

## Morning Meeting Notes

## QuickNotes

Morning Call

## US EQUITIES RESEARCH

## Rating Changes

[Automatic Data](#) | NEUTRAL | ADP US | Mkt Cap:USD97,312mn | Jason

Kupferberg

Risk/reward now more balanced, upgrade to Neutral

- Upgrade to Neutral on more balanced risk/reward after LTM stock underperformance
- F2Q is expected to be trough for revs growth and margins, see potential modest upside to guide for bookings and retention
- See generally stable fundamentals in core ES segment, and worst may be over in PEO business

[Spirit Airlines](#) | UNDERPERFORM | SAVE US | Mkt Cap:USD865mn | Andrew

Didora

Move to Underperform after JBLU deal blocked by judge

- We move to Underperform (from No Rating) after a US District Court judge blocked the proposed merger with JBLU
- With SAVE's earnings pressured, we think balance sheet issues could remain a focus ahead of the \$1.1B maturity in Sept 2025
- Our new \$5 price objective is based on approximately 1.0x our 2025E book value

## PO Raised

[Fastly](#) | BUY | FSLY US | Mkt Cap:USD2,197mn | Madeline Brooks

Powering the edge: Examining the transition from CDN to Edge Compute

- Our report explores the transition of the CDN market into edge compute including an overview of AKAM, FSLY and NET
- We believe this sector is an underappreciated AI beneficiary as edge compute is well suited to handle inferencing
- We favor CPU, software strategies and believe Fastly is well positioned for the opportunity. Reit. Buy, increase PO to \$28

17 January 2024

Equity

United States

Investor Support

BofAS

## Today's Events: Economic Indicators

1. 7:00 MBA Mortgage Applications
2. 8:30 Import Price Index (mom)
3. 8:30 Import Price Index ex Petroleum (mom)
4. 8:30 Advance Retail Sales
5. 8:30 Retail Sales Less Autos
6. 8:30 Retail Sales Less Autos and Gas
7. 8:30 Core Control
8. 9:15 Industrial Production
9. 9:15 Manufacturing Production
10. 9:15 Capacity Utilization
11. 10:00 Business Inventories
12. 10:00 NAHB Housing Market Index

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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.**

**Gartner** | BUY | IT US | Mkt Cap:USD36,166mn | Heather Balsky  
**4Q EPS preview: anticipating another step towards Contract Value inflection**

- We expect Gartner to report 4Q23 EPS the week of Feb. 4th. We are at \$2.80 EPS on 5.6% sales growth and 22.9% EBITDA margins
- Key debates among investors for 2024 are when CV growth will re-accelerate and initial EBITDA margin guide
- We reiterate our Buy rating as we see upside to EPS estimates and expect multiple expansion as Contract Value accelerates

**Netflix** | BUY | NFLX US | Mkt Cap:USD210,629mn | Jessica Reif Ehrlich  
**Crowning the king in streaming**

- Recent changing market dynamics, including increasing third-party licensing, are a win-win for the industry and NFLX.
- We adjust our forecasts to reflect updated FX. We now project 4Q revenue of \$8.79bn and operating income of \$1.22bn.
- We reiterate our Buy rating and raise our PO to \$585 (from \$525), based on 23x our CY25E EBITDA.

**NextEra Energy** | NEUTRAL | NEE US | Mkt Cap:USD122,131mn | Julien Dumoulin-Smith  
**New Year, New NEE? We will see – Reiterate Neutral**

- Renewables to show ve momentum on origination & EPS quality w/ 4Q call- still waiting "clean bill of health" for FPL w/ 10K
- Forecast 4Q23 EPS of \$0.50 as NEER new investments drive growth reflecting more normalized earnings contribution, less Supply
- Reiterate Neutral as we see current premium as appropriate - PO to \$61 on MtM, revisiting NEP CAFD and CEPFs

**SAGE Therapeutics** | NEUTRAL | SAGE US | Mkt Cap:USD1,583mn | Tazeen Ahmad  
**Catalyst expectations for 2024**

- We summarize key catalysts and expectations in 2024 for our covered names that presented at the SF Healthcare Conference
- We highlight the decision on expanding SRPT's Elevidys label is due by August
- We also note that the sBLA for ARGX's Vyvgart Hytrulo has been submitted, and potential launch is anticipated in mid-24

**The PNC Financial** | NEUTRAL | PNC US | Mkt Cap:USD71,530mn | Ebrahim Poonawala  
**EPS resiliency to support premium stock valuation**

- PNC shares outperformed peers by 150bp after reporting core EPS of \$3.44 that beat BofA/consensus \$2.79/\$2.95 estimates
- No major surprises in 4Q results or management's FY24 guidance, we revise FY24/25 EPS estimates higher on lower credit costs, higher NII
- Premium stock valuation reflects strong balance sheet positioning, disciplined execution, Reiterate Neutral rating

## PO Lowered

[Interactive Brokers](#) | BUY | IBKR US | Mkt Cap:USD9,330mn | Craig Siegenthaler

**4Q23E – Increasing focus on online broker M&A targets, Still no interest in buybacks**

- IBKR reported a core earnings beat driven by lower expenses (compensation)
- Management lowered its account growth target (20% from 30%), this should allow IBKR to beat growth estimates in the future
- Reiterate Buy rating: Estimate 20% upside to 2025 consensus EPS, and 20% organic growth is still best in class

[WEC Energy Group Inc](#) | UNDERPERFORM | WEC US | Mkt Cap:USD26,045mn | Julien Dumoulin-Smith

**EPS Preview: Upside levers, but business mix could move away from regulated**

- New uncertainty for WI utilities as two of three commissioners leave within one week, small net positive is our initial take
- Capex biggest focus: can WEC find Infra investment 'in time' as NT offset, see other interest offsets to preserve EPS profile
- Still see a CAGR at or slightly below lower end, though backfill could be upside, PO \$75 and reiterate Underperform

## Significant EPS Change

[Altice USA, Inc.](#) | UNDERPERFORM | ATUS US | Mkt Cap:USD1,129mn | Jessica Reif Ehrlich

**Still a long road ahead**

- For 4Q23, we are adjusting our broadband net loss forecast to -25k (vs. -20k prev.) due to heightened competition.
- Financially, we project 4Q23: total revenue decline of -3.5%, EBITDA decline of -2.5% and FCF of \$140mn.

[Cogent](#) | BUY | CCOI US | Mkt Cap:USD3,624mn | David Barden

**4Q Preview & delta analysis – Wireless ascendant**

- In our 4Q preview, we highlight 3 key stocks: AT&T, LUMN, and CCI.
- We explain our key estimate variances across our coverage group vs the Street.
- We also update our comm. infra estimates heading into earnings in this report.



## Buy Reiterations

### Communication Services

[Meta Platforms](#) | BUY | META US | Mkt Cap:USD970,462mn | Justin Post  
Internet/e-Commerce

[Alphabet A](#) | BUY | GOOGL US | Mkt Cap:USD1,876,160mn | Justin Post  
Internet/e-Commerce

- With BofA's outlook for lower rates in 2024, we think the sector recovery (revenues and valuation) can continue into 2024.
- However, sector valuations less compelling at 15x fwd. EV/EBITDA, up from 10x entering last year.
- Top stocks for a growing risk appetite: Amazon, Pinterest, Wayfair, Vivid Seats, DoorDash, and Applovin.

### Consumer Discretionary

[Amazon.com](#) | BUY | AMZN US | Mkt Cap:USD1,557,790mn | Justin Post  
Internet/e-Commerce

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- Top stocks for a growing risk appetite: Amazon, Pinterest, Wayfair, Vivid Seats, DoorDash, and Applovin.

[Starbucks](#) | BUY | SBUX US | Mkt Cap:USD105,372mn | Sara Senatore  
Restaurants Industry

- Key themes for 2024 include: 1) job growth as demand driver 2) cont'd disinflation, reversion of pricing to historical rates
- 3) risk FSR ad spend ticks up 4) cont'd investment in tech 5) benefits for restaurants from rate cuts.
- BROS is our top pick. We update estimates for BROS, FWRG, JACK, SBUX, PTLO, PZZA.

[XPeng](#) | BUY | XPEV US | Mkt Cap:USD9,163mn | Ming Hsun Lee

**Key takeaways: expect GPM expansion in 2024 on better mix and cost reduction**

- Targets solid sales growth in 2024 driven by solid new models pipeline, continuous sales network expansion, and export sales
- Confident on GPM expansion driven by better product mix, and cost reduction through engineering and supply chain in 2024
- Exported a few thousands units of G9 and P7 in 2023, and aims export sales of more than ten thousands units in 2024

## Consumer Staples

[Sysco](#) | BUY | SYU US | Mkt Cap:USD37,766mn | Kendall Toscano

**Industry softness continues in F2Q, but long-term initiatives position SYU well**

- BAC credit and debit card data showed restaurant spending was 3.6% y/y in Dec. (140bp vs. Nov.) but soft overall for F2Q.
- Spending at independent/local restaurants (higher-margin) outpaced chains in F2Q, which bodes well for SYU local case volume.
- See SYU well-positioned for cont'd market share gains & margin expansion, w/ LT support from scale & strategic investments.

## Financials

[RenaissanceRe](#) | BUY | RNR US | Mkt Cap:USD10,982mn | Joshua Shanker  
U.S. Insurance

[Progressive Corp](#) | BUY | PGR US | Mkt Cap:USD98,664mn | Joshua Shanker  
U.S. Insurance

- We continue to believe personal auto and reinsurance segments offer the most attractive opportunities within our coverage.
- We expect insurers to report modest catastrophe losses for the quarter, but earthquake events in 1Q24 could be of interest.
- Interest rate trends could offer credit reprieve to Life Insurers while lowering fiduciary income for Brokers into 2024.

[Goldman Sachs](#) | BUY | GS US | Mkt Cap:USD168,007mn | Ebrahim Poonawala  
**Refocused and Ready to Go**

- 4Q23 results mark an end to a tough, but pivotal year as consumer pivot almost complete...a positive for the stock and EPS
- Sharpened focus on the two core businesses, where Goldman is already a market leader, should lead to improved execution



- Confidence that baseline ROE is re-setting higher, pick-up in investment banking, regulatory relief potential catalysts

[Morgan Stanley](#) | BUY | MS US | Mkt Cap:USD152,339mn | Ebrahim

Poonawala

#### CEO Ted Pick sets a realistic bar

- Stock underperformed likely on mgmt. guidance for wealth margin in the mid-20s vs. 27% forecast, 4Q23 EPS topped expectations
- CEO Ted Pick emphasized EPS durability and focus on driving growth...both critical to maintaining stock's premium valuation
- Pick-up in investment banking activity, fading regulatory risk, progress towards strategic tgts = catalysts for stock o/p

#### Health Care

[Boston Scientific](#) | BUY | BSX US | Mkt Cap:USD88,265mn | Travis Steed

#### Medical Technology

- Inside we go over all the incremental things we learned from each medtech company last week, See Exhibits 1, 2 and 3.
- Most medtech updates were bullish, medtech just starting to work, depressed valuations still leave room to move higher.
- We are incrementally more positive SWAV & INSP, INSP can work despite SURMOUNT, see more on SURMOUNT below.

[Regenxbio](#) | BUY | RGNX US | Mkt Cap:USD672mn | Alec Stranahan

#### Retina 2024 Meeting: RGX-314 shows promise to support pivotal study

- Impressive showing of data for RGX-314 in wAMD continues momentum from last update, add further confidence to stock
- Safety profile robust, means potential to dose higher to improve BCVA/CRT, but treatment burden reduction most important
- We project US wAMD market to be lucrative, with even 10-15% capture generating substantial value-add for stock

[Definitive Hlthcare.](#) | BUY | DH US | Mkt Cap:USD1,421mn | Allen Lutz

#### CEO transition w/ FY24 revenue guide below, but implied EBITDA guide above ST

- Definitive Healthcare announces a CEO transition, reaffirms the FY4Q'23 guide, and provides an initial outlook for FY24
- FY24 revenue guide of 5-7% growth is below ST/BofA, but FY24 Adj. EBITDA margin of 31.5% is ahead (EBITDA also > ST)
- While CEO/cost rationalizations may hinder the ramp, we believe growth has potential to inflect beyond FY24. Maintain Buy

#### Industrials

[Parker Hannifin](#) | BUY | PH US | Mkt Cap:USD60,962mn | Andrew Obin

#### Benchmarking Parker vs. top-tier operators

- PH has consistently closed the gap with high quality, short cycle, decentralized capital allocators ITW and AME.
- PH has improved its returns and EBITDA margins, & diversified its growth profile, but shares trade at a discount to ITW/AME.
- We see room for re-rating of PH shares. Our ratings reflect relative preference within high-quality peers.

**FedEx Corp. | BUY | FDX US | Mkt Cap:USD62,044mn | Ken Hoexter**  
**Transportation**

**Union Pacific | BUY | UNP US | Mkt Cap:USD144,442mn | Ken Hoexter**  
**Transportation**

- Year Ahead 2024 - Signs of demand base building as BofA proprietary Truck Shipper Survey above 50 for 8 of past 13 issues
- Seek early cycle, quality operators, idiosyncratic oppty. Top UNP, Focus CSX/CP/NSC/KNX/JBHT/XPO/SAIA/ODFL/FDX/RXO. Upgr WAB
- 2024 Themes: (1) Spot rate gains (2) Rail vol growth (3) LTL pricing holds ... (6) ILA contract expiry (7) Red Sea Diversion

**Vertiv | BUY | VRT US | Mkt Cap:USD19,057mn | Andrew Obin**  
**Industrials/Multi-Industry**

- Artificial intelligence adoption likely to increase electricity consumption at data centers, driving further grid investment.
- US electrical demand to be boosted by electric vehicle adoption, heat pump adoption, and data center growth.
- Stocks with electrical grid exposure are Buy-rated ETN, GE, and AZPN and data center exposure are Buy-rated ETN and VRT.

**Thomson Reuters | BUY | TRI US | Mkt Cap:USD67,306mn | Heather Balsky**  
**All is fair in love & (bidding) wars: TRI now majority owner of Pagero**

- Yesterday, TRI announced that it had made significant strides in its effort to acquire Pagero Group.
- As of yesterday, TRI had acquired 53.81% of Pagero's shares, making it the majority shareholder.
- TRI boosted its bid by 25% to \$790mn. We est. the transaction would be 7/3% dilutive to '24/25 EPS (incl transaction costs).

**Boeing | BUY | BA US | Mkt Cap:USD121,310mn | Ronald J. Epstein**  
**Deliveries and production start soft amid MAX-9 issue**

- Boeing initiated the year at a soft pace, with just one 737-8 delivered as of January 11th.
- Production also initiated at a subdued pace, and AAP anticipates a continued sluggishness in the near to medium term.
- AAP highlights that the MAX-9 plug-in issue could also affect the 737-7 certification timeline by several months.



## Real Estate

[Welltower](#) | BUY | WELL US | Mkt Cap:USD47,956mn | Joshua Dennerlein  
U.S. REITs

- In this report we compare key valuation metrics for the REITs and different subsectors within / outside our coverage universe
- The data that follows will get refreshed on a weekly basis

[American Tower](#) | BUY | AMT US | Mkt Cap:USD92,437mn | David Barden  
Wireline & Wireless Telecom Services

[Digital Realty Trust](#) | BUY | DLR US | Mkt Cap:USD41,999mn | David Barden  
Wireline & Wireless Telecom Services

[Equinix](#) | BUY | EQIX US | Mkt Cap:USD76,902mn | David Barden  
Wireline & Wireless Telecom Services

- In our 4Q preview, we highlight 3 key stocks: AT&T, LUMN, and CCI.
- We explain our key estimate variances across our coverage group vs the Street.
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## Macro & Strategy

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[BofA Securities Equity Client Flow Trends](#) | Jill Carey Hall  
Stocks > ETFs so far this year

- Clients bought US equities, buying single stocks but selling ETFs. Retail clients only buyers as usual in Jan.
- Corporate client buyback inflows accelerated and were above seasonal trends for a ninth consecutive week.
- Health Care & Comm. Svc. led inflows. Both saw largest weekly inflow in our data history (since '08).

[Liquid Insight](#) | Global Rates & Currencies Research  
USD: Defying gravity

- The USD is off to a hot start, appreciating vs the G10 despite more aggressive pricing of Fed easing for 2024



- Factors include: over-exuberant cut pricing, mixed US data, similar int'l CB pricing, balanced Fed comms, and geopol. risks
- We still forecast USD depreciation in '24 (beyond consensus), but its more of an H2 story; scope for 2-way risk in near-term

### [Emerging Insight](#) | GEMs FI Strategy & Economics

#### **Argentina – A good start**

- The government's positive start: large fiscal adjustment, a strong devaluation, reserves accumulation and IMF agreement.
- Risks: reforms face hurdles in the Congress and courts. Very high inflation and risks of protests to the adjustment.

### [Global Wave](#) | Nigel Tupper

#### **The Global Wave has troughed**

- The Global Wave has troughed which suggests a sustained upturn appears more likely. Equities and cyclicals could benefit.
- While the Global Wave fell, global equities were flat, US outperformed EM, and the Bunkers outperformed, which is typical.
- Stock screens for an upturn include 1) the Boosters, and 2) BofA Buy-rated Cyclical Triple Momentum stocks.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R1</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R1</sup> 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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