Events

Calendar of Upcoming Events

Focus Research

FINANCIAL INSTITUTIONS

Hope Bancorp. (HOPE)

Rating: NEUTRAL, 12-Month Price Target: $9.00, Price: $8.42

Mixed Quarter; Strategic Reorganization Should Provide Long-Term Benefits

Hope Bancorp reported a mixed quarter with puts and takes being better than expected net interest income paired with period end non-interest bearing deposit growth, but lower than expected noninterest income stemming from the bank retaining all of its SBA 7(a) production on balance sheet. Net charge offs increased to $31 million in 3Q driven mostly by one idiosyncratic charge off of $23 million related to a borrower in the oil and gas industry that entered into Chapter 7 liquidation in August. However, nonperforming assets declined $16 million Q/Q and management does not see any systemic risks in credit quality. Noninterest bearing deposits as a % of total deposits remained flat at 27% in 3Q.

Strategic reorganization should drive $40 million of annualized cost savings. HOPE announced a strategic reorganization designed to enhance shareholder value over time. The goal for this realignment is to establish four distinct business groups: retail banking, commercial banking, corporate and institutional banking, and a fee-based business group. Immediate actions include optimized production capacity, streamlined back-office operations, and a reduction in workforce. Near-term strategic actions include branch rationalization, wind down of non-core businesses, and expected operational process improvements. HOPE estimates annualized cost savings of >$40 million and an anticipated one-time charge in 4Q23 of ~$12 million. $34 million of the >$40 million annualized savings will come from the recent staff reduction and the remaining from branch consolidation in 1H24.

Estimate changes and recommendation. We're raising our 2023 core EPS estimate to $1.24 from $1.19 owing mainly to expense savings assumptions, there is no change to our 2024 core EPS estimate of $1.20 and we are lowering our 2025 core EPS estimate to $1.30 from $1.35 owing mainly to lower NIM and fee income assumptions partially offset by lower expenses. We maintain our NEUTRAL rating as we believe the company's outlook is appropriately reflected in its relative valuation.

Cathay General Bancorp (CATY)

Rating: OUTPERFORM, 12-Month Price Target: $40.00, Price: $33.31

In-line Quarter Highlighted by NIB Deposit Growth; Mixed Guidance Update

Cathay delivered an in-line quarter and provided a mixed guidance update. Deposit growth was better than expected, importantly driven by growth in both interest bearing and noninterest bearing deposits. Only a small amount of the NIB growth (~$65 million) was considered "temporary", and is expected to leave in October. Strong deposit growth also helped CATY reduce its higher-cost FHLB borrowings by ~$800 million. Loan growth was weaker than expected due to several large commercial loan paydowns. This combined with a lower than expected NIM led to a modest miss on net interest income. Credit metrics saw some sequential degradation, as evidenced by Q/Q increases in nonperforming assets, classified loans, and net charge-offs. The increase in non-accrual loans was driven by the construction portfolio, specifically a hospitality project in California's Inland Empire and an office property. There was also a ~$10 million increase in other real estate owned (OREO), which was related to a foreclosed single family home that was previously on non-accrual.

Mixed guidance update. Loan and deposit growth guidance for FY23 was reiterated at 5%-7%. However, both core noninterest expense and NIM guidance saw negative revisions. Noninterest expense growth (excluding any FDIC special assessment) for FY23 is now guided to 8.5% - 9.5% (was 3.5%) and the FY23 net interest margin is now guided to 3.45% - 3.50% (was 3.50% to 3.60%). Solar amortization is guided to $44 million for FY23 (incl. $12 million in 4Q) a modest increase from prior guidance of $42 million. The FY tax rate is now guided to 12.5% - 13.0%, down from 13.0% - 14.0% previously. Management also noted that they are taking a hard look at the expense base heading into 2024, and will look to restart share repurchases over the next few months upon receiving board approval.

Estimate changes and recommendation. We're lowering our 2023/2024/2025 core EPS estimates to $4.75/$4.50/$5.05 from $4.99/$4.85/$5.40 owing mainly to lower net interest margin and higher noninterest expense assumptions. We maintain our OUTPERFORM rating as we believe the company is in a good position to generate prudent growth in a challenging banking environment, as evidenced by the recent quarter's trends in deposits and loans.

Alexandria Real Estate Equities (ARE)
Rating: OUTPERFORM, 12-Month Price Target: $120.00, Price: $100.10
Our Call May Start to Go Through; Reiterate Outperform

Summary: Despite all the headwinds facing ARE in the form of supply, the biotech bear market and the debate around cell phone usage in its facilities, the company reported a remarkably stable 3Q23 release. The call is Tuesday at 3pm ET, so we will keep it short here. However, with ARE being one of the most talked about stocks in our recent round of investor meetings we thought a brief comment on the release was warranted (not our typical approach). Among the key observations were 19.7% cash releasing spreads (8.3% last quarter) and no change to the 15% full-year guidance. Normalized FFO guidance was actually increased $0.02 to $8.98 (midpoint), although there was a lot of noise around non-real estate gains, an impairment (see below) and comp adjustments around the resignation of the CFO. But all in, we would expect this print to surprise to the upside for investors expecting numbers to start gliding down.

- **Other Data Points:** The company is still targeting year-end debt/EBITDA of 5.1x (or lower) with 99% of debt fixed rate, has $5.9 billion of liquidity ($6.3 billion as of 2Q23), and issued no change to full-year guidance on occupancy (~95%) and same store cash NOI growth (4%-6%). Very minor timing issues on development and disposition completions were about as dramatic as the quarter got.
- **Impairment:** The company did take a $91mm impairment on a redevelopment asset in Boston that, because of the environment, no longer makes sense to demolish and build a life science asset. Overall, development deliveries through 2026 are expected to be 6.4msf (300ksf lower versus 2Q23), and disposition guidance is $200mm lower for 2023. Taken together, these steps may signal a longer-term adjustment to the development platform as the macro uncertainty persists. Responsible capital management.
- **Broader Observation:** Today's Roche/Telavant merger news ($7.1 billion) adds to the methodical pace of M&A that has totaled about $80 billion YTD. While IPOs and follow-ons for public biotechs remain way down versus FY20/21 and questions persist around the regulatory (FDA) process, the biopharma real estate read-through as represented by ARE and its 3Q23 report remains resilient. Supply is ramping meaningfully in life science across the US and that will likely have some impact in 2024 in one form (directly) or another (indirectly) -- we don't know how competitive it is to ARE's Class A product. Regardless, the buffer created by ARE's elevated cash releasing spread, its ~70% development pre-leasing, and 95% of the portfolio having lease termination protection, is not being given the same attention in the stock's valuation, in our view (~9%+ implied cap and a 40% NAV discount).

<u>HEALTHCARE</u>
arGEN-X N.V. (ARGX)
Rating: OUTPERFORM, 12-Month Price Target: $583.00, Price: $476.62
The Docs Can't Stop Starin' at Vyvgart

The Wedbush View: Ahead of ARGX's 3Q23 earnings print on October 31, 2023, we conducted a second follow up survey of 50 neurologists (see our first survey here and follow up survey here) to track their treatment preferences for myasthenia gravis patients and gain insights into Vyvgart's competitive landscape and near-term commercial trajectory. Key findings include: current estimated patient share of ~11% for Vyvgart (in-line with the estimated growth trajectory outlined by our prior survey), with future 6-month share growing to 15%, indicating that Vyvgart will be the fastest growing gMG drug in the near-term at the expense of the major classes of MG treatments, including cholinesterase inhibitors and immune suppressing agents/steroids. We believe these results indicate that access and pricing are not a barrier to use, and expect Vyvgart to continue to take share from cheap generics like prednisone. 78% (39/50) of physicians plan to prescribe Vyvgart in the next 6 months, up from 60% (30/50) of physicians who have prescribed Vyvgart in the past 6 months. 54% of patients treated with Vyvgart have received a 2nd cycle of therapy, up from 40% of patients at the time of our last survey, and only 10% of patients have switched to a different therapy. Vyvgart's clinical profile was perceived as favorable to other treatment options, particularly by physicians who rated strong familiarity with Vyvgart. Despite the increase in physician awareness, with Vyvgart now the most familiar new gMG medicine to neurologists, our survey suggests under-penetration by ARGX's sales-force, with only 32% of physicians reporting being contacted by a sales rep. We see room to grow in the near-term as more physicians are educated on Vyvgart. Encouragingly, 70% of physicians have reported an increased willingness to prescribe Vyvgart with the recent approval of the subcutaneous formulation. We think these results provide support for our 3Q23, 4Q23, and 1Q24 Vyvgart revenue estimates of $301MM, $325MM and $345MM. We are mindful of new entrants into the gMG market, including UCB's (UCBJY, not covered) Rystiggo, which is supported by an aggressive sales force, but our data indicate little threat to Vyvgart's competitive position in the near-term. See results of our survey below.

Biotechnology

ESMO 2023 Wrap-Up for Covered Companies

The Wedbush View: In this report, we summarize select presentations pertaining to our coverage that were presented at this year's European Society of Medical Oncology (ESMO) meeting. Covered companies referenced in the report include: **BPMC**, **FUSN**, **IRON**, **ITOS**, **MRSN**, **NVCR**, **ORIC**, **RCUS**, **STRO**, **TYRA**, and **XNCR**.

Ideaya Biosciences, Inc. (IDYA)

Rating: OUTPERFORM, 12-Month Price Target: $43.00, Price: $26.60

IDYA Firing on All Cylinders; Recapping Data Updates Across the Pipeline

- **PFS remains robust in mUM.** IDYA presented topline data from the Ph 2 study evaluating the combination of darovasertib plus crizotinib in metastatic uveal melanoma (mUM) patients in a proffered paper session at ESMO**.** As of a cutoff date of August 22nd (additional 6 months follow up), mPFS remains ~7 months in the 1L and any-line mUM patients, with ORRs of 45% (9/20) and 30% (19/63) ORR, respectively. Strikingly, new analyses presented showed a rate of molecular response of 94% (30/32) (>50% reduction in mutant allele frequency) in any-line patients, with 80% of patients showing a >80% reduction. Importantly, molecular responses correlated with efficacy by RECIST, and has previously been shown to correlate with overall survival in the tebentafusp Ph 2 study (*Carvajal et al., 2022*) (though notably not with efficacy by RECIST in this study). IDYA also showed a highly encouraging two-year PFS KM curve for daro + crizo in any-Line mUM showing a clear separation over historical data for tebentafusp in the 1L registrational study and the control arm, as well as an intriguing "long tail" effect. Further, the company reported that daro + crizo has comparable efficacy in HLA-negative (n=31), and HLA-positive patients (n=19), and that HLA-negative patients represent nearly 70% of mUM patients enrolled (n=149) across all of IDYA's trials of daro in mUM, higher than the expected ~50% of Caucasians believed to carry HLA-A2, but consistent with a recent smaller study evaluating HLA genotyping presented at ASCO (*Seedor et al., 2023*). Notably, tebentafusp (Kimmtrak) sales in the HLA-positive patients tebentafusp sales were ~$111M in 1H:23. In parallel, IDYA will explore the potential addition of daro + crizo to medical guidelines for HLA-positive patients, and the inclusion of HLA-positive data on the label.
- *Additional update in the note*

<u>RETAIL AND CONSUMER</u>

PulteGroup (PHM)

Rating: NEUTRAL, 12-Month Price Target: $85.00, Price: $70.57

F3Q23 Flash: Orders & EPS Were Ahead of Our Assumptions

EPS. Pulte posted F3Q23 EPS of $2.90 versus our $2.74 forecast and the Thomson consensus estimate of $2.77. Total revenues at $4.0 billion were in line with our forecast and consensus. F3Q23's closings of 7.1k were just under our 7.2k forecast but an average closing price of $549k versus our $540k estimate made up the difference on the top line. F3Q23's gross margin of 29.5% was 20bp over our forecast and SG&A/sales at 9.1% was flat yoy and 40bp under our outlook.

Orders. Unit orders were 44% higher yoy versus our +30% assumption and consensus at +33%. Geographically, orders were up yoy in each geographic segment with sales absorption (monthly orders/community) at 2.5 homes/month for F3Q23 versus 2.0/month last year and our 2.4/month forecast.

Ahead of the Call. On the F2Q23 call, management indicated prices were increased in 2/3rds of communities during F2Q23 with some price discovery continuing in the Western US markets. We will look for an update on that topic in light of recent mortgage rate volatility. Pulte was at the high end of the guidance for gross margin and exceeded the average closing price forecast for F3Q23. F3Q23's 7.1k closings were below the midpoint of the 7.0k to 7.4k guidance so we will look for more color on that issue, a supply chain/cycle time update, and an update on the F4Q23 guidance (see page 2). Lastly, Pulte's net debt to cap declined to 1% in F3Q23 versus 10% at FYE22 via cash flow generation and $65 million of open market debt repurchases during F3Q23. We see that as an encouraging sign and will look for more insight around capital allocation on the call.

PHM Has Scheduled a Conference Call for 8:30am ET on 10/24. 888-440-6928, passcode=6106699.

Footwear and Apparel

Specialty Running Expert Call Flags Slowing Trends And Heightened Competition

What Happened? We hosted a virtual fireside chat with a long-time executive at a Specialty Running retail chain, to discuss trends in the space.

What Did We Learn? Key takeaways include: **1) Running Isn't Immune From the Macro.** After years of strong growth, the Running industry has begun slowing this year (particularly beginning in July), and our speaker believes the industry overall was down slightly in Q3 (perhaps -LSD). **2) Hoka Has Been Impacted By Other Brands Following Their Lead.** Our speaker noted slowing trends at Hoka, with the brand now generating just single-digit comp growth in the channel (vs. consistent 20-30% comp growth the past few years). In addition to macro pressures, other brands such as Asics and Brooks have successfully introduced "max cushioning" styles to capitalize on the cushioning trend that Hoka pioneered. He believes Asics has been particularly successful, as they "took a big swing" by adding more cushioning to 3 of their biggest franchises (the Kayano, Nimbus, and Cumulus), with a positive response from runners. As a result, he believes Hoka has decelerated more quickly than On, and he expects Hoka to grow more slowly than On in 2024 (he sees 6-7% growth for Hoka vs. +DD for On next year). **3) Sees Opportunities For NKE and (Surprisingly) SKX.** A decade ago, NKE was the #1 player in the channel, but given their decreasing focus on performance running and increasing focus on DTC, they're perhaps the #5 player in the channel today. He thinks they can piggyback on the big-cushioning trend with their core running styles Pegasus and Infinity. Then, they can leverage their marketing might to drive awareness and start taking share again (the 2024 Summer Olympics are a big opportunity). Elsewhere, he sees an opportunity for SKX to make a push in the channel, as they make good product at a compelling value, and they've smartly positioned themselves as a leader in the rapidly-growing pickleball market.

Thoughts on DECK Ahead of Thursday Night's EPS Print. In addition to our speaker's cautious comments on Hoka, we also note adverse launch timing: the Bondi 8 (one of Hoka's biggest franchises) launched in July 2022, but the Bondi 9 is not coming out until next month. All in, we've lowered our Hoka growth for fiscal Q2 (Sep) to +20% (from +22%), and think Hoka growth could even dip down to the high teens. On a positive note, we think UGG has started the Fall/Winter season on a high note, so our slower Hoka growth is offset by better UGG growth (Q2 raised to +5% from +4%). Ultimately, we think DECK reiterates guidance later this week (our consolidated FY24/25 EPS forecasts are unchanged), but unfortunately that might not be received well, as DECK has a long history of beats-and-raises and the narrative around the stock could become tougher if Hoka does slow to sub-20% growth. Thus, we see risk of a disappointing Q2 print on Thursday AMC, but beyond this upcoming catalyst, we remain medium-to-long term bullish on DECK. UGG is picking up steam as we head to its seasonal high point, Hoka could reaccelerate when the Bondi 9 releases, both brands have compelling characteristics (innovative product, loyal customers, good distribution, etc.), and the balance sheet is flush with cash.

Floor & Decor Holdings, Inc. (FND)
Rating: OUTPERFORM, 12-Month Price Target: $90.00, Price: $82.34
3Q23 Preview: Landing Hard

The Wedbush View

We see more downside than upside risk for FND into 3Q23 earnings on Thursday, November 2 AMC. We now model 3Q23 comps of -11% (from -10%) vs. consensus' -8.8% (and quarter-to-date comps of -8.4% provided on its last earnings call on August 3) which would be a sequential deceleration on both a one- and two-year stacked basis and a slight slowdown on a four-year sales CAGR basis as well. An increasingly soft macro environment led by rising interest rates, depressed existing home sales, broader economic uncertainty and geopolitical conflict is leading customers to defer or scale back large ticket discretionary projects such as flooring. Accordingly, we expect continued comp traffic weakness (vs. -7.1% in 2Q23) while comp ticket could continue to deteriorate (vs. +1.1% in 2Q23) as FND laps retail price increases made in the prior year in response to elevated supply chain costs, lowers retail prices on specific SKUs as it passes lower supply chain costs today (to improve competitive positioning and widen price gaps), and customers scale back projects. An -11% comp would materially underperform the floor covering industry's -4.3% y/y growth in manufacturer sales, with hard surface flooring likely performing better than this in the quarter. That said, the residential remodel portion of the market is the softest segment. In addition, it is unclear how retail industry sales performed (likely better with inventory destocking), but we believe it also appropriate to benchmark FND's comps against publicly traded retailers such as Lumber Liquidators (LL) and Tile Shop (TTSH); FND comps outperformed these competitors last quarter and we expect the same in 3Q23. Logically, FND should be able to gain share even in comparable stores in a tough macro environment as independents struggle to manage pricing, inventory and marketing during this contracting industry period. That said, our updated pricing study found that publicly traded FND competitors HD, LOW and LL modestly reduced their prices across value tiers in 3Q, while FND sharply reduced prices in the “best” category, modestly reduced prices in the “good” category and largely maintained its prices within the “better” category; relative to last quarter, this led to a narrowing price gap vs. competitors in “best,” a wider price gap in “good” and a similar price gap in “better.” FND also stopped tagging products with “new lower price” on its website. While we expect gross margins to continue to rise due to lower supply chain costs, this tailwind could be more limited with the price declines we witnessed; that said, we remain comfortable with our gross margin forecast. Along with our expectation for fixed cost deleverage due to comp store sales declines, we now see downside risk to consensus’ 7.4% (-190 bps y/y) operating margin to the 7.0%-7.2% range. We now expect EPS in the $0.50-$0.55 range vs. consensus’ $0.57 estimate. Softer than expected results combined with a continued cautious view of broader home improvement demand as evidenced by existing home sales trending at 3.9m (vs. 4.1m-4.3m expected by FND exiting 2023), weakening NAHB remodeling survey results and Harvard’s JCHS negative remodeling forecast could lead the company to point toward the lower end of its current full-year guidance range that includes comps of -5.5% to -7%, EBITDA margins of 12.8%-13.1% (~-50 bps y/y at the midpoint) and EPS of $2.30-$2.50. While FND could reduce guidance toward the lower end of this range, we note that 3Q23 should mark the bottom for comp store sales performance as comparisons ease sharply. That said, comps could remain negative through 1H24 and we now forecast flat 2024 comps vs. consensus' +3% and EPS of $2.62 vs. consensus' $2.99. At the same time, we also note that new store productivity slipped last quarter, a trend that bears watching should the decline be due to more than store opening timing. Recall that FND slowed store growth in 2023 due to construction delays partly associated with labor shortages and last guided 2023 store openings to the low end of its initial 32-35 range; any indication that store growth may not increase 20% in 2024 (even due to macro challenges) could be poorly received. All that being said, industry consolidation should benefit FND and continued investments to drive sales in Pro, designer services, online and commercial should continue to resonate for the company and drive market share gains over the long term; these factors lead us to maintain our OUTPERFORM rating on this hard surface flooring category killer on a 12-month basis but reduce our target price to $90.

TMT

Hardware

Storage Component Earnings Preview - Thr, 10/26 STX & Mon, 10/30 WDC

STX (N: TP$60) - Reports - Thu, 10/26 BMO - LIfting TP to $60 (from $55)

- STX in early September suggested that FQ1 results will likely be in the lower half of the forecast range. We are shifting our model to reflect this outlook
- Looking to FQ2, our conversations suggest HDD ASPs will lift again, by low to mid single digits sequentially.
- STX volumes are also likely to grow helped by seasonality and a large CSP order.
- As such, we see potential for STX to forecast upside to sales and GM targets.
- Looking forward, we expect the HDD industry will eventually realize a more meaningful recovery, however we believe this result will require CSP requirements to lift significantly, a shift we don't foresee until mid CY'24.
- With HAMR, while we believe STX remains optimistic, we continue to expect a slower ramp, given general adoption timeframes for new technology. However, STX's faster than expected launch of 24 TB PMR/28 TB SMR could put them in good shape to maintain share in the near-term.
- Net, our FQ1 estimates drop to $1.5B/($0.27) vs. consensus at $1.53/($0.20) to align with STX's revised commentary around guidance. Our FQ2 numbers lift however to $1.8B/$0.13 vs. consensus at $1.6B/($0.01) as we account for our expectation of improved pricing and some uptick in STX nearline volumes.
- We are lifting our TP to $60 (from $55), which assumes a ~18X multiple (net debt) applied to our new 2025 estimates. We'd note this multiple is high for a commodity tech name, but it also accounts for the likelihood storage markets recover and that STX eventually benefits from its lead with HAMR.

WDC (O: TP$60) - Reports - Mon, 10/30 BMO

- WDC should come in ahead of FQ1 guidance/consensus given: 1) a conservative guide, and 2) better than expected ASPs in NAND spot/retail markets as pricing recovered over the course of the quarter, a result that also may have driven some upside to expected bit shipments.
- And, we now expect NAND pricing will lift meaningfully in FQ2, with our checks suggesting blended prices lift in the low teens.
- Moreover, we see some upside vs. our prior outlook for HDDs given our checks suggesting pricing in that market should also lift into FQ2.
- Net, we are lifting our estimates for the current quarter to $2.725B/($1.72) vs. consensus at $2.65B/$1.91, with the delta predominantly tied to an upward shift to our ASP assumptions (NAND down 7% vs. our prior outlook for an 11% decline).

Looking to FQ2, our numbers improve further as we now are modeling a 5% increase in NAND Px and a 2% sequential lift in HDD ASPs (vs. our prior outlook for 3% and flat) with our estimates going to $3.152B/($0.78) vs. consensus at $2.92B/($1.39). We'd note that our new assumptions still trail our expectations for price shifts in FQ2 (in part taking account for management's typical conservatism when providing guidance).

- We are reiterating our $60 PT and OUTPERFORM rating on WDC. We see our positive outlook as supported by improving end markets and the potential for a strategic outcome that would unlock value in WDC's NAND business.

SciPlay (SCPL)

Rating: NOT RATED, : , Price: $19.65

Dropping Coverage

We are dropping coverage of SciPlay (SCPL) due to the completion of its acquisition by Light & Wonder. On Monday, October 23, Light & Wonder (L&W) announced the completion of its acquisition of the remaining roughly 17% equity interest in SciPlay that it did not already own. L&W's initial May 2023 offer was for $20 per share, the agreed upon price was increased to $22.95 per share in August 2023. As expected, the deal was completed at $22.95 per share in an all-cash transaction. SciPlay requested that the Nasdaq Global Select Market ("Nasdaq") halt trading of the shares of its Class A Common Stock on Nasdaq at 8:00 p.m. ET on October 20, 2023. On October 23, 2023, prior to the opening of trading, the Company notified Nasdaq that the Merger had been completed, and as a result Nasdaq will permanently suspend trading of the shares of its Class A Common Stock on October 23, 2023. SciPlay is now a wholly-owned subsidiary of L&W. L&W expects a multitude of synergies from its acquisition of the company and plans on helping SciPlay to develop a direct-to-consumer platform.

Effective upon termination of our research coverage, the last recommendation (NEUTRAL) and estimates for the company should not be relied upon going forward.

Redfin Corporation (RDFN)

Rating: NEUTRAL, 12-Month Price Target: $11.00, Price: $5.10

New Term Loan Should Facilitate a Partial Reduction in RDFN's Convertible Debt

- **Background.** Via a press release after the market close on 10/23, Redfin announced a new $250 million first lien term loan facility with Apollo (APO, NR) as the lender. Redfin will draw $125 million initially at SOFR+575 (we estimate ~11%) on the facility with additional draws possible over the next 12 months. The facility has a 5-year life with a scheduled maturity of October 2028.
- **Repurchase of Convertible Preferred Debt.** In addition to the new credit facility, Redfin has agreed to repurchase $5 million in principal value of RDFN's 2025 convertible preferred notes and $72 million in principal value of RDFN's 2027 convertible notes for a combined $50 million from APO. Based on RDFN's F2Q23 10Q filing, we estimate these redemptions will lower the 2025 note balance by 2% to $265 million and reduce the 2027 balance by 12% to $503 million.
- **Financial Implications.** Assuming no further draws beyond the $125 million, we calculate RDFN's pro forma annual interest expense on the new debt is ~$13.8 million which compares to FY22's total interest expense of circa $17 million. According to the F2Q23 10Q filing, RDFN's 2025 convertible notes bore an interest rate of 0% and the '27s have a 0.5% rate. When RDFN reports F3Q23 results on 11/2/23 (see below), we will look for more color about the specific catalysts that led RDFN to swap into the higher cost debt. Additionally, Redfin is required to maintain $75 million in unencumbered cash and equivalents, tested quarterly, to be in compliance with the new facility. For context, Redfin had $119 million in cash and $101 million in short term investments at F2Q23 so we will look for any color on how the new liquidity requirement might affect RDFN's operations, if at all. We maintain our NEUTRAL rating with no change to our EPS estimates.
- **Next Catalyst Is the F3Q23 EPS Release.** Redfin is scheduled to release F3Q23 EPS after the market close on 11/2 with a conference call scheduled for 11/2 at 4:30pm ET. For F3Q23, we expect total sales declined 57% yoy to $260 million versus consensus at $271 million. The headline revenue change is due to the discontinuation of the Properties segment earlier this year. We expect F3Q23 AEBITDA of $9.9 million versus consensus at $8.8 million. Please see pages 2 and 3 for RDFN's guidance and our F3Q23 outlook grid, respectively.

Logitech (LOGI)

Rating: NEUTRAL, 12-Month Price Target: $80.00, Price: $68.35

LOGI Sailed Over Easy FQ2 Guide, Shares Should Rebound

Logitech's FQ2:24 results sailed over its low-bar 1H:24 guidance and Street estimates, likely to lift shares despite YoY revenue decline.

Logitech reported a FQ2:24 revenue decline of 8% (-9% CC) YoY to $1,057 million, compared with our estimate of $1,000 million (down 13% YoY), and consensus of $966 million (down 16% YoY). Non-GAAP EPS was $1.09 (up 30% YoY), compared with our estimate of $0.71, and the consensus estimate of $0.60. Logitech's results continue to be negatively impacted by macroeconomic headwinds at both the consumer and enterprise level. That said, with its streamlined cost structure, Logitech has maintained profitability (FQ2 GAAP EPS of $0.86) and strong free cash flow generation (FQ2 FCF per share of $1.29). Logitech ended the quarter with $1.164 billion in cash (over $7 per share) and no debt, after paying an annual dividend of $1.15 per share in FQ2, an increase of 19% YoY (Logitech's largest annual increase since 2015) and repurchasing $94 million of shares in FQ2. While we maintain that the company is well-positioned to gain further market share amid long-term expansion in PC peripherals and video conferencing stemming from hybrid work, and to benefit from long-term growth in global gaming, we think shares may be range-bound into the holiday quarter as investors gain confidence in the economy and consumer spending, and in Logitech's ability to rebound once macroeconomic headwinds ease. As such, we reiterate our NEUTRAL rating. Our estimates and price target are under review.

Revenue categories beat expectations, and gross margin once again fell firmly within Logitech's long-term target range of 39 – 44%.

FQ2:24 non-GAAP gross margin increased 340 bps YoY to 42.0%, driven by less air freight shipping and fewer promotions, partially offset by unfavorable product mix (lower Video Conferencing, which has the highest margin profile). Gross margin improved more than we anticipated (39% estimate) due in part to a continually improving inventory position – an important factor heading into the holiday selling period. Compared to last year FQ2, Video Collaboration sales declined 15% YoY (-16% CC), Pointing Devices were up 3% YoY (3%CC), Gaming was down by 12% YoY (-12%CC), Webcams declined by 14% YoY (-15% CC), Tablet Accessories increased by 17% YoY (15% CC), Keyboards & Combos declined by 3% YoY (-4% CC), and Headsets declined by 1% (-2% CC). Sales in EMEA were up 5% (down 2% CC), Americas were down 6% YoY (-6% CC), and Asia-Pacific was down 21% YoY (-18% CC). Logitech 1H sales were $55 million above the high-end of guidance of $1.975 billion, and non-GAAP operating income came in at $72 million above the 1H guide of $220 million. Management increased its FY:24 guidance by $150 million on the high end of the guide, for revenue of (12) – (9)% from (16) – (12)% and for non-GAAP operating income to $525 – 575 million from $400 – 500 million, a $75 million increase on the high end of the guide. This sets up another beat on guidance as long they do not have to get significantly more promotional during this holiday season to work through inventory. Logitech also gave an update on the CEO search, stating that they are close to finalizing a decision for a new CEO. We will look for more detail on the conference call, which is scheduled for 8:30am ET (webcast: ir.logitech.com).

Analyst Certification

As to each company covered, the respective research analyst (or analysts) certifies that the views expressed in the research report accurately reflect such research analyst's personal views about the subject securities and companies, and that no part of his or her compensation was, is, or will be directly or indirectly related to the specific recommendation or views contained in the research report.

Mentioned Companies

Company	Rating	Price	Target
United Microelectronics	OUTPERFORM	TWD45.20	TWD57.00
Taiwan Semiconductor	OUTPERFORM	TWD547.00	TWD700.00
Apple	OUTPERFORM	$173.93	$240.00
Advanced Micro Devices Inc	OUTPERFORM	$117.60	$155.00
Alexandria Real Estate Equities	OUTPERFORM	$100.10	$120.00
arGEN-X N.V.	OUTPERFORM	$476.62	$583.00
Blueprint Medicines	OUTPERFORM	$56.04	$75.00
Cathay General Bancorp	OUTPERFORM	$33.31	$40.00
Diebold Nixdorf Inc	NEUTRAL	$19.29	$20.00
Deckers Outdoor Corp	OUTPERFORM	$494.45	$614.00
East West Bancorp Inc	NEUTRAL	$52.98	$57.00
Floor & Decor Holdings, Inc.	OUTPERFORM	$82.34	$90.00
Fusion Pharmaceuticals Inc	OUTPERFORM	$3.02	$13.00
Hope Bancorp.	NEUTRAL	$8.42	$9.00
International Business Machines	NEUTRAL	$135.36	$140.00
Ideaya Biosciences, Inc.	OUTPERFORM	$26.60	$43.00
Intel Corp	NEUTRAL	$35.69	$35.00
Disc Medicine	OUTPERFORM	$52.59	$79.00
iTeos Therapeutics	OUTPERFORM	$9.78	$33.00
Logitech	NEUTRAL	$68.35	$80.00
Mersana Therapeutics	NEUTRAL	$1.22	$2.00
Microsoft	OUTPERFORM	$320.77	$400.00
Micron Technology Inc	OUTPERFORM	$68.21	$80.00
Nike, Inc	OUTPERFORM	$89.63	$131.00
NetApp Inc.	NEUTRAL	$76.53	$75.00
NovoCure	NEUTRAL	$29.77	$23.00
Nvidia	OUTPERFORM	$471.16	$600.00
ON Holding AG	OUTPERFORM	CHF25.05	CHF36.00
Oric Pharmaceuticals, Inc.	OUTPERFORM	$5.66	$14.00
Pure Storage Inc.	OUTPERFORM	$36.48	$45.00
Arcus Biosciences Inc.	OUTPERFORM	$18.24	$36.00
Redfin Corporation	NEUTRAL	$5.10	$11.00
SciPlay	NOT RATED	$19.65	
Silicon Motion Technology Corp	OUTPERFORM	$53.79	$85.00
Skechers USA	OUTPERFORM	$54.00	$59.00
Sutro Biopharma	OUTPERFORM	$3.19	$12.00
Seagate Technology Holdings PLC	NEUTRAL	$65.25	$60.00
Tyra Biosciences	OUTPERFORM	$15.11	$27.00
Western Digital	OUTPERFORM	$41.81	$60.00
Western Digital	OUTPERFORM	$41.81	$60.00
Xencor	OUTPERFORM	$23.35	$37.00

Investment Rating System:

OUTPERFORM: Expect the total return of the stock to outperform relative to the median total return of the analyst's (or the analyst's team) coverage universe over the next 6-12 months.

NEUTRAL: Expect the total return of the stock to perform in-line with the median total return of the analyst's (or the analyst's team) coverage universe over the next 6-12 months.

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The Investment Ratings are based on the expected performance of a stock (based on anticipated total return to price target) relative to the other stocks in the analyst's coverage universe (or the analyst's team coverage).*

Rating distribution (as of October 24, 2023)	**Investment Banking Relationships (as of October 24, 2023)**
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Equity Research

CONSUMER AND RETAIL

Beverages/Cannabis		
Gerald Pascarelli, CFA	(646) 860-7585	gerald.pascarelli@wedbush.com
Footware & Apparel		
Tom Nikic	(212) 938-9932	tom.nikic@wedbush.com
Hardlines Retail		
Seth Basham	(212) 938-9954	seth.basham@wedbush.com
Restaurants		
Nick Setyan	(213) 688-4519	nick.setyan@wedbush.com

TMT

Digital Media		
Michael Pachter	(213) 688-4474	michael.pachter@wedbush.com
Digital Media		
Nick McKay	(213) 688-4343	nick.mckay@wedbush.com
Entertainment/Consumer Tech		
Alicia Reese	(212) 938-9927	alicia.reese@wedbush.com
Enterprise Software		
Dan Ives	(212) 344-2073	dan.ives@wedbush.com
Hardware		
Matt Bryson	(617) 695-6302	matthew.bryson@wedbush.com
Payments/IT Services		
Moshe Katri	(212) 938-9947	moshe.katri@wedbush.com
Software		
Imtiaz Koujalgi	(212) 938-9944	imtiaz.koujalgi@wedbush.com
Internet		
Scott Devitt	(646) 604-4230	scott.devitt@wedbush.com

HEALTHCARE

Biotechnology		
David Nierengarten, Ph.D.	(415) 274-6862	david.nierengarten@wedbush.com
Biotechnology		
Robert Driscoll, Ph.D.	(415) 274-6863	robert.driscoll@wedbush.com
Emerging Pharmaceuticals		
Liana Moussatos, Ph.D.	(415) 263-6626	liana.moussatos@wedbush.com
Emerging Pharmaceuticals		
Andreas Argyrides	(212) 833-1399	andreas.argyrides@wedbush.com
Biotechnology		
Laura Chico, Ph.D.	(212) 668-9868	laura.chico@wedbush.com

FINANCIAL INSTITUTIONS GROUP

Mid-Cap Banks/Disruptive Finance		
David Chiaverini, CFA	(212) 938-9934	david.chiaverini@wedbush.com
Specialty Finance		
Henry Coffey, CFA	(212) 833-1382	henry.coffey@wedbush.com
Housing/Building Products		
Jay McCanless	(212) 833-1381	jay.mccanless@wedbush.com
REITs		
Richard Anderson	(212) 931-7001	richard.anderson@wedbush.com
REITs		
Jay Kornreith	(212) 938-9942	jay.kornreith@wedbush.com

RESEARCH MANAGEMENT

Kevin Merritt, CFA
Director of Research
kevin.merritt@wedbush.com
(212) 938-9949

Kirsten Fraunces
EVP, Head of Capital Markets
kirsten.fraunces@wedbush.com
(213) 688-4404

COMMODITY AGRICULTURE RESEARCH

Al Kluis
Kluis Commodity Advisors
info@kluiscommodityadvisors.com
(888) 345-2855

FIXED INCOME FUTURE & RATES RESEARCH

Arthur Bass
Managing Director
Arthur.Bass@Wedbush.com
(212) 259-6582

CORPORATE ACCESS

Avishai Kantor
Vice President, Corporate Access
Avishai.Kantor@wedbush.com
(212) 259-6589

Sophia Dao
Associate, Corporate Access
Sophia.Dao@wedbush.com
(213) 688-4380

TRADING

Consumer/Financials/TMT		
Bryan Lonsinger	(212) 938-9925	bryan.lonsinger@wedbush.com
Healthcare/TMT		
Sahak Manualian	(213) 688-4533	sahak.manuelian@wedbush.com
TMT		
Matthew Croglio	(212) 931-7071	matthew.croglio@wedbush.com

WEDBUSH OFFICES

Los Angeles
1000 Wilshire Boulevard
Los Angeles, CA 90017
(213) 688-8000

New York
142 W 57th Street
New York, NY 10019
(212) 938-9920

San Francisco
600 Montgomery Street
San Francisco, CA 94111
(415) 273-7300

Chicago
141 W. Jackson Boulevard, Suite 1710A
Chicago, IL 60604
(312) 786-1930