% sequential growth could be aggressive compared to historical norms of 50% at the high end
- We flag risk to FY25 estimates and believe Street numbers have limited upside; growth could face competitive pricing pressure



Macro & Strategy

[Latam Equity Quant](#) | David Beker

Fed setting the tone in LatAm

- We saw small inflows into BZ equity funds last week. Outflows from local hedge funds are slowing down.
- Brazil trades at a 9% discount vs historicals while Mexico trades at a 7% discount.
- We continue to see foreign outflows from B3 in 2024 (R\$22bn outflows).

[Global Economic Weekly](#) | Claudio Irigoyen

In the supply side we trust

- We have upgraded our growth forecast for the US and we are now above consensus.
- We now expect faster growth in 2024 while slightly lower in 2025 vs our previous forecast, and mildly stronger inflation.
- We now see a smaller uptick in unemployment and lower recession risks amid a resilient economy and labor market.

[US Economic Weekly](#) | US Economics

The engine that could

- We forecast faster growth in 2024 (2.1% 4Q/4Q) and slower growth in 2025 (1.7%).
- We expect u-rate to peak at 4.1% in 4Q 2025. Previously our peak u-rate was 4.2% reached in 4Q 24 through 2Q 25.
- We still expect the Fed to start a gradual cutting cycle in June, cutting by 75bp this year and 100bp next year.

[Global Performance Monitor](#) | Nigel Tupper

Two drivers

- The MSCI AC World Index reached an all-time high in February driven by A.I. and China.
- The US and Emerging Markets were the best performing regions.
- The A.I. theme boosted Semis performance as NVIDIA, Broadcom, TSMC, and AMD all contributed positively.



[Global Equity Futures Viewpoint](#) | Chintan Kotecha**Q1-24 Equity Index Futures Roll Strategy**

- Record stretched long positioning driving S&P 500 futures roll costs higher
- Extreme long positioning and dividend risk dominate this quarter's ESTX50 roll, risks are skewed towards richening from here
- New long positions as Nikkei and Topix reached all time highs could push roll costs higher; long rollers likely to roll early

[Global FX weekly](#) | Claudio Piron**June a big deal, but still far**

- June rate cuts not a given, but still far and markets looking for new catalyst.
- G10: USD & JPY outlook; ECB & BoC previews; UK budget. EM: EMEA & Asia FX outlook; CNY & MXN themes.
- VOL bearish high beta, bullish GBPCAD. Technicals see DXY upside.

[The Flow Show](#) | Michael Hartnett**\$1tn every 100 days**

- US national debt rising \$1tn every 100 days..."debt debasement" trades like gold & bitcoin closing in on all-time highs
- Fed cuts sparking "animal spirits" as bull spreads to riskier assets, e.g. EM distressed debt, speculative tech & small cap
- BofA Bull & Bear Indicator down to 6.4 from 6.6 on big EM equity outflows...investors bullish but not "extreme" bullish

[Chart Blast](#) | Stephen Suttmeier**Bullish Jan-Feb Barometer for 2024**

- January-February Barometer bullish for 2024. SPX up YTD through February suggests 5420-5490 into yearend.
- SPX up in both Jan and Feb suggests 5490-5510. Solid SPX returns for these bullish signals in Presidential election years.
- SPX cup and handle favors upside to 5200 and 5600. Supports: 4800 / 4600. S&P Retail ETF (XRT) attempts a bullish breakout.

[Active managers' holdings update](#) | Savita Subramanian**What are your neighbors doing?**

- Long-only funds are hedged against a sluggish economy (low cyclical/Beta exposure), not for positive economic data surprises.
- Funds are fading exposure to Energy (now 26% U/W); Consumer Discretionary exposure is 1.3 std dev below avg.
- Election exposure: Health Care is 14% O/W, Aerospace & Defense is 50% O/W, High Quality is 1% U/W.

[Sell Side Indicator](#) | Savita Subramanian**Getting warmer**

- Our Sell Side Indicator (SSI) ticked up by 33bp in February to 54.7% as the S&P 500 gained for a fourth consecutive month.
- The SSI is "Neutral" but closer to a contrarian "Sell" signal than a "Buy" for the first time since April 2022.
- Retail sentiment has grown increasingly bullish based on our recent survey of Merrill financial advisors and AAIL.

[GEMs Flow Talk](#) | Jane Brauer**Focus on LDM outflows this week, as rate duration exposure in survey is very bullish**

- Rate duration is most bullish ever, as viewed by BofA investors in our FX & Rates Sentiment Survey.
- EM IG spreads are finally looking attractive vs US IG spreads as readily seen in BBB spreads, a positive
- US IG supply is growing relative to US IG inflows, which deters IG investors from crossing over into EM, a near-term negative

[Commodities Technical Advantage](#) | Paul Ciana**Is oil marching to a breakout?**

- Oil is rangebound and hovering near a three month high. Many are asking if it will breakout in March and trend up in Q2.
- An ascending triangle bottom, rising SMAs, bullish weekly MACD cross & YTD strength vs commods favor Q2 upside into mid-\$90s.
- But oil is still rangebound so it needs to break higher to confirm a base. Risks: TD Sequential and a top in Energy vs SPX.



Disclosures

Important Disclosures

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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}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R1} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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