CREDIT SUISSE

First Edition - US Alert
Monday, September 14, 2020

14 September 2020
Credit Suisse Global Product Marketing

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INITIATING / ASSUMING / REINSTATING COVERAGE:

Biotechnology | Initiation

14 September 2020

Inhibrx Inc [INBX.OQ]

Taking a sdAb at Cancer (and More!); Initiating at Outperform with a $26 TP

OUTPERFORM

Rating	OUTPERFORM
Price (10-Sep-20, US$)	17.04
Target price (US$)	26.00
52-week price range (US$)	20.65 - 16.77
Market cap(US$ m)	643
Enterprise value (US$ m)	567

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Inhibrx's Antibody Platform Provides Four Clinical-Stage Shots on Goal: Inhibrx is an emerging oncology/rare disease company with four clinical-stage assets. INBRX-109 is the most advanced asset and is partially de-risked for the treatment of chondrosarcoma and malignant pleural mesothelioma (MPM), two rare cancers. Updated clinical data later this year could help to further de-risk the programs ahead of the commencement of the registrational trials planned for 2021. Inhibrx's other three assets are earlier stage, but offer significant optionality with meaningful clinical data catalysts expected over the next 18 months. We initiate coverage of Inhibrx with an Outperform rating and a $26 target price.

- **INBRX-109 – A Partially De-Risked Asset in Chondro and MPM:** INBRX-109 targets death receptor 5 (DR5) to potentially treat a broad range of cancers. DR5 is widely viewed as an attractive target, but previous attempts to drug it have failed. Inhibrx believes INBRX-109's improved antibody design can potentially overcome issues seen with previous therapies. INBX is initially exploring the drug in unresectable/metastatic chondrosarcoma and 2L/3L epithelioid MPM. Early efficacy signals in chondrosarcoma are particularly encouraging. Updated results in Q4 2020 and H1 2021 could help frame probability of success (PoS) for the program ahead of registrational study commencement for both indications likely in 2021. We believe INBRX-109 could achieve combined sales of ~$500m+ in its initial labeled indications, with room for upside potential if the drug is expanded to other tumor types. INBRX-109 represents ~2/3 of our current NPV estimate, pending de-risking of earlier-stage assets/opportunities.

Additional Pipeline Assets Provide Sources of Upside Optionality: INBX has three additional assets in its pipeline, INBRX-106, -105, and -101, and we expect each provides meaningful upside optionality; '106 is an OX40 agonist with data expected later in 2020, '105 is a PDL1-dependent 4-1BB agonist that may have initial clinical data early 2021, and '101 is an optimized alpha-1 antitrypsin (AAT) therapy for AATD with clinical data expected 2H 2021.

Valuation: Our $26 TP is derived using a 50/50 blended valuation of a base DCF of $21 and an M&A DCF of $30. We use an 11% discount rate and assign 50% and 35% PoS to INBRX-109 in chondrosarcoma and epithelioid MPM, respectively. Risks include failure of clinical programs, and commercial, regulatory, or financing headwinds.

Full Report

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ESTIMATE / TARGET PRICE CHANGES:

Industrials | Theme

14 September 2020

Global Data Center
Making Connections Across Industrial Data Center Suppliers and Data Center Operators

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Data Centers Remains a Bright Spot in Construction Markets: Broadly, we are cautious on new U.S. non-residential construction through H121. Some investors are anticipating an even longer downturn fueled by State & Local government budget pressures and the work from home trend. However, Data Centers are seen as a secular growth market driven by 5G and increased data needs as employees WFH. Interestingly, this growth will show up in the “Office” category of the Census put-in-place data.

Data Center Market Growth Driven by Colocation Data Centers: Significant investor attention is focused on the hyperscale infrastructure market. These are large, lumpy, contracts which are often hard to predict from a timing perspective. On a positive note, co-lo DC backlogs are at/near all-time highs as of 2Q20, seen especially through Digital Realty’s leasing backlog of $251M, reflecting a 100% increase versus 1Q20 in DC backlog activity. This is driven by customers outsourcing their DC requirements and need for compute infrastructure, including further distribution of Edge compute nodes. The July 2020 Credit Suisse CIO IT Survey also showed how customers are currently more reluctant to pull back on Data Center spending than they were in January 2020.

Power Distribution to “Electrify” Content: Historically, Industrial exposure to Data Center focused on Uninterruptable Power Systems (UPS) and Precision Cooling equipment. However, as DCs migrated to hyperscale the conversation broadened to Power Distribution, Power Monitoring, and Cables which can aggregate to 3X the sales opportunity. The cooling application also migrated to area (e.g., unitary) and passive from precision. In our global coverage universe, Eaton, Schneider and Delta provide a complete electrical package. Additional names include ATKR, HUBB (NC), VRT (NC), ABB (NR), LR (UP).

Watching Non-U.S. Investment: Eaton highlighted its strong China DC growth the last few quarters as representative companies like Tencent increase capex spending. Eaton’s brand in China is Santak which was acquired as part of the Phoenixtec acquisition in 2008. We expect Chinese DC capex to grow mid-teens through 2022.

Stock Ideas (ETN, SU, Delta, DLR, EQIX, SWCH): Within the U.S. MI sector, Eaton is the most levered to this theme. Post the divestiture of Hydraulics (Q121), DC will represent 10% of sales. ETN is also generating strong FCF and has the flexibility to pursue acquisitions or accelerate share repo. We are raising our ETN TP to $110. Among top picks in Europe, Schneider (OP) is best positioned to capitalize on this theme across leading UPS and broader Electrification, Automation & Optimization offers. In Asia, Delta Electronics (OP) is our top pick in this space with strong direct and broader solutions offering. Within the data center sector, OP-rated DLR, EQIX, and SWCH are positioned well for both cloud and enterprise adoption of colocation over the next few years, especially as the trend of data center outsourcing continues to playout predominantly benefiting enterprise customers transitioning to new hybrid IT cloud environments. Over the last month, 20 Industrial stocks with market cap in excess of $2.5B mentioned Data Centers on a public conference call.

Full Report

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Howmet Aerospace [HWM.N]
HWM Non-Deal Roadshow Recap

OUTPERFORM

Rating	OUTPERFORM [V]
Price (10-Sep-20, US$)	16.98
Target price (US$)	(from 19.00) 21.00
52-week price range (US$)	26.11 - 9.19
Market cap(US$ m)	7,406
Enterprise value (US$ m)	10,869

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Last week, we hosted HWM mgmt. for two days of virtual meetings. We came away incrementally more constructive on HWM as mgmt. reiterated its optimism for the non-commercial aero part of the business over the next few years and believes production rates at BA and Airbus have likely bottomed.

- **Key Takeaways:** (1) FY'21 is set up for a nice FCF recovery even if comm'l aero remains flat. Defense and IGT sales are expected to grow ~10% on higher build rates and spares demand, wheels volumes have already bottomed, w/c should be a benefit if comm'l aero volumes are flat (neutral for the year if volumes rise in H2'21), D&A should exceed capex by ~$80m, and anticipated pension contributions are expected be ~$45m lower than FY'20 after a discretionary contribution made in Q2'20. (2) On capital deployment, HWM plans to use cash flow generated over the remainder of FY'20 to extinguish the remaining $361m of notes due in April of 2021 and utilize FY'21 cash flow to extinguish the $476m maturing in Feb. 2022. Once mgmt. is confident in the stability of OEM build rates, HWM will contemplate deploying capital for share repos. After pausing share repos due to Covid, HWM has ~$349m (~4.7% of current market cap) of authorization remaining under its share repo plan. (3) While the environment is more difficult, mgmt. is confident it will be able to obtain its price increases for FY'21 when LTA negotiations wrap up this year. The LTAs typically last for 3-4 years and cover share and content on future platforms in addition to price. (4) In FY'20, HWM expects de minimis sales from the MAX after shipping 48-50 shipsets per month in FY'19. With lead times of 6 to 12 months, HWM could begin to ramp production for the MAX in 2H'21 as BA aims for a 31/mo. MAX production rate in Q1'22 (though BA may be a bit optimistic here). (5) FY'20 airfoils spares sales are expected to be decline ~25% y/y to ~$600m driven by a 75% y/y decline in comm'l aero spares sales, partially offset by a 25% y/y increase in Defense and IGT spares sales.
- **Estimates/Valuation:** After adjusting our model for the latest ACT research class 8 truck production forecast, mgmt.'s commentary, and the potential of share repos resuming in FY'22, our FY'20/'21/'22 adj. EPS est. revise to $0.75/$0.81/$1.15 from $0.79/$0.83/$1.10 and our TP rises to $21 (from $19) valuing the stock using a 9% yield on FY'22 adj. FCF/sh. of $1.89. Risks: OEM production rate cuts, Covid-19, and lower defense spending.

Full Report

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FedEx Corporation [FDX.N]

Domestic Pricing Leverage to Drive Increased Earnings Power; Raising Estimates and TP

OUTPERFORM

Rating	OUTPERFORM
Price (10-Sep-20, US$)	224.44
Target price (US$) (from 171.00)	260.00
52-week price range (US$)	227.91 - 90.49
Market cap(US$ m)	58,803
Enterprise value (US$ m)	74,552

Target price is for 12 months.

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- **Raising Estimates and Target Price:** We have raised our EPS forecasts for FDX by 9% on average for FY21-FY23 (now ~3% above the Street), which is largely predicated on our view that domestic capacity has tightened sufficiently to warrant a sustainable shift in pricing power toward the carriers. We raised our TP to $260 from $171, due to higher base year (2022) EBIT and a lower discount rate in our DCF-model. Key risks are the macro and TNT integration execution.
- **Demand Rising at a Furious Pace, and Capacity is Tight:** COVID has pulled forward years of B2C growth, and demand continues to trend at peak levels. Capacity is tight, just as we head into what is expected to be yet another record peak season; and to the extent that the B2B market starts to recover, this will only exert further pressure. Longer term, volume growth appears sustainable; in fact, FDX now sees the U.S. parcel market doubling to 100m packages/day by 2023 (vs previous 2026). Based on our math, this translates into a solid Domestic volume CAGR of ~8% over the next 3-4 years.
- **Domestic Pricing Leverage Key to Thesis:** We think it's fair to argue that neither FDX nor UPS will be making substantive capacity investments going forward (FDX LTIC comp now tied to capex; and UPS is focused on being "better, not bigger"). What this means is that demand growth will outpace supply growth for the foreseeable future; and for the first time, the balance of power with respect to pricing now rests with the carriers – who are intent on being paid commensurate with the value that the networks provide. The key difference now is the increased leverage that each has over its largest and highest volume customers. Based on our pricing analysis, a 50bp increase in Domestic pricing could add ~$0.60 of incremental EPS in FY22 (+5% accretion vs our FY21 estimate).
- **Stock Has Room to Run:** Both FDX and UPS have re-rated considerably, supporting the notion that the sector has become investable for the first time in several years. That said, we now have line of sight towards margin expansion, solid double digit EPS growth, and improved FCF conversion - which we think the market may still be underappreciating. Our target price implies 12% upside from current levels. Maintain Outperform.

Full Report

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Citizens Financial Group, Inc. [CFG.N]
Establishing a 2022 estimate; fine tuning 2020 and 2021 expectations

NEUTRAL

Rating	NEUTRAL
Price (11-Sep-20, US$)	27.11
Target price (US$)	30.00
52-week price range (US$)	40.87 - 15.32
Market cap(US$ m)	11,571
Enterprise value (US$ m)	11,571

Target price is for 12 months.

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We're establishing a 2022 estimate of $3.50 per share, with our forecast reliant on ~2%+ domestic GDP growth (supporting modest loan growth, healthy capital markets activity and favorable credit quality migration) with no change in interest rates across the curve; the latter is expected to limit top line growth. Add in flattish expenses, favorable credit quality migration (and normalizing provision expense) and share buybacks to drive the forecast 37% eps growth. Additionally, we're fine tuning our 2020 and 2021 estimates to consider sustained strength in mortgage banking (near term), the continuing cost of low interest rates, and some shifting in the expected timing of loan realization to weigh more heavily in 2021. Factoring in those changes, our 2020 estimate increases to $1.45 (from $1.15); our 2021 estimate decreases to $2.55 per share (from $2.70). Our target price is unchanged at $30.

- **Estimate changes:** Our 2020 estimate increases to $1.45 (from $1.15); our 2021 estimate decreases to $2.55 (from $2.70); we're establishing a 2022 estimate of 3.50. Risks to achievement of our estimates and target price tie to the macro backdrop, the shape of the yield curve, credit quality migration, market values, and competitive dynamics.
- **Target price unchanged at $30…** applying our weighted average valuation methodology (using a 5% weight on our blue sky scenario; valuation of $45, a 55% weight on our base case scenario, valuation of $39, and a 40% weight on our gray sky scenario, valuation of $17), our $30 target price translates to ~0.9x forecast year-end 2020 tangible book value.

Full Report

Date of Production: 13-Sep-2020 21:44:23 UTC Date of Dissemination: 13-Sep-2020 21:45:47 UTC

CREDIT SUISSE

Financials | Forecast Reduction

13 September 2020

Bank of America Corp. [BAC.N]
Model Maintenance: 2020 unchanged; reducing 2021E; TP unchanged at $31

OUTPERFORM

Rating	OUTPERFORM
Price (11-Sep-20, US$)	25.50
Target price (US$)	31.00
52-week price range (US$)	35.64 - 18.08
Market cap(US$ m)	220,934
Enterprise value (US$ m)	220,934

Target price is for 12 months.

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We've done some fine tuning in our earnings model to factor in updated macro-driven and market related expectations. The positives include the resilience in the capital markets and less of a loss rate increase in 3Q20 (relative to prior expectations); the negatives largely tie to the cost of low interest rates through 2022 and lackluster loan demand. Near term, these factors are largely offsetting such that our 2020 estimate is unchanged; the timing of loss rate realization and a heavier handed approach to the cost of low interest rates takes our 2021 estimate to $2.25 from $2.50; our 2022 estimate is unchanged, as is our $31 target price.

2020 estimate unchanged; 2021E reduced; 2022E unchanged… Our 2020, 2021, and 2022 EPS estimates are $1.50, $2.25 (down from $2.50) and $2.85 per share, respectively. Base case estimate risk/sensitivity ties to macro backdrop i.e., level and shape of yield curve, business and capital markets activity and credit quality migration.

Target price unchanged at $31... applying our weighted average valuation methodology (using a 5% weight on our blue sky scenario; valuation of $47, a 55% weight on our base case scenario, valuation of $39, and a 40% weight on our gray sky scenario, valuation of $18), our target price of $31 translates to a price to forecast year-end 2020 book value of 1.1x (1.5x tangible book). Greater clarity around the path and the macro consequences of the global pandemic will be critical to sustained share price outperformance and realization of our target price.

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Full Report

Date of Production: 13-Sep-2020 21:39:45 UTC Date of Dissemination: 13-Sep-2020 21:40:36 UTC

Morgan Stanley [MS.N]
Model Maintenance: stronger markets support an increase to our 2020/2021 estimates

OUTPERFORM

Rating	OUTPERFORM
Price (11-Sep-20, US$)	50.35
Target price (US$)	58.00
52-week price range (US$)	57.51 - 27.81
Market cap(US$ m)	79,390
Enterprise value (US$ m)	79,390

Target price is for 12 months.

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We're updating our estimates to factor in both (i) the observed resilience of capital markets related revenues, relative to expectations (we detailed industry trends in our recent note Banking on the Markets: Normalization Anticipated; Reality Better), (ii) the benefit of year to date market value appreciation (some of which is expected to carry forward into 2021) and (iii) increased capacity for capital returns. Factoring in these updates, our 2020 and 2021 EPS estimates increase to $4.75 and $4.55 per share (from $4.40 and $4.45 per share), respectively. Our target price is unchanged at $58.

- **Estimate increases…** Our 2020 and 2021 EPS estimates increase to $4.75 and $4.55 per share respectively, with estimates pro forma for the E*TRADE acquisition, on track for a 4Q20 close. **Base case estimate risk/sensitivity** ties to the macro backdrop i.e., the level and shape of the yield curve, business and capital markets activity and credit quality migration.

Target price unchanged at $58…applying our weighted average valuation methodology (using a 5% weight on our blue sky scenario ($97 valuation), a 40% weight on our gray sky scenario ($33 valuation), and a 55% weight on our DCF-derived base case ($73 valuation). Clarity around the macro consequences of the global pandemic will be critical to achievement of our target price and sustained share price outperformance**.**

Full Report

Date of Production: 13-Sep-2020 21:38:29 UTC Date of Dissemination: 13-Sep-2020 21:41:21 UTC

Independent Refiners
Adjusting Estimates and Price Targets

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We are lowering 2H 2020 and 2021 earnings estimates for refiners across the board. We are also cutting price targets by an average 20% on downward earnings revisions.

- **Why are we lowering estimates?** Multiple Oil Sands projects are currently offline and we expect both WCS and Syncrude based diffs to remain narrow until mid-November. Alberta crude inventory which peaked at 40MMbls, has depleted to 20-22Mmbls and we believe it could easily dip another 10MMbls, which would keep the diffs narrow in 1H 2021. Lack of Canadian crude will be a headwind for Mid-Con as well as Gulf Coast refiners. US distillate inventory has continued to build and we are 29% above last year's levels and almost ~20% above the 5 yr. average. The current level of inventories will prevent diesel margin to recover quickly in the near-term. Lower diesel margins are driving near-term negative revisions in refiners. With Trump administration denying pending retroactive U.S. biofuel waivers, RIN prices have started to move up and this will negatively impact the capture rate. D6 RIN and D4 RIN prices which have averaged 32c/gal and 49c/gal in 1H 2020, have already moved up to 50c/gal and 76c/gal respectively.

- **What would make investors more constructive on the space?** In our conversations with investors, they have indicated that they would like to see ~1mmb/d of additional US refining capacity closures to make sure markets are not oversupplied. While some refiners are taking a pragmatic approach and closing non-profitable refiners, others are still optimistic that a demand rebound will fix all their problems. PBF needs to decide if it wants to operate 6 refineries and continue to burn cash, or operate 3-4 refineries and try and stop the cash bleed. Assets that could not make positive cash contribution in 2016 -2019, will only be a drain on cash in a post COVID world. Investors would also like to see refiners cover their dividend, otherwise the yield support will not work. Diesel inventory would have to draw by 15-25MMbls before investors re-engage in the space in a meaningful way.

- **Why running at lower rate does not solve all the problems?** Refiners continue to be disciplined and are not raising crude runs in an attempt to control the inventory levels. However, it does not solve all the problems. Back testing tells us that margin capture tends to fall off exponentially when refiners operate assets below 85%. Refineries work best when operating between 90-95% and when running at 70-75%, they often struggle to capture benchmark margins. Second, when operating assets at 75%, the fixed cost is less uniformly spread between barrels, resulting in higher opex/bbl, again negatively impacting earnings. Run cuts are one of the most effective tools in the hand of independent refiners which helps them control the inventory situation, but there is a reason refiners use it as a last resort. Run cuts over ~15%, often drive earnings in the negative territory. Even though refiners have been running at 75-80% utilization, and they have been able to control gasoline inventory, distillate has continued to build. With export demand falling off the cliff, run cuts have not been fully effective.

Full Report

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Business Services
McVeigh's Selected Services Recap in a Minute

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This week markets drifted lower fueled by tech on fading COVID-19 vaccine optimism coupled with delayed government stimulus.

- **Credit Rating Agencies**—offered our latest views through our proprietary bottom-up issuance tracker—we consider periodic data points—to help investors calibrate ratings non-subscription revenue expectations. While early, Q3 QTD trends show IG/HY rated issuance significantly outperformed initial expectations into a typically seasonally slower summer [IG/HY Aug. issuance was >2x expectations]. While we monitor H2 issuance amid the economic recovery, we don't see significant risk of structural pull-forward in issuance. In addition, we acknowledge upside risks for H2 + 2021 issuance to the extent M&A + buybacks reaccelerate as YTD M&A has plummeted in 2020. This is also coupled with the potential extent the Fed reengages.
- **Equifax**—offered better Q3E as QTD trends imply $985m-$1.05b of revenue fueling $1.50-$1.60 of EPS versus prior Q3 revenue + EPS framework of $930m-950m [prior CSe/St.: $946m/$942m] + $1.30-1.40 [prior CSe/St.: $1.35/$1.40]. Outperformance vs. prior Q3 framework was fueled by improving USIS online revenue, mortgage strength + slightly better international and GCS amid continued outperformance at Equifax workforce solutions. As such, while we recognize tougher 2021 comps, we reiterated our Outperform given differentiated + durable business mix in areas such as Equifax workforce solutions [processes roughly 1 in 5 jobless claims] amid $1.3b technology transformation initiative—key idiosyncratic driver—fueling one of the best positioned ideas in post COVID-19 world.
- **TRI**—earlier this week the EU Commission set a deadline of 12/16 for a decision on LSE's $27b acquisition of Refinitiv which we view as a positive for TRI. Previously on July 17, the Commission paused the deal review. This may imply a late 2020 deal close is still possible as opposed to getting pushed out into early 2021.
- **FactSet**—set to use Amazon Web Services to transition its global exchange data to the cloud. Recall public cloud transition is a key theme throughout Information Services and is part of FactSet's 3-year investment plan where FactSet is investing an incremental ~$45m over 3 years to accelerate ASV growth. FactSet plans to migrate its real-time ticker plant to AWS which is estimated to be completed sometime in 2021.
- **Manpower**—its latest Q4 employment outlook survey indicated mixed results—consistent with many economists who anticipate economic improvement/momentum to slow into the end of the year. In the US, 20% of surveyed employers expect to add to workforces with 8% forecasting a decline. Hiring plans strengthened QoQ but still show declines YoY in all four geographic regions. The US outlook was highlighted as strongest in the mid-west with subsequent declines to the outlook in the northeast, south, and west noted as minimal
- **Adjusting estimates**—we tweak our FY20/21E EPS to 35¢/$1.80 [from 80¢/$1.90] for KFY after reviewing our margin assumptions. Our valuation + rating is unchanged.

Full Report

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Biotechnology | Acquisition

13 September 2020

Gilead Sciences, Inc [GILD.OQ]
Expansion into Oncology Continues with Acquisition of Immunomedics for $21B

NEUTRAL

Rating	NEUTRAL
Price (11-Sep-20, US$)	65.58
Target price (US$)	70.00
52-week price range (US$)	84.00 - 61.62
Market cap(US$ m)	82,219
Enterprise value (US$ m)	85,822

Target price is for 12 months.

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Gilead continues oncology shopping spree with acquisition of Immunomedics and its lead commercial asset Trodelvy. Following a disappointing August with the CRL for filgotinib, we are highly encouraged with the continued expansion into oncology. We see this as closer to a 'transformative' deal, given the size and current peak potential for Trodelvy (~$3.5B in peak sales per Visible Alpha consensus).The transaction will be funded with $15B cash on hand ($19.4B as of 2Q in cash + equivalents) and the remaining $6B in new debt issuances. We forecast potential accretion by 2023 (the company believes that it is neutral to EPS in 2023 and highly accretive thereafter). We believe that the clinical data of Trodelvy is highly supportive of use in late-line TNBC patients (~8k in the US, and ~14k EU5/ Japan) forming the basis of a strong commercial market for the asset. Recall in April, the ph 3 confirmatory trials was stopped early for 'compelling evidence of efficacy' with the ASCENT trial hitting on PFS and OS. We expect expansion into earlier lines of treatment and other tumor types (e.g., NSCLC, SCLC, bladder, and Head and Neck). At first glance the $21B acquisition cost seems reasonable, given the potential for Trodelvy at approximately 6.0x peak sales. We are much more positive on this transaction vs. Kite (August 2017), given the unmet medical need in TNBC and product profile of an off-the-shelf asset. Still as we await clarity on the path forward for filgotinib, we reiterate our Neutral rating and $70 TP.

Deal Specifics: As of market close on Friday 9/11/20, IMMU shares were $42.25 (with a market cap near $9.7), thus the proposal of $88.00 per share purchase price represents a one-day premium of ~108%. GILD noted that the acquisition is not subject to a financing condition and the company will maintain its capital allocation strategy. The deal is expected to close in Q4 2020, subject to regulatory approvals and customary closing conditions.

- **Where to from here?** We expect Gilead to continue to build out its oncology pipeline with smaller deals/ partnerships going forward—we do not expect any more deals of this size near-term, as the company has used a significant amount of dry powder in this transaction. Near-term we expect Covid-19 to remain part of the Gilead story, with both anticipated commercial head winds and potential benefit from remdesivir. We also expect more clarity on the path forward for the filgotinib NDA and subsequent asset from the Galapagos partnership.

Full Report

Date of Production: 13-Sep-2020 23:59:52 UTC Date of Dissemination: 14-Sep-2020 00:00:51 UTC

Gilead Sciences, Inc [GILD.OQ]
Expansion into Oncology Continues with Acquisition of Immunomedics for $21B

NEUTRAL

Rating	NEUTRAL
Price (11-Sep-20, US$)	65.58
Target price (US$)	70.00
52-week price range (US$)	84.00 - 61.62
Market cap(US$ m)	82,219
Enterprise value (US$ m)	85,822

Target price is for 12 months.

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Deal Specifics: As of market close on Friday 9/11/20, IMMU shares were $42.25 (with a market cap near $9.7), thus the proposal of $88.00 per share purchase price represents a one-day premium of ~108%. GILD noted that the acquisition is not subject to a financing condition and the company will maintain its capital allocation strategy. The deal is expected to close in Q4 2020, subject to regulatory approvals and customary closing conditions.

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Full Report

Date of Production: 14-Sep-2020 07:44:45 UTC Date of Dissemination: 14-Sep-2020 07:45:44 UTC

Moody's [MCO.N]
Secular thesis supports stronger multiple

With the MCO stock up 70%+ off its 3/23 low versus ~50% for S&P 500, coupled with our privilege to host Rob Fauber [Executive VP and Chief Operating Officer] and Steve Tulenko [President Moody's Analytics] next week, we refresh our thesis. As it relates to Moody's Analytics [MA (~40% revenue and ~25% AOI)], we believe margins are poised for mid-to-high-30% over time [consistent with initiation] from ~28-30% currently. This is fueled by HSD revenue growth as the business has been remixed to higher growth and margins through $3.3b BvD [May-17] and $700m RDC [Jan-20] acquisitions, portfolio actions [MAKS divestiture (~25% margin)], and organic investments [ERS SaaS shift]. While we recognize issuance matters [~60% revenue and ~75% AOI], our bullish view is anchored in a unique brand, strong growth—cycle-to-cycle—fueled by secular drivers amid new data assets [particularly RD+A]. This is coupled with impressive margins amid room for expansion [notably MA—mid-30% LT—margin potential], solid balance sheet [<2x leverage], impressive free cash flow [>30% FCF margins], and seasoned management. Our Outperform is predicated on long-term compounding growth as franchise strength, FCF, MA margin optionality, attractive deals, and low leverage offer multiple potential upside levers amid downside support.

- **MA [40% revenue and ~25% AOI)] 30% margin not a ceiling nor discounted**—MA's ERS SaaS transformation and higher margin contribution from $3.3b BvD [Aug-17 (mid-40% margin)], $251m Reis [Oct-18 (~30%)], BvD synergies [~150bps incremental], and MAKS divestiture [~25% margin] offer multiple margin potential upside levers. MA should also grow through macro softness [MA grew during GFC] given mission critical offerings, ~90% recurring revenue and high renewal rates.
- **$330 TP** is ~32x/24x/29.5x 2022E EPS and EV/EBITDA and P/FCF. Our P/E compares to a 3yr range (16.6x-31.0x) and avg. (22.4x). EV/EBITDA compares to a 3yr range (13.0x-24.3x) and avg. (17.1x). Above-average multiples are good as MCO has remixed to more workflow solutions and substantial runway in TAM. **Risks:** issuance volatility from COVID-19 economic impacts, MA margins remain at current levels amid trend growth, regulatory risk.

OUTPERFORM

Rating	OUTPERFORM
Price (11-Sep-20, US$)	284.94
Target price (US$)	330.00
52-week price range (US$)	304.49 - 165.09
Market cap(US$ m)	53,343
Enterprise value (US$ m)	59,676

Target price is for 12 months.

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Full Report

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Microsoft [MSFT.OQ]

Weekly Roundup – China Opposes TikTok Sale, Xbox Launch Date and UK Leadership Changes

- **China Opposes Forced Sale of TikTok's US Operations** (Source: Reuters, Bloomberg). News sources suggest China opposes a forced sale of TikTok's operations in the U.S. and would rather see the popular video app shut down. Microsoft had emerged as a leading bidder for TikTok's US operations, but the process has been complicated in recent weeks after China imposed new rules on technology exports.
- **Microsoft Unveils Xbox Series X and Series S Details** (Source: Xbox). Microsoft next generation consoles will be available on November 10th with the Xbox Series X priced at $499 and the Xbox Series S priced at $299. The primary difference between the two consoles is the GPU enabling 4K gaming on the Series X. Consumers will also be able to purchase the new consoles via Xbox All Access, a monthly payment plan that also includes access to Xbox Game Pass and EA Play. Xbox All Access offers consumers with a compelling value proposition given the total cost is cheaper than purchasing the console and Game Pass separately.
- **Microsoft Changes European Leadership** (Source: Microsoft). Microsoft announced Clare Barclay, Microsoft UK's current COO, will become CEO at Microsoft UK. Cindy Rose will become President for Microsoft's business across Western Europe. Additionally, Microsoft has appointed Gavin Jackson, former CEO of EMEA for UiPath, to succeed Damian Stirrett as the Managing Director of Microsoft UK's Enterprise Commercial business.
- **Microsoft Teams Rolls out "New Conversation" Button and New Virtual Breakout Rooms Feature** (Source: OnMSFT). The Breakout rooms feature is a tool in Microsoft Teams that allows meeting organizers to split a group video or audio call into divergent sessions for smaller group discussions. The feature is now being rolled out to preview users and is expected to be GA in October. The New conversation button can better separate new conversations from thread replies in a Teams channel and improve the usability of the Teams collaboration platform.

Full Report

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OUTPERFORM

Rating	OUTPERFORM
Price (10-Sep-20, US$)	205.37
Target price (US$)	225.00
52-week price range (US$)	231.65 - 134.65
Market cap(US$ m)	1,554,169
Enterprise value (US$ m)	1,605,271

Target price is for 12 months.

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Interactive Brokers Group, Inc. [IBKR.OQ]
5 Takeaways from Meeting with the Chairman; Reiterate Outperform **CEO Week**

OUTPERFORM

Rating	OUTPERFORM
Price (11-Sep-20, US$)	47.36
Target price (US$)	51.00
52-week price range (US$)	57.00 - 35.28
Market cap(US$ m)	19,783
Enterprise value (US$ m)	19,783

Target price is for 12 months.

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On Friday, we hosted an investor meeting with Interactive Brokers' Chairman Thomas Peterffy. This meeting was part of our "CEO Week" events over 9/8-9/1, which also included AllianceBernstein, AMG, BlackRock, Focus Financial, Franklin Resources, LPL Financial and T. Rowe Price. Following the meeting, we reiterate our Outperform rating on the IBKR stock due to its very strong organic growth prospects and proprietary technology/R&D effort, which allows the digital broker to offer more services at lower price points than competitors.

- **5 Key Takeaways:** (1) IBKR Chairman's 10b5-1 program should improve stock float; (2) IBKR's capital management priorities are focused on growing its capital base to help accelerate its growth (especially in its hedge fund business); (3) IBKR could pursue a banking license to expand its cash offering to clients; (4) A future financial transaction tax would negatively impact the US financial sector; (5) IBKR's breadth of technology is attracting a wide and global customer base.

Full Report

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Anthem, Inc. [ANTM.N]

Perspective on ANTM Share Weakness; Litigation Settlement May Be In Offing

OUTPERFORM

Rating	OUTPERFORM
Price (11-Sep-20, US$)	258.03
Target price (US$)	355.00
52-week price range (US$)	307.74 - 174.68
Market cap(US$ m)	64,896
Enterprise value (US$ m)	77,299

Target price is for 12 months.

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- **Conference Cancellation Sparks Discussion About Potential BCBS Litigation Settlement**: ANTM shares were volatile today as news circulated the company will not participate in a competitor investor conference next week because Anthem is "in the final stages of long running litigation and company management thinks it would be imprudent to attend the event in advance of final settlement." ANTM has two pieces of pending litigation that could be "long-running litigation" referred to: 1) a pending BCBS antitrust lawsuit and 2) the company's pending litigation with Express Scripts regarding its now terminated PBM contract. Because Cigna (Express Scripts' owner) this week reiterated its own outlook ahead of investor meetings next week, we believe the reference to long running litigation relates to the BCBS antitrust lawsuit (originally filed in 2012).
- **Commenting on its 2020 GAAP EPS Outlook Appears to be the Issue**: As a general rule, ANTM tends to update/affirm its guidance ahead of investor presentations. Further, ANTM typically files an 8-K in such circumstances that comments not only on adjusted EPS (the outlook the company is generally benchmarked against), but also GAAP EPS. The potential that a litigation settlement could become forthcoming puts the company potentially in the position of having to comment on how such a resolution could impact GAAP EPS before it is ready to make a formal disclosure. From on-going dialogue with ANTM and our assessment of industry trends, we strongly think the company is on track with respect to its adjusted 2020 EPS outlook (greater than $22.30 in EPS).
- **Based on the Disclosure of Other Blues Plans, We Think an ANTM One-Time Settlement of the Anti-Trust Litigation Could Be in the $1.0-1.2 bln range**. BCBS of Tennessee and Triple-S (GTS) have announced financial settlement provisions with respect to the BCBS litigation. In its 2019 statutory filing, BCBS of TN recorded a $90 mln provision. GTS accrued a $32 mln charge related to the BCBS antitrust litigation earlier this year. Considering these figures as a percentage of each company's relevant premium, we estimate that a settlement figure for ANTM could be in the $1.0-$1.2 bln range.
- **Non-Monetary Aspects of a Potential Settlement Will Be Important, But Could Create Opportunities for Anthem**: Given that the lawsuit is focused on perceived anti-competitive practices, there could be non-monetary aspects to the settlement as well. There are a number of provisions within the Blues licensing agreements that restrict the ability of one Blue plan to compete with another. Use of the Blues brand beyond the current licensed market is prohibited. Blue licensees are also subject to a 2/3 Rule (each Blue member must generate at least 66.67% of its total annual revenue using the Blues brands). Blue plans also have shared access to licensee provider network discounts for their respective members when they are in geographic markets covered by other Blues. The extent to which these or other aspects of the Blue licensing arrangements change as a result of any settlement, we believe, may present long-term opportunities for ANTM. We believe, for example, single state Blue plans, post-settlement, might be more likely to see ANTM as a well-capitalized partner for collaboration if they feel that changes to the Blue network have undermined their competitive positioning in their respective markets.

Full Report

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Pharmaceuticals | Industry Outlook

14 September 2020

U.S. Large Cap Biotechnology 2020 'Back 2 School' Outlook: Catalyst Rich, But Election and Macro Issues Loom [Slides]

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Throughout the pandemic, Biotech has remained a relatively defensive sector; however, recent weakness may signal a shift to more value-oriented sectors. We remain positive on the sector with several key catalysts (beginning with ESMO later this month), but highlight the potential for weakness as the Presidential election draws near. Vaccines and treatments are still of high interest, but now seem to be priced into expectations.

- **Defensive sector with strong performance in 1H20.** Biotech indices comfortably outperformed the S&P 500 through the end of 2Q20 (IBB and XBI both +~13% vs. -4% for the S&P 500). In our view, this is reflective of renewed investor interest in the sector as Biotech will likely be the solution to the pandemic, as well defensive to its associated risks. However, when comparing 1H returns vs. 2H-to-date we see a reversal of this trend with the S&P 500 +7.7% vs. -6.4% for the IBB and XBI. The DRG was up +2.4% over this time period.
- **Greater insulation during the pandemic relative to other sectors.** Biotech showed limited impact to financials through 2Q, though some companies highlighted delays to clinical trials and drug development. We also saw some company-specific commercial softness (e.g., Gilead's HCV franchise, Amgen's legacy business).
- **Macro risks concerns began to resurface in following 2Q results.** Risks over drug pricing policy have started to attract focus as investors weigh a Trump vs. Biden presidency and the potential impact for policy changes (we think a Biden win would be perceived as more negative for the sector). Still we note that Trump has floated the potential for a MFN approach to Part B reimbursement.
- **Potential rotation to 'beaten up' sectors, following strong 1H performance.** With strong YTD performance to the sector, we see a potential rotation out of therapeutics by generalist investors favoring more 'beaten up' sectors (e.g., leisure) that could benefit from approval and distribution of a Covid-19 vaccine.

Full Report

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Weekly Bytes
SLQT, RCM, & EHTH Outperform Broader Market; Topic of the Week: Private Equity Investment Trends in Healthcare in 1H20

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This weekly report includes: a) Weekly price performance for HCIT & distribution companies; b) Discussion on an interesting topic; c) Top read reports over the past 30 days; d) Trailing 4-week & monthly investor interest for our covered companies; e) Planned events in 2020; f) Events from the last 12 months; & g) HCIT & distribution comp sheets.

- **Weekly Price Performance: SLQT, RCM, EHTH Outperform Broader Market.** For the week ended Sep 11th, HCIT stocks were down, on avg, 1.15%, outperforming the S&P 500 (down 2.5%) but underperforming the broader HC sector (HCX, down 1.10%). SLQT (up 14.3%), RCM (Not Covered, up 14.0%), and EHTH (up 12.3%) performed best. SLQT reported its FY4Q20 results and issued its FY21 outlook both ahead of consensus expectations (see our Q&A Our Way Note for additional details: Q&A Our Way: Dissecting a Solid FY4Q and a Better Than Expected FY21 Outlook). EHTH provided an update on its operational initiatives (see our note post our catch-up call with management: Making the Right Moves; A Quick Catch-up with Management on the Operational Updates). TRHC (Not Covered, down 17.6%) & HQY (Not Covered, down 11.8%) performed worst. Among the healthcare distributors, MCK performed best (up 0.5%) and OMI performed worst (down 5.6%).

- **Topic of the Week: Slowing PE Investments in Healthcare:** Private equity spending in healthcare in 2Q20 was roughly 1/3 of the 2Q19 total as the COVID-19 pandemic impacted investment activity, according to a new PitchBook report. U.S. PE deals in the healthcare sector totaled $8.5 bln in 2Q20 compared with ~$24.2 bln in 2Q19. Healthcare deals comprised 9% of PE spending across all industries in 2Q20, down from 11% in the prior year. The drop in 2Q spending follows the dip experienced in healthcare investment in the first quarter of 2020, which was down from $28 bln in 1Q19 to just $15 bln in 1Q20. However, according to the PitchBook report, the lower spending may not be indicative of a long-term trend, and by the end of 2020 it is possible spending could be on pace relative to that of 2019 spending.

Full Report

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U.S. Biotechnology
2020 'Back 2 School' Outlook: Catalyst Rich, But Election and Macro Issues Loom

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Early on in the pandemic, Biotech was seen as relatively defensive, but as we shift focus to the remainder of 2020 the Presidential Election and macro issue are becoming more apparent. We still remain positive on the sector, given a catalyst rich calendar, but note we could see softness heading into the Election and the remainder of 2020. Further, as progress toward a vaccine is made, more 'beaten up' sectors (e.g., leisure) could represent better value for generalist investors, as therapeutics have performed relatively well since January 1. Biotech indices outperformed the S&P 500 though 1H20 (IBB and XBI both returning ~13% vs. -4% for the S&P). However, when comparing 1H returns vs. 2H-to-date we see a reversal of this trend with the S&P 500 +7.7% vs. -6.4% for the IBB and XBI. Still, the DRG was up +2.4% over this time period. Looking ahead, we see clinical catalysts and renewed interest in M&A (following the announcement of Gilead's $21B proposed acquisition of Immunomedics) as drivers for the sector. To help frame the set up, we highlight key catalysts for our coverage universe into the remainder of 2020. Notably, we see a potential advisory committee meeting for Biogen's aducanumab (potentially later in the year) as the most watched, with data updated form AMG 510 in NSCLC as the highest impact (given the additional read-through to Mirati). We are most confident in updates/expansion of Regeneron's oncology platform, and see higher risk for Vertex's VX-814 in AAT (given recent investor scrutiny and lack of clinical data). **Please see our accompanying slide deck for full details.**

Presidential election in focus: Biden still has an edge, which could be seen as a less favorable outcome for Biopharma. Prior macro overhangs are regaining focus as we turn the corner to the election— specifically, apprehension over drug pricing legislation has resurfaced as investors weigh a Trump vs. Biden presidency. However, in either case, we view its impact on our sector as relatively limited. Polls suggest a Biden win, but changing momentum necessitates that investors plan for both outcomes. While not as "accommodating" per se, we think Biden would still be open to influence from Biopharma in regards to a new drug pricing bill. While a second term for Trump is likely to have limited impact for the sector, we do not believe that Biden win would be detrimental. Still on Sunday evening (9/13/20) President Trump tweeted about an executive order implementing most-favored nations pricing for drugs and also claimed to eliminate rebates—with little detail as to implementation.

Solid fundamental performance through 1H20 during the pandemic, as investors position for recovery. There was limited impact to fundamentals in Q1, though some companies noted some commercial softness and delays in Q2 as wide-spread social distancing measures were fully implemented. Across our coverage, continued commercial execution led to bottom-line beats in the second quarter.

Key 2020 Catalysts to Watch:

- **Highest Impact:** Amgen- AMG510 data update at ESMO (and the Mirati read-through)
- **High Risk:** Vertex- Phase 2 VX-814 in AAT, given the lack of any clinical data (late 2020/ Early 2021)
- **Most Watched:** Biogen- Aducanumab advisory committee meeting (we expect by YE20)
- **Most Conviction:** Regeneron- Oncology strategy updates & additional data updates
- **Most under the radar:** MacroGenics- MAHOGANY Module A in gastric cancer

Full Report

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IT Hardware

C2Q Storage Update: Declines continue though All-Flash a bright spot; Enterprise backdrop remains tough in C2H

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- **2Q20 Storage Update:** IDC reported final C2Q Storage data, with rev of $6.3bn, -5% y/y and -4% q/q, ~2pts below typical seasonality off a low base (1Q ~7pts sub-seasonal). All-Flash accelerated and grew (+7.7% y/y); however, this was more than offset by outsized weakness in Hybrid (-8.7% y/y) and Disk-based (-17.9% y/y) arrays. While July-Q Storage results were better-than-expected across our coverage, we remain cautious on Enterprise spending in 2H with IT budgets under pressure (see our July CIO survey) amid a tough macro and believe a "snap back" is unlikely until at least early CY21. Further, a significant pickup in public cloud adoption under COVID-19 has reignited secular concerns over the future of on-prem HW. We agree that trend is here to stay (our survey work suggests public cloud wallet share is >2x within 3 yrs), though we remain firm in our view of a hybrid-first steady-state for Enterprise IT and like IBM, NetApp, and Dell's (via VMware) positioning best.

- **Key Takeaways: (1) All-Flash adoption (40.2% of total mix) expanded 4.7pts y/y**, though did downtick ~2.5pts q/q. We look toward the mid-range (+15% y/y) as the key driver for All-Flash ahead with ample runway for growth (~35% penetrated), particularly as renewed NAND declines make the economics increasingly attractive at lower price points vs. legacy spinning disk. Looking elsewhere, high-end adoption appears to be plateauing at ~60% penetration though All-Flash there did return to growth (+5% y/y) off an easy comp. **(2) An uptick on the low-end (+8% y/y)…** driven by APAC (+20% y/y) and RoW (+9% y/y). By vendor, HPE contributed most to the low-end strength (>100% y/y) due in part to its hyperconverged DX series (w/NTNX) and a modest shift down-market in Nimble CS mix. **(3) …offset by mid-range/high-end declines,** each down 8% y/y. Within mid-range, disk-based was the biggest drag (-29% y/y) while for the high-end, it was hybrid (-26% y/y). **(4) Consistent $/GB declines (-9.6% y/y),** driven both by the big mix shift toward the low-end and like-for-like price declines; low-end (-3.9%) and mid-range (-15.1%) both fell, although $/GB modestly increased on the high-end (+1.7% y/y), the first increase since 3Q18. **(5) The US (-9% y/y) and Western Europe (-12% y/y) continue to underperform** while APAC (+6% y/y, led by China) and Japan (-5% y/y) did better, in-line w/ NetApp's comments that Asia is "starting to recover from the really hard times of COVID."

- **Vendor Implications**: Within our coverage, NetApp and Pure Storage are both Storage pure plays while Dell (~20% of sales), HPE (~12%), and IBM (~2-3%) are more diversified. **Dell (-170bps y/y)** lost the most share, owing in part to a significant slowdown in their mid-range performance (-7% y/y vs +12% y/y in 1Q); we think disruption from the newly launched PowerStore lineup likely was a factor. We see the value in standardizing on a single mid-range platform, but continue to see risk to PowerStore adoption NT, particularly as COVID-19 makes PoCs more challenging. **NetApp (-60bps y/y)** still lost share, though pressure moderated vs. outsized headwinds LTM and they gained share in the key All-Flash market (+130bps y/y) for the first time since '18. We like NetApp's positioning in a hybrid-first world and look toward the Sept 16th analyst day as a catalyst. **HPE (-150bps y/y)** also lost significant share, primarily in All-Flash (-320bps y/y); gains in the HDD (+50bps y/y) and low-end (+580bps y/y) were offsets. **Pure Storage (+10bps y/y)** gained share overall, but lost 120bps in All-Flash which we view as a better measure of Pure's head-to-head performance. The lower-priced FlashArray//C offering grew q/q but wasn't enough to offset pressure on core FlashArray//X (-14% y/y). While we view Pure as they technical leader in All-Flash, we think share gains are more difficult ahead, particularly during COVID-19.

Full Report

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Utilities & Renewable Roundup
Things We Learned This Week

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- **Hydrogen Huddle:** We will host our **Hydrogen conference on September 15** (9/15 conference registration link for institutional investors) where we will host **BE, BLDP, Altergy** (pvt – PEM fuel cell), **Aris Renewable** (pvt – micro fuel cell supplier), **Bayotech** (pvt – modular SMR hydrogen generator) and **Ionomr** (pvt – membrane technology for AEM/PEM fuel cells/ electrolyzers). Separately, we will be hosting a Fireside chat with **NKLA** on Sep 23rd.

- **Utilities:** As we get closer to the election, we are re-emphasizing the potential for utility outperformance vs the S&P 500 in the event of higher tax rates. As we discuss in more detail in our 6/9 note, higher income tax rates would be credit positive for utilities as the potential for higher revenue collection (pending regulatory approval) would create pressure on regulators to raise near-term cash flows despite deferred cash tax payments that result from accelerated depreciation. In the meantime, utilities remain significantly undervalued vs the S&P 500 for current 10-Year bond yields, as we illustrate below.

- **Renewables:** We hosted our first of many fireside chats on Hydrogen with the trade association this week. Key takeaways were that hydrogen competiveness is still 5-8 years away at the gas pump, and 10-20 years away for industrial applications. Renewable stocks outperformed the market this week (+1% w/w vs S&P 500 -3%), the growth driven by US DG (+10% w/w), global solar developers (+4%) and solar manufacturers (+3%). As highlighted in SPWR's post-split analyst day last week, US DG companies continue to benefit from solar demand rebound, new homes growth, higher battery penetration, and lower interest rates. China government might increase renewable demand in 2021-25, which could potentially help absorb oversupply in the supply chain emerging next year.

Full Report

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Hydrogen Huddle
Conference Question Bank

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We will host meetings with public and private companies at our **Hydrogen Huddle conference on September 15th**, with a follow-up **fireside chat with Nikola (NKLA) on September 23rd**. We highlight key topics for the sector below, with additional company level questions in this note.

- **Hydrogen Huddle at a glance:** On 9/15 we will host senior management teams from **Altergy** (private – PEM fuel cell), **Aris Renewable** (private – micro fuel cell supplier), **Ballard Power** (**BLDP**, not covered – fuel cell stack manufacturer)**, Bayotech** (private – modular steam-methane-reformation SMR hydrogen generator), **Bloom Energy (BE** – Outperform rated – solid oxide fuel cell manufacturer), and **Ionomr** (pvt – membrane technology for AEM/PEM fuel cells/ electrolyzers). Please see conference website for registration and latest agenda. Separately, we will also host a fireside chat and 1x1 meetings on 9/23 with **Nikola Motors** (**NKLA**, not covered – heavy duty fuel cell & electric vehicle manufacturer, registration link). *MIFID II Notice: This event is only open to CS clients who are in scope for MIFID II and pay for interactions [and not solely CS Plus portal access] [and CS Clients who are not in scope for MIFID II]. It is your responsibility to ensure you are entitled to attend and not receiving an inducement.*

- **Where are we in the cost curve?** The most important question we expect to answer is where the industry is within the technology adoption and cost curve. The industry trade association expects hydrogen powered fuel cells to be competitive with internal combustion engines consuming gasoline and diesel over the next 5-8 years, while a carbon-free transition from grey to green hydrogen is expected over the next 10-20 years (barring any pockets). Furthermore, how fast can the fuel cell/electrolyzer industry match the cost cuts seen in competing electric storage technologies such as lithium ion batteries (especially relevant ahead of Tesla's battery day coming up on 9/22). Hydrogen council forecasts hydrogen costs to decline 35-50% through 2030 for major applications.

- **Which markets to target and how big is the market?** So far the consensus seems that hydrogen or natural gas based fuel cells are competitive in heavy duty long-haul commercial vehicle applications (such as forklifts, trucking, and busses), resiliency power (datacenters, hospitals, disaster zones), and ocean shipping. In comparison, batteries seem better suited to shorter-duration applications <8 hours (passenger autos, rooftop solar, commercial electronics). Notably, fuel cells/hydrolyzers can extend their range and storage with relatively little incremental investment and added weight (a bigger tank). Fuel cells also maintain steady power output rather than a typical battery discharge curve.

- **Policy support:** Which markets are of focus given a green deal in Europe (40GW electrolyzers by 2020), mandates and policy support in Asia (China and Korea target >1000 refueling stations), and potential tax credits in the US (under Democrats/Biden).

- **Green is the goal. So what about carbon sequestration?** Nearly 95% of hydrogen produced today is "grey", sourced from fossil fuel feedstock in processes that release carbon. Decarbonization requires either "blue" hydrogen derived from non-renewable, but still carbon free fuel, such as nuclear, or fossil fuels with carbon sequestration, or "green" hydrogen that uses renewable energy such as solar and wind to electrolyze hydrogen in a carbon free process. Carbon capture receives policy support in Europe (via carbon tax/fee) and in the US (via tax credits), but the industry has yet to see a mass market product.

Full Report

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Healthcare Services Weekly Check-up Physician Outs. Outperform; Q of Week: What Percent of Adults Delayed Care Due to COVID?

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- **Physician Outsourcing Outperformed; Psych Hospitals Flat; All Other Healthcare Service Groups Down:** For the week ending Sept 11th, healthcare services stocks (as measured by our coverage) were down 3.8%, on average, underperforming the broader healthcare index (HCX, down 1.5%) and the S&P 500 (down 2.5%). Physician Outsourcing (up 1.9%, MD) outperformed, driven by MD announcing the sale of its radiology biz. Psych Hospitals were flat for the week. All other Healthcare Services Groups were down, with Medical Staffing (down 5.6%), Managed Care (down 5.6%), and Retail/Spec Pharmacy (down 5.5%) declining the most. MD (up 1.9%), ACHC (up 0.3%), and AMED (up 0.1%) ended the week up, while all other stocks in our coverage declined – led by CYH (down 12.1%).

- **Q of the Week – What Percentage of Adults Delayed Care due to COVID-19?** The CDC released a study earlier this week analyzing the delay or avoidance of medical care due to COVID-19. Results indicated that by June 30, 2020, because of concerns about COVID-19, an estimated 41% of U.S. adults had delayed or avoided medical care including urgent or emergency care (12%) and routine care (32%). Avoidance of urgent or emergency care was more prevalent among unpaid caregivers for adults, persons with underlying medical conditions, African-American adults, Hispanic adults, young adults, and persons with disabilities. The study also noted that states with large numbers of COVID-19–associated deaths also experienced large proportional increases in deaths from other underlying causes.

- **Report of Week – Prevalence of Depression Symptoms in US Adults Before and During the COVID-19 Pandemic:** A recent survey study released by JAMA analyzed depressions symptoms in US adults before and during the COVID-19 pandemic. The study found that 8.5% of participants had depression symptoms before COVID-19, and 27.8% had depression symptoms during COVID-19. Higher levels of depression symptoms were observed in all demographic groups analyzed (i.e., Sex, Age, Education, Race, Marital Status, Income, etc.) during COVID-19 compared with before, with more than 3-fold higher prevalence of depression symptoms in general. Lower income participants, participants having less than $5,000 in savings, participants who have never married, and younger participants had especially high risk of increased depression symptoms during COVID-19. Respondents indicating they had severe depressions symptoms increased from 0.7% to 5.1%.

Full Report

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Capital Markets | Sector Review

14 September 2020

The Brookfield Group
Stub Seeker: Ample Activity

- **Key Thoughts:** Approaching **the Brookfield Group's** Investor Day (format to be decided – in-person or virtual), the Group continued to be extremely active with a few areas of focus, including: **(a)** as per our ongoing body of work, the Spread Relationships for **BIP-BIPC** and **BEP-BEPC** with significant values for the corporate entities versus the LPs based on a few different approaches to valuation (*Spread Seeker: Stabilizing the Spread*); **(b)** the JC Penney saga meanders along as a deal was announced involving Brookfield and Simon Properties; (Press Release); **(c)** following the Substantial Issuer Bid for **BPY**, the formal intention to renew the Normal Course Issuer Bid with the TSX (Press Release); **(d)** several reports highlighted BPY may sell the self-storage business with a value of ~US$1.3bn; and, **(e)** Brookfield, as expected in many M&A situations, was cited by media as reportedly bidding for PPL Corp.'s UK business (*Energy Infra in Focus*).

- **Stub Movement:** The **BAM** "stub" was down ~US$0.12 on the week with the following per share performances: **BBU**: ~US$(0.04); **BEP**: ~US$(0.11); **BIP**: ~US$0.04; **BPY**: ~US$(0.24) and, some of the other components were down US$0.04 this week.

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Health Care Technology | Comment

13 September 2020

Healthcare Technology & Distribution
SI Trends: SLQT & TDOC See Largest Increases; EHTH, PINC & TVTY See Largest Declines

- **SI Ratio Trends in 2H of August.** During the second half of August, among the major HCIT companies, short interest (SI) as a percentage of float increased the most for SLQT (+190 bps), and TDOC (+190 bps). We believe the increase in TDOC's SI ratio, 17.2%, includes the impact of the risk arb trade related to the company's pending acquisition of Livongo (long seller and short buyer). SI decreased most for EHTH (-230 bps), PINC (-210 bps), and TVTY (-130 bps). Among the healthcare distributors, SI as a percentage of float increased the most for CAH (+10 bps) and decreased the most for OMI (-200 bps) during 2H of August.

- **SI Ratio Highest for TRHC, HCAT, and LVGO.** Among all the major HCIT companies, the SI as a percentage of float for the second half of August was highest for TRHC (28.5%), HCAT (22.7%), and LVGO (19.0%). On a Y/Y basis, SI increased the most for CERN (+100 bps). SI decreased the most for TVTY (-2,010 bps), TDOC (-1,910 bps) and VCRA (-1,540 bps). Among the distributors, SI as a percentage of float for the second half of August remains the highest for OMI at 12.5% vs sub-3% SI for ABC, CAH and MCK. On a Y/Y basis, SI declined for each of the distributors with MCK seeing the lowest decline (-220 bps) and OMI having the highest decline (-660 bps).

- **Days to Cover Trends.** Days to cover increased the most for TRHC (16.4 days) and VCRA (9.3 days), while days to cover decreased most for PINC (-4.0 days) and HCAT (-1.8 days). Among the distributors, days to cover remains relatively low (averaging 4.2 days vs 9.4 for the HCIT names) and increased the most for OMI (3.4 days).

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MedTech Recap and Preview
ESMO Update on JNJ Pipeline Program for Lung Cancer; COVID Deaths Decline; Debate Over Potential Vaccine Timelines Continues

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- **ESMO Virtual Congress – Expect Clinical Update for JNJ-6372 in Metastatic NSCLC:** This year's annual meeting will be held virtually from 9/19-21 and is focused on the latest advances in oncology. We expect incremental take-aways for Outperform-rated **JNJ** and the company's JNJ-6372 (amivantamab + lazertinib combo) investigational EGFR-MET bispecific antibody for the treatment of patients with advanced non-small cell lung cancer.
- **MDT: Updating Estimates to Reflect New Operating Model and Restructuring Plan:** Mgmt announced changes to its operating structure and also announced a restructuring plan that is expected to deliver $450–475 mil in annualized cost savings by F2023. We have reorganized our sales model to reflect MDT's new reporting structure for RTG, and adjusted our P&L to reflect the restructuring plan. Reiterate Outperform.
- **Weekly COVID-19 Deaths Now 42% Below August 1 Peak:** Weekly COVID-19 deaths declined 3.6% on Saturday, and have declined for 33 of the past 43 days, 42% off their peak on August 1 (please see Figure 6). We view this as positive for elective-exposed names in our universe including Outperform-rated EW, SYK, BSX, GMED and NUVA, as well as Underperform-rated ZBH. In related news, the public statements of drug manufacturers and government officials continue to keep the public guessing over the likely timing for a vaccine. That said, our conversations with investors suggest that most continue to expect approvals in early 2021 or late 2020 at the earliest, followed by a phased roll-out.
- **Med Tech Remains Attractively Valued, Trading Below 3-Year Averages:** Most stocks in our universe are currently trading >1 standard deviation below 3-yr average relative multiples vs. the S&P 500, and roughly half are trading below their absolute 3-yr averages. We remain generally constructive on Med Tech.
- **HOLT® Weekly Analysis (JNJ, GMED, IART, SYK, BSX, EW & BAX rank as most attractive):** HOLT market implied expectations JNJ, GMED, IART, SYK, BSX, EW and BAX rank as most attractive in our universe. Our HOLT analysis also suggests valuations remain attractive for most healthcare subsectors, putting MedTech in a fairly priced range.
- **Sector Performance: Our Disruptive MS&D Index Up 24.8% YTD:** Our Disruptive MS&D Index is up 24.8% YTD, ~2,150 bps above S&P and ~2,110 bps up MS&D (up 40.3% LTM, vs. 12.3% for MS&D and 12.1% for S&P500). NUVA led the group this week (+2.4%), and SMID MS&D leads YTD (+30.4%). LC Growth and Diversified MS&D are now at ~21.0x and ~16.1x NTM EV/EBITDA respectively vs. 14.3x for the S&P.

Source: Factset, price performance week ending 9/11/2020

Full Report

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Taiwan Monthly Sales
August Taiwan Sales – C3Q Still Tracking Modestly Above Seasonal

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Bottom Line: Inclusive of ~160 Taiwanese companies, August Rev increased 2.3% m/m, 400 bps BELOW seasonal of a 6.3% m/m increase. A below seasonal August follows July 750 bps ABOVE seasonal, but June/May 350/40 bps BELOW seasonal. Amongst the subsectors, IC Design, EMS, and Packaging and Testing outgrew the most at 570bps/390bps/110bps ABOVE seasonal, while Handsets, Solar, and Memory under-grew the most at 1420bps/990bps/690bps BELOW seasonal. Despite a modestly below month of Aug, C3Q Taiwan Rev is still tracking +17.0% q/q, ABOVE seasonal of +14.3% due to the healthy demand for notebooks, tablets, networking and AAPL Handsets builds. The Street is currently modeling aggregate C3Q US Semi Rev +5.7% q/q BELOW seasonal +8.1% q/q. Despite the below seasonal Aug Taiwan sales, we still expect Semi C3Q Rev mostly INLINE with Street given: (1) escalating US/China relations, (2) the potential for a COVID-19 recurrence in 2H20, (3) a structural shift of inventory burden downstream, (4) areas of strong demand due to Fiscal/Monetary stimulus and (5) new product cycles especially 5G Handsets, and (6) and most importantly cyclically improving Auto data off of a trough in C2Q. Street is modeling C4Q Rev +0.9% q/q vrs. seasonal of +1.7% q/q. Huawei bans post 09/15 could cause some risk to C4Q Street Semi estimates, albeit: (1) Huawei represents <5% of Rev for many semis, down from >15% pre-May 2019, and (2) many Chip companies have commented on accelerating demand to Huawei competitors. We see CY20 Semi Rev of up ~5% y/y – implying 2H h/h growth of 5.6% versus seasonal of +9.9%, while YTD Semi Rev is up 7.0% y/y. We continue to see a post-COVID "normal" for Semis as at least IN-LINE with a pre-COVID normal - unlike many industries where the new normal is likely to be worse and our LT thesis remains intact as COVID-19 at least codifies if not accelerates many of the trends (WFH, SFH, On-Line Everything) which have kept us positive on Semis. We continue to believe COVID's most significant structural impact will be on global supply chains, which we see as becoming more redundant, more sovereign, more automated and more intelligent. Lastly relative to US/China, Semis/SCE are capturing headlines but are more insulated than most industries - that which is strategically valuable must also be intrinsically valuable. We would highlight:

- **NB/MB Units Below Seasonal in August:** NB/MB units were +2.7% m/m, well below seasonal of +10.4% m/m. NB shipments were +1.1% m/m, well below seasonal of +15.8% m/m and MB shipments were +10.9% m/m, above seasonal of +1.8% m/m. C3Q NB/MB unit shipments are tracking +9.7% q/q vrs seasonal of +5.5%. We would note that our C3Q INTC PCCG Rev growth embeds -3.0% q/q vrs seasonal of +12.7% q/q.
- **Graphics Card Sales Below Seasonal in August:** August GC shipments were -4.7% m/m, below seasonal of up 6.6% m/m after growing ~170 bps below seasonal in July. OctQ GC shipments with only one month of data are tracking -3.2% vs. our model embedding NVDA's OctQ Gaming up 26.7%. C3Q GC shipments are tracking +6.5% q/q vs. our model embedding AMD's C3Q graphics rev +5.4% q/q.

Full Report

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Credit Suisse Payments Innovation Event Series; FinTech Conference Edition
Open Banking Panel (11:FS & FDATA Global)

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- **Insights & discussion with 11:FS & FDATA Global**: As part of our 3rd Annual Credit Suisse FinTech Conference (agenda), we hosted both the CEO and the Head of Delivery from 11:FS, a leading global FinTech consultancy firm, as well as the Non-Executive Chairman of Financial Data and Technology Association Global (FDATA), a nonprofit that leads negotiations between banks and regulators to aid in the development of open banking and open finance initiatives globally. For added context and our views on open banking, please see Theme #11 in our industry slide deck as well as our recap from our time spent with Plaid (event recap), also during our recent private company-focused FinTech conference.

- **Open Banking origins & context:** These regulatory initiatives that originated in Europe (i.e., PSD2) and the UK are designed to increase competition and innovation in the banking market through mandating consumer rights to *openly* share their financial data with regulated third-parties so that a broader range of businesses can compete in the financial services market. Similar initiatives have since spread to a dozen+ countries (Brazil, Australia, India, Japan, Mexico, etc.), contributing to the wave of innovative FinTech startups with the help of ~$130b in funding raised from 2015-2019. While a similar ecosystem of data powered FinTechs continues to gain steam in the US, our guests did point out that the US market actually does not have true Open Banking given the lack of a robust regulation that mandates it (rather it's a choice of US bank); further, referenced later in this report, penetration is actually higher in the US vs. Europe. However, we note the CFPB is currently planning to propose new rules to strengthen consumer financial data rights in Dodd-Frank later this year.

- **Impacts of Open Banking:** A high-level point made by our panelists is that PSD2 and similar regulations have been successful in increasing the level of competition in financial services by reducing the historical information asymmetry advantage that legacy financial institutions had on their customers. With Open Banking, FinTechs (and big tech) are able to leverage consumer financial data to build products that was once locked away within legacy institutions in a much more scalable and efficient manner through APIs (vs. less secure and less scalable screen-scraping approaches). Rather than having no data to work off of when starting a company, FinTechs can use data to form insights and recommendations from day one. Beyond reducing data advantages, this new framework is also increasing competition by "unbundling" the products and infrastructure of traditional banks. This unbundling ultimately reduces barriers to entry, enabling FinTechs to partner for best-in-breed products and infrastructure, allowing them to increase focus on the customer (all without heavy licensing burdens and legacy tech-debt from siloed infrastructure).

- **Open Banking in the US vs. Europe:** Our panelists noted Open Banking penetration is actually higher in the US relative to Europe (a point echoed on other panels at our conference as well), in terms of both the number of consumers using FinTech applications powered by shared consumer bank account data and the scope of financial products with US consumer adoption across the full spectrum of consumer accounts including payments, savings, investments and mortgages. The expanded scope of financial products is largely attributable to European Open Banking regulations being limited to payments accounts. Although a recent push from UK regulators towards "Open Finance" (as explained by 11:FS & Plaid) has resulted from the need for a wider range of financial data to provide holistic advice to customers (e.g., wealth management, insurance, pensions, etc.).

- **Market-driven vs. regulatory-driven approach to open banking:** In contrast to the EU and other nations, the US has experienced a market-driven expansion of Open Banking, with standards set by industry and trade group bodies rather than regulatory bodies. Our panelists explained that the lack of regulatory framework in the US has produced a huge number of instances where companies will share certain data with select companies but not others, which has created an uneven competitive landscape. In the US, the concern is less about the technology and its performance, and more towards whether companies may be shut out of the market or forced to participate at different price points, putting some at a competitive disadvantage. This is largely attributable to parts of the Dodd-Frank Act that are open to interpretation as laid out by Treasury in 2018. The CFPB hosted a symposium on this broader topic back in February and in late June issued an advance notice of proposed rulemaking on consumer-authorized access to financial data that aims to help address these issues. The CFPB is now soliciting stakeholder input on ways it "might effectively and efficiently implement the financial access rights" listed in Section 1033 of the Dodd-Frank Act. We expect the most likely potential outcomes will increase consumer financial data rights (e.g., not prevent sharing data with FinTechs to use their services) and security by potentially mandating a shift toward APIs vs. less secure credential-based access (i.e., screen scraping).

- **Additional points:** 1) The EU and other markets had the opportunity to and discussed opening financial data for nearly a decade prior to PSD2, but efforts stalled due to concerns over competitors stealing data and customers; 2) Our guests noted that a regulatory framework tends to lead to a higher success rate in API calls, like in the UK with 99.1% success rates; and 3) Related to Dodd-Frank (above) and increasing competition in financial services, we acknowledge a recent research paper from the Federal Reserve with logical findings that suggest the Durbin amendment's decision to only regulate debit interchange for larger banks (greater than $10b in assets) resulted in substantially less free checking accounts and raised prices for US consumers (particularly the less-affluent that have trouble meeting free checking account requirements). The main takeaway from the paper concludes that many large (non-exempt from Durbin) US banks raised checking account prices (e.g., reduced free accounts, raised monthly fees, increased requirements) to make up for the reduced debit interchange income post-Durbin with an unintended consequence that many smaller (Durbin-exempt) banks exposed to those (reduced) competitive dynamics also raised prices for checking accounts despite continuing to earn unregulated debit card interchange. We highlighted this report as it relates to the rise and maturation of Neobanks in the US (with help from EU Neobanks entering the marketing) that are leveraging unregulated debit interchange to bring free checking accounts back into vogue again and ultimately benefiting consumers by raising the bar with product innovation (e.g., Chime, Varo, Dave).

Full Report

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U.S. Biotechnology

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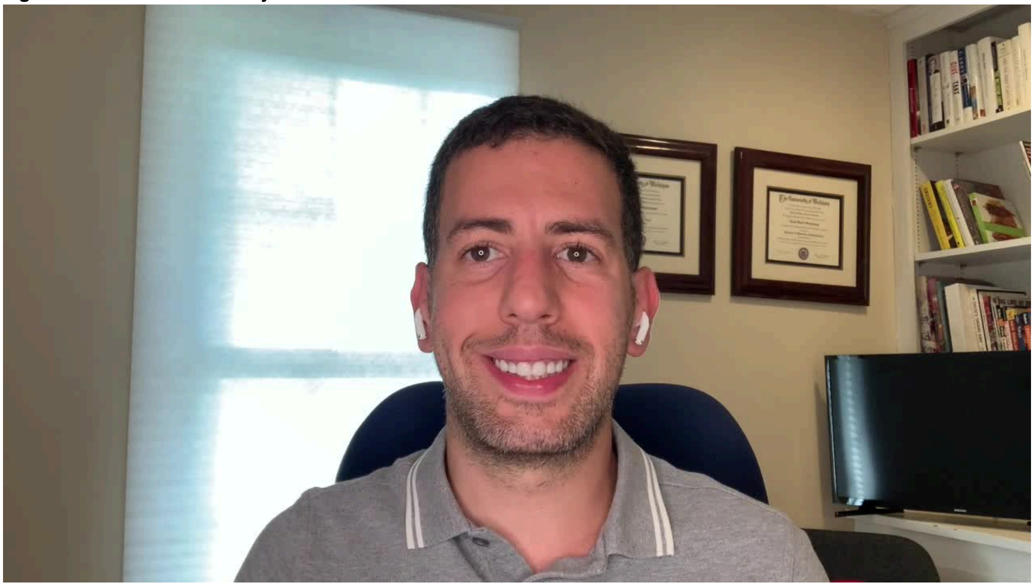
Figure 1: U.S. Biotech Weekly Video



Source: Credit Suisse

Overall performance for the week as of market close on Thursday: XBI -1.9%, IBB -2.1%, NBI -2.4% vs. S&P 500 -3.4%. The best performers in our coverage were Galera (+20.0%), MacroGenics (+3.9%) and Aimmune (-0.1%). The worst performers were Satsuma (-75.5%), Neurocrine (-7.0%), and AcelRx (-5.2%). See Figure 2 for the weekly and YTD performance of our coverage, the biotech/pharma indices, and the S&P 500.

Figure 2: U.S. Biotech Weekly Performance

Ticker	Company	Weekly Return	YTD Return
U.S. Large Cap Biotechnology			
AMGN	Amgen Inc.	-2.9%	-0.2%
GILD	Gilead Sciences, Inc.	-3.2%	-1.9%
VRTX	Vertex Pharmaceuticals Incorporated	-4.4%	16.8%
BIIB	Biogen Inc.	-3.5%	-10.2%
REGN	Regeneron Pharmaceuticals, Inc.	-4.7%	46.5%
Average		**-3.8%**	**10.2%**
Median		**-3.5%**	**-0.2%**
U.S. Mid Cap Biotechnology			
INCY	Incyte Corporation	-3.6%	1.1%
NBIX	Neurocrine Biosciences, Inc.	-7.0%	-4.2%
MRTX	Mirati Therapeutics Inc.	-4.6%	3.4%
GLPG	Galapagos NV Sponsored ADR	-0.9%	-39.2%
AIMT	Aimmune Therapeutics Inc	-0.1%	2.2%
STSA	Satsuma Pharmaceuticals, Inc.	-75.5%	-71.4%
MGNX	MacroGenics, Inc.	3.9%	147.8%
GRTX	Galera Therapeutics, Inc.	20.0%	-31.6%
ACRX	AcelRx Pharmaceuticals, Inc.	-5.2%	-48.3%
Average		**-15.3%**	**-18.0%**
Median		**-4.1%**	**-1.6%**
Indices			
SP50	S&P 500	-3.4%	3.4%
IBB-US	iShares NASDAQ Biotechnology ETF	-2.1%	5.5%
NBI	NASDAQ / Biotechnology	-2.4%	5.4%
XBI-US	SPDR S&P BIOTECH ETF	-1.9%	9.9%
DRG	NYSE Arca Pharmaceutical Index	-1.2%	-0.2%
Average		**-2.2%**	**4.8%**
Median		**-2.1%**	**5.4%**

Source: FactSet

We've downgraded STSA to Underperform (from Outperform) and reduced our TP to $4 (from $33) after top-line data from EMERGE Phase 3 trials showed that STS101 failed to meet either of its primary endpoints (freedom from pain and freedom from most bothersome symptom 2 hours post-dosing). On this update we see no path forward for STS101 in acute migraine and now assume that development program will be discontinued by YE2020. We now essentially value the company at cash ($93.7M as of 2Q20), with some burn to wrap up current R&D activities and limited G&A spend as the company explores options. Management indicated that they could extract value for shareholders based on cash on hand and the fact that they are listed on the NASDAQ. We could see the strategic use of these assets via a merger with another company. While management indicated they could potentially seek approval based on the phase 1 PK data, we do not see this as viable, given the commercial story would be extremely challenging with known efficacy issues and regulators may not even consider approval. (We do not see physicians prescribing a drug for acute migraine that has no efficacy within 3 hours of dosing.) We note that there was a stat. sig benefit post hour three, but the primary endpoints were not met (freedom from pain and most bothersome symptom at two hours post-administration). Based on where STSA shares traded following the news (~$5.62), we see potential for additional downside given our cash burn calculations. (see note)

Covid-19 News Round-Up

AstraZeneca's Oxford SARS-CoV-2 vaccine (AZD1222) trial was put on clinical hold. AstraZeneca announced it has voluntarily paused vaccine trials due to a standard review process to review the safety data of a single event of an unexplained adverse reaction that occurred to a participant in during the phase 3 trial. The company explained that it is a routine action in order to maintain the integrity of trials. While the company is working to expedite the review process to minimize any potential impact on the vaccine trial timeline, it is unclear how long this pause might last. In a conference call to investors, CEO Pascal Soriot stated that the patient who triggered the shutdown is a UK-based woman that experienced neurological symptoms consistent with a rare but serious spinal inflammatory disorder called transverse myelitis. The diagnosis has not yet been confirmed, but her condition is reportedly improving and she will likely be discharged shortly.

Later in the week, **AZN CEO Soriot said that a 2020 approval of their COVID-19 vaccine is still a possibility**- assuming the safety committee allows them to restart their trial. He also noted that AZN would be ready from a manufacturing standpoint, drawing comparisons to the mRNA vaccine makers Pfizer and Moderna. While they weren't the first vaccine, the company has been one of the most aggressive in setting timelines (recall they signed deals with the UK committing to supplying doses as early as this month). The FT reported that AZN may resume trials as early as next week.

Fauci reiterates October vaccine is 'unlikely.' Anthony Fauci stated that a vaccine authorization by November 3rd seems unlikely after leading candidates in the U.S. have pointed to a potential October filing. The ongoing phase 3 trials results and subsequent data that can provide insight on safety and efficacy are more likely to arrive by the end of the year. Moreover, people will likely be skeptical about vaccine approval unless health officials and scientists are more transparent about the checkpoints and the regulatory approval process. Pfizer is rapidly enrolling volunteers for their trial but Moderna is slowing down enrollment to ensure diversity of patients. AstraZeneca, on one hand, paused its trial over the weekend to investigate an instance of transverse myelitis that occurred to a patient.

Celltrion, a biopharmaceutical company from South Korea (covered by our colleague Ray Kim in Korea), to begin mass producing antibody treatment before getting approval. Their treatment has gone through a Phase 1 trial with 32 volunteers in South Korea, and will be tested in 9 more patients in another Phase 1 study before advancing to later-stage trials. After beginning to mass produce its potential Covid-19 antibody treatment this month, the company will be going to regulators in hopes of getting emergency approval shortly thereafter. These ambitions highlight the competitive race to address the Covid-19 pandemic. Previously, Celltrion got approval to conduct a separate Phase I trial in the UK in July, and is currently planning global Phase 2 and 3 studies. Their "super antibody" hopes to neutralize SARS-CoV-2, in addition to related strains.

BioNTech / Pfizer in talks with EU to supply 300M doses of Covid-19 vaccine. The proposed contract would allow the purchase of 200M doses, plus the optionality to purchase an additional 100M doses once the vaccine is proven safe and effective. The supply would be produced in BioNTech's manufacturing sites in Germany, as well as Pfizer's manufacturing site in Belgium. This vaccine would be made available to all EU member states, with the option of also donating a portion to lower or middle income countries. This would make BioNTech and Pfizer the sixth contract with the European Commission- others include Sanofi/GSK, JNJ, CureVac, Moderna, and AstraZeneca (which was the first, signed into contract In August).

CEOs join regulators and top scientists to hold the line on Covid-19 vaccines. Among this group are top vaccine makers, including Pfizer, Moderna, Novavax, and Sanofi, and even Moncef Slaoui, the senior scientific adviser for Operation Warp Speed. This unified front comes in light of reports that suggest, both explicitly and implicitly, that a vaccine could be approved for emergency use authorization prior to the election-- President Trump has recently said that a Covid-19 vaccine will be "very safe and very effective and will be delivered very soon." However, this has sparked concerns over safety and efficacy, given that the likely vaccine candidates will not have concluded their phase 3 trials by that time. In response, companies have pledged to ensure their commitment to the highest levels of safety, efficacy, and integrity. Specifically, they also committed to only submitting for approval or emergency use authorization after demonstrating safety and efficacy through a Phase 3 clinical study that is designed and conducted to meet requirements of expert regulatory authorities such as FDA.

Biopharma News

Vertex Announces Positive Phase 3 Study for Trikafta in Children Ages 6-11 Years With Cystic Fibrosis to Support Submissions for Global Regulatory Approvals. Vertex announced on Thursday that it has completed a 24-week global phase 3 open-label study of Trikafta in children (6-11 year-olds) with cystic fibrosis (who have either 2 copies of the F508del mutation or 1 copy of the F508del mutation and 1 minimal function mutation). Results from the study showed that Trikafta was well tolerated and the safety data were consistent with previous Phase 3 studies. Overall, the benefit-risk profile of Trikafta in 6-11 year-old children with CF was similar to that seen in people with CF ages 12+. Based on such results VRTX plans to submit a supplemental NDA to FDA in 4Q20.

Regeneron's Dupixent Phase 3 trial showed that the safety and efficacy profile observed in previous trials were maintained for up to three years in adults and adolescents with moderate-to-severe asthma. The open-label extension trial included more than 2,200 patients that previously participated in Dupixent trials, then continued treatment for an additional two years (for three years total). Prior to starting treatment with Dupixent, these patients experienced asthma attacks at a rate of 2.09-2.17 events per year. While on the drug however, patients maintained asthma attacks to just 0.31-0.35 events per year. Additionally, the patients in the extension trial maintained the same proportion of adverse events (AEs) as was seen in prior trials. This data will be presented at the virtual 2020 European Respiratory Society (ERS) International Congress.

Galapagos' ziritaxestat (GLPG1690) meets primary endpoint of Phase 2a NOVESA trial for diffuse cutaneous systemic sclerosis. The double-blind, placebo-controlled study demonstrated a statistically significant difference from baseline in the modified Rodnan Skin Score (mRSS) at week 24, at -8.3 vs. -5.7 for placebo. While we are encouraged with the stat. sig. results, we note that the trial size is very small (n=21 in the active arm, n=12 in the placebo arm) and there is a large difference in the baseline mRSS score between both arms. We need to see full details from the trial to better understand a path forward for the asset in SSc.

Neurocrine presented new data from PD-1101 demonstrating one-time treatment with an investigational gene therapy (NBIb-1817) showed sustained improvement in motor function in patients with Parkinson's disease. This Phase 1b, open-label, three year efficacy and safety study showed greater "on" time without troublesome dyskinesia and reduction in Unified Parkinson's Disease Rating Scale (UPDRS). The data also showed that 14 out of 15 patients on the drug continued to experience an improvement in disease staging after three years, as assessed by the Modified Hoehn and Yahr Scale. The company also announced that they will re-initiate enrollment in RESTORE-1 clinical trials for NBIb-1817 later this year.

Biogen read through: Roche to announce new Ocrevus efficacy data at MSVirtual 2020. The company says they will showcase new Ocrevus data for the treatment of multiple sclerosis (MS) and neuromyelitis optica spectrum disorder (NMOSD). Additionally, Roche is initiating a Phase 2b study of Ocrevus at higher dose for relapsing and primary progressive MS patients, as well as a Phase 4 CHIMES study to assess the drug's efficacy in African American, Hispanic, and Latinx American patients. We continue to view Ocrevus as a headwind to Biogen's MS franchise, again noting that physician satisfaction with the drug is high.

Regeneron - Our takeaways from Investor Conference this week: This week we listened to Neil Stahl, Regeneron's EVP of R&D, discuss the company's key franchises, pipeline prospects, and Covid-19 antibody cocktail. In alignment with company commentary, we're encouraged by the long-term growth story in Dupixent. The drug is experiencing significant growth across its indication in atopic dermatitis, and continues to outperform competitors in asthma. Dr. Stahl suggested that the extent of the Dupixent opportunity may still be underappreciated by investors. Beyond Dupixent, Regeneron's oncology efforts in Libtayo (lung cancer and basal cell carcinoma) are another area of growth, as the company positions the drug as the foundational cornerstone for IO. More near term, we look to the end of September for more data readouts on Regeneron's antibody cocktail. Earlier this week, AstraZeneca's clinical trials were paused due to safety concerns. While AZN and Regeneron are both targeting spike protein, we don't see this as a read through to Regeneron's Ab cocktail unless otherwise confirmed.

Fasenra shows positive Phase 3 topline data for nasal polyps. AstraZeneca on Thursday provided positive topline data for its phase 3 OSTRO clinical trial for its Fasenra asthma therapy in chronic rhinosinusitis with nasal polyps. The company said the drug met both endpoints in patients who didn't initially see improvement on the standard of care, reducing the size of nasal polyps and improving nasal blockage. AZN noted that compared to placebo, Fasenra demonstrated statistically significant improvement in the endoscopic total nasal polyp score (NPS) and the nasal blockage score (NBS) for patients with severe cases who were symptomatic despite standard care treatment. In addition, AZN noted that safety profile and tolerability of the drug were consistent with its known profile. After completing the full analysis, the company expects to share results at an upcoming medical meeting.

Drug, Tech Giants Face Higher Taxes if 'Patent Box' Break Ends. Pharmaceutical giants could face substantial tax increases if patent boxes end due to a rewrite of global tax rules. Currently, patent boxes offer incentives by allowing lower tax rates for earnings from intellectual property, royalty payments on patents. However, the OECD's plan to create a global minimum corporate tax, allows countries to tax a company's income if it's not being taxed at a minimum threshold in another country. Those provisions could also apply to patent box income, unless ~140 countries involved in negotiations call for carve-outs and agree to exclude it from the rules. While it is not yet clear what the outcome would be, major pharma and other IP-heavy companies have been actively lobbying the OECD to exclude patent box income from such provisions.

Other CS Research

Credit Suisse's U.S. Top Picks: Investment Ideas That Lead - Credit Suisse's "one-stop-shop" for top investment ideas, comprised of 45 Top Outperform Ideas and 10 Top Underperform Ideas. Among the 17 highest-conviction Top Picks is Vertex (VRTX), which is currently the Top Pick in our coverage. Included in the analysis is CS's proprietary view through HOLT, which measures market-implied cash flow return on investment (CFROI).

Top 3 Client Questions

1. What is the path forward for STS101 and Satsuma?

   Simply put, the path forward is very unclear and challenging. Satsuma is a one product company, so when the one product fails to show efficacy in a late-stage trial, the entire future of the company is in question. In our discussion with management following the top line data the company could try to submit the drug for approval based on the phase 1 PK data. This is unlikely to be successful as we already know the drug does not work within 3 hours—critical for an acute migraine asset. While we expect the company to do sub-group analysis—this is all post-hoc and unlikely to be sufficient to form the basis for a NDA approval. We think there is either something wrong with the formulation (that the effect takes 3 hours+) or an issue with the placebo rate (we do not have any of these details at the moment). On the other end of the spectrum of potential paths forward, management also indicated that it's two most valuable assets are the company's cash ($93.7M as of 2Q) and the NASDAQ listing, which could form the basis for a merger with another firm. We have little confidence that STS101 will be approved and expect the company to wind down R&D efforts near-term, likely opting for a result using the cash and listing.

2. What is the set up for Amgen and Mirati into ESMO next week?

   We are cautiously optimistic heading into ESMO next week for both Amgen and Mirati. We expect the ORR to drop from 54% see at last year's ESMO in NSCLC, as some of the responses in the 960 mg dose were not confirmed. We think that an ORR in the high 30s would be good and could bode well for the phase 2 monotherapy top line expected later this year. We are also focused on the duration of response—we'd like to see at least six months duration in patients treated with the 960 mg dose.

   We also believe that we're not far enough along in the clinical programs of '510 and '849 to have enough data to meaningful differentiate. Thus if the Amgen data is positive we would expect MRTX shares to move, and vice-versa. With the recent run, we think the risk/ reward into the data is more challenging for Mirati, but remain positively biased heading into the data. If the Amgen data disappoints, all eyes would be on Mirati's data at the triple meeting in October.

3. What do you think of the Galapagos SSc phase 2a data?

   We think the data was good for a small phase 2a, but there remain several unknowns/ questions we would like resolved. First we note that the baseline mRSS scores between the active and placebo arms are very different—we'd like to better understand why and if that could have impacted results. Further, we need to see data from additional endpoints and have clarity from the company on a path forward (no specifics in the top line press release).

Upcoming Catalysts:

- Biogen: DE District Court Opinion on Tecfidera IP (imminent)
- Aimmune: Palforzia CHMP Opinion (mid-2020)
- Amgen: AMG 510 monotherapy data updates (phase 1b expansion cohort in NSCLC at ESMO 9/ 20/20, phase 2 monotherapy NSCLC to be top-lined data later in year)
- Amgen: AMG160 ph 1 data in prostate (ESMO, 9/21/20)
  - Amgen to host two investor calls following the ESMO presentations:
  - AMG 510- Sunday, September 20 @ 2 PM EDT: US: **(855) 855-4105** ; Intl: **(425) 278-9088** ; ID: **2367334**
  - AMG 160- Monday, September 21 @ 4 PM EDT: US: **(855) 855-4105** ; Intl: **(425) 278-9088** ; ID: **1019819**

Mirati: MRTX849 data update at the Triple Meeting (October 2020)

Amgen: Omecamtiv mecarbil phase 3 data in heart failure (top line in 4Q20)

Amgen: Tezepelumab data in asthma (late 2020)

Biogen: Aducanumab advisory committee meeting (estimated late 2020)

Regeneron: Covid-19 Ab cocktail initial virology and biomarker data (late September)

Regeneron: filings for 1L NSCLC and BCC expected over 2020

Vertex: AAT Phase 2 data, expected later this year or early 2021

Vertex: Additional data from the CTX001 program in Beta-Than and Sickle Cell Disease (potentially at ASH, but not confirmed by the company)

Upcoming Medical Meetings:

- European Committee for Treatment and Research in Multiple Sclerosis, September 11th-13th
- American Society for Bone and Mineral Research, September 11th-15th
- ESMO Congress 2020, September, 19th- 21st
- The Retina Society Annual Meeting, September 21st - 22nd
- European Association for the Study of Diabetes, September 21st-25th
- World Muscle Society, September 30th-October 2nd

Full Report

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U.S. E&P Weekly

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Today, we are re-launching our E&P Weekly publication, which includes new relative performance tracking, company-level production/capex forecasts vs. consensus, sentiment and positioning metrics, a comprehensive E&P factor scorecard, a more granular look at US rig count trends (including private operators), as well as our re-cap of the most important company and industry news of the week.

- **E&Ps down sharply WoW, underperforming broader market and oil prices.** US E&P stocks were down >10% WoW, underperforming the S&P 500, which fell ~2.5%. E&Ps also lagged the downward move in WTI, which fell ~6% this week to settle at $37.33/Bbl on continued concerns over global demand, Saudi Arabia cutting its October OSP and the broader risk-off market environment. Gas-weighted E&Ps were more resilient, falling ~3.5% on the week and outperforming US natural gas prices, which settled the week down ~12% at $2.27/MMBtu.

- **Volatile "back-to-school" for E&Ps.** Incremental company updates this week as the market returned from Labor Day and as a busy September conference season heats up, though it felt like much of it was overshadowed by oil price volatility. Investors seem to be waiting for more E&Ps to officially commit to a specific long-term framework as evidence of a real change in management mentality and that the "new" E&P business model truly is here to stay (we think the most important theme between now and 3Q earnings). Uncertainty ahead of the November election also appears to be driving hesitation.

- **Company news. Hess (HES)** announced an oil discovery at the Redtail-1 well on the Stabroek Block (30% w.i.; operated by **XOM)**, its 18th discovery on the block which adds to the >8 BBoe of previously-announced gross discovered recoverable resource. **Parsley (PE)** announced a number of incremental guidance updates, including: 1) 3Q/4Q volume guidance of ~110.5/110 MBbld (in-line with expectations); 2) incremental ~2-3% reduction to 2H20 well costs, now down ~25% from original budget; 3) trimmed cash costs guidance by ~5%; and 4) increased its 2020 FCF target to >$400MM (up from >$350MM) at the same $35/Bbl WTI price deck.

- **What's on tap for the coming weeks.** Next Wednesday, September 16th, we are hosting an Oil & Gas Royalty Mineral Investor Day, featuring c-suite attendees from **VNOM, MNRL, KRP, FLMN**, and **BSM** (not covered). Our virtual Oil & Gas "Non-Bus Tour" will take place on September 22nd-24th and host senior leadership from **COP, CXO, EOG, FANG, HES, MUR, PXD,** and **XEC** alongside 12 additional Refining, Midstream, and OFS companies.

Full Report

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U.S. Multi Industry
LEANing into the Weekend: CARR Initiation, US ESG Launch, FTV Q3 Guide, Distributors Read-X, July AHRI Shipment

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Weekly Highlights & Published Research (with Links)

- Initiating Coverage of CARR with a Neutral Rating and $31 TP: Our rating is predicated on: (1) HVAC remains a growth market driven by global energy and refrigerant regulations to target GHG emissions. (2) execution on self-help levers, including Carrier 600 cost actions will be partially offset by investments, and (3) portfolio optionality, including the Fire & Security business. The current configuration anchors relative valuation to JCI vs. TT.
- FTV Updated Q3 Guide: We remain positive on Fortive, and think the positive momentum can continue into the Vontier spinoff and beyond. As anticipated, Fortive positively revised Q3 guidance. We think investors have fully digested the Vontier transaction structure.
- Industrial Distributors Read-X: HD Supply reported Q2 EPS of $0.83 vs. consensus of $0.73. Y/Y sales growth improved during each of the trailing four months (May-August), with August sales down 0.7% y/y. MSC Industrial reported FQ4 net sales of ~$748mn vs consensus of ~$755mn. Overall, August average daily sales improved slightly from July, reflecting continued month-over-month improvement in manufacturing activity.
- July AHRI AC Shipment Data: July Residential AC shipments grew 12% y/y (on a +2% comp) and non-residential AC shipments declined 14% (on a -2% comp).
- Launching US ESG Research: Complementing the works of the global ESG franchise, the US team brings over a decade of experience in the energy sector, enabling informed perspectives on what will be a multi-decade sustainability movement.
- U.S. Multi Industry: It's a Thematic World - One Pager on Key Themes
- Expert Call Takeaways: State and Municipal Construction | Smart Buildings
- Looking Beyond the Pandemic: UV Light Has the Potential to be Multi-Year Growth Driver | Smart Buildings | Automation | COVID-19 End Market Ranking
- Global ESG: Beyond the Pandemic | Water Scarcity: Key challenges and investment ideas
- Global Elevators & Escalators: Otis initiation from US and European perspectives
- Historical Valuation Deck: June 2020 | Marketing Deck: June 2020

Upcoming Industry Data Points

- **Macro:** China IP, FAI; Empire and Philly Feds, Housing Permits, Michigan Sentiment

Notable Markets This Week

- S&P -2.7%, XLI -0.4% – U.S. Strategy: Superior Fundamentals, Reasonable Valuations
- Crude Oil -6.2% – Crude Moves - DoE Data Flash: Products Draw but Crude Builds

Market Movers This Week

- Top 3 EEMI: GTLS +6.2%, FTV +4.1% (Q3 guide revision), XYL +3.1%
- Bottom 3 EEMI: GE -7.1%, FLS -4.2%, ATKR -3.7%

Full Report

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US Restaurants
Food for Thought: The City That Always Eats

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This is our weekly US Restaurants note that highlights the most significant news as it pertains to our coverage and industry.

- **Take a Bite Out of the Big Apple:** This week, NY Governor Andrew Cuomo announced NYC restaurants can resume indoor dining at 25% capacity beginning 9/30, with the potential to increase to 50% capacity on 11/1. NYC restaurants have faced outsized challenges given tight restrictions, residents moving to suburbs, reduction in business commuters, shutdown of NYC attractions and virtually zero tourism. 60MM+ tourists visit NYC each year, reportedly representing nearly 25% of credit card sales at restaurants & bars. But there is reason to be hopeful that the worst is behind NYC. Sysco reiterated this week that the #1 indicator of the pace of recovery is the easing of restrictions, with restaurants experiencing a near immediate increase in business. NYC will reopen schools for in-person learning starting 9/21, and more financial institutions could follow JPMorgan, which recently instructed sales & trading staff to return to offices by 9/21. Commentary from management teams of leading companies (Facebook, Goldman Sachs, Blackstone) have suggested similar sentiment to JPMorgan, noting the importance of in-person teams to foster culture, development & creativity. Amazon & Facebook have recently signed leases to increase their presence in Manhattan. Eleven Madison Park, 2017's #1 restaurant in the world, now plans to reopen after concerns that it could close permanently in May – we believe a majority of pre-COVID-19 revenue was generated from tourists & business accounts.
- **Time for Kickoff:** The NFL season kicked off this week, and the restaurant industry is hopeful this will be another catalyst for continued food away from home sales recovery. Papa John's has suggested expected tailwinds from the return of sports & at-home parties in lieu of watching at restaurants/bars, a reversal of headwinds pizza experienced during March Madness. Chipotle launched in-app group ordering this week and is running a Free Delivery Monday Matchup, looking to capitalize on the pent-up demand for sports and increase in at-home gatherings. Based on a survey conducted by PredictHQ among 2,500 NFL fans, 83% said they were changing how they were viewing games because of the pandemic, with 62% planning to view games in watch parties. Ordering food was part of NFL plans for 76% of respondents. Cuisines NFL fans planned to order included pizza (25%), wings (22%), fast food (11%), BBQ (11%), deli (9%) and burritos & tacos (6%).
- **Next Week in Restaurants:** *Conference attendance*: 9/14: SHAK, RRGB; 9/15: SBUX, QSR, DNKN, SYY; 9/16: SYY, NDLS, BJRI, CHUY. CBRL F4Q earnings (9/15).
- **Notable News:** 1) McDonald's Spicy Chicken McNuggets will be rolled out nationwide beginning 9/16; 2) Technomic forecasts a cumulative sales decline of ~11% in 2020 across the top 100 chains; 3) Papa John's signed its largest North America development agreement in over 20 years, with franchisee HB Restaurant Group to open 49 stores from 2021-2028; 4) Chick-fil-A is rolling out three new menu items, including a Chocolate Fudge Brownie, blend of hot coffee & Mocha Cream Cold Brew; and 5) Impossible Foods introduced Impossible Sausage in Hong Kong, the first international market for the product.

Full Report

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