

Morning Meeting Notes

QuickNotes

Morning Call

US EQUITIES RESEARCH

Initiations & Reinstatements

[Skechers U.S.A.](#) | NEUTRAL | SKX US | Mkt Cap:USD8,137mn | Christopher Nardone**Putting its best foot forward, but not without challenges; Initiate at Neutral**

- We are initiating coverage on Skechers (SKX), with a Neutral rating and \$67 PO
- We think a low double-digit sales CAGR is sustainable and see a path toward the 11-13% op margin target over the medium term
- In the near term, we are relatively cautious on wholesale and China; we think limited margin expansion could cap EPS upside

Rating Changes

[Petrobras PN](#) | NEUTRAL | PBR/A US | Mkt Cap:USD106,762mn | Caio Ribeiro**Sitting, waiting, wishing but no extra dividends came; Downgrading to Neutral**

- We downgrade PBR to Neutral amid lower dividend prospects & heightened risk perception. The decision to pay only ordinary...
- ...dividends suggests PBR could be pivoting to an agenda more focused on growth & increases probability of M&A. We also...
-see fewer catalysts: capex is due to rise, cons. prod. forecast are above PBR's & div. yields in 25 are below peers avg.

08 March 2024

Equity
United StatesInvestor 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.

[Textron](#) | BUY | TXT US | Mkt Cap:USD20,716mn | Ronald J. Epstein
Strong revenue ramp and buyback optionality underappreciated

- Concerns around Industrials, falling bizjet demand, and poor defense sentiment have peaked.
- Continued bizjet demand, a strong balance sheet, and strong Bell sales indicate that these concerns are overdone.
- We raise our PO to \$105 on stronger Aviation performance, cost consolidation at Industrial, and robust Systems pipeline.

[Vail Resorts](#) | NEUTRAL | MTN US | Mkt Cap:USD8,583mn | Shaun Kelley
Downgrading Vail to Neutral: Better snow, so where are the visits?

- We are lowering shares of Vail Resorts to Neutral from Buy, as we think they have a challenging setup from here
- We think Vail's guidance is predicated on improving trends which now seems optimistic. We lower our FY24 EBITDA est. to \$900M
- We bridge to FY25 EBITDA of \$925-975M, and our \$947M estimate is -6% lower than consensus at \$1,010M

[Victoria's Secret](#) | UNDERPERFORM | VSCO US | Mkt Cap:USD1,621mn | Alice Xiao
Downgrade to Underperform: Weaker sales mean deleverage as costs increase

- Downgrade to U/P on the steep slowdown in sales trends, expectation for operating deleverage & continued secular challenges
- Guidance for F24 sales - LSD assumes secular stabilization 2H, which we view as optimistic given continued secular decline
- No longer a cost-cutting turnaround story as cost savings are more than offset by tech investment, wage inflation & marketing

PO Raised

[Arcellx](#) | BUY | ACLX US | Mkt Cap:USD3,736mn | Jason Gerberry
Previewing '24 catalysts + case for late-mover advantage in BCMA CAR-T

- We preview '24 ACLX setup highlighted by anito-cel data and read-thru from competitor FDA AdCom in early line MM
- FDA AdCom likely to debate competitor BCMA CAR-T OS early vs late-line, but supply/commercial issues to push 3L next few yrs
- We reit Buy on ACLX, with execution driven valuation step-ups. See detailed data competitor AdCom previews starting page 3

BJ's Wholesale | BUY | BJ US | Mkt Cap:USD10,521mn | Robert Ohmes**"This is the club's time" to grow; Raise PO**

- We expect BJ's strategic initiatives (incl. merchandising, digital, club growth) to support membership & LT growth.
- Merch. margin expansion of 20bps in F25 should be driven by better category management & own brands offset by credit card.
- We lower our F25 adj. EPS to \$4.00 (was \$4.10) to reflect 2024 guidance and raise PO to \$90 (was \$80).

Broadcom | BUY | AVGO US | Mkt Cap:USD672,551mn | Vivek Arya**Buy for 2H acceleration, AI, VMWare strength**

- Keeping FY24E unchanged as AI, VMWare strength offsets legacy, raising FY25/26E, PO now \$1680
- AI forecast raised to \$10bn from \$7.5bn prior, likely from addition of Meta as customer
- VMWare bookings off to solid start, l-t we see AVGO's EPS power \$70-\$75/share

Burlington Stores | BUY | BURL US | Mkt Cap:USD14,746mn | Lorraine**Hutchinson****Well positioned for margin recapture**

- We reiterate our Buy rating as we think BURL has outsized sales and margin recovery opportunities
- Mgmt is confident in hitting the 100 net new store target in F24 (1/3 in Spring, 2/3 in Fall); we model non-comp growth 6%
- We see further trade-down oppty as BURL pursues more branded upfront buys, while maintaining a focus on providing value

DocuSign | NEUTRAL | DOCU US | Mkt Cap:USD10,923mn | Brad Sills**Strong close to FY24 but remain Neutral pending better visibility for rev accel**

- Strong Q4 results w/ billings of \$833.1mn (13% y/y) well ahead of our \$764.7mn from renewal strength & new customer growth
- Solid margin progression in FY25E (140bps at midpt) and several signs pointing to large customer cohort stabilizing
- Remain Neutral pending better visibility for revenue acceleration and margin progression beyond FY25E

Eaton Corp PLC | BUY | ETN US | Mkt Cap:USD130,209mn | Andrew Obin**DEM #567: Industrial data and valuation**

- The XLI is up 7.5% year-to-date (vs. the S&P 500 up 8.1% year-to-date) and ended the week up 1.3% (vs. S&P up 1.2%)
- We highlight VRT, GE, and VNT as the best stock performers YTD & MMM, ROK, and RUSHA as the weakest performers
- We highlight CARR as this week's best performer (up 7.1%) and MEG as this week's weakest performer (down 15.1%)



Fortive | NEUTRAL | FTV US | Mkt Cap:USD30,366mn | Andrew Obin**DEM #567: Industrial data and valuation**

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Gap Inc. | UNDERPERFORM | GPS US | Mkt Cap:USD8,718mn | Lorraine**Hutchinson****Further margin recovery is now dependent on consistent sales growth**

- GPS posted a solid 4Q beat, driven by stronger gross margin and a second consecutive quarter of positive comps at Old Navy
- We see opportunity for gross margin expansion in 1H, but no further meaningful SG&A reduction
- We expect earnings growth to stall in 2H and retain our U/P. We are raising our F24 EPS est to \$1.35 to reflect the beat

Marvell | BUY | MRVL US | Mkt Cap:USD74,360mn | Vivek Arya**Buy on rising AI momentum and potential legacy 1H trough**

- Another legacy business cut, but estimates now de-risked. AI ramp well on track and accelerating. Reit. Buy, raise PO to \$95
- AI revenue to reach 30-35% of total sales by CY25/FY26E, second highest in semis after NVDA. AI Day on April 11 a catalyst
- Risks: GM headwind from low volume and custom ASIC ramp, continued telco/enterprise weakness

Mattel | BUY | MAT US | Mkt Cap:USD6,906mn | Alexander Perry**Virtual Investor Day: Growing franchise brands supports entertainment strategy**

- We attended MAT's Virtual Investor Day. We expect focus on franchise power brands incl. Barbie, Hot Wheels, & Fisher-Price.
- Mattel highlighted its key retail partnerships including with WMT.
- MAT is focused on leveraging the success of its franchise brands to build out new entertainment verticals.

The Kroger Co. | BUY | KR US | Mkt Cap:USD40,126mn | Robert Ohmes**Reiterate Buy following strong F4Q & F25 guide; Raise PO to \$70**

- Following KR's strong F4Q24 earnings and F25 guidance, we raise our PO to \$70 and reiterate our Buy rating.
- We maintain F25E adj. EPS of \$4.45 & see 1% full-yr IDs that should be softest in 1Q given cycling of SNAP lower inflation
- We see support for KR from strong variety/value & digital offerings growing alt. profit streams & cost savings execution.

PO Lowered

[MongoDB](#) | BUY | MDB US | Mkt Cap:USD29,738mn | Brad Sills
Solid Q4; Solid Growth Trajectory Largely Unchanged Following FY25 Outlook

- Solid Q4 results (6% upside) with Atlas growth of 36% y/y (ex impact from unused credits) keeping pace with strong Q3 level
- Excluding one-time items, the normalized FY25 growth of 19% y/y suggests 30% is possible
- Continue to view MDB as the database of choice for AI in the enterprise; reiterate Buy but lower PO to \$500 for lower outlook

[New York Community](#) | NEUTRAL | NYCB US | Mkt Cap:USD2,643mn | Ebrahim Poonawala
Heavy lifting ahead

- During today's investor call mgmt. reiterated some of the priorities that were laid out in early February
- Heavy lifting ahead as new mgmt. looks to de-risk the balance sheet, deal with a challenged EPS/ROE outlook
- Revise FY24/25e EPS to \$0.08/\$0.36 to reflect equity raise, reserve build and a lower NII outlook; Reiterate Neutral rating

[Stevanato](#) | BUY | STVN US | Mkt Cap:USD8,042mn | Derik De Bruin
4Q23 recap: Vial destocking headwinds linger, but confidence in LT targets

- STVN reported solid 4Q results, but FY24 guide was below the Street on vial destocking and slower Engineering ramp
- BDS recovery expected in 2H24, but low end of 9-12% sales growth guide assumes no rebound; LT targets reiterated
- We trim our FY24 estimate and lower our PO to \$36 from \$39; Reiterate Buy on strong market fundamentals



Significant EPS Change

[Duckhorn](#) | UNDERPERFORM | NAPA US | Mkt Cap:USD1,089mn | Peter Galbo
De-feathered

- 2Q sales of \$103mm was below our estimate of \$107mm & Consensus of \$106mm. 2Q operating profit of \$32.6mm was in line with...
- our forecast as better than expected GMs and slightly lower than expected SG&A offset weaker sales. NAPA cut its FY24...
- sales and adj. EBITDA outlook by about 5% and 3%, respectively. We lower our FY24-FY26 adj. EBITDAe. Maintain Underperform.

[Guidewire Software](#) | UNDERPERFORM | GWRE US | Mkt Cap:USD9,552mn | Michael Funk

F2Q24 Wrap: Services pressures revenue outlook

- Guidewire reported mixed 2Q24 results with revs slightly below Street and better than expected non-GAAP operating income.
- GWRE lowered its FY24 total revenue guidance by 2%, primarily due to lower expected Services revenue.
- We lower our FY24 and FY25 revenue estimates; reiterate Underperform rating and PO of \$80, based on 5.5x CY25E EV/Rev.

Buy Reiterations

Consumer Discretionary

[Rivian Automotive](#) | BUY | RIVN US | Mkt Cap:USD12,047mn | 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.**

Health Care

[The Cigna Group](#) | BUY | CI US | Mkt Cap:USD100,959mn | Kevin Fischbeck
I-day: Specialty pharmacy the growth driver

- CI raised its LT EPS growth outlook to 10-14% vs 10-13% previously on better performance in Evernorth.
- Specifically, sees specialty and HC services growing 8-12% fueled mostly by market growth (higher than MA).
- While company's growth outlook still lower than peers, seems more easily achievable, less exposed to MA pressures.

Macro & Strategy

[US Rates](#) | US Rates Research

US Treasury auction primer

- This primer reviews key aspects of the US Treasury auction process, results, market response, Fed rollovers, and buybacks
- Treasury auctions are an important part of Treasury's debt management process and can have implications on financial markets
- We address how to read auction results & review recent market dynamics around UST auctions

[FX Alpha](#) | Kamal Sharma

Buy GBP/USD

- The trade: Buy a 25D 3m GBP/USD call (1.3074); spot ref: 1.28. Cost = 0.51% GBP. Risks are continuation of US growth momentum
- GBP cyclical support in April: rise in Min Wage & ve seasonality. Gradual USD depreciation as Fed cuts before BoE
- Bullish cup & handle pattern forming. A breakout above the cup line will confirm and signals upside to 1.30/1.3140

[Latam Equity Quant](#) | David Beker

After 2 years of waiting, outflows stopped

- Outflows from local equity funds stopped in Brazil. We continue to see a slowdown in outflows from local hedge funds.
- Key to watch if inflows pick up in the future as rates move lower.
- We continue to see foreign outflows from B3 in 2024 (R\$27bn outflows).

[Global Economic Weekly](#) | Claudio Irigoyen

What to expect when you are expecting

- Powell didn't offer much guidance and the speech was not a market moving event.
- Market pricing and the progress in disinflation suggest 3 cuts starting in June as the path of least resistance.
- But growth above potential, upside inflation risks and elections suggest high for longer might be appropriate.

[US Economic Weekly](#) | US Economics

Household net worth surges

- Household net worth rebounded in 4Q. Together with excess saving, net worth supports our view of a resilient consumer.
- The US House passed a spending bill to fund half of the federal government. The remainder needs to be funded by March 22.
- We think next week's CPI report will confirm that inflation remains on a downward trend, though services inflation is sticky.



[FX Watch](#) | Shusuke Yamada**Japan BoP: yen's spring rally**

- 1) Structural outflow intact. 2) pension funds rebalancing from bonds to equities, tightening demand/supply balance in JGBs.
- 3) Banks may be long UST. 4) Nikkei 225 - USD/JPY correlation highest since May '23 on FX-hedged inward equity investment.
- Scope for USD/JPY correction on positioning & policy risk. USD/JPY attractive again below 145 on carry structural outflow.

[Global FX Weekly](#) | Athanasios Vamvakidis**The June target**

- CBs hope to start cuts in June, but depending on data and based on different criteria. Low vol & dovish Fed support EM carry.
- G10 themes: USD rangebound, UK budget, SNB reserves. EM themes: LatAm and Asia outlook, TWD weakness.
- Rising USDJPY vol may indicate pickup in broader FX vol. USD bottom patterns that favored March upside in question.

[The Flow Show](#) | Michael Hartnett**"We're Not Far From It..."**

- March 10th 2000: Nasdaq bubble peaked; SOX/SPX relative just hit highest level since Mar'00
- March 9th 2020: 10-year UST yield hit 0.3%, all-time low; wars, deficits, inflation...historic bond bear market past 4 years
- March 9th 2023: SVB collapsed & kick-started Silicon Valley bull with aid of Fed-Wall St "bromance" & AI

[CPI Inflation Watch](#) | US Economics**February US CPI Inflation preview: A small confidence boost**

- The February CPI report should alleviate concerns that inflation is reaccelerating after the January report.
- While headline inflation likely accelerated to 0.4% m/m, we look for core inflation to slow to 0.3% m/m.
- Core services should remain sticky-high. However, we expect OER inflation to cool after a spike in January.

[GEMs Flow Talk](#) | Jane Brauer**Sharp outflows but positive net issuance. How can that be?**

- High outflows and high issuance mismatch is offset by crossover investors, especially from IG where inflows are strong.
- Net issuance is lumpy. Saudi sov & corps big issuance, tiny debt service, but many investors are more than happy to buy it.
- KSA, MX, RO, IL frontloading their issuance. Rest of EM sovs may get moving given the risk that demand could dry up

[US Equity Futures Watch](#) | Chintan Kotecha

S&P 500 Futures Intraday Roll Cost Monitor

- On Thursday, 7 Mar, the ES Mar/Jun roll traded 56bps to Fed Funds. The VWAP for the quarter is 52bps
- The total notional rolled in ES contracts on 7 Mar was \$33.1bn and quarter-to-date is \$91.7bn
- Open interest implies 10.5% of e-mini contracts have rolled to Jun-24



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

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