WOLFE RESEARCH

NMWALPHA

THE WOLFE ALPHA LIST - JULY 2023

Adding CMC & Removing MLM

The Wolfe Alpha List is Wolfe Research’s high-conviction list of stocks we believe can substantially outperform the overall market and each stock’s respective sector over the next twelve months.

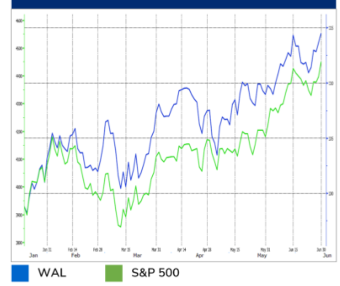
We think CMC's valuation looks overly discounted considering: 1) infrastructure stimulus exposure; 2) U.S. rebar market mostly protected by import tariffs and Buy America programs; 3) expected margin resilience from relative oligopoly and rebar market discipline; and 4) healthy FCF. While we remain constructive on MLM, its valuation looks less attractive following the stock's YTD rise.

WAL STOCKS	PRICE[1]	PT	RTG	% UP	MTD RTN	RTN[2]	ANALYST
Adobe, Inc. (ADBE)	$488.99	$580.00	OP	18.6%	17.7%	(1.3)%	Alex Zukin & Joshua Tilton
AstraZeneca (AZN)[3]	$71.43	$86.00	OP	20.4%	(0.5)%	1.0%	Tim Anderson
Autoliv (ALV)	$85.04	$110.00	OP	29.4%	1.0%	(6.6)%	Rod Lache & Shreyas Patil
Boston Scientific Corporation (BSX)	$54.09	$57.00	OP	5.4%	5.9%	17.5%	Mike Polark
Elevance Health Inc (ELV)	$444.29	$495.00	OP	11.4%	(0.4)%	(7.6)%	Justin Lake
Equitrans Midstream (ETRN)	$9.56	$11.00	OP	15.1%	57.0%	12.1%	Keith Stanley
Fedex Corp. (FDX)	$247.90	$284.00	OP	14.6%	10.6%	31.8%	Scott Group
Hess Corp. (HES)	$135.95	$169.00	OP	24.3%	4.4%	(10.4)%	Sam Margolin
Honeywell (HON)	$207.50	$225.00	OP	8.4%	7.1%	8.4%	Nigel Coe
Lennar Corporation (LEN)	$125.31	$135.00	OP	7.7%	16.6%	4.4%	Truman Patterson
LPL Financial (LPLA)	$217.43	$254.00	OP	16.8%	10.0%	(6.6)%	Steven Chubak
Mastercard Incorporated (MA)	$393.30	$440.00	OP	11.9%	5.1%	3.5%	Darrin Peller
Meta Platforms Inc. (META)	$286.98	$330.00	OP	15.0%	9.5%	112.0%	Deepak Mathivanan
Palo Alto Networks, Inc. (PANW)	$255.51	$255.00	OP	(0.2)%	20.7%	17.6%	Joshua Tilton & Alex Zukin
PG&E Corp (PCG)	$17.28	$20.00	OP	15.7%	4.6%	8.9%	Steve Fleishman
Regions Financial (RF)	$17.82	$20.00	OP	12.2%	0.2%	(4.0)%	Bill Carcache
TransDigm Group, Inc. (TDG)	$894.17	$900.00	OP	0.7%	12.8%	31.4%	Myles Walton
VICI Properties, Inc. (VICI)	$31.43	$37.00	OP	17.7%	2.9%	(0.3)%	Andrew Rosivach
Walmart (WMT)	$157.18	$165.00	OP	5.0%	7.3%	8.8%	Greg Badishkanian & Catherine Lee
Warner Bros. Discovery, Inc. (WBD)	$12.54	$20.00	OP	59.5%	9.6%	(9.0)%	Peter Supino
ADDED							
Commercial Metals Company (CMC)	$52.66	$60.00	OP	13.9%	0.0%	0.0%	Timna Tanners
REMOVED							
Martin Marietta Materials (MLM)	$461.69	$431.00	OP	(6.6)%	15.7%	30.8%	Timna Tanners

July 1, 2023

RETURNS	MTD	YTD
WAL	4.1%	15.7%
S&P 500	4.9%	12.6%

WAL vs. S&P 500 Indexed Price



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Footnotes

[1]Source: FactSet, as of 4pm ET on 6/30/23

[2]RTN=Returns Since Added to WAL

[3]AstraZeneca has a level 2 ADR programme which is listed on Nasdaq under the symbol AZN. The ADR ratio is 1:2, meaning each ordinary share is represented by 2 ADRs. Wolfe Research Securities has coverage of AZN-GB.

[4]WAL=The Wolfe Alpha List | OP = Outperform | PP = Peer Perform | UP = Underperform

ADOBE, INC. (ADBE) PT: $580.00

Market Cap (MM)	Street Ratings	Short Interest	Avg. Daily Volume (90D)	Date Added to WAL	Price Added to WAL
$222,882	Buy	1.25%	3.7MM	06/20/23	$495.18[1]

Source: FactSet, as of 4pm ET on 06/30/2023 | WAL = Wolfe Alpha List

Why We Added ADBE to The Wolfe Alpha List

We believe that ADBE could be one of the biggest beneficiaries of Generative AI as it both increases the population of creators and adds value to the professional creative workflow. While there remains meaningful anxiety around Figma closing, we are more confident than ever that win or lose, investors will be satisfied (either with a significant high efficiency TAM expansive asset with Figma, or a very large buyback) and we believe there is material upside to AI monetization in the medium-term.

Company & Stock Background

Adobe is the world's leading multimedia and creativity software company for digital experience. Adobe's product suite spans software for creativity, design, PDF, marketing, and commerce across two business units, Digital Media and Digital Experience. Adobe estimates its TAM to be ~$222B, comprised of $110B for Experience, $63B for Creative, $32B for Document, and ~$17B for Figma. ADBE currently trades at 25x CY24E EV/FCF, a discount vs. mega cap software peers that trade at 30x.

Investment Thesis

The announced acquisition of Figma has raised questions from investors regarding ADBE's competitive positioning of its Digital Media offerings in a changing creative landscape.We believe the overhang of the deal potentially being blocked presents a buying opportunity with a chance to play the AI theme at an attractive multiple for a company with strong competitive positioning. The key stock catalyst in our view will be management's ability to demonstrate to investors monetization behind Firefly, which will help investors warm up to the idea that ADBE can organically accelerate growth and be a winner from the proliferation of Generative AI.

Catalyst

The key catalyst will be management's ability to demonstrate monetization behind Firefly (their Gen AI offering), which we believe will be communicated more clearly in coming months around the company's October Analyst Day. We believe this will help investors warm up to the idea that ADBE can organically accelerate growth in the event Figma does not close, and ultimately be a winner from the proliferation of GenAI. We also believe an additional stock buyback (if Figma doesn't close) would be another positive catalyst.

Valuation & Risks

Our $580 PT assumes a CY24 EV/FCF multiple of ~28x. Key risks include: 1) Increased churn from consumer use cases in the core digital media business, 2) High penetration and market capture rates can be growth-limiting LT, 3) Senior leadership in the Digital Experience business is unproven, 4) Macro uncertainty pressures DX and DM spend.

LINK TO MOST RECENT ADBE NOTE

[1]Price as of 4pm ET on 6/16/2023

RATING:
Outperform

CLOSE PRICE:
$488.99

% UPSIDE:
18.6%

Source: FactSet, as of 4pm ET on 06/30/2023

VIEW ADBE MODEL
VIEW COMP TABLE

Enterprise Software
Market Weight

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ASTRAZENECA (AZN)[2] PT: $86.00[2]

Market Cap (MM)	Street Ratings	Short Interest	Avg. Daily Volume (90D)	Date Added to WAL	Price Added to WAL
$221,413	Buy	0.19%	4.3MM	01/18/23	$70.74[1]

Source: FactSet, as of 4pm ET on 06/30/2023 | WAL = Wolfe Alpha List

RATING:
Outperform

CLOSE PRICE:
$71.43

% UPSIDE:
20.4%

Source: FactSet, as of 4pm ET on 06/30/2023

VIEW AZN-GB MODEL
VIEW COMP TABLE

Pharmaceuticals - Major
Market Weight

Why We Added AZN to The Wolfe Alpha List

Good growth, durable growth, modest premium for that growth, and LOTS of catalysts in the core area where they have been nailing it recently (i.e. oncology).

Company & Stock Background

A multinational large pharma company whose main focus is oncology. A well-liked name, one of the best performers in 2022, and a stock we've liked since mid-2017.

Investment Thesis

A decent GARP name, ownable both near- and long-term. Most of the new growth comes from already-approved products, meaning AZN is not heavily dependent on future pipeline drugs that can be more unpredictable. That said, AZN has a rich late-stage pipeline and pipeline excitement is usually the driver of drug stock performance. Financial outlook should be strong again in 2023 (low-teens % EPS growth). On an "underlying" EPS basis (ie excludes COVID sales), trades at a P/E multiple of about 18.9x on 2023E EPS (group avg 17x), and 16.3x on 2024E EPS. Relative to other high"growth names like LLY and NOVO, AZN looks very favorable.

Catalyst

PIPELINE: (1) dato-DXd TROPION-Lung01 p3 data (imminent); (2) dato-DXD TROPION-Breast01 ph3 results 2H '23; (3) capivasertib CAPItello-290 p3 readout 2H-23; (4) Enhertu DESTINY-Breast06 2H '23. NON-PIPELINE: PPI litigation first bellwether trial October 2023 - legal basis to sue seems weak, but jury verdicts can be unpredictable

Valuation & Risks

Our PT is 138 GBP (=$86 for the ADR) which reflects a 23x 2023 P/E multiple. Downside risks: 1) Tagrisso underperforms vs expectations; 2) AZNs late stage pipeline does not gain traction; 3) PPI litigation leads to material future liability.

LINK TO MOST RECENT AZN-GB NOTE

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[1]Price as of 4pm ET on 1/17/2023
[2]AstraZeneca has a level 2 ADR programme which is listed on Nasdaq under the symbol AZN. The ADR ratio is 1:2, meaning each ordinary share is represented by 2 ADRs. Wolfe Research Securities has coverage of AZN-GB.

AUTOLIV (ALV) PT: $110.00

Market Cap (MM)	Street Ratings	Short Interest	Avg. Daily Volume (90D)	Date Added to WAL	Price Added to WAL
$7,299	Buy	2.22%	1.2MM	02/09/23	$91.05[1]

Source: FactSet, as of 4pm ET on 06/30/2023 | WAL = Wolfe Alpha List

Why We Added ALV to The Wolfe Alpha List

We believe that ALV is best-positioned (amongst Suppliers) to achieve margin expasion in 2023 and 2024, and that ALV's shares have the largest upside to fair value based on our base case (w/ additional upside if ALV achieves their targets).

Company & Stock Background

ALV is the worlds largest automotive passive safety supplier (~45% global share in passive safety, ~2/3 Airbags, ~1/3 Seatbelts), with 60k+ employees in 28 countries worldwide. They are also widely regarded as (operationally) amongst the best Management Teams in the Industry. The company experienced significant margin compression over the past 3-years on global production cuts and inflationary pressures. But they saw a big inflection in 2H-2022 (with margins rising from the mid-4%'s in 1H22 to ~9% in 2H22) as the company implemented price adjustments and cost cuts. The cadence of 2023 now appears similar to 2022, with a relatively low to start the year and them climbing each quarter. We believe that Investors could be positively surprised by the company's margin exit rate.

Investment Thesis

We believe that ALV's strong market position (45% share) and other competitive factors provides them with unusual pricing power for this Industry. And they've demonstrated a strong record of cost reduction. If we're right, ALV should end this year with run-rate margins of around 11%... close to our base case assumption for 2024 (11.3% margin, which is above consensus, and supports EPS of around $10). And interestingly, ALV is targeting 12% ($11 EPS) in this timeframe... leaving room for upward revisions.

Catalyst

A margin inflection in 2023 - similar to that which was experienced in 2022 - should build confidence in 2024 earnings power and this could serve as a catalyst for the stock. ALV also has an an Analyst Day on 6/12/23. We believe the company will elaborate on their progress at that point, and discuss additional opportunities for growth.

Valuation & Risks

Our target of $110 is based on 11X FY2024 EPS of $10 (11.3% margin). Mgmt's targets imply upside to $120. Key risks relate to industry volumes and pricing.

LINK TO MOST RECENT ALV NOTE

RATING:
Outperform

CLOSE PRICE:
$85.04

% UPSIDE:
29.4%

Source: FactSet, as of 4pm ET on 06/30/2023

VIEW ALV MODEL
VIEW COMP TABLE

Autos & Auto Parts
Market Weight

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[1]Price as of 4pm ET on 2/8/2023

BOSTON SCIENTIFIC CORPORATION (BSX) PT: $57.00

Market Cap (MM)	Street Ratings	Short Interest	Avg. Daily Volume (90D)	Date Added to WAL	Price Added to WAL
$79,062	Buy	0.61%	8.8MM	01/18/23	$46.04[1]

Source: FactSet, as of 4pm ET on 06/30/2023 | WAL = Wolfe Alpha List

Why We Added BSX to The Wolfe Alpha List

We like BSX as a top large cap GARP idea in our Medical Supplies & Devices coverage universe in 2023.

Company & Stock Background

Unlike most large cap peers, BSX doesn't pay a dividend and rarely buys back stock. BSX uses its free cash flow and balance sheet to acquire other companies. The model is, and we don't say this to disparage, serial acquirer. This can be a great strategy if assets are high quality and integration/execution is crisp. Recently, BSX seems to have found more winners than losers and so the overall roll up has been screening well.

Investment Thesis

Positive core growth differentiators include the endoscopy, urology, and interventional oncology franchises. And, of course, the first-in-class Watchman franchise has been and remains an important part of the differentiated growth profile. An emerging twist is electrophysiology. Aided by recent acquisitions and off a small base, this business has seen highly differentiated growth rates in recent quarters and seems poised to remain on a high-growth trajectory over the mid-run. Among our bellwether coverage, still easier to envision overall BSX profitability marching steadily higher from current ~26%. Confidence remains good this ratio can grind toward 30% over time.

Catalyst

(1) Enabled by Watchman, not terribly difficult to envision differentiated high-single digit organic revenue growth profile continuing over mid-term. (2) Confidence up that due to pulsed field ablation (PFA) launches, BSX stands to take material share in electrophysiology in coming years, further differentiating growth. US PFA data expected 2H23. (3) Investor day scheduled for September 20 – unlikely a bad vibe thematically or numerically.

Valuation & Risks

Our year-end 2024 target price is derived primarily using multiples on 2024 EBITDA and adjusted EPS. Downside risks to the Outperform rating include difficulty integrating and achieving growth expectations for multiple sizable acquisitions, material dilution from acquisitions, COVID resurgence and labor shortages constraining hospital procedure volumes, failure of clinical trials for pipeline projects, material underperformance versus guidance and investor expectations, and general macro risks such as supply chain disruptions and inflationary pressures.

LINK TO MOST RECENT BSX NOTE

RATING:
Outperform

CLOSE PRICE:
$54.09

% UPSIDE:
5.4%

Source: FactSet, as of 4pm ET on 06/30/2023

VIEW BSX MODEL
VIEW COMP TABLE

Medical Supplies & Devices
Market Weight

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[1]Price as of 4pm ET on 1/17/2023

COMMERCIAL METALS COMPANY (CMC) PT: $60.00

Market Cap (MM)	Street Ratings	Short Interest	Avg. Daily Volume (90D)	Date Added to WAL	Price Added to WAL
$6,150	Buy	2.74%	0.9MM	07/01/23	$52.66[1]

Source: FactSet, as of 4pm ET on 06/30/2023 | WAL = Wolfe Alpha List

Why We Are Adding CMC to The Wolfe Alpha List

We think CMC's valuation looks overly discounted considering: 1) infrastructure stimulus exposure; 2) U.S. rebar market mostly protected by import tariffs and Buy America programs; 3) expected margin resilience from relative oligopoly and rebar market discipline; and 4) healthy FCF.

Company & Stock Background

Commercial Metals is a long products steel producer, with vertical integration into scrap processing and downstream rebar fabrication. It uses electric arc furnace (EAF) or minimill steel production at nine steel mills in the U.S., with a presence primarily in the South. Essentially all its products service the construction industry. It also has a bar minimill operations in Poland.

Investment Thesis

We expect rebar margins remain resilient given mill discipline from a relative oligopoly, sustained import tariffs, and Buy America programs that secure U.S. production for government jobs. Recent rebar price weakness has tracked lower scrap input costs, protecting margins. While we still see some risk of higher interest rates hurting construction demand, European results seem to have already bottomed, and U.S. infrastructure spending should start to materialize in H2E. Additional positives to demand include the CHIPS Act and IRA, for ~1.5Mt of incremental demand to an ~8-9Mt/yr U.S. rebar market. We don't see much oversupply risk through 2025E, given limited new build risk outside of the two large players is limited and not all the discussed projects are certain to move ahead.

Catalyst

CMC shares have outperformed the XME ytd in 2023, but underperformed peers and the SPX. Shares look relatively inexpensive on our 2024E EBITDA. Key catalysts include: rising volumes from federal infrastructure stimulus; M&A; valuation rerating; and successful new mill ramp in Arizona.

Valuation & Risks

Our Outperform rating also reflects strong FCF, which we project at ~9% yield, and a commitment to growth. We also like its lack of direct exposure to our sheet oversupply concerns. Our $60/shr price target uses 6x F2024E EV/EBITDA. This target multiple is still well below peers NUE and STLD, which have traded ~7x historically, implying upside from rerating on relative earnings stability. Downside risks include: rising scrap costs; any disappointment to construction activity; limited product diversity; and changes in trade policy.

[LINK TO MOST RECENT CMC NOTE](#)

RATING:
Outperform

CLOSE PRICE:
$52.66

% UPSIDE:
13.9%

Source: FactSet, as of 4pm ET on 06/30/2023

[VIEW CMC MODEL](#)
[VIEW COMP TABLE](#)

Steels
Market Underweight

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[1]Price as of 4pm ET on 6/30/2023

July 1, 2023

ELEVANCE HEALTH INC (ELV)

PT: $495.00

Market Cap (MM)	Street Ratings	Short Interest	Avg. Daily Volume (90D)	Date Added to WAL	Price Added to WAL
$105,322	Buy	0.77%	1.2MM	01/18/23	$480.96[1]

Source: FactSet, as of 4pm ET on 06/30/2023 | WAL = Wolfe Alpha List

Why We Added ELV to The Wolfe Alpha List

We see ELV as an compelling combination of valuation, upside drivers to #s and catalysts beyond 2023.

Company & Stock Background

Elevance is a diversified Managed Care Organization offering products across the U.S. under licenses with the Blue Cross and Blue Shield association and without as well as services including PBM. ELV currently offers products focused on commercial customers, Government services including Medicare and Medicaid Coverage as well as expanding individual marketplace offerings. Emerging areas of growth include value based care build out and sector wide move to whole person health with ELV driving improved outcomes and increased profitability through VBC integrations with both their own insured members as well as those at other plans.

Investment Thesis

ELV's solid breadth of products across commercial / Medicare / Medicaid combined with strong business momentum offers earnings diversification coupled with strong growth potential. When combined with investments in newer services segment Carelon and strong management we see room for upside to 2023 consensus numbers and ability to achieve LT target range of 12% - 15% EPS growth over the next 3-5 years. Finally valuation presents compelling risk/reward with stock trading at less than 15x forward EPS.

Catalyst

Catalysts include margin expansion in commercial and Medicare segments for 2023 as well as company reprices product suite and works to improve profitability on fee based ASO business. We expect updated margin targets indicating further profit improvement potential in Commercial segment and continued strong services segment growth as announced at March '23 I-Day. Overall we view a pathway to cascading catalysts including upside to 2023 EPS, 2024-2025 margin expansion and continued positive business mix shift allowing ELV to build on earnings momentum.

Valuation & Risks

We value ELV on a NTM relative P/E assuming S&P 500 Multiple of 18.2x. We assume target relative multiple of 76% with target NTM P/E for ELV of 13.8x. Risks to our valuation include uncertainties around Medicaid Redeterminations, cost trends, and margin assumptions.

LINK TO MOST RECENT ELV NOTE

RATING:
Outperform

CLOSE PRICE:
$444.29

% UPSIDE:
11.4%

Source: FactSet, as of 4pm ET on 06/30/2023

VIEW ELV MODEL
VIEW COMP TABLE

Managed Care
Market Overweight

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View Justin's Research

[1]Price as of 4pm ET on 1/17/2023

EQUITRANS MIDSTREAM (ETRN) PT: $11.00

Market Cap (MM)	Street Ratings	Short Interest	Avg. Daily Volume (90D)	Date Added to WAL	Price Added to WAL
$4,141	Buy	3.28%	7.1MM	06/01/23	$8.53[1]

Source: FactSet, as of 4pm ET on 06/30/2023 | WAL = Wolfe Alpha List

Why We Added ETRN to The Wolfe Alpha List

ETRN is a major direct beneficiary of the debt ceiling agreement as it includes specific provisions to expedite completion of Mountain Valley Pipeline, which would provide a nearly 30% boost to near-term EBITDA and put the balance sheet and cash flow picture in much better shape. There are also potential incremental growth opportunities off of MVP. We don't think the full value of MVP is being priced into the stock.

Company & Stock Background

ETRN is an Appalachian focused midstream corporation with natural gas transmission, gathering and processing, and water gathering and disposal assets in Southwest Pennsylvania, West Virginia, and Ohio. The company has over 8 Bcf/d of gathering assets and a pipeline network that serves as a key export path out of the Basin.

Investment Thesis

ETRN is our top pick as we see a clearer path of MVP's completion with the debt ceiling deal. Congress authorized the federal permits for MVP under the bill, they are not subject to judicial review, and any challenge of the review provisions needs to be considered at the DC Circuit. MVP completion has been a long-awaited catalyst that would provide substantial boost to cash flows and greatly improves the company's leverage issues.

Catalyst

We see three separate elements of upside if MVP is completed: 1) ~$315M of upfront EBITDA with relatively low capex. 2) MVP completion open's up the next stage of high quality expansions and extensions. 3) MVP would boost takeaway capacity by 2+ Bcf/d in the highly constrained basin, which opens up potential G&P growth on EQT's dedicated acreage.

Valuation & Risks

Our SOTP uses a combination of EV/EBITDA on our 2024 estimates and a long term DCF approach. For the Gathering segment, we apply a DCF to get a current value using a 12% discount rate and 1% terminal growth rate to incorporate the declining rate structure under the EQT gathering contract (see note here for background on the EQT contract). We apply a 7.5x multiple for the water business. We then apply a 9.5x multiple to EBITDA for the transmission segment, which includes MVP contributions. Risks are execution on completion of MVP and pushback from Sierra Club at the 4th Circuit.

LINK TO MOST RECENT ETRN NOTE

RATING:
Outperform

CLOSE PRICE:
$9.56

% UPSIDE:
15.1%

Source: FactSet, as of 4pm ET on 06/30/2023

VIEW ETRN MODEL
VIEW COMP TABLE

Gas Infrastructure
Market Weight

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[1]Price as of 4pm ET on 5/31/2023

WOLFE RESEARCH

July 1, 2023

FEDEX CORP. (FDX)

PT: $284.00

Market Cap (MM)	Street Ratings	Short Interest	Avg. Daily Volume (90D)	Date Added to WAL	Price Added to WAL
$62,310	Buy	1.32%	2.2MM	01/18/23	$188.13[1]

Source: FactSet, as of 4pm ET on 06/30/2023 | WAL = Wolfe Alpha List

Why We Added FDX to The Wolfe Alpha List

After materially underperforming last year, FDX is one of our best transport ideas in 2023 with trough EPS already behind us, near-term market share opportunities to support volumes, and with significant EPS upside potential in F25. We see upside for the stock as the Street gains confidence in cost reductions.

Company & Stock Background

FedEx is one of the three global parcel carriers, delivering millions of packages per day all over the globe. FedEx has three primary business segments: (1) Express is the world's largest express transportation company, offering time-definite delivery to more than 220 countries (47% of revenue); (2) Ground is a leading provider of small-package ground delivery services to North American businesses and 100% of U.S. residences (37% of revenue); and (3) Freight is a leading North American provider of less-than- truckload (LTL) freight transportation (11% of revenue). FDX was founded in 1997 and it now generates over $90 billion of revenue annually.

Investment Thesis

FDX materially underperformed last year after badly missing Street expectations in F1Q:23 and sharply cutting its guidance. But with Express margins below historical trough levels, and with Ground margins improving y/y for three consecutive quarters, we are optimistic that F23 will represent trough EPS for FDX, which should support its valuation. FDX is starting to aggressively cut costs, and we continue to see lots to fix to drive structural earnings power much higher.

Catalyst

We expect FDX's DRIVE cost cuts to ramp throughout the year. We also see potential for accelerating volume share gains as Teamsters-UPS rhetoric ramps up close to the deadline.

Valuation & Risks

FDX is trading at 14x our F24 EPS estimate, in-line with its historical 10-year average P/E multiple of 14x and below UPS currently trading at 16x our NTM EPS estimate. Risks to our Outperform rating include another EPS miss/guidance cut amidst weak global trade and rising airfreight capacity.

LINK TO MOST RECENT FDX NOTE

RATING:
Outperform

CLOSE PRICE:
$247.90

% UPSIDE:
14.6%

Source: FactSet, as of 4pm ET on 06/30/2023

VIEW FDX MODEL
VIEW COMP TABLE

Airfreight & Logistics
Market Underweight

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[1]Price as of 4pm ET on 1/17/2023

WOLFE RESEARCH

July 1, 2023

HESS CORP. (HES)

PT: $169.00

Market Cap (MM)	Street Ratings	Short Interest	Avg. Daily Volume (90D)	Date Added to WAL	Price Added to WAL
$41,744	Buy	1.55%	1.7MM	01/18/23	$151.65[1]

Source: FactSet, as of 4pm ET on 06/30/2023 | WAL = Wolfe Alpha List

Why We Added HES to The Wolfe Alpha List

HES's asset mix is unique among E&Ps, with its Guyana position providing long duration, visible production growth at a low oil price breakeven. HES is defensive within 2023 recession risk and well positioned for long term oil demand growth.

Company & Stock Background

Hess Corp is an independent E&P company with core producing positions in the Bakken, Malaysia / Thailand, and the Gulf of Mexico along with a 30% non-operated working interest in the Stabroek Block offshore Guyana, operated by ExxonMobil. Guyana is the company's major growth asset with current estimates of 11 Bboe of gross discovered recoverable resources. The first two sanctioned projects at Guyana, Liza Phase 1 and Phase 2, are currently operating at their combined production capacity of >360k bpd. Through its stake in the Stabroek Block offshore Guyana, HES offers exposure to the most promising crude oil exploration and development worldwide, while holding stable and capital efficient Bakken, GoM, and International assets.

Investment Thesis

We are Outperform rated on HES as we believe the company provides a differentiated platform for long term oil bulls through the Guyana Asset, a discovery that will not be replicated by any peer. Assuming 9 phases and 11 Bboe developed with peak production in 2031, we see 25% IRR and $87.64 NPV/sh (from 2024) at $70 long term oil and 30% IRR/$110.58 NPV/sh at $80 oil for the asset, yielding our $181 price target. The long duration of HES's asset visibility renders near term issues for the space - i.e. capex inflation and 2023 oil demand risk - less significant.

Catalyst

Continued progress at Guyana will provide the majority of the catalysts for HES over the next decade. There are currently two additional sanctioned projects with an estimated 5 more to follow, each bringing increased confidence in execution. Further exploration of the block can provide upside to the total estimated resource and the overall NPV of the asset.

Valuation & Risks

We value HES using a 10% 2023E FCF yield to EV and add the NPV of the Guyana asset. HES's key risks include depressed oil prices and timing/operational missteps.

LINK TO MOST RECENT HES NOTE

RATING:
Outperform

CLOSE PRICE:
$135.95

% UPSIDE:
24.3%

Source: FactSet, as of 4pm ET on 06/30/2023

VIEW HES MODEL
VIEW COMP TABLE

Large Cap E&P
Market Weight

Sam Margolin
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(646) 582-9270
View Sam's Research

[1]Price as of 4pm ET on 1/17/2023

HONEYWELL (HON) PT: $225.00

Market Cap (MM)	Street Ratings	Short Interest	Avg. Daily Volume (90D)	Date Added to WAL	Price Added to WAL
$138,128	Buy	0.90%	2.6MM	03/01/23	$191.48[1]

Source: FactSet, as of 4pm ET on 06/30/2023 | WAL = Wolfe Alpha List

RATING:
Outperform

CLOSE PRICE:
$207.50

% UPSIDE:
8.4%

Source: FactSet, as of 4pm ET on 06/30/2023

VIEW HON MODEL
VIEW COMP TABLE

Multi-Industry
Market Weight

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Electrical Equipment & Multi-Industry
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View Nigel's Research

Why We Added HON to The Wolfe Alpha List

HON has meaningfully lagged the XLI YTD given a broader rotation away from defensive names and a slightly softer 2023 guide. However, relative valuation is now compelling at parity with the group, and we appreciate the late-cycle portfolio.

Company & Stock Background

HON is a diversified industrial company that has meaningfully shifted the portfolio since 2016 through the spins of Garrett, Resideo, and Advansix as well as the acquisitions of Intelligrated, Sparta Systems, and the quantum combination with Cambridge. The company has realized cumulative benefits of $1bn from Digital and $1bn from supply chain and manufacturing since 2018. Aerospace accounts for 41% of our 2023 segment profit estimate, with PMT, HBT, and SPS accounting for 29%/17%/13%, respectively. Long-cycle accounts for ~60% of the portfolio, as per the company's classification.

Investment Thesis

HON is one of the highest quality companies in our coverage, with high margins and ROIC, a strong balance sheet, and a history of execution, all of which support a premium multiple, in our view. The company's late-cycle portfolio should see growth accelerate on a relative basis through 2023/24. Balance sheet optionality (1.2x net leverage at YE22) provides a potential significant tailwind to earnings power given the company's interest in accelerating the rate of capital deployment through M&A.

Catalyst

1) Continued rebound in passenger flight hours and departures would benefit the Aero segment and drive relative resilience of the organic growth profile in 2023/24.

2) Deployment of surplus capital: HON's balance sheet is under-levered at 1.2x net debt/EBITDA, and M&A could be a driver of upside earnings revisions.

3) Quantinuum Visibility: More confidence in the ramp to $2bn of quantum computing revenue by 2026 could lead to significant value accretion.

Valuation & Risks

HON trades at 21x 2023 EPS, in line with the large-cap EE/MI median. Risks include a deeper slowdown in warehouse capex and pension headwind from higher rates.

LINK TO MOST RECENT HON NOTE

[1]Price as of 4pm ET on 2/28/2023

WOLFE RESEARCH

LENNAR CORPORATION (LEN)

PT: $135.00

Market Cap (MM)	Street Ratings	Short Interest	Avg. Daily Volume (90D)	Date Added to WAL	Price Added to WAL
$31,800	Buy	2.59%	2.3MM	06/20/23	$120.02[1]

Source: FactSet, as of 4pm ET on 06/30/2023 | WAL = Wolfe Alpha List

Why We Added LEN to The Wolfe Alpha List

LEN is once again our strongest homebuilder idea as the company remains positioned to continue gaining market share, combined with a strong Balance Sheet and net cash position. We expect equity upside driven by investor rotation toward spec operating strategies as their margins will be the first to demonstrate recent home pricing inflection.

Company & Stock Background

LEN is the 2nd largest builder based on volume. The company operates in 43 markets across 19 States, and is one of the more geographically diversified builders. The company is highly levered to markets in the Southeast. Roughly 40% of sales are to Entry-Level homebuyers with approximately 50% of sales to 1st MU buyers. Long known for its "deal" acumen, LEN has been shifting its strategic direction the past several years by incrementally focusing on core operations, migrating to a land light operating model, increasing vertical construction efficiencies and employing technology to reduce G&A and customer acquisition costs.

Investment Thesis

LEN is a spec-heavy, entry-level/affordable builder, with outsized exposure to outperforming Eastern & TX markets. We believe this will drive stronger volumes and returns throughout the current cycle, leading to outperformance in risk-on markets. LEN has one of the healthiest balance sheets in the group: one of only two builders with a net cash position ($8-to $9 ending '23E), Land inventory to Equity ratio only 77% and 70% Optioned Land exposure, which we believe will drive relative outperformance in potential risk-off markets.

Catalyst

LEN should report F3Q EPS the middle of Sep. While the company recently increased its '23 Closing guidance to 68K-70K (62K-66K prior), we believe there is potential upside to that metric should the current demand trajectory hold and construction cycle times continue normalizing, while LEN will be one of the first builders to realize the GM impacts from recent pricing power. Further, we believe management has included a does of conservatism in guidance.

Valuation & Risks

The equity trades at 1.4X our '23 BV estimate excluding the company's net cash balance, marginally above the 1.3X midpoint of its past 3-year range (1.8X-0.9X). We believe a premium BV valuation is warranted given the company's fundamental performance, Cash Flow potential and Balance Sheet. Our $135 Price Target implies a 1.6X BV multiple on our '23 estimate, which is supported by its 9.5% ROA.

[LINK TO MOST RECENT LEN NOTE]

[1]Price as of 4pm ET on 6/16/2023

RATING:
Outperform

CLOSE PRICE:
$125.31

% UPSIDE:
7.7%

Source: FactSet, as of 4pm ET on 06/30/2023

[VIEW LEN MODEL]
[VIEW COMP TABLE]

Homebuilders
Market Weight

Truman Patterson
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View Truman's Research

July 1, 2023

LPL FINANCIAL (LPLA) PT: $254.00

Market Cap (MM)	Street Ratings	Short Interest	Avg. Daily Volume (90D)	Date Added to WAL	Price Added to WAL
$16,887	Buy	1.30%	0.9MM	01/18/23	$232.79[1]

Source: FactSet, as of 4pm ET on 06/30/2023 | WAL = Wolfe Alpha List

Why We Added LPLA to The Wolfe Alpha List

LPLA screens among the best for organic growth, cash sorting, capital return, and beta sensitivity, with greater EPS resiliency given no credit / capital markets exposure. LPLA has the best risk / reward skew in our coverage, and is a Top Picks for 2023.

Company & Stock Background

Established in 1989, LPL Financial is a leader in the retail financial advice market and is the largest independent broker-dealer in the US. LPLA enables financial advisors to transact independently with their clients by providing capabilities and services via offerings including: advisory & brokerage platforms, portfolio construction, integrated technology, clearing and compliance services, and independent research. In recent years, LPLA has also expanded into other affiliation models including employee, hybrid RIAs, and large enterprises (i.e. banks). LPLA went public in November 2010 (at $30). Over the past 10 years, LPLA has traded at an average P/E of 15x (NTM cons. EPS), with a peak of 20.5x (Apr. 2021) and a trough of 5.7x (Mar. 2020); today, shares trade at 11.4x.

Investment Thesis

1.) Best in class organic growth: Even as advisor recruiting slowed in 2022, LPLA has maintained highest net new asset growth, and we believe the strength is likely to be sustained. **2.)** Leverage optimization: Assuming LPLA optimizes leverage to 1.5x, we est. ~10% upside to our 2024E via additional M&A opportunities. **3.)** Newer revenue initiatives: We est. $1.50 of EPS uplift from newer initiatives which are not in our forecasts. **4.)** Favorable risk / reward skew: Assuming 200bps FF, we est. bear case FV of >$200; our up- side case supports FV >$300, implying best risk / reward skew in our coverage.

Catalyst

Q23 Earnings / guidance updates, monthly metrics releases, & FOMC Meetings,- The next key catalyst for LPLA will likely be 1Q23 earnings, which will be a key update in light of recent developments impacting the banking sector. We also view its monthly metrics (typically the third week of each non-earnings month) and FOMC meetings as key interim catalysts to the stock. See our 1Q23 Preview and our 2023 Outlook and recent LPLA deep dive post our NDR for additional insights into our investment thesis / outlook.

Valuation & Risks

We apply our target P/E of 14x to our blended 2023/2024 EPS and credit excess capital to derive our $254 PT. Biggest risks: lower rates, yield-seeking behavior, and slowing NNA growth.

LINK TO MOST RECENT LPLA NOTE

RATING:
Outperform

CLOSE PRICE:
$217.43

% UPSIDE:
16.8%

Source: FactSet, as of 4pm ET on 06/30/2023

VIEW LPLA MODEL
VIEW COMP TABLE

Retail Brokers
Market Overweight

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View Steven's Research

[1]Price as of 4pm ET on 1/17/2023

MASTERCARD INCORPORATED (MA) PT: $440.00

Market Cap (MM)	Street Ratings	Short Interest	Avg. Daily Volume (90D)	Date Added to WAL	Price Added to WAL
$369,773	Buy	0.56%	2.8MM	05/01/23	$380.03[1]

Source: FactSet, as of 4pm ET on 06/30/2023 | WAL = Wolfe Alpha List

Why We Added MA to The Wolfe Alpha List

MA is our top pick among our coverage given: 1) international volume & transaction tailwinds driving upside in 2023; 2) recession resilience; 3) inflation benefits; and 4) sustainably higher long-term growth driven by VAS/new flows among other areas.

Company & Stock Background

Mastercard continues to solidify its position as a top global card network (facilitating over $6.5tn in payment volume in 2022) by leveraging its fixed cost structure & low net debt (0.7x) to reinvest in new payment platforms and services at high incremental margins. As a result, MA has enhanced its value added services like cyber, tokenization, issuer processing, fraud services, and more (which increase overall yields), and developed the capability to facilitate push payments & new flows beyond C2B payments. While MA still works to penetrate the $45tn P2M TAM, these new flows open up new high growth markets including $20tn in P2P/B2C flows (remittance & disbursements) and $50tn B2B/G2B (disbursements, commercial POS & AP/AR), resulting in the opptortunity for sustained growth long term.

Investment Thesis

MA is positioned well to benefit from structural changes including: 1) accelerated cash displacement with greater eComm and digital transactions as a percent of total payments driving increased market share; 2) acceleration in contactless payments (potential for a meaningful uplift in card transactions in developed markets, and also see MA/V switching a greater percentage of contactless); 3) strong demand for services such as cyber, risk, identity and analytics; 4) benefit from investment in new payment flows & products like B2B, MA Send, and A2A open banking partnerships.

Catalyst

• China reopening drives higher-yielding cross border volumes.

•N-Term upside to guidance/estimates on international & cx-border activity.

• VAS/New Flows contribute to sustainably higher net revenue growth rates.

• Management willing to protect EPS downside in a recession via operating expense flexibility, further enhancing relative outperformance.

• Potential for incremental action to improve pricing after years of pandemic delays.

Valuation & Risks

Our YE23 PT of $440 is predicated on ~30x our CY2024 EPS estimate of $14.57. Risks: deteriorating consumer spend volumes, regulatory action & disintermediation.

LINK TO MOST RECENT MA NOTE

[1]Price as of 4pm ET on 4/28/2023

RATING:
Outperform

CLOSE PRICE:
$393.30

% UPSIDE:
11.9%

Source: FactSet, as of 4pm ET on 06/30/2023

VIEW MA MODEL
VIEW COMP TABLE

Payments & Processors
Market Overweight

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View Darrin's Research

META PLATFORMS INC. (META) PT: $330.00

Market Cap (MM)	Street Ratings	Short Interest	Avg. Daily Volume (90D)	Date Added to WAL	Price Added to WAL
$634,844	Buy	1.27%	24.9MM	01/18/23	$135.36[1]

Source: FactSet, as of 4pm ET on 06/30/2023 | WAL = Wolfe Alpha List

Why We Added META to The Wolfe Alpha List

META's stock is currently mispriced for the true earnings power and FCF generation potential of the business which should be evident over next few quarters as investment cycle moderates & top-line growth recovers.

Company & Stock Background

META is the parent company of Facebook, Instagram, WhatsApp, and Messenger. The company primarily monetizes through ads served on users' newsfeed and stories. META's top-line growth and profitability was pressured in 2022 by a combination of: 1) ad targeting headwinds, 2) macro slowdown, and 3) heavy investments in metaverse and AI/ML, which drove the shares down 64% in 2022 (vs. Nasdaq -33%). Growing concerns on competitive risks from rapid emergence of TikTok in the US also impacted multiples. More recently, top-line trends have improved from product initiatives and stable macro, while cost saving efforts contribute to margin expansion.

Investment Thesis

META's NT top-line reacceleration is benefitting from steady progress in key growth initiatives, including AI investments, and a steady macro backdrop. The company's Year of Efficiency is well underway and should drive sustained margin expansion. The bull thesis is now supported by healthy top-line acceleration on top of efforts to improve the cost structure. META is amidst a meaningful capex cycle currently, but we see a path to monetization and believe in the LT ROI of Gen AI experiences. Despite the recent outperformance, shares still trade at ~18x FY24 PE, which is attractive given META's growth and profitability outlook.

Catalyst

1) Improved trajectory for Ad revenues from Advantage+ and other targeting improvements

2) Incremental efficiency gains and reduction in opex

3) Progress on Reels monetization

4) Contribution from new Gen AI experiences

Valuation & Risks

Shares are currently trading at 18x FY24 GAAP EPS, below pre-COVID LT average of 23x FY2 PE. Risks: share loss, regulatory changes, privacy changes, and sustained elevated capex.

LINK TO MOST RECENT META NOTE

RATING:
Outperform

CLOSE PRICE:
$286.98

% UPSIDE:
15.0%

Source: FactSet, as of 4pm ET on 06/30/2023

VIEW META MODEL
VIEW COMP TABLE

Online Advertising
Market Weight

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(415) 878-6425
View Deepak's Research

[1]Price as of 4pm ET on 1/17/2023

PALO ALTO NETWORKS, INC. (PANW) PT: $255.00

Market Cap (MM)	Street Ratings	Short Interest	Avg. Daily Volume (90D)	Date Added to WAL	Price Added to WAL
$78,149	Buy	6.86%	5.2MM	06/05/23	$217.24[1]

Source: FactSet, as of 4pm ET on 06/30/2023 | WAL = Wolfe Alpha List

Why We Added PANW to The Wolfe Alpha List

PANW offers investors an attractive profile that combines both topline growth with strong FCF margins. The company also is the best positioned pure play security vendor to benefit from broader themes of vendor consolidation, the move to a platform approach to security, and AI. All of this gives us conviction that PANW can weather the ongoing macro storm in the short term while also delivering long-term value to shareholders through efficient and durable growth.

Company & Stock Background

PANW is a well-known, leading vendor in the $20B firewall market. In 2018 Nikesh Arora joined as CEO with the ambition of transforming the company into the cybersecurity partner of choice for the modern enterprise. Since then, he has acquired 13 companies and transformed PANW into a full-blown platform play across Network, Cloud, and Security Operations Center (or SOC) Security.

Investment Thesis

As the macro becomes increasingly more challenging and customer budgets tighten, we continue to believe that organizations will look to consolidate security vendors in order to cut costs and drive better security outcomes. 64% of respondents in our survey from the RSA Conference floor in 2023 indicated that their security strategy is either already platform-based or is moving in that direction, and in our view, Palo Alto is the best positioned pure play security vendor to benefit from this dynamic. In addition to tailwinds from broader demand patterns, we also believe that PANW has the opportunity to be a beneficiary of the recent AI-hype cycle given its breadth of security capabilities and the sheer amount of data points the platform touches. Further, PANW boasts an attractive growth and efficiency profile, with our base case estimates implying CY24 topline growth of 21% to pair with ~41% FCF margins in the same period.

Catalyst

Recent GAAP profitability now provides a mid-quarter catalyst as PANW is set for S&P inclusion. We also see FY24 guidance (to be received this coming quarter) as a catalyst.

Valuation & Risks

Downside risks include product growth slowing quicker than anticipated and a deceleration ahead of expectations resulting in slower than expected total revenue growth and cash flow. PANW collects cash on multi-year contracts upfront and if customers demand annual payment terms, it could result in lower than expected FCF margins. Our $255 price target implies an EV/CY24E base case revenue multiple of 9x and a FCF multiple of 22x.

LINK TO MOST RECENT PANW NOTE

[1]Price as of 4pm ET on 6/2/2023

RATING:
Outperform

CLOSE PRICE:
$255.51

% UPSIDE:
(0.2)%

Source: FactSet, as of 4pm ET on 06/30/2023

VIEW PANW MODEL
VIEW COMP TABLE

Security Software
Market Weight

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View Alex's Research

July 1, 2023

PG&E CORP (PCG)

PT: $20.00

Market Cap (MM)	Street Ratings	Short Interest	Avg. Daily Volume (90D)	Date Added to WAL	Price Added to WAL
$34,487	Buy	2.88%	16.5MM	01/18/23	$15.87[1]

Source: FactSet, as of 4pm ET on 06/30/2023 | WAL = Wolfe Alpha List

Why We Added PCG to The Wolfe Alpha List

PCG has the best opportunity among utility stocks to rerate with expected catalysts, including a dividend reinstatement and FVT stock exit, as well as improving operations. PCG has industry leading RB and EPS growth with no equity needs.

Company & Stock Background

PCG has largely executed on its operational plan since CEO Patti Poppe and her leadership team were in place in 2021 - the year after PCG exited bankruptcy. They set out to turnaround operations, engage with policymakers and improve regulatory relations, such as exiting from under the CPUC's enhanced oversight. PCG has improved operationally, including mitigating wildfires, and received legislation last year supportive of its undergrounding effort. CA has constructive regulatory frameworks, including 4-year rate plans, decoupling, and several pass-through mechanisms. We expect a reasonable decision in PCG's 2023-26 GRC later this year. We also project continued improvement in PCG's credit, with FFO/D in the mid-teens by 2024. Wildfire risk remains, but CA law limits liability to shareholders.

Investment Thesis

We like PCG's LT story, with at least 10% annual total return through 2026. The stock had a solid 2022, narrowing a deep discount to peers, as the market finally appeared to appreciate PCG's growth story. The FVT overhang also abated, as it sold nearly half of the shares it received when PCG exited bankruptcy, and the stock kept rising. We antic- ipate more FVT stock sales, reducing or eliminating that overhang. In 2023, we see the stock continuing to narrow its discount to peers, given a dividend reinstatement, continued FVT exiting, and sector-leading RB and EPS growth.

Catalyst

PCG has key catalysts that we believe are highly likely this year:

- Dividend reinstatement later this year: will be the first div payment since late 2017.
- Fire Victim Trust stock exit: FVT on pace to sell most or all of its remaining shares.
- Order on GRC in 3Q23: will provide four years of certainty on rates and capex.

Valuation & Risks

Our $20 PT is based on a 15% discount to our group avg 2025 P/E. Downside risks include new PCG-caused fires, under-earnings or unrecoverable capex.

LINK TO MOST RECENT PCG NOTE

RATING:
Outperform

CLOSE PRICE:
$17.28

% UPSIDE:
15.7%

Source: FactSet, as of 4pm ET on 06/30/2023

VIEW PCG MODEL
VIEW COMP TABLE

Utilities/Regulateds
Market Overweight

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View Steve's Research

[1]Price as of 4pm ET on 1/17/2023

REGIONS FINANCIAL (RF) PT: $20.00

Market Cap (MM)	Street Ratings	Short Interest	Avg. Daily Volume (90D)	Date Added to WAL	Price Added to WAL
$16,721	Buy	3.06%	11.9MM	04/01/23	$18.56[1]

Source: FactSet, as of 4pm ET on 06/30/2023 | WAL = Wolfe Alpha List

Why We Added RF to The Wolfe Alpha List

We believe RF is better positioned relative to peers to benefit from its large mix of granular low-beta retail deposits in an environment where fears of regional bank deposit outflows are elevated.

Company & Stock Background

RF is a quality super regional bank offering exposure to attractive growth markets in the Southeastern U.S. RF has evolved into a lower risk and higher ROTCE generating bank in the years following the Global Financial Crisis, as its low-cost deposit franchise and effective hedging strategy have driven strong PPNR growth. Relative to peers, we believe RF's earning asset base is better positioned to benefit from near-term repricing dynamics and further remixing into higher yielding assets, as well as above peer liquidity still available for deployment. In addition to retaining meaningful NIM upside, RF has done an exceptional job of protecting its downside via its best-in-class hedging strategy designed to keep NIM in the 3.60-4.00% range through 2024 and beyond, even if the fed funds rate were to fall back below 1.0%.

Investment Thesis

Aided by the NII tailwinds from above-peer margin expansion through 2023, we estimate RF will deliver annualized PPNR growth of 15% in 2023, bringing its 5-year compound annual PPNR growth rate (CAGR) to over 10%. We believe the concerns around RF's NSF/OD fee revenues have been fully discounted in current consensus estimates and expect RF to generate consistent non-interest income growth sufficient to offset the headwinds from declining consumer fees.

Catalyst

We see changes in interest rates as a significant catalyst for RF, which we expect to outperform regardless of whether the Fed cuts or hikes and holds. We expect further outperformance if the Fed eventually pushes the economy into recession and has to lower rates, bringing RF's hedges in the money.

Valuation & Risks

Our $20 PT implies ~9x our 2024 mild recession EPS estimates. Downside risks to our call include the potential for a deep recession that produces slower loan growth, greater-than-expected credit losses, and negative estimate revisions.

LINK TO MOST RECENT RF NOTE

RATING:
Outperform

CLOSE PRICE:
$17.82

% UPSIDE:
12.2%

Source: FactSet, as of 4pm ET on 06/30/2023

VIEW RF MODEL
VIEW COMP TABLE

Banks/Mid-Cap
Market Weight

Bill Carcache
Banks/Mid-Cap
bcarcache@wolferesearch.com
(646) 582-9336
View Bill's Research

[1]Price as of 4pm ET on 3/31/2023

TRANSDIGM GROUP, INC. (TDG) PT: $900.00

Market Cap (MM)	Street Ratings	Short Interest	Avg. Daily Volume (90D)	Date Added to WAL	Price Added to WAL
$49,115	Buy	1.97%	0.3MM	01/18/23	$680.35[1]

Source: FactSet, as of 4pm ET on 06/30/2023 | WAL = Wolfe Alpha List

Why We Added TDG to The Wolfe Alpha List

We believe TDG has demonstrated the most durable business model in A&D with leverage to aero recovery and favorable defense budgets. Organic growth and likely positive revisions will drive performance along with a capital deployment kicker.

Company & Stock Background

TDG designs & produces proprietary components for commercial & military aircraft. They are the sole-source provider for most products with ~55% of FY22 sales to commercial and ~45% to military. TDG profitability is highly leveraged (~85%) to aftermarket which is more stable/predictable and affords higher margin opportunity. Mgmt aims to provide investors with PE like returns in the public market and compensation align- ment to compounding IRR aligns well with long term investors. While TDG operates under high leverage (~6x) to further drive equity returns, significant cash and business model durability through cycles supports the approach even with the current rate cycle (~85% of debt is fixed interest rate through 2025).

Investment Thesis

Through COVID and similar to prior cycles, TDG demonstrated a differentiated business model reaching prior peak margins ahead of peers. The balance of high margin aftermarket across aero and defense alongside strong cost control and pricing strength allowed them to exit the pandemic in an arguably stronger position then they entered. We see continued organic growth driven by volume recovery and pricing along with further capital deployment (M&A and/or divs/repo) as ongoing drivers for the company and its shares.

Catalyst

- Upside to FY23 guidance: initial guide better with clear upside potential on comm'l AM growth (+mid-teens but inc. HSD pricing) and margins (flat with 2H22).
- Capital deployment: potential M&A would be a positive; repo/dividends if no M&A
- Leverage at 6x has an overhang but recent refi highlights lower than perceived repricing risk

Valuation & Risks

Pre-COVID avg EV/EBITDA mult (~16x) on our FY24 EBITDA est & FY23 net debt est. Downside risks: lower comm'l AM sales, margin pressure, rates, DoD investigations.

LINK TO MOST RECENT TDG NOTE

RATING:
Outperform

CLOSE PRICE:
$894.17

% UPSIDE:
0.7%

Source: FactSet, as of 4pm ET on 06/30/2023

VIEW TDG MODEL
VIEW COMP TABLE

Aerospace
Market Overweight

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Aerospace & Defense
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(617) 675-6840
View Myles's Research

[1] Price as of 4pm ET on 1/17/2023

VICI PROPERTIES, INC. (VICI)

PT: $37.00

Market Cap (MM)	Street Ratings	Short Interest	Avg. Daily Volume (90D)	Date Added to WAL	Price Added to WAL
$31,563	Buy	2.30%	5.6MM	03/22/23	$31.53[1]

Source: FactSet, as of 4pm ET on 06/30/2023 | WAL = Wolfe Alpha List

Why We Added VICI to The Wolfe Alpha List

VICI is among our favorite ideas for 2023 which have a BARP (Boring at a reasonable price) theme - a low multiple stock with predictable growth even in an economic downturn.

Company & Stock Background

VICI is a Net Lease REIT that owns a large portfolio of gaming, hospitality, and entertainment properties. It also has an array of investing and financing partnerships with leading non-gaming experiential operators, including Great Wolf Resorts, Cabot, Canyon Ranch and Chelsea Piers. Almost half of their portfolio is focused in Las Vegas , NV. In Las Vegas, the portfolio includes The Venetian Resort, Caesars Palace, and MGM Grand, to name a few. The company continues to have a demonstrated track record of growth having announced $34 billion of investments and raised $21 billion of equity proceeds since formation in 2017.

Investment Thesis

VICI continues to be a defensive name as we face elevated uncertainty in the commercial real estate sector and the broader market.

• Internal Growth - We think investors feel comfortable with VICI as it has a great credit track record and they have embedded CPI resets on a majority of leases which should provide strong same store growth in 2023.

• External Growth - VICI continues to do a fantastic job at acquiring at a spread to its implied cap rate. Expanding into non-gaming assets also provides additional acquisition opportunities.

Catalyst

We think the downside risk is much lower than in other sectors in an economic downturn for the following reasons:

• VICI does not have obvious credit issues and collected 100% of rents during the pandemic

•VICI will likely outperform if inflation persists due the CPI-linked leases. Guidance is conservative in only assuming base escalators

Valuation & Risks

VICI has a PEG of 1.8x, vs our coverage at 3.7x. We lower our price target from $46 to $37 which gives us a 23% total return after dividends and warrants an Outperform. The biggest risks include: external growth must scale to continue growing, potential limited opportunities within gaming, and VICI being a consensus buy.

LINK TO MOST RECENT VICI NOTE

[1]Price as of 4pm ET on 3/21/2023

RATING:
Outperform

CLOSE PRICE:
$31.43

% UPSIDE:
17.7%

Source: FactSet, as of 4pm ET on 06/30/2023

VIEW VICI MODEL
VIEW COMP TABLE

Net Lease
Market Weight

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WALMART (WMT) PT: $165.00

Market Cap (MM)	Street Ratings	Short Interest	Avg. Daily Volume (90D)	Date Added to WAL	Price Added to WAL
$423,260	Buy	1.13%	6.6MM	01/18/23	$144.41[1]

Source: FactSet, as of 4pm ET on 06/30/2023 | WAL = Wolfe Alpha List

Why We Added WMT to The Wolfe Alpha List

Our latest round of channel checks suggests that value-focused discounters are increasingly picking up share in this macro environment. We view this as a strong read through to WMT, who is broadly considered the price leader in their categories. In recent meetings with management, commentary suggested continued progress on a number of key margin-expanding initiatives.

Company & Stock Background

Walmart is the world's largest retailer that for decades has built a strong reputation as a price leader. They have also built a $51bn online business and we think they are one of the only traditional retailers with the scale (>$15bn in capex) and competitive advantages to compete against Amazon in eCommerce.

Walmart has traded up in June; while 4Q could still be volatile (especially if inventory sell through is lower than expected), we think investors are looking ahead to stronger 2H23 and 2024 margins.

Investment Thesis

Walmart is well positioned to benefit from trade down and should continue to gain share from higher priced operators (WMT prices are 20% cheaper than conventional grocers, and able to compete with hard discounters through private label brands). In 2H23, many of the cost headwinds from labor turnover, markdowns, and freight should become a y/y tailwind, which should set the business up for strong flow through; tailwinds will continue in 2024. Longer-term, we were encouraged by WMT's investor day plans to grow EBIT ahead of sales as WMT continues to scale its higher-margin business components (eg advertising and fulfillment).

Catalyst

Continued success on high margin initiatives like Walmart+ and Walmart Connect could lead the shares to re-rate over time. We also think the softer than expected F'2024 guide is conservative as the business had strong momentum exiting 2023, likely leaving more upside vs downside to consensus estimates.

Valuation & Risks

WMT is trading at 12.2x consensus NTM EBITDA, which is a 5% premium vs. the last 5 yrs. The biggest risk is inventory writedowns and a shift to low margin grocery sales.

LINK TO MOST RECENT WMT NOTE

RATING:
Outperform

CLOSE PRICE:
$157.18

% UPSIDE:
5.0%

Source: FactSet, as of 4pm ET on 06/30/2023

VIEW WMT MODEL
VIEW COMP TABLE

Food Retailers
Market Overweight

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[1]Price as of 4pm ET on 1/17/2023

WOLFE RESEARCH

July 1, 2023

WARNER BROS. DISCOVERY, INC. (WBD) PT: $20.00

Market Cap (MM)	Street Ratings	Short Interest	Avg. Daily Volume (90D)	Date Added to WAL	Price Added to WAL
$30,549	Buy	3.77%	20.7MM	04/16/23	$13.78[1]

Source: FactSet, as of 4pm ET on 06/30/2023 | WAL = Wolfe Alpha List

RATING:
Outperform

CLOSE PRICE:
$12.54

% UPSIDE:
59.5%

Source: FactSet, as of 4pm ET on 06/30/2023

VIEW WBD MODEL
VIEW COMP TABLE

Diversified Entertainment
Market Underweight

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View Peter's Research

Why We Added WBD to The Wolfe Alpha List

After recent underperformance, we see an attractive entry point in WBD, which we believe is the best positioned company within our coverage to capitalize on an industry shift from landgrab to efficiency. Following last year's integration challenges and negative est. revisions, restructuring and content write-downs are essentially over, and the company can now focus on achieving $4B+ in synergies, generating solid FCF and driving a favorable debt-to-equity transfer to shareholders.

Company & Stock Background

The merger between Discovery and WarnerMedia commenced on 4/8/22, creating Warner Bros. Discovery, one the largest media entertainment companies with a vast portfolio of premium cable networks (HBO, TNT, TBS, CNN, Discovery, Food Network, HGTV, etc.), marquee DTC assets with HBO Max ("Max" as of 5/23/23) and Discovery+, alongside a leading studio business with ownership of evergreen franchises and IP.

Investment Thesis

Warner-Discovery is a vibrant producer of movies and television and a public LBO in an industry that should consolidate. With merger synergies and free cash flow building, we see WBD deleveraging at ~1x EBITDA per year 2023-2025. The stock's current 7x EV/EBITDA (2023) looks very sustainable in light of our 2023/2024e FCF yields (17%, 24%) and comparable 2023e multiples (FOXA - 8%, DIS - 2%, PARA generates FCF losses). While our PT is $20 (+77%), holding the multiple constant and using our forecast, the YE2024 stock price would be $24 (+113%). Should growth investments in Warner franchises and Max pay off, multiple expansion could drive high equity appreciation. Although the bulk of Warner's EBITDA will be plagued by secular pay-TV headwinds, today's price assumes a worst-case scenario for Warner's Networks segment.

Catalyst

1. Meeting back half weighted FCF guidance as merger & seasonal costs pass
2. Delivery of the remainder of $4B+ of merger synergy guidance (YE 2024)
3. Recent launch of "Max" service in the U.S. with additional intl. mkts in '23/'24
4. Studio doubling down on franchises - 2023 films double, Hogwarts Legacy video game is hot, new DC leadership's first releases in 2023
5. Updates from industry "upfront" sales process

Valuation & Risks

We value WBD based on a combination of a DCF, SOTP and '25E multiples discounted back, deriving a PT of $20.

LINK TO MOST RECENT WBD NOTE

[1]Price as of 4pm ET on 4/14/2023

DISCLOSURE SECTION

If you do not wish to receive The Wolfe Alpha List moving forward, please click here.

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Outperform (OP):	The security is projected to outperform analyst's industry coverage universe over the next 12 months.
Peer Perform (PP):	The security is projected to perform approximately in line with analyst's industry coverage universe over the next 12 months.
Underperform (UP):	The security is projected to underperform analyst's industry coverage universe over the next 12 months.

Effective August 1, 2022, Wolfe Research, LLC will no longer publish target prices for Peer Perform rated companies.

Wolfe Research, LLC uses a relative rating system using terms such as Outperform, Peer Perform and Underperform (see definitions above). Please carefully read the definitions of all ratings used in Wolfe Research, LLC research. In addition, since Wolfe Research, LLC research contains more complete information concerning the analyst's views, please carefully read Wolfe Research, LLC research in its entirety and not infer the contents from the ratings alone. In all cases, ratings (or research) should not be used or relied upon as investment advice and any investment decisions should be based upon individual circumstances and other considerations.

Wolfe Research, LLC Industry Weighting System:

Market Overweight (MO):	Expect the industry to outperform the primary market index for the region (S&P 500 in the U.S.) by at least 10% over the next 12 months.
Market Weight (MW):	Expect the industry to perform approximately in line with the primary market index for the region (S&P 500 in the U.S.) over the next 12 months.
Market Underweight (MU):	Expect the industry to underperform the primary market index for the region (S&P 500 in the U.S.) by at least 10% over the next 12 months.

Wolfe Research Fundamental Industry Weighting System

Market Overweight (MO):	Expect the industry to outperform the primary market index for the region (S&P 500 in the U.S.) by at least 10% over the next 12 months.
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