Global Research Highlights

Kicking into high gear

Investment Strategy

12 January 2024

Global

Investment Strategy
BofAS

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Earnings season kicks off

News is pouring in to start the year as we enter earnings season. Ohsung Kwon brings us three key topics to watch. He sees consensus on 4Q earnings as too conservative. Conversely, he and the team feel that 2024 EPS is still too high. Despite earnings recovering from a downturn, there hasn't been a demand recovery, as real sales growth is still expected to be negative. On the bright side, weakness in demand for goods should start to recover, which could boost earnings.

Thoughts from the road

This week saw a deluge of information from several industry conferences. Vivek Arya attended the Consumer Electronics Show in Las Vegas this week and met with several management teams. The event used to focus mostly on consumer electronics but has transitioned to include more of a focus on auto and this year on AI. Vivek's main takeaway is that Cloud AI trends remain solid, automotive trends are muted, and that edge AI is still a work in progress.

Elsewhere, BofA Global Research software team hosted a bus tour where they visited 10 software public companies and two private companies. The tone from firms focused on the enterprise suggests some improvement in the discretionary software spending environment, though challenges still remain particularly for vendors focused on small-medium businesses. On the AI theme, the team feels that efficiency gains represent a meaningful monetization opportunity over the long term, though not expected to be material in CY24.

Sara Senatore attended the consumer-focused ICR conference this week. In her view, restaurants generally reported seeing no signs of incremental consumer weakness in the US in 4Q though there was some weakness in the Middle East for firms with business in that region. Restaurants are focused on optimizing labor productivity to mitigate the impact of anticipated wage increase in California. Most companies noted commodities are tracking in line with mid-single digit (MSD) expectations. Restaurants continue to navigate higher interest rates and capex costs by improving margins (i.e., menu simplification) and value engineering (prototype changes, materials substitution).

Athleisure in focus

Lorraine Hutchinson also attended the ICR conference this week and came away encouraged about the outlook for Lululemon (LULU). She expects another strong innovation year in '24 and thinks the women's on the move category (OTM) remains among the biggest untapped opportunities. She expects international will continue to be the main driver of growth in F24, led by China. Finally, she believes margins have further upside, driven mainly by scale from increased sales. China is currently the second most profitable part of the business behind North America, but profitability is likely to increase in that region in her view.

Top Macro reports

Top Industry reports

Top Stock reports

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Refer to important disclosures on page 16 to 19. Price Objective Basis/Risk on page 11.
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BofA SECURITIES

Earnings Tracker

4Q preview: Conservatism baked in

10 January 2024

Equity and Quant Strategy
United States

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Consensus points to deceleration; we expect a 3% beat

3Q marked the beginning of an earnings recovery, with EPS growing 4% YoY. But consensus expects deceleration to +3% in 4Q despite easier comps (-1% YoY in 4Q22 vs. +4% in 3Q22). EPS typically accelerates in the second quarter into an earnings recovery (11 out of 14 times since the 1950s). Sales are expected to accelerate to +3% (vs. +2% in 3Q), which we believe should lead to EPS accelerating, not decelerating. We forecast EPS accelerating to +6% YoY, or $56.50, implying a 3% beat.

Conservative 4Q margin outlook: -100bps q/q

Consensus 4Q EPS was cut by 6% since Sept. vs. a typical 4% cut into earnings, reflecting some conservatism baked in. Our Corporate Misery Indicator (macro gauge of profit environment) ticked down in 4Q and corporate sentiment weakened. 4Q is seasonally a weaker margin quarter (-30bps q/q on avg.), but analysts are already penciling in a much bigger decline of -100bps q/q to the lowest margins since 4Q20.

Weaker guidance in 1Q is not a reason to sell stocks

Bears say consensus 2024 EPS is too high and estimate cuts are coming. While we agree and expect 4% downside to consensus EPS for 2024, we do not think it's a compelling reason to be bearish equities. Historically, FY2 EPS has come in 4% below where consensus has stood at this point of the year and got cut 2% in 1Q on average (Exhibit 17). But of the nine non-recessionary years since 2001 with estimate cuts, the S&P 500 posted positive returns in seven years. Top-down consensus EPS of $233 (5% downside) also suggests downside risk in bottom-up consensus EPS is firmly consensus.

Watch goods/manufacturing inflection

Companies' real sales growth is expected to remain negative (-0.5% YoY), hurt by the goods/manufacturing downturn (50% of S&P earnings). But there are early signs of inflection – e.g. Korea exports, rail carloads, PMI new orders/inventories. Margins already inflected higher without a demand boost, and will likely jump when demand recovers.

Magnificent *Six* expected to drive 4Q growth

NVDA, AMZN, META, GOOGL, MSFT and AAPL are the biggest drivers of EPS growth in 4Q (+56% YoY) – TSLA is -39%. The rest of market is expected to see EPS fall 6%, but earnings breadth (# of companies with positive EPS growth) is expected to improve for the third straight quarter (66% vs. 64% in 3Q). And in 1Q, consensus sees the rest of the market's earnings accelerating to +3% YoY, while Mag. 6 earnings decelerate to +33%.

Heard on the 16th floor: proprietary bottom-up read

Our analyst survey into 2024 painted a goldilocks scenario for stocks: higher margins, led by efficiency gains and alleviating non-labor cost pressure, with positive pricing and volume – see our Year Ahead (note). Our analysts' one-liners into 4Q earnings suggest the goldilocks scenario is well intact. While risks remain, fundamentals are improving and analysts sound more optimistic than they did in 3Q – see pg. 16-21 for full compilation.

Click Earnings Tracker for full report including important disclosures.

The RIC Report

Ten surprises for 2024

09 January 2024

Investment Strategy
Global

Not so fast

After the fastest easing of financial conditions in history (Exhibit 2), investors should consider whether: 1. the bond market is right to be more dovish than the Fed; and 2. whether Fed cuts this year might stoke structural inflationary forces. We update our barometer of the economic sectors proving impervious so far to rate hikes (Exhibit 3).

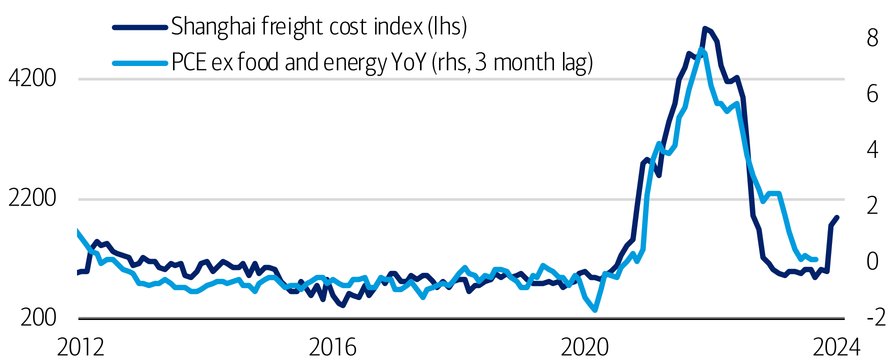
We favor credit > equities > bonds in case of a more volatile, range-bound year. Don't get shaken out of inflation hedges.

Ten surprises

This month, we offer some plausible surprises that could affect markets in 2024:

1. High bond taxes push investors back to stocks
2. Companies survive 5% rates without a surge in bankruptcies
3. IPOs come roaring back
4. The worst developed market of the past 40 years is this year's best
5. Suddenly, geopolitical risk is factored into the Magnificent Seven
6. Biotech & pharma push to record highs
7. Investors get pragmatic about energy
8. One path to 2% inflation, one hundred paths to 5% (Exhibit 1)
9. Government debt buyers demand a premium
10. Investors fall in love again with free markets

Exhibit 1: Supply chain inflation spikes as Red Sea attacks escalate
Shanghai container freight costs and US CPI inflation



Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

Click The RIC Report for full report including important disclosures.

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US Watch

December employment: Simmering not boiling

05 January 2024

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Gradual cooling in hiring

The December employment report continued to show a gradual cooling in the labor market that is more consistent with a soft landing than a recession. Nonfarm payroll employment beat expectations with a 216k increase (consensus: 175k). However, there were net downward revisions of 71k to the prior two months continuing a trend seen throughout the year. As a result, the three-month average change in nonfarm payrolls declined from 221k in September to 165k in December. Moreover, the three-month average change for private payrolls fell to 115k in December from 153k in September. In other words, the pace of job growth is cooling.

Government and healthcare

Growth in payroll employment continues to be narrowly driven. Of the 216k increase, over half were in the government and healthcare sectors. These two sectors have accounted for close to 60% of 2023 job growth. They are also acyclical, and we think both could continue to drive employment over the coming months. Healthcare employment is supported by the structural aging of the US population and is still 4.3% below its pre-pandemic trend. Meanwhile, government employment is 2.4% below its pre-pandemic trend and state and local education is still below its pre-pandemic level.

Bimodal services

More generally, services employment and private employment was again driven by high-touch services—leisure and hospitality, education and health, and other services. These three sectors added 117 jobs in December, while low-touch services (services less high-touch) cut 20k jobs. This is the fifth consecutive month that low-touch services shed jobs, underscoring the narrowness of job growth seen in 2023. In short, there are pockets of weakness but that is being overwhelmed by the strength in a few sectors.

Income growth supports slowing but positive spending

Importantly for the consumer outlook, growth in wage income was solid in December as the aggregate payrolls index increased by 0.3% m/m. This is despite average weekly hours declining a tenth to 34.3 from 34.4, as strong payroll growth and a better-than-expected 0.4% m/m increase in average hourly earnings boosted payrolls. Taking a step back, aggregate payrolls rose by 4.5% annualized in 4Q, which likely helps explain the ongoing strength of the consumer.

(Continued on next page)

AHE: Average Hourly Earnings

k: thousand

PCE: personal consumption expenditure

saar: seasonally adjusted annual rate

UAW: United Auto Workers

Click US Watch for full report including important disclosures.

Server & Enterprise Software

Optimistic tone to start the year on BofA Software Bus Tour

Price Objective Change

11 January 2024

Equity
Americas
Server & Enterprise Software

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Bullish on long-term AI opportunity; not material to '24

We hosted the BofA 2024 New Year Software Bus Tour on January 8-10 in the San Francisco area, visiting 10 software public companies and two private companies (SymphonyAI and Tipalti). While all companies noted an unchanged macro environment, the tone from firms focused on the enterprise suggests some improvement in the discretionary software spending environment. SMB vendors presented a still challenging macro backdrop, though we noted generally a better tone than what Q3 results indicated. AI was a key theme of course and our takeaway is that efficiency gains represent a meaningful monetization opportunity over the long term, though not expected to be material in CY24. We characterize tone from front office vendors as most positive (Salesforce and Adobe), consistent with our view that sales and marketing projects are likely to come back into focus this year.

ADBE: Top of funnel strength with multiple upgrade paths in view

ADSK: Transaction model shift creates near-term modeling challenges

CRM: A long runway for organic growth in vast front office market

ESTC: Becoming core piece of future generative AI tech stacks

GTLB: AI strategy is driving differentiation

HCP: Macro and sales transition weighing on land and expand deals

INTU: Macro caution lingers, though factored into conservative guidance

MDB: Visibility for sustained strength in new workloads

WDAY: Steady product enhancements to drive FINS traction

ZM: Market trends remain consistent; Reaccelerating growth remains top priority

Executives that we met with include:

Adobe President of the Digital Media Business David Wadhwani and Vice President of Investor Relations Jonathan Vaas; **Autodesk** EVP of Product Dev & Manufacturing Solutions Jeff Kinder and Investor Relations Simon Mays-Smith; **Salesforce** EVP of Corporate Strategy, Bill Patterson, GM, Salesforce Easy, Kris Billmaier and Executive VP Investor Relations, Mike Spencer; **Elastic** CFO and COO Janesh Moorjani; **Gitlab** CEO Sid Sijbrandij, and CFO Brian Robins; **HashiCorp** CFO Navam Welihinda and VP of Investor Relations and Corporate Development Alex Kurtz; **Intuit** CFO Sandeep Aujla and Vice President of Investor Relations Kim Watkins; **MongoDB** CFO and COO Michael Gordon and SVP of Finance Serge Tanjga; **Workday** CFO Zane Rowe, CTO Jim Stratton, and Vice President of Investor Relations Justin Furby; **Zoom** CFO Kelly Steckelberg.

PO changes

We raise PO for ESTC (to $125 from $108) and ADSK (to $250 from $235) (Exhibit 1).

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

Click Server & Enterprise Software for full report including important disclosures.

US Semiconductors

CES: Cloud AI solid, Auto muted, Edge AI work in progress

Price Objective Change

10 January 2024

Equity
United States
Semiconductors

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Met with NVDA, MRVL, INTC, ADI, MU, ON and SWKS

We attended the CES tradeshow in Las Vegas this week and met with several mgmt teams. As expected, AI was the main topic, especially its spread into edge devices such as PC, smartphones and other consumer devices. Chip investor excitement was tempered somewhat by CQ1 warnings from MCHP, Aehr Systems and prior from Mobileye, all exposed to the industrial/auto mkt. All-in, we flag: 1) Solid Cloud AI demand trends at NVDA, MRVL (raising PO to $80 on custom AI chip ramp); 2) Pricing optimism and start of HBM cycle at MU; 3) Manufacturing recovery and AI PC excitement at INTC; 4) Acknowledgement of muted demand but no incremental weakness and downside execution at ADI and ON; and 5) Inline smartphone demand at SWKS.

Cloud AI crowded but still best house in neighborhood

In our view the tech industry is still in early phases of figuring out how best to use generative AI. However, before we figure out use cases, the core infrastructure first needs to be built out. This upfront buildout is expensive (genAI servers priced $200-$450K, or 20-45x traditional servers, with only ~10% or so traditional servers converted over). However, we see enough ecosystem momentum for this to last into next year. Our discussions with NVDA and MRVL were very positive, with both vendors (along with AVGO, AMD) supplying critical compute and networking parts to cloud customers. NVDA emphasized strong visibility and fertile roadmap. The MRVL discussion indicated their custom AI chip ramp could be 1.5-2x the $250mn/$450mn we assumed prior for CY24/25E, and we consequently raise our PO on MRVL to $80 from $68 on higher 32x CY25E P/E vs. 27x prior, though still within our 1-2x PEG ratio framework.

Edge AI work in progress

INTC and AMD announced multiple new products for AI (essentially the microprocessor includes an extra chip called the Neutral Processing Unit or NPU) that is able to provide genAI inference faster on device while keeping user data secure. However, it's unclear if it can stimulate any new PC replacement cycle, nor if it's able to command higher average selling prices. We suspect AI might spread faster on smartphones as users already have more personal photos/videos data on the phone. In our view, ARM will prove to be less appreciated but most critical beneficiary of edge AI, providing crucial IP for more consumer devices to become smarter. If AI PC takes off, INTC/AMD benefit most though NVDA also announced several gaming products and software to take part.

Autos/industrial in downcycle, potential for 2H recovery

Our ADI and ON meetings suggested that while the demand environment is muted, there are no incremental read-thrus from recent peer warnings to ON, ADI broad CY24 expectations. Despite cyclical headwinds, we believe stocks here are important diversifiers from rest of semis that are very AI concentrated. While EV demand has slowed somewhat, our BofA Global Research auto analyst Horst Schneider and his team are forecasting solid 25% xEV growth in 24E, same as 23E (see their recent EV tracker report). Our top auto picks are NXPI and ON.

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

Click US Semiconductors for full report including important disclosures.

Glossary:

CES: Consumer Electronics Show
AI: Artificial Intelligence
PC: Personal Computer
NVDA: Nvidia
MRVL: Marvell
PO: Price Objective
MU: Micron
INTC: Intel
ADI: Analog Devices
ON: onsemi
SWKS: Skyworks
AMD: Advanced Micro Devices
AVGO: Broadcom
PEG: Price to Earnings Growth
P/E: Price to Earnings
IP: Intellectual Property
EV/xEV: Electric Vehicle
NXPI: NXP Semiconductor
HBM: High Bandwidth Memory
MCHP: Microchip

Restaurants Industry

ICR 2024 Key Takeaways

Industry Overview

10 January 2024

Equity
United States
Restaurants

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We attended ICR's 2024 conference from Jan 8-9 where we attended meetings with companies including BROS, DNUT, DPZ, DRI, FWRG, JACK, PTLO, and PZZA as well as private and public companies outside our coverage.

US demand generally resilient, some Int'l weakness

Restaurants generally reported seeing no signs of incremental consumer weakness in the US in 4Q (PZZA reported BTE NA comps, FWRG comps in-line, DRI noted demand resilience). Companies with International exposure called out weakness in Middle East markets weighing on demand. JACK highlighted mixed consumption trends for lower income cohorts (lower breakfast traffic, higher competitive intensity in QSR broadly). In response to increased promotional activity, companies are emphasizing value messaging (i.e., PTLO emphasizing 'pairings,' a bundle offering on digital menus) and looking for ways to innovate discounting (DPZ's 'Emergency Pizza' promotion is a 'BOGO' with a required redemption and higher attach rate, rather than a free item).

MSD inflation; Ops, price offset discrete wage pressures

With the CA law AB1228 taking effect this year (see our report: Restaurants Industry: Not so FAST), restaurants are focused on optimizing labor productivity to mitigate the impact of anticipated wage increases. JACK, which has elevated CA store exposure, sees scheduling and staffing improvements as opportunities to drive labor efficiency. Price increases remain a lever to offset wage inflation (PTLO announced a 1.5% price increase slated in January). Despite mandated wage increases (CA plus additional statutory wage increases in other markets are due in C24), companies were mostly sanguine on the looser labor market and normalizing rate of wage inflation (mid-single digits, consistent with pre-COVID). Additionally, most companies noted commodities are tracking in line with mid-single digit (MSD) expectations.

Build costs higher than pre-COVID but stabilizing

Restaurants' build costs remain elevated (up ~20-30% vs pre-COVID). The development environment remains challenging (permitting delays still an issue) but has eased relative to C22. DRI reaffirmed that it has received more contract bids in line with project budgets. Restaurants continue to navigate higher interest rates and capex costs by improving margins (i.e., menu simplification), value engineering (prototype changes, materials substitution), and in some cases greater willingness to accept higher rent in favor of TI allowances.

Preannouncements & other guidance updates

PZZA, BROS, and FWRG released preliminary results for 4Q23, with BROS also giving new unit opening guidance for F24 (see our ICR Quick Takes note). PTLO provided F24 guidance on certain metrics including i) 9 new unit openings, ii) 4-6% commodities inflation, and iii) G&A of $85-$87mm. JACK provided guidance quantifying the estimated impact (EBITDA and EPS dilution) of refranchising 130 Del Taco units over the next 3 years; for F24, JACK estimates EPS dilution of $0.08-$0.12. JACK plans to provide updated LT growth targets at its upcoming Investor Day on 1/24.

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

Stock symbol key:
JACK: Jack in the Box
PZZA: Papa John's
BROS: Dutch Bros
FWRG: First Watch
PTLO: Portillo's
DRI: Darden

QSR: quick service restaurant
BTE: better-than-expected
BOGO: Buy one, get one free
G&A: general & administrative expense

lululemon athletica Inc

Another standout year of innovation ahead

Maintain Rating: BUY | PO: 540.00 USD | Price: 485.71 USD

10 January 2024

Equity

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Mix of core/new styles lead 4Q growth

We maintain our Buy rating as we expect a robust product pipeline will result in share gains and support mid-teens sales growth. Management increased its 4Q sales growth outlook by 1ppt to +14-15%; 4QTD sales through holiday were driven by success in bottoms and second layers; particularly key styles. In Men's this includes ABC, Steady State and Soft Jersey; for women's product lines with momentum include key icons such as the Align, Scuba, and Define. Traffic was strong across both stores and ecommerce. We expect the momentum to continue and think shares deserves to trade at a premium multiple given the company's consistent track record of robust growth.

GM raise: sales leverage, air freight, lower markdowns

We hosted a meeting with Howard Tubin, Head of IR, at the ICR conf. Mgmt increased its F23 GM guide to 58.6-58.8% (from 58.3-58.6%) due to higher sales leverage, better than expected air freight savings, and lower markdowns. In F24, we expect GM expansion will be modest, mainly driven by scale benefits from higher sales; this should coincide with less SG&A deleverage compared to '23. 4Q inventory levels should end roughly in line with prior guidance; we expect dollar inventories will be down slightly and units flat relative to the prior year.

F24 base case: 15% sales growth

In the first two years of the five year algo, sales growth has increased above the 15% 5yr CAGR. The algo includes +LDD growth in NA and 30%+ int'l growth. Our base case in F24 includes 15% sales growth and modest op. margin expansion of 10bp. We expect int'l will continue to be the main driver of growth in F24, led by China. Over time, we expect China margins (2nd most profitable region) will equate to N.A. margins (most profitable) as the business scales.

Innovation engine keeps on humming

We expect another strong innovation year in '24 and think women's on the move category (OTM) remains among the biggest untapped opportunities. This follows multiple years of successful innovation and was aided by the company's decision to accelerate product development during Covid. We view the upcoming Paris Olympics as a catalyst for the brand to increase awareness, particularly in Europe where aided awareness is below 5% in almost all key cities ex UK. LULU saw China sales accelerate rapidly after the Beijing Olympics, partly due to the Canada team sponsorship.

Estimates (Jan) (US$)	2022A	2023A	2024E	2025E	2026E
EPS	7.79	10.07	12.48	14.36	16.27
GAAP EPS	7.79	6.61	12.48	14.36	16.27
EPS Change (YoY)	66.1%	29.3%	23.9%	15.1%	13.3%
Consensus EPS (Bloomberg)			12.40	14.23	16.32
DPS	0	0	0	0	0
Valuation (Jan)					
P/E	62.4x	48.2x	38.9x	33.8x	29.9x
GAAP P/E	62.4x	73.5x	38.9x	33.8x	29.9x
EV / EBITDA*	39.4x	30.2x	24.3x	21.0x	18.6x
Free Cash Flow Yield*	1.6%	0.5%	1.8%	2.3%	2.6%

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

Stock Data

Price	485.71 USD
Price Objective	540.00 USD
Date Established	8-Jan-2024
Investment Opinion	B-1-9
52-Week Range	286.58 USD - 516.39 USD
Mrkt Val (mn) / Shares Out (mn)	63,565 USD / 130.9
Free Float	94.8%
Average Daily Value (mn)	846.14 USD
BofA Ticker / Exchange	LULU / NAS
Bloomberg / Reuters	LULU US / LULU.OQ
ROE (2024E)	44.0%
Net Dbt to Eqty (Jan-2023A)	-9.3%
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".

LDD: Low double digits

NA: North America

Nutanix Inc

Takeaways from management meetings; Large opportunity ahead

Maintain Rating: BUY | PO: 55.00 USD | Price: 45.86 USD

08 January 2024

Equity

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Opportunity to benefit from changes to VMware offerings

We hosted investor meetings (virtual) with CEO Rajiv Ramaswami, CFO Rukmini Sivaraman and Richard Valera, VP of IR. Nutanix (NTNX) has a software stack which is comparable to VMware Cloud Foundation (VCF). VMware likely has several hundred thousand customers using vSphere vs. several thousand using VCF. VCF on subscription could be more expensive to customers as we have noted previously providing NTNX an opportunity to gain share. Given that several (especially large) customers had signed multi-year agreements with VMware, the rate and pace of any share gains will likely be gated by the cadence of renewals. NTNX can benefit from gaining channel partners if Broadcom de-emphasizes partners with lower revenue contribution. Overall, the meetings re-enforced our confidence in our thesis on the company. We maintain our Buy rating on higher growth, profitability and improving FCF. No change to ests. Our PO stays at $55 based on 7x EV/C24E sales.

AI remains an important workload for NTNX

AI has been an important workload on NTNX platforms, even before the advent of GenAI. NTNX has a small but good AI engineering team in-house. It is still early days for NTNX's new GPT-in-a-box offering as customers experiment to see if they can get accurate and predictive results. Major use cases include customer support, information retrieval from documents, co-piloting during software development, and enhanced fraud detection.

Cisco partnership has potential beyond HyperFlex

Management expects small revenue benefit from the new partnership with Cisco in FY24, and likely higher benefit in F25/F26. Cisco historically had low single digit share in the HCI space. In the first year, most of the revenue gain likely comes from converting existing Cisco Hyperflex customers. In outer years, NTNX hopes this partnership will help capture new customers beyond the current Hyperflex installed base. This partnership involves a software revenue share agreement between NTNX and Cisco.

Other takeaways from the meetings

Renewals represent about 1/3rd of total billings, and help to de-risk total revenue growth. Some customers are repatriating workloads to on-prem. Pace of growth in available-to-renew is expected to be higher in F25 after decelerating in F24.

Estimates (Jul) (US$)	**2022A**	**2023A**	**2024E**	**2025E**	**2026E**
EPS	(0.46)	0.57	0.89	1.19	1.59
GAAP EPS	(3.62)	(1.14)	(0.36)	0.09	0.52
EPS Change (YoY)	68.9%	NM	56.1%	33.7%	33.6%
Consensus EPS (Bloomberg)			0.90	1.24	1.81
DPS	0	0	0	0	0
Valuation (Jul)					
P/E	NM	80.5x	51.5x	38.5x	28.8x
GAAP P/E	NM	NM	NM	509.6x	88.2x
EV / EBITDA*	NM	48.8x	33.5x	23.8x	17.5x
Free Cash Flow Yield*	0.2%	1.9%	3.2%	3.8%	5.3%

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

Stock Data

Price	45.86 USD
Price Objective	55.00 USD
Date Established	30-Nov-2023
Investment Opinion	C-1-9
52-Week Range	23.35 USD - 47.83 USD
Mrkt Val (mn) / Shares Out (mn)	10,989 USD / 239.6
Free Float	99.6%
Average Daily Value (mn)	99.57 USD
BofA Ticker / Exchange	NTNX / NAS
Bloomberg / Reuters	NTNX US / NTNX.OQ
ROE (2024E)	NA
Net Dbt to Eqty (Jul-2023A)	NA
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".

AI: Artificial Intelligence
FCF: Free Cash Flow
GenAI: Generative AI
HCI: Hyperconverged Infrastructure
AHV: Nutanix Acropolis Hypervisor

Vontier

Seeing the value in Vontier; upgrade to Buy

Rating Change: BUY | PO: 40.00 USD | Price: 33.56 USD

Upgrade to Buy with $40 Price Objective

In 2023 VNT shares rose +79% (vs +24% for S&P 500 index). We see more room to run in 2024. As US fuel dispenser headwinds fade, we forecast all-in organic revenue growth and margin expansion in 2024E. We forecast net debt to EBITDA of 2.8x at YE23, alleviating leverage concerns. We raise our Price Objective by $3 to $40, based on 9.5x (previously 9.0x) our 2025E EBITDA. Our target multiple compares to VNT's current 9.0x on 2024E EV/EBITDA and 14x (13x prior) peer average, and represents ~20% prospective upside potential.

Growth markets now 3x the size of US fuel dispensers

We think investors' perception on Vontier is anchored on US fuel dispensers, but these are just ~10% of revenue. The Mobility Technologies segment (32% of revenue) offers exposure to cloud payments software (Invenco), cloud fleet monitoring solutions (Teletrac Navman), alternative fuels (ANGI), and EV charging software (Driivz). Vontier has a ~40% market share in retail fuel dispensers, but only a ~10% market share in gas station payments/software. In 2023, Invenco's iNFX platform had announced contract wins covering 20,000 gas stations, or ~19% of US gas stations.

Raising our '24E/'25E adj. EPS to $3.14/$3.51

We forecast 4% organic revenue CAGR and 170bp of cumulative adj. operating margin expansion to drive a 10% adj. EPS CAGR (2023E-26E). This compares to medium-term guidance of 4-6% organic revenue growth, >150bp margin expansion, and >10% adj. EPS target. Our 2024 estimates now exclude the completed Coats divestiture (closed 1/8). Despite this, our 2024E adj. EPS is now $0.08 higher at $3.14 (and above $3.09 consensus). Our 2025E adj. EPS is $0.16 higher at $3.51 (+12% y/y).

Catalysts: 2024 guidance, iNFX wins, capital deployment

We expect initial 2024 adj. EPS guidance to bracket $3.09 consensus. In 2023, management walked up midpoint of guidance from $2.73 (excluding divested Global Traffic Technologies contribution) to $2.85 currently. Contract wins for the iNFX payments platform would add to multi-year visibility. Organic FCF generation (BofA 2024E $468mn) should be boosted by proceeds from the Coats divestiture. We see capital deployment (i.e., buybacks, M&A) as another potential upside catalyst.

Estimates (Dec) (US$)	**2021A**	**2022A**	**2023E**	**2024E**	**2025E**
EPS	2.88	3.08	2.86	3.14	3.51
GAAP EPS	2.43	2.49	2.41	2.74	3.12
EPS Change (YoY)	16.6%	6.9%	-7.1%	9.8%	11.8%
Consensus EPS (Bloomberg)			2.86	3.09	3.44
DPS	0.08	0.10	0.10	0.10	0.10
Valuation (Dec)					
P/E	11.7x	10.9x	11.7x	10.7x	9.6x
GAAP P/E	13.8x	13.5x	13.9x	12.2x	10.8x
Dividend Yield	0.2%	0.3%	0.3%	0.3%	0.3%
EV / EBITDA*	10.1x	9.8x	10.4x	9.9x	9.4x
Free Cash Flow Yield*	8.4%	5.0%	7.5%	9.1%	9.9%

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11 January 2024

Equity

Key Changes

(US$)	**Previous**	**Current**
Inv. Opinion	B-2-7	B-1-7
Inv. Rating	NEUTRAL	BUY
Price Obj.	37.00	40.00
2024E Rev (m)	3,185.5	3,107.8
2025E Rev (m)	3,291.2	3,239.5
2024E EPS	3.06	3.14
2025E EPS	3.35	3.51

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Stock Data

Price	33.56 USD
Price Objective	40.00 USD
Date Established	11-Jan-2024
Investment Opinion	B-1-7
52-Week Range	20.98 USD - 35.39 USD
Mrkt Val (mn) / Shares Out (mn)	5,179 USD / 154.3
Free Float	99.3%
Average Daily Value (mn)	27.50 USD
BofA Ticker / Exchange	VNT / NYS
Bloomberg / Reuters	VNT US / VNT.N
ROE (2023E)	61.9%
Net Dbt to Eqty (Dec-2022A)	410.9%
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".

Price objective basis & risk

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.

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.

Autodesk (ADSK)

Our $250 PO is based on an EV/EBITDA multiple of 23x our CY24 EBITDA estimate. The 23x multiple is slightly below the design software peer group average of 26x. We believe a slight discount multiple is warranted by a cloudier short-term outlook, partially offset by ADSK's durable business model and favorable margin profile.

Downside risks to our PO are increased competition leading to higher churn, greater than expected headwinds to FCF in association with Autodesk's billing transition, spending reductions in the company's end markets arising from an economic slowdown and lower than expected net subscriber additions.

Upside risks to our PO are better than expected economic activity, greater than projected net subscriber additions and NR3, lower than expected impact of billing transition on FCF and better than expected execution leading to heightened operating margin expansion.

Darden Restaurants (DRI)

Our 12-month $193 price objective is based on a target relative P/E multiple (1.0x) on our forward estimates ($10.25). Our target relative multiple (vs the S&P) is in-line with Darden's 10-year historical average multiple, and implies an 18.9x absolute P/E multiple. While investors remain cautious on restaurant spending, we believe fundamental outperformance by best-in-class operators like DRI will prove attractive.

Downside risks are 1) lower-than-expected customer acceptance of menu price increases, 2) inability to offset higher than expected food or labor costs with increased pricing, 3) macroeconomic pressures that slow consumer income growth, 4) slower-than-expected unit growth as a result of inflationary pressures (i.e., utilities costs) and supply-chain constraints.

Domino's Pizza (DPZ)

Given that Domino's returns and growth have consistently outpaced those of the broader market, we believe its historical range remains relevant and we expect the multiple to be stable. We apply the historical average relative P/E multiple of 1.3x to our EPS estimates 12 months from now (4Q24-3Q25: $18.14) to arrive at our $483 PO, or PE of 26.7x.

Downside risks: Market share gains for other larger competitors in the pizza category that impedes Domino's growth, global economic or social issues could disrupt same store sales growth or affect expansion in international markets, and competitive activity in the pizza category remaining high.

Dutch Bros (BROS)

Our $48 price objective denotes estimated fair value based on normalized earnings power for BROS. We estimate that at $9.2 bb in sales, assuming stable RLMs and 8% G&A, BROS would generate $1.5 bb in EBITDA. Applying a 14x multiple and discounting back equates to a $48 fair value in one year. We believe a 14x multiple is justified by Dutch Bros' long growth runway and high returns, and we note it is comparable to other restaurants and retailers with similar growth profiles that have sustained elevated earnings multiples over time.

Risks to our price objective: Dutch Bros could face execution risks to sustain a mid-teens store growth rate which would impede the implied sales growth of our saturation analysis. Margins and returns could also be lower-than-expected if Dutch Bros faces greater margin pressures than anticipated.

Elastic NV (ESTC)

Our $125 PO is based on 9.2x EV/C24E revenue multiple, which represents an EV/revenue/growth adjusted multiple of 0.6x, comparable to its infrastructure software peers at 7.5x/0.6x, warranted for its potential growth profile, differentiation, and positioning in the attractive AI opportunity, and balanced against a contracting net revenue retention (NRR) metric.

Risks to our PO are: 1) competition, 2) relatively unproven profitability, 3) M&A could weigh on margins and execution, 4) application spending is highly cyclical, 5) increasing SaaS demand could weigh on gross margins, and 6) conversion ratio to paid subscriptions could decrease.

First Watch (FWRG)

We believe FWRG should trade a premium consistent with its faster growth and higher returns. FWRG currently trades in line with its peer group of restaurants and retailers with similar above-market growth rates. We believe a valuation in line with other high growth peers is justified owing to FWRG's faster than average topline growth, extended growth runway, as the brand goes national, and higher incremental returns, with restaurant level ROIs of about 40% or 2x other full service restaurants. We apply a 14x multiple to our forward EBITDA estimates (4Q24-3Q25, $22mm) to arrive at our $28 PO. This target multiple is in line with high growth peers' average of 14x.

Downside risks: higher-than-expected cannibalization of existing restaurants due to new store openings, staffing challenges and/or higher-than-expected wage inflation, higher-than-expected occupancy costs as First Watch ramps-up new stores at a faster rate. Upside risks: higher-than-expected AUVs of new units, faster-than-expected SSS growth, lower labor and G&A costs.

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.

Jack in the Box (JACK)
Our $95 price objective is based on a 0.7x relative PE multiple (13.1x absolute) applied to our 12 month forward earnings estimates (F25: $7.29). This is a material discount to highly franchised peers MCD, YUM and QSR given historically slower growth and more capital-intensive ownership model.

Downside risks to our price objective are: 1) sales could soften due to economic or competitive pressures, 2) food and labor costs rise and margins come under renewed pressure, 3) execution risk around speed of service, menu and marketing initiatives which are critical to driving sales at Jack in the Box.

Krispy Kreme (DNUT)
We believe a premium valuation is justified owing to DNUT's robust double digit topline growth, extended growth runway, and higher incremental returns. We apply a 13x multiple (similar to high growth peers) to our forward estimate 12 months from now (4Q24-3Q25: $299mm) to arrive at our $19 PO.

Downside risks: potential industry headwinds from higher-than-expected wages, logistics, and commodity cost inflation, competition from other indulgence and foodservice businesses, and failure to achieve targeted unit growth due to higher than expected costs or other factors.

Upside risks: faster than expected growth in global access points, organic growth above the company's stated long-term growth targets, higher than expected share gains in the global indulgence and foodservice markets.

lululemon athletica Inc (LULU)
Our $540 price objective is based on 20x F2025E EV/EBITDA. We think a premium to LULU's peer group average of high-growth consumer companies (15-18x) is justified given LULU's relatively stronger growth prospects including a productive US rollout, rapid e-commerce growth, and international expansion.

Downside risks to our price objective are that operational stumbles could cause sales to be worse than expected. A slowdown in consumer demand could cause comps to retrench and lead to multiple compression. International expansion could cause operational misses.

Marvell Technology Group Ltd. (MRVL)
Our $80 PO is based on a 32x 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.

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.

Nutanix Inc (NTNX)
PO of $55 is based on 7x EV/C24 sales estimate. This multiple is slightly above the high end of the long-term range 2-6x. In our opinion the multiple above the high end of the range is appropriate given the better growth and profitability metrics that Nutanix is delivering partially offset by weaker macro and constrained enterprise spending.

Downside risks to our PO are a more protracted downturn in the economy, delayed recovery in the supply chain, delays in hiring sales reps, increased competition from established vendors link Dell/EMC, HP Enterprise and NetApp making headway into the HyperConverged market, increasing DRAM and NAND cost hurting gross margins, sales reorganization resulting in slower billings growth or customer acquisition rate, and disruption with key partners or IT distribution channel.

Upside risks are faster than expected recovery in the macroeconomy and Enterprise IT spending, faster than expected recovery in sales rep count and higher than expected productivity, and unexpected share gains.

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.

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.

Papa Johns International (PZZA)
Our $89 PO is based on 4Q24-3Q25 EPS ($3.73) and a 1.5x multiple relative to the S&P (23.9x absolute multiple), in line with its 10-year historical average.

Downside risks: slower-than-expected consumer growth, increased competition in response to slower consumer spending driving promotional intensity, higher-than-expected inflationary pressures, labor shortages.

Portillo's Inc. (PTLO)
We set our $25 PO based on steady state earnings power. We assume PTLO grows its store base at 13% to reach 725 stores in the long term, and that average volumes grow with inflation. At $7.7 bb in sales, assuming stable RLMs and 8% G&A, PTLO would generate $1.4 bb in EBITDA. Applying an 11x multiple and discounting back equates to a $25 fair value in one year.

Risks to our PO: potential industry headwinds from wage inflation (MSD-HSD run rate for the industry) and food cost volatility, inability to fully offset downward pressure on volumes and margins from new store openings, and execution risks as the company looks to sustain a 10% unit growth rate.

Skyworks Solutions, Inc. (SWKS)
Our $100 PO is based on 11x CY 2025E PE (ex. stock comp expense, cash adjusted), towards the lower end of its historical 8x-22x range and justified given uncertainty around consumer/mobile demand.

Upside risks are: (1) Share gains, (2) Sustained boost from 5G adoption, (3) semis consolidation, (4) unique M&A opportunities fueling stronger growth.

Downside risks are: (1) Share loss from Apple (60% of sales), (2) Stronger than expected decline in YoY smartphone units, (3) Faster than expected ASP degradation given muted pricing power.

Vontier (VNT)
We base our $40 price objective on 9.5x our 2025E EBITDA estimate. This is a discount to the peer average of 14x on 2024 estimates to reflect above-peer leverage.

Downside risks to our price objective are 1) greater-than-expected decline in US fuel dispenser revenue, 2) acquisition timing, selection, and integration risks, 3) greater adoption of electric vehicles hurting demand for retail fueling infrastructure.

*iQ*method SM Measures Definitions

Business Performance	**Numerator**	**Denominator**
Return On Capital Employed	NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5 Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings	**Numerator**	**Denominator**
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt – Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit	**Numerator**	**Denominator**
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap = Current Share Price × Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

iQmethod SM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

iQdatabase ® is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BofA Global Research.

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Disclosures

Important Disclosures

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. VOLATILITY RISK RATINGS, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. INVESTMENT RATINGS reflect the analyst's assessment of both a stock's absolute total return potential as well as its attractiveness for investment relative to other stocks within its Coverage Cluster (defined below). Our investment ratings are: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. An investment rating of 6 (No Rating) indicates that a stock is no longer trading on the basis of fundamentals. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

Investment rating	**Total return expectation (within 12-month period of date of initial rating)**	**Ratings dispersion guidelines for coverage cluster** R2
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.

INCOME RATINGS, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure), 8 - same/lower (dividend not considered to be secure) and 9 - pays no cash dividend. *Coverage Cluster* is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent BofA Global Research report referencing the stock.

Price Charts for the securities referenced in this research report are available on the Price Charts website, or call 1-800-MERRILL to have them mailed.

BofAS or one of its affiliates acts as a market maker for the equity securities recommended in the report: Advanced Micro, Analog Devices, Autodesk, Darden Restaurants, Domino's Pizza, Dutch Bros, Elastic, First Watch, Intel, Jack in the Box, Krispy Kreme, lululemon ath, Marvell, Micron, Nutanix, NVIDIA, NXP Semiconductors, ON Semiconductor, Papa Johns Int, Portillo's Inc., Skyworks, Vontier.

BofAS or an affiliate was a manager of a public offering of securities of this issuer within the last 12 months: Darden Restaurants, Dutch Bros, Intel, Marvell Tech, Micron, ON Semiconductor.

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The issuer is or was, within the last 12 months, a non-securities business client of BofAS and/or one or more of its affiliates: Advanced Micro, Analog Devices, Autodesk, Darden Restaurants, Domino's Pizza, First Watch, Intel, Jack in the Box, Krispy Kreme, lululemon ath, Marvell Tech, Micron, Nutanix Inc, NVIDIA, NXP Semiconductors, ON Semiconductor, Papa John's Intl, Portillo's Inc., Skyworks, Vontier.

BofAS or an affiliate has received compensation for investment banking services from this issuer within the past 12 months: Advanced Micro, Autodesk, Darden Restaurants, Dutch Bros, First

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