

Morning Meeting Notes

QuickNotes

Morning Call

US EQUITIES RESEARCH

Rating Changes

[SentinelOne](#) | BUY | S US | Mkt Cap:USD7,211mn | Tal Liani**Channel checks suggest accelerating cyber budgets and improving macro conditions**

- We conducted channel checks & feedback suggests strong 4Q23 deal activity, largely improving on the first nine months of 2023
- Feedback reflects more typical 4Q budgets & points to improving macro conditions with better sales cycles & deal sizes
- Solid deal flow through 1Q24; we flag better macro conditions, improving deal terms, AI, Cloud, & SASE as key growth drivers

PO Raised

[Allison Trans.](#) | UNDERPERFORM | ALSN US | Mkt Cap:USD5,477mn | Sherif

El-Sabbahy

Solid end to the year

- Allison posted Q4 results well above consensus and guided above expectations for 2024.
- Allison expects to see demand from Defense, and non-NA on/off-hwy offset declines in NA On/off-Hwy and Service segments.
- While we have concerns on cycle to cycle margin degradation, ALSN's ability to drive ancillary growth is impressive.

[CRH](#) | BUY | CRH US | Mkt Cap:USD50,239mn | Arnaud Lehmann**Steady outlook, M&A and cash returns optionality, PO raised to GBp6,800 / \$86**

- We see a strong 2024 outlook driven by infrastructure spending and US pricing.
- We adjust our forecast for US GAAP accounting and recent M&A activity. EPS estimates largely unchanged.
- Reiterate Buy, PO raised to GBp6,800 / US\$86. Potential for further large share buybacks and more acquisitions in 2024.

14 February 2024

Equity

United States

Investor Support

BofAS

Today's Events: Economic Indicators

1. 7:00 MBA Mortgage Applications

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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.

CrowdStrike | BUY | CRWD US | Mkt Cap:USD73,397mn | Tal Liani**Channel checks suggest accelerating cyber budgets and improving macro conditions**

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DaVita Inc | UNDERPERFORM | DVA US | Mkt Cap:USD10,540mn | Kevin Fischbeck**Guide well above consensus, volumes to improve**

- Q4 results and 2024 guide are much better than expected. Q4 margins beat on better pricing.
- OI guide midpoint is 7% above consensus, but guide of vol improvement may be key.
- OI to be up 10% y/y or 8% excluding \$30m shared savings related to 2022. Raising ests/PO. Reiterate Underperform.

DraftKings, Inc. | BUY | DKNG US | Mkt Cap:USD19,904mn | Shaun Kelley
Digital Gaming Update: ESPN Bet in NY; BetMGM in-line; DKNG PO to \$50

- On Tuesday, Penn announced an agreement to purchase the New York State Gaming License from Wynn Interactive for \$25M
- If ESPN Bet can reach mid-to-high single digit share in NY, it could add \$100-200M of GGR in 2025
- We are raising our DKNG PO to \$50 based on 30x 2025E EBITDA to reflect market re-rating of growth stocks

Herc Holdings | UNDERPERFORM | HRI US | Mkt Cap:USD4,010mn | Sherif El-Sabbahy
Q4 falls short

- Q4 results fell short of expectations as did 2024 outlook, particularly given 3 year targets just a few months ago.
- A year of transition: resilient rate, better ute as fleet churn slows... but does 2025 see re-expansion in line with targets?
- Some signs of cooling but demand remains steady. Aerials still a pinch point - slowing capex somewhat.

Instacart | NEUTRAL | CART US | Mkt Cap:USD7,804mn | Justin Post
Lots of moving parts in 4Q, but EBITDA beats continue; Reiterate Neutral

- Reported 7% y/y GTV growth, above Street at 6%, with in line revenue. EBITDA beat on lower opex.
- 1Q guide suggests an improving GTV growth outlook as cohort trends recover, though incentive spend also helping.
- Accelerating trends are likely positive for sentiment, but continue to prefer faster growers in sector. Neutral.

Lyft, Inc. | UNDERPERFORM | LYFT US | Mkt Cap:USD4,157mn | Michael**McGovern****Mostly positive 2024 outlook, but driven by industry upside (still losing share)**

- Reported Rev/EBITDA of \$1.22bn/\$67mn vs. Street at \$1.22bn/\$56mn. Bookings beat, and top-line guidance was positive.
- 50bps of EBITDA margin expansion on bookings for 2024 implies a 5% incremental EBITDA margin on Bookings, below Uber at 8%.
- FY24 Guidance was mostly positive, but market share losses & FCF conversion are concerns; Reiterate U/P.

Mohawk Industries | UNDERPERFORM | MHK US | Mkt Cap:USD7,972mn |**Rafe Jadrosich****Earnings at a floor but not an inflection**

- MHK reported 4Q23 EPS upside on better revenue. Raise PO/EPS estimates. 1Q24 guide below consensus on normal QoQ seasonality.
- We expect demand and pricing to remain under pressure through 1H24. Reiterate Underperform.
- Demand still weak in US resi R&R but could be at a trough. New construction outlook improving, but commercial could moderate.

Moody's Corp. | BUY | MCO US | Mkt Cap:USD67,569mn | Heather Balsky**Investment to drive growth, but we think growth story intact**

- We view the post-print pullback in MCO's share price as a good opportunity.
- We raise our PO to \$430 as we roll forward our valuation estimates to 2025 and a higher multiple (34x FY25 P/E vs. 33x prior)
- We reiterate our Buy recommendation. We think there's opportunity for upside on the 2024 outlook.

Palo Alto Networks | NEUTRAL | PANW US | Mkt Cap:USD110,036mn | Tal**Liani****Channel checks suggest accelerating cyber budgets and improving macro conditions**

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Restaurant Brands In | UNDERPERFORM | QSR US | Mkt Cap:USD23,361mn |**Sara Senatore****2/13 4Q Earnings Recap: QSR,DNUT – Settling in for the long haul**

- QSR: Slower unit growth, cont'd investment. F24 EPS up slightly as lower opex offsets lower revenue.
- DNUT: More consistent earnings growth ahead. F24 lower on slower topline growth.



[TransUnion](#) | UNDERPERFORM | TRU US | Mkt Cap:USD14,303mn | Heather Balsky

Management attempts to guide 2024 cautiously

- TRU's 4Q sales/margin/EPS beat was arguably well broadcasted, although not reflected in consensus estimates.
- We remain cautious as the consumer lending environment remains sluggish near term and visibility has been tough for TRU
- We maintain our Underperform rating and raise our PO to \$65 on a higher multiple due to better-than-feared consumer lending

[Waste Connections](#) | BUY | WCN US | Mkt Cap:USD40,334mn | Michael Feniger

Garbage man delivers

- WCN finished an uncharacteristically turbulent 2023 (CEO change, landfill) on a high note with Q4 and momentum into 2024.
- While the shine may not be as bright as WM's Q4, momentum of WCN's margin story into 2024 (120bps, eye on 34%) is positive.
- Buy: WCN guides EBITDA growth 13% in 2024 (high margin mix), positive on Secure acquisition, likely more M&A runway ahead.

PO Lowered

[Asbury Auto](#) | BUY | ABG US | Mkt Cap:USD4,832mn | John Murphy

[AutoNation, Inc.](#) | BUY | AN US | Mkt Cap:USD8,383mn | John Murphy

[BorgWarner](#) | BUY | BWA US | Mkt Cap:USD7,436mn | John Murphy

[Lear Corp.](#) | BUY | LEA US | Mkt Cap:USD8,035mn | John Murphy

[Magna Intl](#) | BUY | MGA US | Mkt Cap:USD16,316mn | John Murphy

[Penske Auto Group](#) | BUY | PAG US | Mkt Cap:USD11,998mn | John Murphy
4Q23 late game update: mixed year-end opens road for another fast lap

- As we approach the end of this earnings season, we are updating estimates for the latest reporters
- 4Q23 has showed mixed results across the coverage with beats and misses largely equally balanced
- Commentary was mostly positive: OEMs and Dealers have confidence on demand health while suppliers should expand margins

[BlackLine, Inc.](#) | UNDERPERFORM | BL US | Mkt Cap:USD3,572mn | Koji Ikeda
2024 rev outlook below Street, though NRR may have stabilized; Reiterate Underperform

- 4Q above Street on revs & op income, but guides 2024 revs below Street (\$643m vs \$657m), due to macro and biz transformation
- Midmarket strength was encouraging, and new Accounting Studio to GA later this year, which could become good growth driver
- Reiterate Underperform, lower PO to \$50 (from \$52) for lower rev forecast, based on 5.7x EV/CY24E revs vs. 7.5x horizontal peers

[GlobalFoundries](#) | NEUTRAL | GFS US | Mkt Cap:USD30,238mn | Vivek Arya
Closer to trough, but recovery muted, FCF improving

- Reiterate Neutral and lower PO to \$62 on muted recovery path offset by improving FCF
- Likes: Healthy FCF growth outlook on lower capex spending, investment tax credit benefits, mobile now generally bottoming
- Risks: Utilization down to low/mid-70%, gross margins impacted on low utilization/volume, rising industry capacity

[IPG Photonics](#) | UNDERPERFORM | IPGP US | Mkt Cap:USD4,029mn | Michael Feniger
Laser beam misses the mark - disappointing guide

- Underperform: IPGP shares fell 16% as Q1 guide disappointed (EPS \$0.30-0.60 vs cons \$1.03) on weak demand, lower gross margin
- Book to bill sub 1x: OEMs reduce purchases/working down inventories, China increased competition, low PMIs weigh on demand.
- EV: positive l-term story (20% of sales) yet incremental capacity slowing in China near-term & monitor NA build-out headlines

[Krispy Kreme](#) | BUY | DNUT US | Mkt Cap:USD2,219mn | Sara Senatore
2/13 4Q Earnings Recap: QSR, DNUT – Settling in for the long haul

- QSR: Slower unit growth cont'd investment. F24 EPS up slightly as lower opex offsets lower revenue.
- DNUT: More consistent earnings growth ahead. F24 lower on slower topline growth.



[Royal Bank](#) | BUY | RY US | Mkt Cap:USD133,612mn | Ebrahim Poonawala

[TD Bank](#) | NEUTRAL | TD US | Mkt Cap:USD102,923mn | Ebrahim Poonawala
1Q24 Preview: Micro vs. Macro

- We remain concerned about the risks posed by higher for longer interest rates to growth and credit quality outlooks
- Our investor conversations indicate comfort around EPS outlooks and capital levels, but limited appetite to add exposure
- Favor RY/BMO on PTPP defensibility driven by deal synergies, BNS could exceed low expectations on margin expansion

[Sasol Limited](#) | BUY | SSL US | Mkt Cap:USD4,919mn | Sashank Lanka

Particularly attractive entry point post share price correction

- Three drivers of our bullish view: 1) shares now imply a LT oil price of US\$62/bbl, lower than fwd curve at US\$73/bbl.
- 2) chemicals prices bottoming out, helping drive FY23-25E EBITDA CAGR of 5% (based on BofAe), ahead of consensus at 2%;
- 3) compelling valuation. We cut FY24E EBITDA by 10% driven by weak chemical prices. New PO: ZAR 290 vs old: ZAR 346.

Significant EPS Change

[Adient Plc](#) | BUY | ADNT US | Mkt Cap:USD3,130mn | John Murphy

4Q23 late game update: mixed year-end opens road for another fast lap

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[Akamai](#) | BUY | AKAM US | Mkt Cap:USD18,861mn | Madeline Brooks
Softness on the surface due to delivery nuances, but strength underneath

- Mixed 4Q results, revenue growth of 7% weighed down by delivery growth of -6%. FY24 guide of 7% growth came in slightly light
- Compute/security, 60% of revenues, grew 20%/18%, respectively, with similar growth trends expected in FY25
- Multiple paths to upside to FY24 guidance including compensation initiatives, cross-sell opportunities, and revenue mix shift

[Datadog Inc](#) | NEUTRAL | DDOG US | Mkt Cap:USD39,789mn | Koji Ikeda
Good 4Q results, but 2024 guide a bit below Street; Reiterate Neutral, \$144 PO

- 4Q beat, but the 2024 guidance is below the Street by 1%. Though it appears conservative given strong 4Q sales execution
- Company is investing for growth given healthy demand environment, but guidance implies '24 op margins below '23 to start
- Reiterate Neutral, \$144 PO is 19.1x EV/2024 revenue (0.9x EV/R/G)

[EQT Corp.](#) | BUY | EQT US | Mkt Cap:USD14,026mn | John Abbott
4Q23 earnings recap: capex flexibility & low corp b/even keeps EQT poised

- Adj EPS/EBTIDA of \$0.48/\$840mm beat consensus & BofA on higher volumes & lower costs
- 2024 capex inline w/Street ests but volumes are lower due to non-op midstream constraints while FY24 FCF b/even is \$2.20/mcf
- EQT maintains capital flexibility & inventory depth to navigate a low price environment, reiterate Buy and PO at \$52

[MGM Resorts](#) | NEUTRAL | MGM US | Mkt Cap:USD20,147mn | Shaun Kelley
Q4 Review: Top line beat, but EBITDA miss on regionals

- MGM Resorts reported Q4 Revenues of \$4.38B vs. our \$4.30B (2%) and the Street's \$4.14B estimates
- EBITDAR of \$1.22B was below our \$1.28B estimate, driven by weaker regional results & a \$30M hit from LeoVegas UK launch costs
- We reiterate Neutral and maintain our PO of \$50 based on 7x 2024E EBITDAR

[Robinhood Markets](#) | UNDERPERFORM | HOOD US | Mkt Cap:USD8,737mn | Craig Siegenthaler
4Q23E: Mgmt. provides positive transfer data on call; Addresses graduation risk

- HOOD reported positive EPS of \$0.03 (vs. \$0.02 BofA / -\$0.01 cons) driven by crypto trading and continued expense discipline
- New data point on call: net positive brokerage account transfers and positive inflows from all major competitors



- Expect positive net income onwards dependent on market conditions allowing operating leverage to work in HOOD's favor

Topgolf Callaway | BUY | MODG US | Mkt Cap:USD2,497mn | Alexander

Perry

Expect accelerating same-venue sales & revenue synergies

- MODG reported 4Q adj. EBITDA ahead of our model on better Topgolf same-venue sales.
- We expect a softer 1Q given weather headwinds in Jan. & against a difficult corporate events comp.
- We see accelerating same-venue sales beginning in 2Q. We believe MODG is starting to unlock its revenue synergy potential.

TPG Inc | BUY | TPG US | Mkt Cap:USD3,478mn | Craig Siegenthaler

4Q23E: Key fundamentals improved q/q but expect normalization down in 1Q24

- TPG reported mixed financial results; EPS, fundraising, investing were all strong/beat but should normalize down in 1Q24
- Forecast \$19B of fundraising in '24 driven by \$10B of credit inflows relating to AG acquisition
- Reiterate Buy: Fast FRE growth driven by secular growth businesses & operating leverage; \$47 PO with 13% return potential

Buy Reiterations

Consumer Discretionary

Burlington Stores | BUY | BURL US | Mkt Cap:USD12,932mn | Lorraine

Hutchinson

Specialty Retail and Department Stores

- Reiterate Buy across off-pricers; consumers are focused on value in apparel to preserve spending power on other categories
- See most medium-term margin upside for BURL, which will end F23 with 6% OM,335bp below F19
- BURL guide is well known, and we think ROST will be conservative while TJX comp guide remains a question

Marriott Intl. | BUY | MAR US | Mkt Cap:USD68,012mn | Shaun Kelley

Q4 Review: Beat but outlook below investor expectations

- Marriott reported Q4 EBITDA ahead of us and guidance largely on one-time items and incentive fees
- Marriott's stock underperformed on an EPS outlook below expectations and organic RevPAR/NUG guides below Analyst Day outline
- However, all KPIs are in-line and MAR should compound EPS at 9-10% from 2019-2024E

Consumer Staples

[Coca Cola](#) | BUY | KO US | Mkt Cap:USD255,561mn | Bryan Spillane
An international acrobat: pricing, brand support a reliable playbook amid volatility

- KO closed out FY24 with solid pricing momentum against hyperinflation and resilient volume despite geopolitical drag
- We view this setup favorably into FY24 where we expect hyperinflationary pricing will contribute another 300-350bps to org...
- ...sales growth, with margins slated to improve as bottler refranchising progresses. Reiterate Buy and \$68 PO.

Financials

[Amer Intl Group](#) | BUY | AIG US | Mkt Cap:USD49,206mn | Joshua Shanker
An all-round EPS/operational beat in 4Q23

- AIG delivered a 4Q23 beat that essentially spanned across all segments
- While premium growth was light, underwriting margins in its P&C businesses continued to improve
- The Life & Retirement/Corebridge segment saw better earnings as well as net flows ahead of expectations

Health Care

[Abbott Labs](#) | BUY | ABT US | Mkt Cap:USD193,293mn | Travis Steed
FDA AdComm votes in favor of TriClip

- TriClip panel voted safe (14 votes yes), effective (12 yes, 2 no) and favorable risk/benefit (13 votes yes, 1 no).
- We expect TriClip FDA approval in the next 3-6 months (it's a breakthrough device). See inside for our FDA panel tracker.
- ABT representatives outlined a controlled rollout to 5-10 sites per month starting first with MitraClip centers.

[Chemed](#) | BUY | CHE US | Mkt Cap:USD8,639mn | Joanna Gajuk
Search data implies stable trends in Q4 for Roto; activity picked up in January

- Google Trends data shows searches for "plumbing" in 4Q23 declined -1% Q/Q, better than historical Q/Q trends.
- Given the high correlation with CHE's Roto revs, the data implies 4Q23 revs down 1% y/y, in line with our estimate.
- Meanwhile, data for January 2024 shows potentially higher demand for services, boding well for 1Q24. Reiterate Buy.



[Elevance Health Inc](#) | BUY | ELV US | Mkt Cap:USD119,152mn | Kevin Fischbeck

Meetings with top management strikes bullish tone on all fronts

- Management bullish on 2024 and momentum into 2025. Carelon a key part of LT 12-15% growth algorithm.
- Commercial repricing a success, finishing in 2024 and see robust growth from here. In MA, positioning for LT, growth in 2025.
- Medicaid enrollment dropped faster than expected but margins have been supported by rates, which appear firm in 2024.

[Zoetis Inc.](#) | BUY | ZTS US | Mkt Cap:USD85,249mn | Michael Ryskin
FY24 guide falls short, but Librela can still drive ZTS to new heights

- ZTS posted mixed 4Q results and '24 guide. 7%-9% FY24 operational sales outlook in line, while Adj EPS midpoint of \$5.79 below
- FY24 Adj EPS shortfall primarily on higher R&D (as ZTS continues to invest in growth) and non-op/FX headwinds
- We see growth/pipeline investments as prudent; ZTS remains best-in-class asset. Reiterate Buy and \$205 PO

Industrials

[KBR](#) | BUY | KBR US | Mkt Cap:USD7,162mn | Mariana Perez Mora
USTRANCOM extends HomeSafe transition period & moves to phase-in approach

- HomeSafe Alliance was awarded a \$60mn modification contract for an additional 12 months of transition services.
- In line with expectations, work under GHC will now be rolled out in a "condition-based, phased-in approach"
- We view this contract modification as evident that USTRANCOM is still thoroughly committed to pushing ahead on GHC.

[Rush](#) | BUY | RUSHA US | Mkt Cap:USD4,073mn | Andrew Obin
4Q23 earnings: better truck sales and cost control drive the beat

- Rush 4Q23 EPS came in ahead of expectations. New and used truck revenues were the key source of the beat (specifically new).
- Gross margins came in slightly below forecast; SG&A was a benefit vs our model. Commentary & outlook on '24 Class 8 trucks...
- ... is consistent with our meetings in November. On the margin, it seems smaller P&S customers slowed more than expectations.

Information Technology

[Zscaler](#) | BUY | ZS US | Mkt Cap:USD36,015mn | Tal Liani
Cyber Security

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Real Estate

[Digital Realty Trust](#) | BUY | DLR US | Mkt Cap:USD43,056mn | David Barden
4Q23 Heads up: DLR reporting tomorrow,2/15 AMC; call at 5:00pm ET

- DLR will report 4Q23 earnings and host its call on Thursday, February 15,AMC.
- Expect mgmt. to 1) share '24 guide,2) discuss progress on future JVs, asset dispositions, and potential equity issuances,...
- ...3) highlight the data center demand environment in '24,and 4) speak to portfolio growth plans.



Macro & Strategy

[Liquid Insight](#) | Global Rates & Currencies Research

Hedging MXN amid USD uncertainty

- Recent investor feedback shows many lack directional USD conviction, while interest to hedge MXN weakness is rising.
- Consider USDMXN-USDBRL or USDMXN-USDCPL dual-digis to cheapen cost of MXN downside hedges while stay USD neutral.
- EUR-based dual-digis vs MXN and CLP may serve as alternative for investors who do not want to fade elevated USD correlation.

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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