Focus Research

FINANCIAL INSTITUTIONS

Pacific Premier Bancorp Inc. (PPBI)

Rating: NEUTRAL, 12-Month Price Target: $20.00, Price: $19.08

Challenging Quarter Driven by Funding Pressures; Mixed Guidance Update

Pacific Premier reported a challenging quarter and provided a mixed guidance update. Deposit growth was lower than expected, driven by both interest and noninterest bearing outflows. That said, PPBI was able to reduce higher cost brokered deposits by $490 million in the quarter. Loan growth was also weaker than expected, with declines seen in nearly all lending categories. This combined with a larger than expected decline in NIM led to a miss on net interest income. Credit metrics saw some modest degradation, as evidenced by sequential increases in nonperforming assets, classified loans, and net charge-offs. Credit metrics were negatively impacted by a shared national credit that resulted in two non-relationship loans to one borrower being placed on non-accrual. This generated an interest accrual reversal of $1.7 million and a charge-off of $3.2 million. The total shared national credit portfolio, which was acquired from Opus Bank and has since been discontinued, totals $201 million or ~1.5% of total loans as of 9/30.

Guidance updates. Management noted loan portfolio contraction slowed considerably in the quarter and believes loan growth is approaching an inflection point. PPBI will continue to take a thoughtful approach toward loan origination activity with a focus on high quality banking relationships that meet risk-return requirements, but overall loan demand remains muted. The net interest margin is expected to see some additional pressure from higher funding costs in a higher for longer environment. However, the bank will look to mitigate some funding pressure through continued balance sheet optimization, which includes reducing both cash on hand and wholesale funding sources. In addition to the $490 million wholesale deposit reduction this quarter, PPBI also paid down $200 million of FHLB advances in early October. As the impact from higher deposit pricing starts to decelerate into 2024, management anticipates that the NIM should start to see some level of stabilization. Noninterest income for 4Q23 was guided to $18 - $19 million (we had previously expected $21 million), and noninterest expense for 4Q23 was guided to $102 - $103 million (we had previously expected $101 million).

Estimate changes and recommendation. We're lowering our 2023/2024/2025 core EPS estimates to $2.15/$1.95/$2.25 from $2.35/$2.35/$2.60 due to lower NIM assumptions. We maintain our NEUTRAL rating as we believe PPBI's premium valuation is appropriate relative to its growth prospects and peers.

PacWest Bancorp (PACW)

Rating: NEUTRAL, 12-Month Price Target: $7.00, Price: $6.92

Challenging Quarter Driven by Deposit and NII Headwinds

PacWest reported a challenging quarter highlighted by lower than expected deposit and net interest income results, in conjunction with higher than expected core noninterest expense results. The pending merger with Banc of California (BANC) has received regulatory approval, and is expected to close on November 30, pending the shareholder vote on November 22. Despite pressure on PACW's NII in the quarter, BANC's management reiterated 2024 core EPS of $1.65-$1.80 on a combined basis, which is consistent with deal announcement on 7/25, which includes $130 million in cost saves by 4Q24. BANC expects to replace PACW's higher-cost funding with core funding, which should mitigate some of PACW's NII pressure. PACW's period-end deposits decreased $1.3 billion or 5% unannualized to $26.6 billion from $27.9 billion in 2Q, driven by an $822 million decrease in interest-bearing deposits and a $476 million decrease in noninterest-bearing deposits, bringing the noninterest-bearing deposit % of total deposits down to 21% in 3Q from 22% in 2Q.

Estimate changes and recommendation. We're lowering our 2023 core EPS estimate to $0.60 from $0.84, owing mainly to lower average earning assets and higher core noninterest expense assumptions. There are no changes to our 2024/2025 estimates of $0.80/$0.95. We maintain our NEUTRAL rating as we view PACW's relative valuation to mid-cap bank peers as appropriate.

Hanmi Financial (HAFC)

Rating: NEUTRAL, 12-Month Price Target: $16.00, Price: $14.58

In-line Qtr; Loan Pipelines Remain Healthy but NIM Pressure Could Persist in 4Q

Hanmi reported a relatively in-line quarter with the main takeaway being positive noninterest income growth, partly offset by more than expected NIM pressure and elevated net charge-offs. Credit metrics were mixed as net charge offs increased $7.1 million sequentially to $8.9 million or 60 bp of total loans, but nonperforming assets decreased $6 million sequentially to $16 million. Net charge-off increases were driven by two previously identified classified credits of $6.1 million, which HAFC had already previously reserved $4.3 million against. Noninterest-bearing deposits represented 35% of the deposit base in 3Q, flat from 2Q, and management expects the rate of change to decelerate in 4Q. HAFC saw strong growth in its deposit balances related to its Corporate Korea initiative as it grew $107 million and now represents nearly 13% of total deposits, up from 9% a year ago. The margin contracted 8 bps to 3.03%, but management expects deposit costs to slow as the cost of interest bearing deposits today is about 12 bp higher than the third quarter average in comparison to the prior quarter where the cost of interest-bearing deposits for July were about 25 bp higher than the 2Q average.

Estimate changes and recommendation. We're raising our 2023 core EPS estimate to $2.65 from $2.58 given the beat in the quarter, there is no change to our 2024 core EPS estimate of $2.55, and we're lowering our 2025 core EPS estimate to $2.75 from $2.95 owing to higher expense assumptions. We believe the company's outlook is appropriately reflected in its relative valuation; we maintain our NEUTRAL rating.

RETAIL AND CONSUMER

Taylor Morrison Home Corp. (TMHC)

Rating: OUTPERFORM, 12-Month Price Target: $61.00, Price: $39.10

F3Q23 Flash: 3Q Orders Missed our Forecast; 4Q Guide Looks Ahead of our Ests.

- **EPS.** TMHC posted F3Q23 adjusted EPS of $1.62 and GAAP EPS of $1.54 which compared to the Thomson GAAP consensus estimate of $1.55. The delta between TM's GAAP and adjusted EPS was due to an impairment on one project in the West segment due to municipal changes and an early debt extinguishment charge. Total revenues were 16% lower yoy at $1.7 billion versus our $1.6 billion estimate with closings and the average closing price effectively in line with our forecasts. Excluding the impairment, F3Q23's gross margin was 23.9% which was 90bp over our estimate and 60bp above consensus. SG&A as a percentage of home sales de-levered by 300bp yoy to 10.4% presumably due to less volume. We will look for more color on the call about whether or not there was and increase in co-broker (external real estate agent commission) expense during the quarter.
- **Orders.** F3Q23's unit orders of 2,592 were 25% higher yoy but below the consensus estimate of 2,637 homes. Geographically, orders were higher yoy by double-digit percentages in the Central and West and down 10% in the East segment. F3Q23's sales absorption (monthly average orders/community) was higher yoy at 2.7/month versus 2.1/month in F3Q22.
- **Ahead of the Call.** For the bulls, TM's FY23 unit closing guide of 11,250 is above the consensus estimate of 11,100 and the FY23 adjusted gross margin guide of 23.7% is above the consensus 23.5% forecast. F4Q23's closing guide of 2,950 compares to our current 2.7k estimate and the 23.0% gross margin guide is 20bp over our current forecast. For the bears, we think management's comments in the release about slower sales due to seasonality and higher rates may be discussion points. We also see the miss on F3Q23 orders as another bearish point and anticipate some questions around TM's 10% yoy decline in East segment orders for the quarter.
- **Management Has Scheduled a Conference Call for 8:30am ET on 10/25/23.** 833-470-1428, passcode=524943.

The Boston Beer Company (SAM)

Rating: NEUTRAL, 12-Month Price Target: $378.00, Price: $374.37

Thoughts Ahead of 3Q Earnings

The Wedbush View. SAM reports 3Q23 earnings on Thursday (10/26) AMC, with a conference call to follow at 5 PM ET. While volumes remain in decline, we expect pressure to improve and for 3Q to represent the best topline quarter of the year for SAM, and based on intra quarter reads, are raising our revenue and EPS estimates ahead of the print. Given YTD performance, the timing of the year, the need to cycle a 53rd week, and low seasonality associated with 4Q, we view limited upside to 2023 guidance and expect current targets to remain broadly unchanged. While we are not expecting SAM to offer a preliminary read on 2024, our volume model indicates shipment / depletion growth in the LSD range next year, which will offer limited upside to current consensus estimates. We are raising our 2023 adj. EPS estimate to $8.24 and raise our 2024 EPS estimate to $10.83 due to a more constructive outlook on gross margin. Holding our current target multiple of ~35x unchanged results in a new PT of $378. We reiterate our Neutral rating on the stock.

Our 3Q23 Expectations. For 3Q, we are expecting SAM to deliver flat revenue performance, driven by a 2 pt volume decline, offset by 2 pts of price/mix. We are modeling for gross margin of 45.5%, which marks ~230 bps of margin expansion YoY, which is relatively in line with the levels of expansion seen in the prior quarter. We expect A&P as a percentage of sales to come in at 27% and expect G&A levels relatively in line with the prior quarter, which results in our outlook for EPS of $4.01, which is ~2% below Street.

Volumes Improving. Over the course of the quarter, scanner reads indicate that the magnitude of SAM's volume declines have improved to -2%, which we use as our basis for increasing our 3Q revenue estimate, where we now expect trends to be broadly flat (vs. -1% previously). As has been the case all year, the growth is entirely being driven by Twisted Tea, which continues to grow DD and become a larger part of the portfolio. That said, we note that underlying two-year trends have been slowing, which we would expect to continue into 2024 as the brand cycles up against what will be a difficult comp, at a time where tea as a category is seeing increased levels of competition. On Truly, volume declines look to have troughed and have been improving each month on a YoY and underlying two year basis, though at a very modest pace. Looking out to 2024, our LSD volume growth estimate assumes mid-teens growth in Twisted Tea and a continued modest (100 bps per month) improvement in underlying two-year declines for Truly, which implies a full year decline in the low-to-mid teens range (relative to our expectation for a 30% decline in 2023).

Raising EPS Estimates, PT. Ahead of the print, we are raising our 2023 EPS estimate to $8.24 and for 2024, raise our EPS estimate to $10.83, which is predominantly being driven by a more constructive outlook on gross margin. We are holding our target multiple of ~35x unchanged which results in a new PT of $378. We reiterate our Neutral rating on SAM.

The Coca-Cola Company (KO)
Rating: OUTPERFORM, 12-Month Price Target: $66.00, Price: $55.41
Maintaining Momentum

The Wedbush View. As has become somewhat customary over the past three years, KO overdelivered on expectations and offered up a larger than expected guidance raise and the shares were rewarded as a result. This marked the second consecutive guidance raise for KO, and the company is on pace to exit 2023 delivering three straight years of DD organic revenue and LC EPS growth. While KO did not specifically guide for 2024, an expected MSD FX headwind to EPS will likely cap the upside to positive Street revisions based on current consensus EPS of $2.78 (assuming LC EPS growth relatively in line with long-term targets). Nevertheless, with a history of consistent beat and raises, and with the shares still trading well below historical one-, three-, and five-year average multiples, we find valuation compelling and continue to view KO as a grind higher stock. We are raising our 2023 and 2024 EPS estimates and holding our PT at $66. We reiterate our Outperform rating on KO.

Price-Led Revenue Growth Should Sustain. Organic revenue growth of 11% came in 400 bps ahead of Street estimates and continues to be driven by strong pricing, which drove 9 pts of growth for the quarter. While pricing continues to normalize in key segments, specifically North America, volume is proving resilient and encouragingly improved sequentially. The need to price through hyperinflation in key markets within EMEA and Latin America will likely continue to result in price-led revenue growth going forward, though demand elasticity remains solid, reflected in volume performance which has been positive for KO in 10 of the past 11 quarters.

Long-Term Targets Look Readily Achievable. Despite the need to cycle what will be another year of DD revenue and EPS growth, KO's long-term targets look readily achievable going forward. On a dollar basis, the biggest wildcard to Street estimates will come down to currency, where KO maintains outsized 60%+ exposure to international markets and currently expects revenue and EPS to be impacted by a LSD and MSD FX headwind in 2024, respectively. While we had expected the company to guide down on currency for 2023 and had been modeling for currency headwinds in 2024, the MSD headwind to EPS admittedly came in worse than our LSD going-in expectations, which will likely limit upside to current Street EPS of $2.78. In any event, in 2024 KO is positioned for another year of dollar EPS growth and based on their tendency to beat and raise, can see upside to earnings should its currency outlook hold relatively in line with current expectations.

No Impact from GLP-1 Yet. Much like what peers have alluded to, KO has yet to see any tangible impact from the emergence of GLP-1 drugs on its sales. While this topic will remain a focus for the company, it is still too early to assess the impact of these weight loss drugs. Nevertheless, a focus on health & wellness and ongoing RGM capabilities, which have always been a focus for KO, will inherently provide a natural offset to any foreseen industry-wide volume pressure.

Raising Estimates, Holding PT. In light of today's results, we are raising our revenue and EPS estimates for 2023 and 2024. For 2023, and after accounting for FX and structural headwinds, we model revenue of $45.3 bn, which implies 5.3% growth on a reported basis. Our EPS comes up to $2.68, which is at the high end of current guidance. For 2024, we now model revenue of $46.7 bn and EPS of $2.79, which assumes HSD LC EPS growth, offset by a ~4.5 pt headwind from currency. We are holding our PT unchanged at $66, which implies a target multiple of ~23.5x on 2024 EPS. We reiterate our Outperform rating on KO.

TMT

Hardware

CQ3'23 Compute Preview - Better Near-Term Setup for Intel

CQ3 saw improvement in PC compute fundamentals, which should carry over into CQ4; however we would note that weak standard server builds remain a meaningful headwind that likely continues to weigh on compute guidance:

- Better than expected PC shipments (particularly consumer oriented SKUs) combined with normalization of PC inventories should have created incremental demand for client CPUs and GPUs.
- Server demand remained challenged, though an increase in AI builds towards the end of CQ3 and further CQ4 improvement, should help at the margin.
- Net, we see a mixed bag in the near-term (favoring INTC due to greater PC exposure and more modest expectations). However, we see a more constructive environment emerging in 2024 (particularly in the 2H) that should benefit both vendors. Specifically, we expect a PC refresh (driven by a 3 year replacement cycle, Windows 12, and new SKUs supporting AI) and a normalization of CSP standard server builds will combine to lift compute demand.

INTC (N: TP$35) - Reports - Thu, 10/26 AMC

- Intel management indicated intra-quarter that the company was tracking ahead of its guidance given: 1) Better than expected DCAI sales (albeit with revenues still likely down Q/Q), and 2) Improved PC revenues.
- And, we would expect both areas likely build off CQ3 numbers given:
  - Some signs of generally better than expected consumer demand trends which should continue to boost PC builds in CQ4, and
  - Some year-end bump in enterprise IT spend (even if the overall standard server market remains weak), combined with strengthening AI builds.
- Net, even with INTC tending to guide conservatively, we see potential for upside to consensus (even if Intel's outlook isn't as robust as our high expectations).
- However, the real question remains: Will INTC execute on its forward roadmap for process transitions? We see this result as integral to the company restoring competitiveness in servers, maintaining its positioning in PCs, and starting a foundry business. We still remain uncertain on this front as we continue to look for evidence suggesting new products will ramp successfully.

AMD (O: TP$155) - Reports - Tue, 10/31 AMC

- AMD's CQ3 estimates should be achievable, particularly assuming some benefit from improving consumer PC shipments.
- The risk rather, in our view, is CQ4 (and perhaps CQ1). The ramp of El Capitan, should provide AMD some momentum, however, we are less clear that AMD can hit elevated expectations which we believe will eventually require better server CPU shipments in light of continued weakness in CSP spend.
- Having said this, we exited the past few weeks more confident around AMD's position with MI300, and believe AMD is particularly well positioned to thrive in 2H'24 as its AI revenues ramp at the same time CSP server spend likely normalizes and a PC refresh cycle commences.
- Net, while we are less certain around near-term results, we are reiterating our OUTPERFORM view given our more positive outlook for AMD moving though 2024 into 2025.

Online Travel & Mobility

Now Arriving: October '23 Online Travel Trends — Sector Exits 3Q on a High Note

In our monthly travel report, we highlight recent travel and mobility data across hotels, alternative accommodations, air travel, and dining.

Our read of demand trends in September and MTD in October is positive for our travel and mobility coverage as Y/Y growth rates have largely improved sequentially. In the U.S., we see consistent growth trends for hotels, and slightly better growth for alternative nights booked relative to August, though growth in alternative has slowed considerably since 2Q. U.S. Hotel

RevPAR growth accelerated to +19.3% in September versus 2019 from +7.2% in August, and on a Y/Y basis, growth accelerated +170bps versus the prior month. U.S. alternative accommodation RevPAR grew +1.4% Y/Y, a reversal from effectively flat to negative growth since March 2023. Nights booked growth and available listings growth also accelerated Y/Y versus the prior month, supported by stronger off-season demand relative to last year. Internationally, hotel RevPAR accelerated to +21.6% Y/Y, up ~120bps over the prior four-week period. International hotel occupancy and ADR continue to outpace the U.S., as we continue to highlight stronger international growth given comp dynamics and the recovery in cross-border travel. In Europe, growth in nights stayed for alternative accommodations accelerated +12ppts to +19.7%, while available listings grew +14.2% Y/Y. RevPAR growth remains positive, rising to +17.9% Y/Y in September.

In the table below, we summarize relative changes in trends versus the prior month with a focus on Y/Y growth rates and comparisons to 2019 for key metrics.

Figure 1. Trends Summary

Subsector	Highlights
U.S. Hotel	*September was moderately higher vs. August, with RevPAR up 19.3% vs. 2019 (from +7.2%) while Y/Y growth gradually improved 140bps to +2.9%. RevPAR has been positive Y/Y through the first two weeks of October (+5.2% and +0.8%, respectively).*
International Hotel	*International hotel demand growth remains healthy, accelerating on RevPAR gains of +22% Y/Y in September, up from +20% in August and 21% in July.*
U.S. Alternative	*Nights booked growth accelerated sharply to +12% Y/Y in September from +9% in August and +13% in July; RevPAR returned to positive growth Y/Y (+1.4%), down from -4.0% in August.*
Europe Alternative	*Europe alternative accommodation demand and RevPAR growth grew in September relative to August, with nights stayed growth up +12ppts M/M. RevPAR growth improved sharply to +18% on higher ADR growth (+16% Y/Y).*
U.S. Air Travel	*U.S. air travel ticked higher at 104% of 2019 levels; stable with 104% in September, while Y/Y growth in passenger volume accelerated to +13% MTD in October.*
Global Dining	*Growth in seated diners has improved to -4% Y/Y MTD in October from -5% in September.*

Sources: STR, AirDNA, TSA, OpenTable

Online Travel & Mobility

3Q Online Travel Preview: All Eyes on 2024

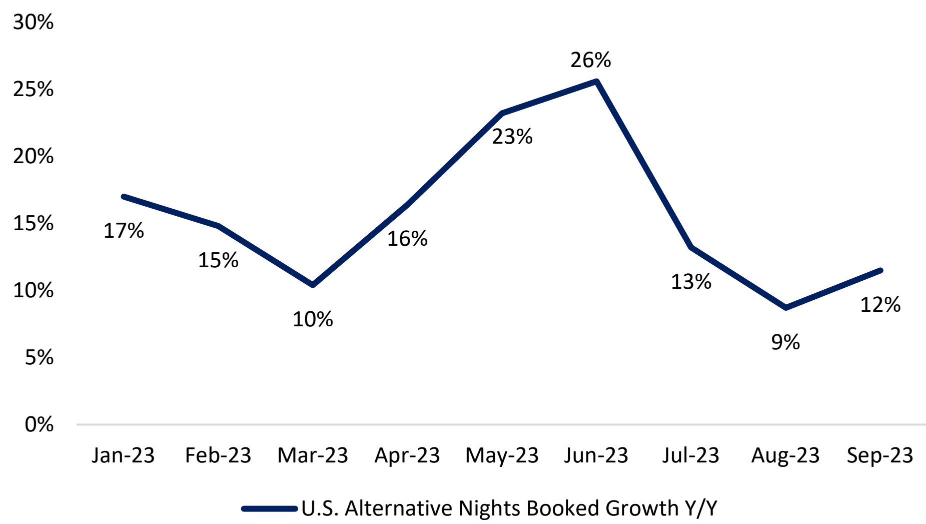
Heading into 3Q results, we see broadly encouraging demand trends for our online travel coverage. Recent industry commentary, hotel performance, and air traffic data point to a strong 3Q for leisure travel with notable strength across Europe and APAC. That said, we believe investor focus has increasingly turned to 4Q and 2024 growth expectations given uncertain macro conditions, normalizing leisure travel demand in the U.S. and Europe, and adverse currency fluctuations with the dollar strengthening in recent months. Ahead of results, we highlight two areas of relative weakness: (1) alternative accommodations, as quarterly demand growth in the U.S. and Europe decelerated in 3Q relative to 2Q, per data from AirDNA; however, we note that growth accelerated in September relative to August which may indicate improving trends ahead in 4Q, and (2) weaker than expected engagement growth at Expedia, with notable weakness in web and app traffic to Vrbo through 3Q despite the recent platform migration. Given these factors, we continue to favor shares of Booking (Outperform, $3,450 TP) and highlight the company's favorable FCF dynamics (32% FCF margin in 2023), continued expansion of payments and flights, rising mix of direct bookings (48% of nights in 2Q), and growth in alternative accommodation supply (particularly in the U.S.).

Figure 1. Online Travel Coverage Overview

		Rating		Target Price		
Ticker	Price	Current	Prior	Current	Prior	Upside (%)
ABNB	$122.01	Neutral	-	$145.00	-	18.8%
BKNG	$2,835.37	Outperform	-	$3,450.00	-	21.7%
EXPE	$97.29	Neutral	-	$108.00	-	11.0%
YOU	$17.72	Neutral	-	$22.00	$28.00	24.2%
TRIP	$15.25	Neutral	-	$17.00	-	11.5%

Source: Wedbush, FactSet (prices as of market close on 10/24/2023)

Figure 2. Alternative Nights Booked Growth, U.S.



Source: AirDNA

Alphabet (GOOGL)

Rating: OUTPERFORM, 12-Month Price Target: $160.00, Price: $138.81

Strong Ads, Weak Cloud; Outperform, $160 Target Price

Alphabet reported mixed 3Q23 results as revenue of $76.69B (+11.0% Y/Y) was 1.2% above Street expectations while operating income was ~1.1% below estimates. We think shares are pressured after hours for two primary reasons: (1) uncertainty related to the trajectory of Cloud revenue growth following lackluster 3Q results, and (2) incrementally lower expectations for future margin expansion as 3Q operating margin was ~60bps below consensus.

Owning Alphabet for its Cloud business is like rooting for Michael Jordan to play baseball. We think the reaction in shares after-market is overdone and believe investors are placing too much relative value on the company's Cloud segment which accounts for just ~11% of revenue (with GCP likely accounting for just ~60% of the segment, or 7% of total revenue) and ~1% of operating income, versus the core advertising business which accounts for 78% of revenue, is accelerating into 4Q, and beat 3Q expectations by more than enough to offset slower cloud growth. Further, while reported operating income missed estimates by ~1.1%, excluding non-recurring items of employee severance ($86mm), office restructuring costs ($16mm), and accelerated deprecation and rent ($207mm), Alphabet would have recorded operating income of $21.65B (28.2% margin), beating consensus by 0.4%. We are raising our 4Q and 2024 advertising estimates and are lowering our Cloud estimates as we wait for cost optimization to abate and more clarity on the intermediate-term growth trajectory to emerge. In aggregate, our estimates are relatively unchanged as our 4Q and 2024 operating income estimates move -0.5% and -0.2% lower. Our thesis remains intact and we continue to see a favorable setup for Alphabet with Y/Y operating margins rising and core advertising growth accelerating. We reiterate our Outperform rating and $160 target price following 3Q results.

Figure 1. 3Q23 Results

Metrics	Q3 2023E (Wedbush)	Q3 2023A (Reported)	Q3 2023E (Consensus)	Beat / Miss
Gross Revenue	**$75,849.1**	**$76,693.0**	**$75,816.9**	**1.2%**
y/y Growth - %	9.8%	11.0%	9.7%	
q/q Growth - %	1.7%	2.8%	1.6%	
Total TAC	**$12,601.2**	**$12,642.0**	**$12,537.0**	**0.8%**
y/y Growth - %	6.6%	6.9%	6.0%	
q/q Growth - %	0.5%	0.8%	0.0%	
Google Services Revenue	**$66,923.7**	**$67,986.0**	**$66,606.3**	**2.1%**
y/y Growth - %	9.0%	10.8%	8.5%	
q/q Growth - %	1.0%	2.6%	0.5%	
Google Cloud Revenue	**$8,653.7**	**$8,411.0**	**$8,630.4**	**-2.5%**
y/y Growth - %	26.0%	22.5%	25.7%	
q/q Growth - %	7.8%	4.7%	7.5%	
Operating Income	**$21,414.8**	**$21,343.0**	**$21,569.8**	**-1.1%**
y/y Growth - %	25.0%	24.6%	25.9%	
q/q Growth - %	-1.9%	-2.3%	-1.2%	
Margin - %	**28.2%**	**27.8%**	**28.4%**	

Source: Company reports, Wedbush estimates, FactSet consensus

Logitech (LOGI)

Rating: NEUTRAL, 12-Month Price Target: $80.00, Price: $77.16

Risk-Reward Balanced Heading into Holiday; Reiterate NEUTRAL, $80 PT

The Wedbush View

After significant pandemic-era expansion throughout its categories, macroeconomic headwinds and currency pressure halted Logitech's growth trajectory. Logitech's F1H:24 results teased a potential inflection point for the year, without a guarantee. Its FY:24 guidance balances the downside scenario of another difficult holiday with the upside potential that consumer spending will continue to rebound. We view our FY:24 estimates as reasonable, assuming that Logitech will see a decent holiday period but still have inventory to work through in FQ4:24. Should its inventory position remain healthy through the holiday period, we would expect the company to again raise FY:24 guidance in the coming period. We believe Logitech is well-positioned to benefit from a rebound in global gaming and that it should benefit from a lengthened PC peripheral refresh cycle. Logitech remains a show-me story through the holiday period, and as such, we maintain our NEUTRAL rating and $80 price target. Our target is based on an 18x P/E multiple (from 19x prior, 13 – 28x L5Y historical range) on our FY:26 EPS estimate, which we raised primarily on more confidence in Logitech's ability to return to its margin target range with the Video Collaboration segment rebound still ahead of it. Logitech has $1.2 billion in available cash ($7/share), no debt, an investor friendly capital allocation strategy including an expanding dividend and aggressive share buybacks, and a strong M&A track record. Should shares retract over the near-term, we would consider it a buying opportunity. That said, we think there is limited upside from our current target before there is further evidence that Logitech can meaningfully exceed its stated FY:24 targets.

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

Logitech reported FQ2:24 revenue down 8% (-9% CC) YoY to $1,057 million vs. 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) vs. our estimate of $0.71, and the consensus estimate of $0.60. 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. Management increased its FY:24 guidance for revenue to (12) – (9)% from (16)- (12)% and for non-GAAP operating income to $525 – 575 million from $400 – 500 million. We took our FY:24 estimate to $4.21 billion (down 7% YoY) and Operating income to $585 million. The downside scenario is if the holiday quarter repeats last year, whereas the upside is if the holiday inflects on C&P and Gaming. We think the best-case scenario leaves room for upside from our current estimates, even as we are above the high-end of management's conservative guidance.

Microsoft (MSFT)

Rating: OUTPERFORM, 12-Month Price Target: $400.00, Price: $330.54

Redmond Seeing Strong Cloud Demand Trends; AI Monetization on the Doorstep

Last night, Microsoft delivered a much needed quarter for the bulls featuring top and bottom-line beats driven by 29% Azure growth which came in above Street expectation of 26% as the company saw heightened demand across its entire product portfolio with the infusion of AI across its tech stack. Microsoft's Github Copilot continues to see more traction with over 1 million paid Copilot users and more than 37k organizations subscribed to this product for business (up 40% q/q). Despite the AI ramp seen as gradual, it seems as if customers are realizing the value of AI through extended use cases that have been rolled out over the past few months. While we believe MSFT is still in the early innings of a major opportunity with AI and the cloud space of reaching 50% of its global install base over the next 3 years, this quarter was a major positive for the company as its clearly on its way to grabbing a large portion of this market.

Total revenues of $56.52 billion came in above the Street's $54.52 billion while EPS came in at $2.99 above the Street's $2.65 estimate as MSFT continues to capitalize on enterprises moving to the cloud while AI demand continues to accelerate revenue down the line. Productivity and Business Processes revenue of $18.59 billion came in above both the Street's $18.19 billion estimate and the company's guidance range of $18.00 billion to $18.30 billion while Intelligent Cloud revenue came in at $24.26 billion which was above both the Street's $23.49 billion estimate and the guidance range of $23.30 billion to $23.60 billion. More Personal Computing came in at $13.67 billion which was well-above both the Street's $12.85 billion estimate and the guidance range of $12.50 billion to $12.90 billion as this market continues its rebound.

Strong Guidance for FY2Q24. With AI heightening consumer demand for MSFT's product portfolio, Nadella & Co. provided a strong FY2Q24 and FY24 outlook as the company doubles down on its AI strategy while focusing on bottom-line expansion. The company expects FY2Q24 revenue to be in the range of $60.40 billion to $60.80 billion above the Street's $58.67 billion estimate driven by strong Azure growth, which is expected to be 26% - 27% growth on a constant currency above the Street's 25% estimate, and increased demand for its technology stack. Copilot continues to be a focus going forward as hundreds of organizations wait in line for various use cases with AI technology including Copilot for Power Platform, Power Pages, Dynamics 365, and Windows as users seek to improve productivity as it becomes generally available. The company continues to anticipate flat y/y growth for non-GAAP operating margins as MSFT balances its AI investment path and cloud infrastructure while meeting the accelerating demand to capitalize on the growing opportunity. We note that the Activision acquisition was completed on October 13th of this year and is anticipated to stimulate 35 points of revenue growth within gaming and roughly 50 points of revenue growth within Xbox content and services as a result. While capital expenditures are expected to increase sequentially due to increased investments in cloud and AI infrastructure, the company continues to dominate market share within the AI transformation taking place despite increased competition as MSFT continues to innovate across the entire portfolio. We maintain our OUTPERFORM rating and our $400 price target.

Visa (V)

Rating: OUTPERFORM, 12-Month Price Target: $270.00, Price: $232.76

Q4/FY23 Revenue/EPS Beat; In-Line FY24 Guide, Assuming "Static" Macro Scenario

Outperform rated V reported stronger than expected Q4/FY23 results, while providing FY24 guidance that was in line with Street's expectations and with the persisting theme from prior quarters of stronger volume growth in Europe and LatAm more than offsetting moderating US-based growth. Specific highlights from management's post-earnings call: 1. The company continues to gain share with recent signings of 500 commercial partnerships; 2. 17% YOY growth in new merchant locations accepting Visa (LatAm EMEA); 3. 17% YOY increase in new flow volumes, including B2B Connects, Visa DIRECT, and P2P; 4. 17% YOY growth in VAS segment, with V's top 265 issuers using 22 products within the existing eco-system, up 16% YOY; 5. Low teens eCommerce volume growth in Europe reaching pre-pandemic levels; 6. Quarter-to-date trends (Processed volumes, Payment volumes and Travel volumes (ex-fuel) roughly flat Q-Q; 7. Since 2019, pointed to a 50% increase in Visa-issued active cards in Europe, generating superior yields (given the inclusion of C/B volumes); 8. Looking into FY24, management believes the ongoing macro uncertainty is manageable, especially given the buffer provided by its VAS and new flow segments;

9.Management announced a new $25B stock repurchase program; and finally, 10. FY24's revenue/EPS guide (low-teens growth) factors a back-end loaded FY, reflecting tough comps in 1HFY24, and easier comps in 2HFY24.

Roku Inc (ROKU)

Rating: OUTPERFORM, 12-Month Price Target: $100.00, Price: $61.42

Expect Decent Print in Tough Environment; Reit OP, $100 PT

The Wedbush View

Macroeconomic headwinds and a weak advertising business have pressured ARPU throughout 2023, overshadowing Roku’s meaningful and growing share gains as ad dollars continue to shift from linear TV to digital connected TV (“CTV”). Once macroeconomic trends improve, Roku is poised to return to meaningful profitability as a platform and free ad-supported TV ("FAST") channel leader. We expect ad spend to continue falling through year-end, rebounding into 2024 assuming no major economic shifts before then. Even with the macro headwinds, Roku has shown resilience by expanding some of its key platform sub-segments and diversifying its advertising product offering. Roku also launched new advertising products in Q2 that should lead the next leg of growth (direct banner ads on Roku City, direct purchases with Shopify). During the pandemic we got a glimpse of the significant leverage Roku has in its model, and as we exited the pandemic Roku resumed its international expansion and launched various devices. Roku has committed to positive EBITDA in 2024, and we think it will exceed expectations. We think that many of Roku’s initiatives will result in revenue growth higher than we modeled, and together with improving expense management, should drive consistent earnings growth. We maintain our OUTPERFORM rating and $100 price target, based on a 27x multiple on our 2025 EBITDA estimate. This reflects long-term global growth ahead and significant leverage in the model.

Roku will report Q3:23 results on Wednesday, November 1, after market close.

Roku will host a conference call at 2pm PT (webcast: roku.com/investor) on November 1. We expect Roku to report Q3 revenue of $870 million vs. consensus of $853 million and guidance of $835 – 875 million, adjusted EBITDA of $(20) million vs. consensus of $(32) million and guidance of $(40) – (20) million, and EPS of $(2.91) vs. consensus of $(2.08). Our estimates are based on Q3 active accounts at 75.4 million, up 2.6% QoQ (up 15.3% YoY), and TTM ARPU of $40.90, up 50 bps QoQ (down 8% YoY). Ad trends have continued to weaken, and scatter pricing is still declining (likely reaching a trough in Q4), but Roku's growing prominence as the place to reach younger generations insulates it from some ad market weakness, particularly as it introduces new ad products. We think media & entertainment (“M&E”) spending was challenged in Q3 due to reduced content around the Hollywood labor strikes, but it appears to be improving in Q4 with a new slate of big streaming titles, and may continue to rise after the SAG-AFRTA strike is settled. We modeled Q3 platform gross margin at 46.5%, down 670 bps QoQ as Media & Entertainment ad spend remains soft and is replaced by lower margin video ads. Our Q3 estimates also assume device revenue increased 10% and at (16)% gross margin – Roku will continue to sell devices at a loss to drive active account growth. Additionally, we think **Roku’s new cost cuts insulate it from potential downside – it only has to reach high-single digit revenue growth to reach positive 2024 EBITDA. If the ad market rebounds sooner or to a greater extent than currently expected, Roku is poised for hefty upside to Street estimates.**

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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
Airbnb, Inc. ABNB	NEUTRAL	$140.88	$145.00
Advanced Micro Devices Inc	OUTPERFORM	$117.60	$155.00
Booking Holdings	OUTPERFORM	$2,839.91	$3,450.00
DoorDash Inc.	NEUTRAL	$67.88	$85.00
East West Bancorp Inc	NEUTRAL	$52.98	$57.00
Expedia Inc.	NEUTRAL	$98.51	$108.00
Alphabet	OUTPERFORM	$138.81	$160.00
Hanmi Financial	NEUTRAL	$14.58	$16.00
International Business Machines	NEUTRAL	$135.36	$140.00
Intel Corp	NEUTRAL	$35.69	$35.00
The Coca-Cola Company	OUTPERFORM	$55.41	$66.00
Logitech	NEUTRAL	$77.16	$80.00
Lyft, Inc.	NEUTRAL	$11.56	$11.00
Microsoft	OUTPERFORM	$330.54	$400.00
Micron Technology Inc	OUTPERFORM	$68.21	$80.00
NetApp Inc.	NEUTRAL	$76.53	$75.00
Nvidia	OUTPERFORM	$471.16	$600.00
PacWest Bancorp	NEUTRAL	$6.92	$7.00
Pacific Premier Bancorp Inc.	NEUTRAL	$19.08	$20.00
Pure Storage Inc.	OUTPERFORM	$36.48	$45.00
Roku Inc	OUTPERFORM	$61.42	$100.00
The Boston Beer Company	NEUTRAL	$374.37	$378.00
Silicon Motion Technology Corp	OUTPERFORM	$53.79	$85.00
Super Micro Computer, Inc.	NEUTRAL	$258.09	$250.00
Seagate Technology Holdings PLC	NEUTRAL	$65.25	$60.00
TripAdvisor Inc.	NEUTRAL	$15.33	$17.00
Uber Technologies, Inc.	OUTPERFORM	$46.58	$55.00
Visa	OUTPERFORM	$232.76	$270.00
Western Digital	OUTPERFORM	$41.81	$60.00
Clear Secure, Inc.	NEUTRAL	$24.71	$22.00

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Rating distribution (as of October 25, 2023)	Investment Banking Relationships (as of October 25, 2023)
OUTPERFORM: 60.75% NEUTRAL: 37.38% UNDERPERFORM: 1.87%	OUTPERFORM: 4.23% NEUTRAL: 1.25% UNDERPERFORM: 0.00%

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