THE WOLFE ALPHA LIST - FEBRUARY 2024

Adding LNG; Removing TRGP

The Wolfe Alpha List (WAL) 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.

Adding LNG, Removing TRGP: We are adding LNG and removing TRGP. LNG stock has recently underperformed, creating a good entry point ahead of initial 2024 guidance where we think the bar is low, and with positive catalysts to come this year on buybacks and start-up of the Stage 3 growth project. We are still long-term buyers of TRGP, but we see less near-term upside given 2024 Permian growth concerns and lower commodity prices.

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

WAL STOCKS	PRICE1	PT	RTG	% UP	MTD RTN	RTN2	ANALYST
Aptiv (APTV)	$81.33	$101	OP	24.2%	(9.4)%	0.6%	Rod Lache & Shreyas Patil
Boston Scientific Corporation (BSX)	$63.26	$67	OP	5.9%	9.4%	37.4%	Mike Polark
BP (BP)	$35.10	$43	OP	22.5%	(0.8)%	(4.0)%	Sam Margolin
Constellium SE (CSTM)	$18.75	$24	OP	28.0%	(6.1)%	3.0%	Timna Tanners
Core & Main, Inc. (CNM)	$41.31	$50	OP	21.0%	2.2%	0.8%	Nigel Coe
Cyberark Software Ltd (CYBR)	$233.48	$285	OP	22.1%	6.6%	4.2%	Joshua Tilton & Alex Zukin
Eli Lilly (LLY)	$645.61	$690	OP	6.9%	10.8%	10.5%	Tim Anderson
Fedex Corp. (FDX)	$241.29	$347	OP	43.8%	(4.6)%	28.3%	Scott Group
Global Payments, Inc. (GPN)	$133.23	$170	OP	27.6%	4.9%	5.2%	Darrin Peller
Hexcel Corp. (HXL)	$66.39	$77	OP	16.0%	(10.0)%	(4.2)%	Myles Walton
Humana, Inc. (HUM)	$378.06	$488	OP	29.1%	(17.4)%	(13.8)%	Justin Lake
Illumina, Inc. (ILMN)	$143.01	$175	OP	22.4%	2.7%	3.6%	Doug Schenkel
Kinsale Capital Group, Inc. (KNSL)	$397.57	$451	OP	13.4%	18.7%	(4.0)%	Bill Carcache
Lennar Corporation (LEN)	$149.85	$165	OP	10.1%	0.5%	24.9%	Truman Patterson
LPL Financial (LPLA)	$239.19	$294	OP	22.9%	5.1%	3.6%	Steven Chubak
Meta Platforms Inc. (META)	$390.14	$430	OP	10.2%	10.2%	188.2%	Deepak Mathivanan
Microsoft Corporation (MSFT)	$397.58	$510	OP	28.3%	5.7%	2.3%	Alex Zukin & Joshua Tilton
NVIDIA Corporation (NVDA)	$615.27	$630	OP	2.4%	24.2%	31.0%	Chris Caso
PG&E Corp (PCG)	$16.87	$20	OP	18.6%	(6.4)%	6.3%	Steve Fleishman
T-Mobile US, Inc. (TMUS)	$161.23	$200	OP	24.0%	0.6%	15.9%	Peter Supino
VICI Properties, Inc. (VICI)	$30.12	$41	OP	36.1%	(5.5)%	(4.5)%	Andrew Rosivach
Walmart (WMT)	$165.25	$181	OP	9.5%	4.8%	14.4%	Greg Badishkanian & Catherine Lee
ADDED							
Cheniere Energy (LNG)	$163.99	$190	OP	15.9%	(3.9)%	0.0%	Keith Stanley
REMOVED							
Targa Resources Corp (TRGP)	$84.96	$105	OP	23.6%	(2.2)%	1.6%	Keith Stanley

WAL=The Wolfe Alpha List |OP = Outperform | PP = Peer Perform | UP = Underperform
1Source: FactSet, a/o 4pm ET on 1/31/24
2RTN=Returns Since Added to WAL

February 1, 2024

RETURNS	MTD	YTD
WAL	1.53%	1.53%
S&P 500	2.17%	2.17%

WAL vs. S&P 500 Indexed Price

For clients looking to trade the WAL, the following two options are available via our trading partners*

The Long Only Wolfe Alpha List (LOWAL) Investable Strategy. After accounting for risk, tradability, liquidity constraint, and trading cost, we apply a modified risk parity algorithm and construct the LOWAL. The LOWAL demonstrates superior risk-adjusted performance during both up and down market environments. It scales well as AUM increases.

The Market Neutral Wolfe Alpha List (MNWAL) Investable Strategy. The MNWAL combines long positions on the WAL with short hedges derived from stocks with negative (Wolfe Underperform) or neutral (Peer Perform) fundamental ratings. The short hedge not only allows us to leverage fundamental insights on the short side, but more importantly eliminates unintentional/ undesirable market, sector, and style factor risks. Our MNWAL investable strategy can be found on BBG under the ticker NMWALPHP Index.

Link to QES Report

Please refer to the full report for risks associated with trading these strategies: Figure 7C, Figure 9B.

**Wolfe Research Securities, the brokerdealer affiliate of Wolfe Research, LLC, is paid a percentage of the trade commissions from our trading partners.*

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APTIV (APTV) — PT: $101

Market Cap (MM)	Street Ratings	Short Interest	Avg. Daily Volume (90D)	Date Added to WAL	Price Added to WAL
$23,005	Buy	1.22%	2.5MM	01/16/24	$80.88[1]

Source: FactSet, as of 4pm ET on 01/31/2024 | WAL = Wolfe Alpha List

RATING:
Outperform

CLOSE PRICE:
$81.33

% UPSIDE:
24.2%

Source: FactSet, as of 4pm ET on 01/31/2024

VIEW APTV MODEL
VIEW COMP TABLE

Auto Technology 2.0
Market Overweight

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Why We Added APTV to The Wolfe Alpha List

Investors have lost confidence in the APTV thesis following a dramatic slowdown in growth during 2023 (FY GOM was just 2%), as they don't view the factors that weighed on recent performance (i.e. share losses for Western OEs, slowing EV demand) as temporary. Growth is important, as it supported valuation (the multiple) and earnings (APTV generates ~30% incremental margins). Even significant adjustments to growth forecasts provided by Management on their 4Q23 call (which led to a reduction to their 2025 margin target) was not believed. While we acknowledge near term headwinds, we don't believe that there has been a major change in underlying secular trends or competitive advantages that should ultimately support 20%+ earnings growth. Earnings upside could be even more substantial if APTV is able to resolve their stake in Motional ($1.20 drag on earnings, no longer viewed as core), and accelerates buybacks.

Company & Stock Background

Aptiv is exposed to the most powerful secular trends. AS/UX segment (30% of sales, 20% of EBIT) should benefit from Active Safety growth ($2.5 bn in 2023, up 20%/yr), consolidation of compute (SVA at $1 bn in 2025 vs. $100 MM in 2022), and Software ($1 bn in 2025 vs. $500 MM in 2023). Signal & Power (70% of sales, 80% of EBIT) should benefit from electrification ($1.8 bn, growing 20%/yr).

Investment Thesis

Shares are trading at ~10.4x EPS approaching-$8 by 2025 (9.7x assuming full elimination of Motional), well below the recent 15x average, and in-line with a typical "cyclical suppliers". Longer term, their #1 market position in electronic architectures positions them to grow in any Electrification scenario. They are among the top 3 Tier 1 ADAS suppliers, with key capabilities in sensor fusion, and domain controllers that will remain critical as OEMs move-up the automation feature curve. And they are the only Supplier with a complete suite of solutions for software-defined vehicles (controllers, applications, OS/Middleware, DeveOps, etc). We expect outgrowth to re-accelerate post-2025, supporting increasing margins and strong FCF generation.

Catalyst

1. We expect organic growth to accelerate in 2H23; 2. We expect APTV to reduce / sell their stake in Motional, significantly reducing losses; 3. We believe that APTV will ultimately re-accelerate buybacks

Valuation & Risks

Our pt is based on 13x our $7.80 2025 EPS. Risks: Outgrowth headwinds from customer mix / lower electrification, declining LVP.

LINK TO MOST RECENT APTV NOTE

[1]Price as of 4pm ET on 1/12/2024

WOLFE RESEARCH

February 1, 2024

BOSTON SCIENTIFIC CORPORATION (BSX) PT: $67

Market Cap (MM)	Street Ratings	Short Interest	Avg. Daily Volume (90D)	Date Added to WAL	Price Added to WAL
$92,675	Buy	0.78%	7.4MM	01/18/23	$46.04[1]

Source: FactSet, as of 4pm ET on 01/31/2024 | WAL = Wolfe Alpha List

RATING:
Outperform

CLOSE PRICE:
$63.26

% UPSIDE:
5.9%

Source: FactSet, as of 4pm ET on 01/31/2024

VIEW BSX MODEL
VIEW COMP TABLE

Medical Supplies & Devices
Market Weight

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View Mike's Research

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 2024.

Company & Stock Background

The BSX model is, and we don't say this to disparage, a serial acquirer, which 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, so the overall roll-up has been boding well. Historically they did not consistently return capital to shareholders via dividend or repurchase, a notable variance vs. peers. This is changing. We expect BSX to consistently buy back stock to hold share count flat. Should amount to a 0.5-1% "repurchase yield."

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 to low-double-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. 3) US TAVR launch in 2025 potential to add on top of growth algo. 4) BSX fresh commitment to repurchase shares to offset annual employee awards effectively holding share count flat.

Valuation & Risks

Our YE 2024 PT is derived primarily using a multiple on 2025 adjusted EPS. Valuation inputs remain, relative to Market, above long-term average but comfortable extending leash given differentiated growth vs history and vs large cap peers and good story for 2024-2026 as to why BSX organic growth can keep this growth rolling. Risks include difficulty integrating and achieving growth expectations for acquisitions, dilution from acquisitions, COVID resurgence and labor shortages constraining procedure volumes, failure of clinical trials for pipeline projects, material underperformance vs guidance and investor expectations, and general macro risks such as supply chain disruptions.

LINK TO MOST RECENT BSX NOTE

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

BP (BP) PT: $43

Market Cap (MM)	Street Ratings	Short Interest	Avg. Daily Volume (90D)	Date Added to WAL	Price Added to WAL
$99,881	Buy	0.19%	8.7MM	11/01/23	$36.58[1]

Source: FactSet, as of 4pm ET on 01/31/2024 | WAL = Wolfe Alpha List

Why We Added BP to The Wolfe Alpha List

BP's recent Capital Markets event solidified a re-balanced capital frame, the outcome of which is greater transparency in O&G production growth and sustainability. Given its current valuation discount to both its US and EU peers, BP has significant re-rating upside as growth and shareholder returns run in parallel.

Company & Stock Background

BP is an integrated oil company with exposure to both Oil Gas and Renewables. Of its ~2.3MM boe/d current production, ~1.3MM is attributed to the Oil Production & Operations segment with significant footprint coming from the GoM and the Middle East. The latter ~900K boe/d comes from the Gas & Low Carbon Energy segment, which embeds its ~20MM tpa LNG portfolio with significant footprint in Australia, LATAM, and Africa. Other upstream segments include its ~15K boe/d exposure in biogas and ~40 GW renewables pipeline. Downstream consists of ~2.2MM bbl/d of tpt internationally and a convenience footprint of 20K stores and 40K charge points. Historically, the stock has traded at a discount to both its US and EU peers.

Investment Thesis

We are Outperform rated on BP as the company remains attractive on a pure value basis relative to peers, with growth prospects that are beginning to be better understood by the market. We believe the investment in BPX to bring production of ~350k boe/d to >650k boe/d by 2030 coupled with option value towards the Paleogene projects will have greater market appreciation going forward. These growth assets run in parallel with leading capital returns; at $70 oil, we believe BP can return $11B to shareholders in FY24, or a >11% TSR yield.

Catalyst

Continued commentary on the company's investment in BPX to >650K boe/d by 2030, growth in the Rumaila and ADNOC position, and upside to the ~2MM boe/d by 2030 from Kaskida and Tiber will provide catalysts for investors. Additionally, with the increasing profitability of its renewables assets given favorable European power prices, any upside to the current 60% post-dividend surplus cash directed to share buybacks would also be a catalyst.

Valuation & Risks

We value BP shares on a mix of P/FCF (10x) and 8% total shareholder returns (dividend + buybacks) yield on 2024. Risks include weaker commodity prices, delays in starting up new projects, weakening demand for fossil fuels, and increased competition from NOCs. This is in addition to any frictions attributable to the current management change.

LINK TO MOST RECENT BP NOTE

[1] Price as of 4pm ET on 10/31/2023

RATING:
Outperform

CLOSE PRICE:
$35.10

% UPSIDE:
22.5%

Source: FactSet, as of 4pm ET on 01/31/2024

VIEW BP MODEL
VIEW COMP TABLE

Global Integrateds
Market Overweight

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WOLFE RESEARCH

February 1, 2024

CHENIERE ENERGY (LNG) PT: $190

Market Cap (MM)	Street Ratings	Short Interest	Avg. Daily Volume (90D)	Date Added to WAL	Price Added to WAL
$39,071	Buy	0.98%	1.5MM	02/01/24	$163.99[1]

Source: FactSet, as of 4pm ET on 01/31/2024 | WAL = Wolfe Alpha List

Why We Are Adding LNG to The Wolfe Alpha List

We add LNG as our top midstream idea. The stock has underperformed, and we see earnings in February as a bottoming event. Expectations have come down for initial 2024 guidance and global gas spreads have already compressed. Once the 2024 outlook is provided, we think investors will look to re-enter the name given a history of "beating and raising" and a positive year-end catalyst with the start-up of the Corpus Stage 3 expansion project. In the meantime, LNG is heavily contracted with minimal market price exposure, and could repurchase upwards of $2B of stock this year (5% of market cap).

Company & Stock Background

Cheniere Energy Inc. operates a total of nine LNG (natural gas) export trains at two sites in Louisiana and Texas. Total output is 45 million tonnes per annum, of which more than 90% is under long term take or pay contracts. It is also building another 10 mtpa expansion called Corpus Stage 3 that will ramp up over 2025-26 with incremental expansion projects also under development.

Investment Thesis

Cheniere is unique in being the only large cap public pure play on U.S. LNG exports, which is a core thematic in energy. The company is highly contracted under ~20 year long-term take or pay contracts with strong credit counterparties, the value of which we think is not fully appreciated in the stock. The stock also offers considerable upside option value to 1) short-term price spikes than can be driven by geopolitical, weather, or other unforeseen events; and 2) long dated growth opportunities through further expansions.

Catalyst

We view initial 2024 guidance as a positive catalyst, as we think the bar is now low. The start-up of Corpus Stage 3 around YE 2024 will provide visible growth with upside optionality if global gas spreads improve. We think LNG will aggressively repurchase stock equal to around 5% of the market cap in 2024. Lastly, the Biden administration pause on permitting new LNG export facilities is likely to freeze Cheniere's competitors from moving forward this year, increasing LNG's scarcity value as the market leader.

Valuation & Risks

Our $190 price target uses an EV/EBITDA valuation methodology based on our 2027 estimates, and then discounts that value back to 2025. We use an 11x EBITDA multiple on LNG's long-term run-rate cash flow outlook and a 7x multiple for marketing / spot volume upside. We view this as a conservative framework with no value given for longer-dated growth opportunities. Downside risks include permitting delays, global gas commodity exposure, construction risk, interest rates and inflation.

LINK TO MOST RECENT LNG NOTE

[1]Price as of 4pm ET on 1/31/2024

RATING:
Outperform

CLOSE PRICE:
$163.99

% UPSIDE:
15.9%

Source: FactSet, as of 4pm ET on 01/31/2024

VIEW LNG MODEL
VIEW COMP TABLE

Gas Infrastructure
Market Weight

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WOLFE RESEARCH

February 1, 2024

CONSTELLIUM SE (CSTM) PT: $24

Market Cap (MM)	Street Ratings	Short Interest	Avg. Daily Volume (90D)	Date Added to WAL	Price Added to WAL
$2,706	Buy	1.18%	0.8MM	10/01/23	$18.20[1]

Source: FactSet, as of 4pm ET on 01/31/2024 | WAL = Wolfe Alpha List

Why We Added CSTM to The Wolfe Alpha List

We think CSTM's valuation looks unduly discounted considering: 1) valuation support from ARNC's takeout; 2) EBITDA resilience despite lower aluminum prices; and 3) reduced balance sheet leverage.

Company & Stock Background

Constellium SE designs, manufactures, and sells specialty rolled and extruded aluminum products for the packaging, aerospace, and automotive end-markets. Headquartered in France, Constellium was formed in 2011 from Rio Tinto selling off its controlling interest in what was formerly known as Alcan Engineered Products. It IPO'd in May 2013 out of Apollo Global Management. While the headquarters is in Paris, management sits in Baltimore.

Investment Thesis

We think management's >€800M EBITDA goal by 2025E provided at its April 2022 investor day looks easily achievable. The strong aero production ramp makes this target look conservative. We think downside risk is mitigated given Europe and packaging markets were already in the doldrums, and auto was stabilizing near recession lows. Further, energy hedges exposed it to just 10-20% of the spot market in 2024E. We expect it to announce an imminent buyback program for 2024E, with net leverage likely to exit 2023E within management's targeted 1.5-2.5x.

Catalyst

We see near-term catalysts from 1) imminent shareholder returns for 2024E; 2) upside to its 2025E EBITDA target; and 3) a potential switch to GAAP reporting in USD.

Valuation & Risks

We stay at Outperform with a $24 price target, using a 7x 2024E EV/EBITDA. Risks include slower-than-expected recovery in auto and aero end markets, cost inflation, broader market recession, and execution issues at its operations.

LINK TO MOST RECENT CSTM NOTE

RATING:
Outperform

CLOSE PRICE:
$18.75

% UPSIDE:
28.0%

Source: FactSet, as of 4pm ET on 01/31/2024

VIEW CSTM MODEL
VIEW COMP TABLE

Specialty/Downstream Metals
Market Overweight

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[1] Price as of 4pm ET on 9/29/2023

CORE & MAIN, INC. (CNM) PT: $50

Market Cap (MM)	Street Ratings	Short Interest	Avg. Daily Volume (90D)	Date Added to WAL	Price Added to WAL
$7,918	Buy	5.49%	3.1MM	01/16/24	$41.00[1]

Source: FactSet, as of 4pm ET on 01/31/2024 | WAL = Wolfe Alpha List

Why We Added CNM to The Wolfe Alpha List

We have become more confident in outlook for 2024 margin inflection and view the valuation as too cheap. We see potential resi and municipal demand inflections in 2024.

Company & Stock Background

Core & Main is a leading distributor of water, wastewater, storm drainage and fire protection products and services. The genesis of the company can be traced back to 2005/2006 when Home Depot acquired for $3.5bn and $1.4bn Hughes Supply and National Waterworks Inc., respectively. CNM's market mix is 39% Municipal, 39% Non-Residential, and 22% Residential. CNM's product mix is 68% Pipes, Valves & Fittings, 14% Storm Drainage, 11% Fire Protection, and 7% Meters.

Investment Thesis

1) Leading player in an Attractive Industry: CNM is one of only two players of scale in the water, wastewater and fire protection industries. We see an outlook for MSD core growth over the medium term. **2) Market Outgrowth Can Continue:** We believe that scale matters in distribution, accentuated by tight supply chain conditions. **3) Margin Confidence Is Important**: Margins have expanded 630bps to 14.1% over 2018/22, with investors concerned about sustainability. Management confidence in the path to 15% by 2028 is an important signal that it will be able to sustain higher levels of profitability. **4) Strong FCF Outlook:** We support mgmt's surplus capital targets and see a heavy tilt toward buybacks that should materially lower share count.

Catalyst

1) Infrastructure Bill: IIJA infrastructure bill includes $55n for water infrastructure and this could be an important sentiment driver. **2) ESG Investor Demand:** Demand remains strong for water-levered stocks in light of water conservation and quality themes - this could be a driver of multiple expansion. **3) Margin Inflection:** Continued EBITDA margin outperformance will drive more confidence in the sustainability of higher earnings plateaus and the path to medium term targets. **4) Continued Capital Deployment:** B/S leverage remains low. Buying back stock is accretive at current multiples.

Valuation & Risks

Our YE24 target price is based on FY25 EBITDA estimate. Risks include lower commodity prices, and potential short-term municipal funding shortfalls.

LINK TO MOST RECENT CNM NOTE

RATING:
Outperform

CLOSE PRICE:
$41.31

% UPSIDE:
21.0%

Source: FactSet, as of 4pm ET on 01/31/2024

VIEW CNM MODEL
VIEW COMP TABLE

Distributors
Market Underweight

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[1]Price as of 4pm ET on 1/12/2024

CYBERARK SOFTWARE LTD (CYBR)

PT: $285

Market Cap (MM)	Street Ratings	Short Interest	Avg. Daily Volume (90D)	Date Added to WAL	Price Added to WAL
$9,579	Buy	5.19%	0.5MM	01/16/24	$224.09[1]

Source: FactSet, as of 4pm ET on 01/31/2024 | WAL = Wolfe Alpha List

RATING:
Outperform

CLOSE PRICE:
$233.48

% UPSIDE:
22.1%

Source: FactSet, as of 4pm ET on 01/31/2024

VIEW CYBR MODEL
VIEW COMP TABLE

Security Software
Market Weight

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Why We Added CYBR to The Wolfe Alpha List

We see multiple ways for CYBR to win in any environment in 2024, as 30% ARR growth should bode well in a falling rate environment; if macro conditions persist, the high priority of PAM/Identity among CISOs will continue to support growth while CYBR's inflecting FCF margins would likely be well-received by investors.

Company & Stock Background

CYBR is a top vendor in the Identity Security market and, more specifically, the leader in the Privileged Access Management space within Identity. Over the last several years, the company has continued to build out its product suite and now boasts a true Identity platform at a time when organizations are looking to consolidate their respective security stacks. Additionally, newly appointed CEO Matt Cohen has hit the ground running and leads one of the best management teams in all of Software.

Investment Thesis

Following the continued shift to cloud and some high-profile breaches in 2023, PAM has cemented itself as a top priority for CISOs, a theme that we expect will persist in 2024, as evidenced by our CISO survey where PAM saw the third highest percentage of respondents expecting to increase spend in 2024. Not only did the PAM market screen positively, but Identity made up 3/5 top priorities, with Identity Governance and Administration fourth, and Access Management fifth and combining unique responses from all three Identity categories results in one Identity segment that is the clear top priority. With a robust Identity platform built around PAM (the most important piece in Identity), we believe CYBR is well positioned to capture broader Identity spending, especially from those looking to go all-in with a platform.

Catalyst

We believe investors now have a better understanding of the model's different components (Subscription vs. Maintenance) and their impact to total growth, which could get them more excited if they gain incremental confidence around the durable growth and outperformance in ARR and upside to FCF through FY25.

Valuation & Risks

Our $285 price target is derived from 11x CY25 EV/Sales, which is in line with our Heavyweight Growth comp group at 13x. This also equates to 63x CY25 EV/FCF or 50x on our upside FCF estimates. Key risks include a transitioning business model to cloud impacting ARR growth and future sales and customers failing to adopt the broader platform could lead to lower-than-expected growth.

LINK TO RECENT CYBR NOTE

[1] Price as of 4pm ET on 1/12/2024

ELI LILLY (LLY) PT: $690

Market Cap (MM)	Street Ratings	Short Interest	Avg. Daily Volume (90D)	Date Added to WAL	Price Added to WAL
$612,882	Buy	0.58%	3.1MM	12/01/23	$584.04[1]

Source: FactSet, as of 4pm ET on 01/31/2024 | WAL = Wolfe Alpha List

Why We Added LLY to The Wolfe Alpha List

Why we added LLY: We expect LLY to continue its momentum through 2024 as investors follow the launch, and additional news flow, of two new drugs in two large markets, obesity and Alzheimer's disease. Although LLY's valuation is at a group-topping P/E multiple, its group-topping revenue and EPS growth justifies it, in our view, and on a PE-to-growth basis (using a 5y EPS CAGR) the stock is actually at a discount to peers. On this metric, LLY is not in fact "expensive."

Company & Stock Background

A multinational large pharma company whose main focus has been diabetes. A well-liked name, the best performer in 2023, and a stock we've liked since Dec-2020.

Investment Thesis

We rate LLY as Outperform and continue to like it because of its outsized growth – it feels like a "must own" stock. A monster performer since our Dec-2020 upgrade, with big growth ahead of it because it has not just one, but two major drivers, in two large primary care areas (diabetes/obesity & Alzheimer's disease). Plus, this is within a revenue base that is on the comparatively smaller side, and, LLY captures full economics. Mounjaro/ tirzepatide's launch in diabetes has been strong, and the product will now officially be rolling out in the newer obesity indication (under a different brand name, Zepbound). Donanenab (Alz Dz) ph3 results were solid and this product should be launching in 1Q24. The rest of LLY's underlying base business is generally in good shape, and there are even more new drugs launching in the near-term (e.g., Omvoh/mirikizumab, lebrikizumab). On valuation, LLY may appear expensive when looking at its P/E multiple in isolation, but not when considering its much higher growth vs peers (on a PE/G basis). Is it too late to buy LLY? Not in our opinion.

Catalyst

Catalysts: 1) Zepbound progress, 2) donanemab FDA approval in Alzheimer's expected in 1Q24, 3) tirzepatide Ph 3 SURMOUNT-OSA readout expected in 1H24 (sleep apnea), 4) tirzepatide Ph 3 SUMMIT readout expected in 2H24 (heart failure and obesity), 5) tirzepatide Ph 3 SURMOUNT-5 readout in 2H24 (H2H Zepbound vs Wegovy in obesity), 6) tirzepatide SURPASS-CVOT readout in T2D 2H24,

Valuation & Risks

Valuation: P/E target multiple on forward EPS estimate. **Downside risks:** 1) donanemab fails to get approved or to secure CMS coverage, 2) a tirzepatide safety issue arises, or faces greater competitive threats than we are anticipating, 3) other key pipeline drugs fail to get approved, such as lebrikizumab.

LINK TO MOST RECENT LLY NOTE

[1]Price as of 4pm ET on 11/30/2023

RATING:
Outperform

CLOSE PRICE:
$645.61

% UPSIDE:
6.9%

Source: FactSet, as of 4pm ET on 01/31/2024

VIEW LLY MODEL
VIEW COMP TABLE

Pharmaceuticals - Major
Market Weight

Tim Anderson
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View Tim's Research

February 1, 2024

FEDEX CORP. (FDX) PT: $347

Market Cap (MM)	Street Ratings	Short Interest	Avg. Daily Volume (90D)	Date Added to WAL	Price Added to WAL
$60,297	Buy	1.67%	2.3MM	01/18/23	$188.13[1]

Source: FactSet, as of 4pm ET on 01/31/2024 | WAL = Wolfe Alpha List

Why We Added FDX to The Wolfe Alpha List

FDX remains one of our top Transports ideas in 2024, with strong EPS growth, EPS upside potential in F25, and a favorable valuation. We see upside for the stock as the Street gains confidence in cost reductions and freight demand re-accelerates.

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 1971, and it now generates over $90 billion of revenue annually.

Investment Thesis

We continue to believe FDX has the best combination in transports right now of strong EPS growth, potential EPS upside, and a favorable valuation. We are seeing clear signs of change at FDX with improved earnings the last two quarters despite a large revenue decline, which has never happened at the company before. We are seeing aggressive cost reductions at FDX and have now seen five straight quarters of y/y margin improvement at Ground. Meanwhile, significant opportunity remains at Express, particularly if freight demand reaccelerates, with margins still below prior trough levels.

Catalyst

We expect FDX's DRIVE cost cuts to ramp throughout the year. Additionally, a stronger freight environment should provide an uplift for the FDX Express results.

Valuation & Risks

Our year-end 2024 price target assumes a 13.5x P/E multiple on our C25 PS 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:
$241.29

% UPSIDE:
43.8%

Source: FactSet, as of 4pm ET on 01/31/2024

VIEW FDX MODEL
VIEW COMP TABLE

Airfreight & Logistics
Market Underweight

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View Scott's Research

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

GLOBAL PAYMENTS, INC. (GPN) PT: $170

Market Cap (MM)	Street Ratings	Short Interest	Avg. Daily Volume (90D)	Date Added to WAL	Price Added to WAL
$34,692	Buy	1.49%	1.9MM	09/01/23	$126.69[1]

Source: FactSet, as of 4pm ET on 01/31/2024 | WAL = Wolfe Alpha List

RATING:
Outperform

CLOSE PRICE:
$133.23

% UPSIDE:
27.6%

Source: FactSet, as of 4pm ET on 01/31/2024

VIEW GPN MODEL
VIEW COMP TABLE

Payments & Processors
Market Overweight

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View Darrin's Research

Why We Added GPN to The Wolfe Alpha List

Shares have underperformed as concerns are raised around capabilities and competitive positioning. We believe GPN has made a step in the right direction for the stock under its new CEO, delivering organic revenue and volume growth ahead of competitors now for several straight quarters, and our confidence in multiple expansion this year is underpinned by further consistency in an ~8-9% core volume growth rate. Coupled with pricing opportunities (which peers have taken over the LTM), cost synergies from the EVO integration and associated deleveraging, we believe a positive narrative is unfolding under GPN's new CEO. Risk/reward is compelling, with current valuation 2-3 turns below peers with similar or weaker growth, and our YE24 PT of $170 is predicated on 13x our CY2025 EPS.

Company & Stock Background

GPN is one of the largest global merchant acquirers and issuer processors (comps include Fiserv and FIS/WP). Shares were pressured in 2022 and 2023 on increased competitive pressures. That said, normalizing spend post-pandemic is underscoring GPN's positioning is better than feared, in our view, which should be reflected through multiple expansion in coming quarters versus the notable multiple discount to peers.

Investment Thesis

GPN is well positioned to benefit from demands for omnichannel offerings and technology differentiation relative to many banks with large market share in select markets. Further, we believe GPN's software and point-of-sale offerings are differentiated.

Catalyst

1) Consistent tight spread between revenue and volume growth versus peers (V/MA, FIS, FI/Clover). 2) Additional quarters of in-line to better volume and revenue growth vs. peers and the networks underscoring market share positioning is notably better than priced in at this time. 3) Issuer processing backlog conversion over the next 18 months should drive stable to accelerated Issuer processing revenue growth. 4) Potential to implement new pricing in 1H24 (versus peers who already have over the LTM+), helping to offset any consumer weakness. 5) Downside protection to EPS given ongoing cost synergies (with likely upside given historical track record of cost saves) from the EVO acquisition.

Valuation & Risks

Our YE24 PT of $170 is predicated on 13x our CY2025 EPS of $13.35. Risks: M&A integration challenges, macro weakness, loss of key ISO or ISV distribution partners, and some FX risk should USD strengthen vs GBP, Euro or CAD.

LINK TO MOST RECENT GPN NOTE

[1]Price as of 4pm ET on 8/31/2023

HEXCEL CORP. (HXL) PT: $77

Market Cap (MM)	Street Ratings	Short Interest	Avg. Daily Volume (90D)	Date Added to WAL	Price Added to WAL
$5,584	Buy	1.51%	0.6MM	12/01/23	$69.31[1]

Source: FactSet, as of 4pm ET on 01/31/2024 | WAL = Wolfe Alpha List

Why We Added HXL to The Wolfe Alpha List

We believe HXL is poised for significant multi-year above-peer top-line, earnings, and cash growth. After a deep cleansing of overproduction of widebodies into COVID, we see the pendulum swinging sharply back, disproportionately benefiting HXL [~40% of pre-COVID sales was widebody, which remains down 50%]. HXL stock's underperformance vs. other high quality aerospace peers later in 2023 and YTD 2024 can largely be attributed to a destocking cycle hampering 3Q/4Q margin performance. We see a path for a catch-up trade, which we think can come on the back of a nice rebound in margins into 2024, alongside HXL's upcoming Investor Day in Feb driving greater confidence in multi-yr growth ahead.

Company & Stock Background

Hexcel is a leading global supplier of composite material (carbon fiber, resins, prepregs) and engineered products (honeycomb, composite structures), which are sold to aero, defense, space, wind, auto, recreational & general industrial end-markets. Given the proprietary/highly engineered nature of composites and the OEM supplier qualification process, barriers to entry are high, which leaves the industry heavily consolidated.

Investment Thesis

On the back of an aerospace production upcycle and in particular ramping widebody production, we see a DD sales growth CAGR through 2026 and incremental margins topping 35%, which should lift profitability rates to pre-COVID levels. Moreover, after a decade of heavy capital investment, capex is set to stay low and working capital will stabilize leading to a period of FCF conversion >100%. A solid BS combined with improving FCF offers capital deployment opportunities, which we believe will lead to an argument for higher multiples.

Catalyst

1) Widebody order activity rebounded strongly in 2023, with nearly 800 net orders (3.4x book:bill, equivalent to last 5+ years) and the 2nd best year on record. 2)Commentary on progress of widebody production trends. (Airbus taking A350 to 10/mo in '26, BA has ample demand for 10/mo on 787 in '25/'26 with potential for even higher during second half of the decade). 3) 2024 guidance implying ~200bps expansion from 2023; upcoming Investor Day in Feb to lay out more details on multi-yr growth and margin expansion

Valuation & Risks

Valuation: Premium to pre-COVID P/E multiple applied to our '25 est. P/E is used given relatively consistent earnings quality. Downside risks: WB order cancellations, lower than expected sales growth, lack of margin expansion, and weaker FCF.

LINK TO MOST RECENT HXL NOTE

[1]Price as of 4pm ET on 11/30/2023

RATING:
Outperform

CLOSE PRICE:
$66.39

% UPSIDE:
16.0%

Source: FactSet, as of 4pm ET on 01/31/2024

VIEW HXL MODEL
VIEW COMP TABLE

Aerospace
Market Overweight

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View Myles's Research

HUMANA, INC. (HUM) PT: $488

Market Cap (MM)	Street Ratings	Short Interest	Avg. Daily Volume (90D)	Date Added to WAL	Price Added to WAL
$46,543	Buy	1.73%	1.7MM	01/16/24	$438.71[1]

Source: FactSet, as of 4pm ET on 01/31/2024 | WAL = Wolfe Alpha List

RATING:
Outperform

CLOSE PRICE:
$378.06

% UPSIDE:
29.1%

Source: FactSet, as of 4pm ET on 01/31/2024

VIEW HUM MODEL
VIEW COMP TABLE

Managed Care
Market Weight

Why We Added HUM to The Wolfe Alpha List

While Humana has been under pressure due to significant NT #s cuts on utilization/ cost trend concerns, we view the selloff as overdone, given that recent 2024 guidance looks conservatively biased and considering the company's ability to reprice over the next 12-24 months and regain margins / earnings power.

Company & Stock Background

Humana is a leading Managed Care Organization with significant exposure to the fast-growing business of Medicare Advantage – allowing the company to meet its LT 11-15% EPS growth target.

Investment Thesis

While concerns on cost trend are real, we continue to see Humana as well positioned in the fast growing Medicare Advantage segment, with the current stock price representing trough valuation off of reasonable earnings power.

Catalyst

We expect 2025 Med Adv rates to be better than feared in the next several days and look for the company to reprice its 2025 business to significantly improve earnings next year and into 2026.

Valuation & Risks

We value HUM and all MCO names on a relative P/E basis to the S&P500. Our target multiple for the company is ~15x, or 83% relative multiple to S&P off 2024 EPS of $21.50, leaving our YE'24 PT at $488. Risks include potential changes to Med Adv reimbursement over time as well as higher medical cost trend vs. expectations.

LINK TO MOST RECENT HUM NOTE

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[1]Price as of 4pm ET on 1/12/2024

ILLUMINA, INC. (ILMN) PT: $175

Market Cap (MM)	Street Ratings	Short Interest	Avg. Daily Volume (90D)	Date Added to WAL	Price Added to WAL
$22,710	Buy	2.94%	2.4MM	01/16/24	$138.04[1]

Source: FactSet, as of 4pm ET on 01/31/2024 | WAL = Wolfe Alpha List

Why We Added ILMN to The Wolfe Alpha List

Illumina's risk/reward and path to outperformance is arguably the most compelling in our coverage universe. The company is already taking steps pursuant to divesting GRAIL, the new CEO is getting more comfortable with a return-to-growth over time, and we believe confidence will build in a return to at least mid-teens operating margin. Solid investor returns aren't dependent on a dream of a return of "old Illumina;" we believe clean, disciplined growth at a Tools valuation will be more than enough.

Company & Stock Background

Illumina (ILMN) is the market leader in Next-Generation Sequencing (NGS), having set the precedent for affordable and timely full-genome sequencing. In 2021, Illumina acquired GRAIL, a company that manufactures multi-cancer early detection (MCED) tests, notably the only player in the market to begin commercializing these tests. In December, Illumina announced the divestiture of GRAIL due to operational drag and antitrust concerns amid EU and FTC developments.

Investment Thesis

We believe the stock can work through three steps. 1) Divest GRAIL, which Illumina expects to finalize in H2:24. 2) Demonstrate there is still elasticity in a growing sequencing market – ILMN moved too quickly with NovaSeq X-driven capacity expansion and price/data cuts; history suggests it will take 3-4 quarters for the market to catch up. We are (conservatively) forecasting NovaSeq X consumable spending at ~60% of NovaSeq 6000 levels in 2024. We also think our placement forecast has an upward bias (~1K customers bought 6000s, ~750 only have 1, and there have only been ~350 X placements thus far). 3) Continue to run the company with Agilent-like operating discipline (new CEO, Jacob Thaysen, came over from Agilent).

Catalyst

1. Increased utilization on the NovaSeq X to drive higher consumable revenue
2. More NovaSeq X placements
3. Clear operating targets – path to mid-20s operating margin

Valuation & Risks

Our $175 price target is derived by rolling forward to a '25 peer group P/E multiple paired with a standalone DCF, less $2.5B (~$15/sh.) for GRAIL. Key downside risks: 1) GRAIL divestiture. 2) China pressures intensify. 3) Lack of elasticity with NovaSeq X after too much capacity expansion too early. 4) Competitive outlook deteriorates as the definition of competition broadens. 5) Margin expansion lags.

LINK TO MOST RECENT ILMN NOTE

RATING:
Outperform

CLOSE PRICE:
$143.01

% UPSIDE:
22.4%

Source: FactSet, as of 4pm ET on 01/31/2024

VIEW ILMN MODEL
VIEW COMP TABLE

Specialty Tools
Market Weight

Doug Schenkel
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View Doug's Research

[1]Price as of 4pm ET on 1/12/2024

February 1, 2024

KINSALE CAPITAL GROUP, INC. (KNSL) PT: $451

Market Cap (MM)	Street Ratings	Short Interest	Avg. Daily Volume (90D)	Date Added to WAL	Price Added to WAL
$9,213	Buy	4.39%	0.2MM	10/01/23	$414.13[1]

Source: FactSet, as of 4pm ET on 01/31/2024 | WAL = Wolfe Alpha List

Why We Added KNSL to The Wolfe Alpha List

We believe KNSL is well positioned to continue to generate double-digit top-line growth and gain incremental market share as it leverages its underwriting expertise and best-in-class operating efficiency to sustain mid-teens ROTCEs.

Company & Stock Background

KNSL is a founder-led company that focuses exclusively on the Excess & Surplus (E&S) market. KNSL's ability to leverage its proprietary technology and automation enables it to operate at a significant cost advantage over many of its larger competitors. By combining disciplined underwriting and low costs, KNSL is able to deliver consistent outperformance.

Investment Thesis

KNSL's market share increased from zero at the time of its founding in 2009 to ~1.8% in 2023E, as KNSL continues to take share in a growing market. Beyond its exceptional top-line growth, KNSL has also maintained a best-in-class expense ratio, which has been running ~10ppts below its specialty insurance peers since 2017. Layering in an exceptional underwriting track record (evidenced by favorable reserve development every accident year since its founding, except 2011) will enable KNSL to continue to outperform in our view.

Catalyst

Repeatable and sustainable compound annual earnings growth of at least 15%. Where KNSL's estimates go, shares have tended to follow, with the R-Squared between KNSL's share price and NTM EPS at 89%. We expect KNSL to sustain ~30% compound annual growth in TBVPS through 2025.

Valuation & Risks

We value KNSL using a framework that considers justified P/E and P/TBV-based valuation multiples. We apply our 26x target P/E to our estimate of 2025 EPS to arrive at our year-end 2024 price target of $451. Downside risks to our Outperform rating include higher inflation-fueled loss development costs that erode conservatism in underwriting, peers developing comparable technology infrastructure that leads to greater competitive pressures, rising "once in a century" weather events that drive a heightened level of catastrophic losses, and greater-than-expected deceleration in E&S market growth.

LINK TO MOST RECENT KNSL NOTE

RATING:
Outperform

CLOSE PRICE:
$397.57

% UPSIDE:
13.4%

Source: FactSet, as of 4pm ET on 01/31/2024

VIEW KNSL MODEL
VIEW COMP TABLE

Specialty Insurance
Market Overweight

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View Bill's Research

[1]Price as of 4pm ET on 9/29/2023

LENNAR CORPORATION (LEN) PT: $165

Market Cap (MM)	Street Ratings	Short Interest	Avg. Daily Volume (90D)	Date Added to WAL	Price Added to WAL
$37,037	Buy	2.01%	2.1MM	06/20/23	$120.02[1]

Source: FactSet, as of 4pm ET on 01/31/2024 | WAL = Wolfe Alpha List

Why We Added LEN to The Wolfe Alpha List

LEN remains our favorite home builder as we appreciate its consistent execution, market share gains and strong BS. We like LEN's $3.5B in Net Cash (9% of assets) and '24 Op CF generation of $3.5B. Along with Quarterra (~$3.0B assets) and a continued shift toward a 90% Optioned Land bank (potentially freeing up $1.65B in cash), we believe LEN can reduce its asset base by $10B+, or ~25% over the next couple of years, which would drive our '24 ROA estimate of 9.5% toward the 12.5% range.

Company & Stock Background

LEN is the 2nd largest builder based on volume, operating in 43 markets. It is highly levered to markets in the SE. Roughly 40% of sales are to EL 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 and migrating to a land light operating model.

Investment Thesis

LEN is a spec-heavy, EL/affordable builder with outsized exposure to outperforming SE & TX markets. We believe this will drive stronger volumes and returns throughout the current cycle. LEN has one of the healthiest balance sheets in the group with $3.5B in net Cash or ~$12.40 per share and 76% Optioned Land exposure, which we believe will drive relative outperformance in potential risk-off markets.

Catalyst

While LEN reported F4Q in mid-Dec, we expect the equity draws investor attention when the rest of the group reports C4Q earnings later this month (Jan) as the company's 1Q Order guide implies LEN will have one of the stronger Order performances among its peers. The company recently announced (1/9/24) an incremental $5B share repurchase authorization. We believe this repurchase announcement will continue increasing investor confidence that management is nearer to returning capital to shareholders, thereby providing an incremental driver for higher returns. Finally, LEN was aggressive with 4Q discounting. The lower mortgage rate environment should allow it to see relatively outsized GM improvement as the company could reduce its incentive structure.

Valuation & Risks

The equity trades at 1.5X our '24 BV estimate excluding the net cash balance, above the 1.3X midpoint of its T3Y range (1.9X-0.9X). We believe a premium BV valuation is warranted given the company's fundamental performance, Cash Flow potential and BS transition that drives a lower risk, higher returns business. Our $165 PT implies a 1.6X BV multiple on our '24 estimate, 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:
$149.85

% UPSIDE:
10.1%

Source: FactSet, as of 4pm ET on 01/31/2024

VIEW LEN MODEL
VIEW COMP TABLE

Homebuilders
Market Weight

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View Truman's Research

LPL FINANCIAL (LPLA) PT: $294

Market Cap (MM)	Street Ratings	Short Interest	Avg. Daily Volume (90D)	Date Added to WAL	Price Added to WAL
$18,088	Buy	1.38%	0.6MM	01/16/24	$230.93[1]

Source: FactSet, as of 4pm ET on 01/31/2024 | WAL = Wolfe Alpha List

Why We Added LPLA to The Wolfe Alpha List

Since August '23, shares have meaningfully lagged on rate cutting fears (+4%, vs. BKX +19%, S&P Fins. +15%, SCHW +8%). We are looking to take advantage of the more compelling entry point, as we would argue downside risk from Fed rate cuts appears "fully baked," with greater upside potential from equity market tailwinds, accelerating net new asset growth, and cash sorting relief. LPLA also screens the best in our scenario analysis, which we published alongside our 2024 Outlook where we evaluate risk/ reward across a wide range of macro scenarios. Given best-in-class EPS/organic growth and greater EPS resiliency, we would argue shares are too heavily discounted, with LPLA shares offering the highest valuation upside across our coverage (>20%).

Company & Stock Background

LPLA is a Retail Broker that provides myriad services to financial advisors through various affiliation options (Independent, RIA, Enterprise, Independent Employee). Over the past ten years, LPLA has traded at an average P/E of 14.7x (NTM cons. EPS), though we would argue a higher target P/E is justified given higher run-rate organic growth.

Investment Thesis

We are increasingly convicted in LPLA as our Wolfe Alpha List selection given 1) bestin-class EPS / organic growth; 2) cash sorting pressures abating; 3) heavily discounted valuation (esp. relative to growth profile); and 4) greater EPS resiliency in downside macro scenarios. We also believe that investor concerns on lower rates are overblown – while LPLA earnings will be impacted by sustained lower rates, we believe this is already reflected in the current valuation, with sources of upside not adequately contemplated (higher markets, best-in-class organic growth, M&A / buyback tailwinds, etc.).

Catalyst

The next key catalyst for LPLA will likely be 4Q23 earnings (Feb 1st). We also view its monthly metrics and FOMC meetings as key interim catalysts to the stock.

Valuation & Risks

We take our '26 normalized EPS (discounted by one year) and apply our Target P/E of 14x. Our Target P/E reflects a slight premium to Wealth peers, which have exhibited weaker EPS growth and have heavier gearing to lower-multiple businesses. After crediting 12M dividend / excess capital, we derive our PT of $294. Downside risks: 1) Cash sorting could persist for longer; 2) Fed futures reflect more aggressive rate cutting scenarios; 3) Slowdown in organic growth; 4) Higher cost of advisor acquisition; and 5) Regulatory concerns relating to DOL intensify.

LINK TO MOST RECENT LPLA NOTE

RATING:
Outperform

CLOSE PRICE:
$239.19

% UPSIDE:
22.9%

Source: FactSet, as of 4pm ET on 01/31/2024

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 1/12/2024

META PLATFORMS INC. (META)

PT: $430

Market Cap (MM)	Street Ratings	Short Interest	Avg. Daily Volume (90D)	Date Added to WAL	Price Added to WAL
$865,957	Buy	1.22%	18.6MM	01/18/23	$135.36[1]

Source: FactSet, as of 4pm ET on 01/31/2024 | WAL = Wolfe Alpha List

RATING:
Outperform

CLOSE PRICE:
$390.14

% UPSIDE:
10.2%

Source: FactSet, as of 4pm ET on 01/31/2024

VIEW META MODEL
VIEW COMP TABLE

Online Advertising
Market Weight

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View Deepak's Research

Why We Added META to The Wolfe Alpha List

In our view, META's stock is currently mispriced for the true earnings power and FCF generation potential of the business, which should be evident over the next few quarters as the investment cycle moderates and 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%). However, shares of META outperformed the Nasdaq by 154 pts in 2023 due to cost initiatives (Year of Efficiency), AI developments, and strong ad monetization vs. peers. 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. The company has guided muted opex growth in FY24, which should benefit margins further.

Investment Thesis

META's NT top-line reacceleration is benefiting from steady progress in key growth initiatives, including AI investments and a relatively steady macro backdrop. Looking into FY24, the company should benefit from engagement gains in Reels, penetration of Advantage+ to higher mix of budgets, and additional contribution from APAC ecommerce players. The bull thesis is now supported by healthy top-line acceleration on top of efforts to improve the cost structure post Year of Efficiency cost initiatives. 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.

Catalyst

1) Improved trajectory for Ad revenues from Advantage+ and other targeting improvements; 2) Incremental efficiency gains and margin expansion; 3) Progress on Reels monetization; 4) Mainstream Adoption from new Gen AI experiences; 5) Contribution from APAC eCommerce players.

Valuation & Risks

Our price target of $430 is based on a blended average of 20x GAAP EPS and 5% FCF yield using a blended average of our FY24/25 estimates. Risks: share loss, regulatory changes, privacy changes, consumer slowdown, and sustained elevated capex.

LINK TO MOST RECENT META NOTE

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

MICROSOFT CORPORATION (MSFT) PT: $510

Market Cap (MM)	Street Ratings	Short Interest	Avg. Daily Volume (90D)	Date Added to WAL	Price Added to WAL
$2,954,193	Buy	0.71%	25.5MM	01/16/24	$388.47[1]

Source: FactSet, as of 4pm ET on 01/31/2024 | WAL = Wolfe Alpha List

RATING:
Outperform

CLOSE PRICE:
$397.58

% UPSIDE:
28.3%

Source: FactSet, as of 4pm ET on 01/31/2024

VIEW MSFT MODEL
VIEW COMP TABLE

Enterprise Software
Market Weight

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View Joshua's Research

Why We Added MSFT to The Wolfe Alpha List

We view MSFT as the nearest-term beneficiary from AI tailwinds in 2024 while underlying cloud demand trends are improving. We believe upward reversions to top- and bottom-line estimates will serve as near-term catalysts throughout the year and expect MSFT to outperform mega-cap software peers.

Company & Stock Background

Microsoft is a global vendor of computer software, cloud and digital services, and consumer electronics. They generated ~$212B of revenue in FY23 and are on track to do ~$243B in FY24E. MSFT's core product offerings span Productivity & Business Process (AI-backed collaboration tools and services to enable critical business functions), Intelligent Cloud (Comprised of Azure (Microsoft's cloud computing service) and adjacent security, database, and compliance solutions), and More Personal Computing (e.g., Windows operating system and commercial offerings, gaming, and hardware).

Investment Thesis

With shares trading in line with mega cap Software peers, we see the opportunity to own a brick house in an improving yet still tumultuous macro landscape over the NTM. We model EPS growth re-accelerating into double-digits in FY24 (high teens in FY25), which is compelling given the current macro environment. Azure and Office 365 account for the vast majority of Microsoft's revenue growth today, which makes these the key areas of focus. We believe both businesses are in the early-to-middle innings of their lifecycles and both are capable of sustaining strong growth rates above most investors' expectations for years to come. MSFT's top-line growth profile combined with margin leverage/OpEx growth should support EPS outperformance over the next few years, which would be fundamental to unlocking near- and long-term stock appreciation.

Catalyst

We believe upward estimate revisions to top-line and EPS represent positive catalyst opportunities through the year as core demand trends for Cloud and Office spend improve, while MSFT takes share of new AI workloads. We expect increasing AI contribution to outperform expectations, and product innovation to raise investor conviction about durable mid-teens top-line growth and high-teens EPS growth. We also expect continued operating efficiencies to drive accelerating EPS expansion.

Valuation & Risks

Our $510 PT assumes a 34x CY25 non-GAAP P/E multiple. Significant underperformance in the Azure business would be detrimental to the secular growth narrative, which is crucial for sustaining double-digit earnings growth beyond this year.

LINK TO MOST RECENT MSFT NOTE

[1]Price as of 4pm ET on 1/12/2024

NVIDIA CORPORATION (NVDA) PT: $630

Market Cap (MM)	Street Ratings	Short Interest	Avg. Daily Volume (90D)	Date Added to WAL	Price Added to WAL
$1,519,717	Buy	1.16%	43.3MM	11/10/23	$469.50[1]

Source: FactSet, as of 4pm ET on 11/30/2023 | WAL = Wolfe Alpha List

RATING:
Outperform

CLOSE PRICE:
$615.27

% UPSIDE:
2.4%

Source: FactSet, as of 4pm ET on 11/30/2023

VIEW NVDA MODEL
VIEW COMP TABLE

Semiconductor Devices
Market Overweight

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View Chris's Research

Why We Added NVDA to The Wolfe Alpha List

We added Nvidia to the Wolfe Alpha List in November 2023 to reflect our confidence in NVDA's earnings momentum over the next several quarters, as well as the long-term opportunities from its dominance in AI.

Company & Stock Background

NVDA is a leading provider of processor technologies and the inventor of the GPU, with strong positions in the 3D graphics, gaming, scientific computing, AI, data science, autonomous vehicle, and AR/VR markets, in addition to its CUDA inferface software, which allows developers to apply GPUs for a variety of use cases.

Investment Thesis

We expect Street numbers to move higher over the next few quarters as we believe the mix effect of shifting A100 production to higher ASP H100 is higher than originally anticipated (2.75x ASP increase). We expect 1H24 to benefit from better unit production, due to higher CoWoS capacity, as well as the launch of new chips compliant with China restrictions and Grace Hopper. For 2H24 and CY25, we expect the B100 product cycle to be a catalyst to both units and pricing (we think a 2x increase in ASP is a reasonable assumption). While some investors are concerned about peak AI demand after several quarters of strong growth, we think those concerns miss the effect of ASP increases that are now a result from the end of Moore's Law. We believe the eventual extra capacity and ASP uplift provide a path to $100bn datacenter revenue and $25 EPS as AI adoption continues.

Catalyst

We don't believe the Street has fully modeled the pricing impact of the H100/B100 cycle on CY24/CY25 revenue. We believe the favorable mix effect of shifting A100 production to H100 will be followed by higher volume in 1H24 as additional CoWoS capacity becomes available. 1H24 will also benefit from the launch of new China compliant chips and Grace Hopper. This will be followed by the ramp of next gen B100 in 2H24/CY25, for which we believe a 2x increase in ASP is a reasonable assumption. We also expect rev/GM tailwinds from strong growth in AI Enterprise software.

Valuation & Risks

Our $630 price target is based on ~25x $25 earnings power, toward the lower end of NVDA's 23-50x range over the past year, and below its ~36x multiple over the past five years. We will revisit our PT and estimates when NVDA reports F4Q24 earnings on 2/21/24. Risks to our PT include internally developed silicon at hyperscalers, increased competition from AMD's merchant offering and additional restrictions on sales to China.

LINK TO MOST RECENT NVDA NOTE

[1]Price as of 4pm ET on 11/9/2023

WOLFE RESEARCH

February 1, 2024

PG&E CORP (PCG) PT: $20

Market Cap (MM)	Street Ratings	Short Interest	Avg. Daily Volume (90D)	Date Added to WAL	Price Added to WAL
$35,992	Buy	1.83%	17.3MM	01/18/23	$15.87[1]

Source: FactSet, as of 4pm ET on 01/31/2024 | WAL = Wolfe Alpha List

RATING:
Outperform

CLOSE PRICE:
$16.87

% UPSIDE:
18.6%

Source: FactSet, as of 4pm ET on 01/31/2024

VIEW PCG MODEL
VIEW COMP TABLE

Utilities/Regulateds
Market Overweight

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View Steve's Research

Why We Added PCG to The Wolfe Alpha List

PCG has the best opportunity among utility stocks to rerate as the company continues its turnaround and executes on operational and financial targets. PCG has industry leading RB and EPS growth with no near-term 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 turn around 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. PCG received a reasonable decision late last year in its 2023-26 GRC that provides multiyear rate certainty. It also received a 70bp increase in the allowed ROE in 2024, reflecting the higher cost of capital environment. We also project continued improvement in PCG's credit, keeping the parent company on track to get back to investment grade. 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. Over the past year, the stock has narrowed its deep discount to peers, as the market finally appeared to appreciate PCG's growth story. And the FVT overhang was removed late last year after they completed their planned exit. But the stock remains among the lowest P/E utility stocks, despite sector-leading RB and EPS growth and supportive regulatory framework, including an ROE increase in 2024 to reflect higher cost of capital. We anticipate further narrowing of the discount to peers in 2024.

Catalyst

We believe the following catalyst is highly likely for PCG this year:

- PacGen minority sale approval and completion.

Valuation & Risks

Our $20 PT is based on a turn 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

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

T-MOBILE US, INC. (TMUS)

PT: $200

Market Cap (MM)	Street Ratings	Short Interest	Avg. Daily Volume (90D)	Date Added to WAL	Price Added to WAL
$192,800	Buy	6.31%	4.4MM	07/07/23	$139.16[1]

Source: FactSet, as of 4pm ET on 01/31/2024 | WAL = Wolfe Alpha List

Why We Added TMUS to The Wolfe Alpha List

We have confidence in T-Mobile's ability to maintain profitable market share as mobile's premium-value leader. With account growth through investments in underpenetrated segments (enterprise & small mkts), alt. product sell through (Home Internet), and Go5G price increases, T-Mobile's ARPA trajectory looks strong. The opportunity provides MSD service rev. growth, 8% core adj. EBITDA growth, ~50% EBITDA-FCF conversion, and $60B of buybacks through '25E.

Company & Stock Background

Acquiring Sprint in '20, T-Mobile was elevated to premium-value leader in wireless, now the 2nd largest carrier w/ ~98M (4Q'23) phone customers. T-Mobile's success can be attributed to its bolstered spectrum portfolio, w/ ~50M pop. coverage lead to the next peer (VZ). Such spectrum breadth has allowed T-Mobile to transform brand perception & introduce 5G Home Internet to encroach upon cable broadband at low marginal cost (i.e., fallow spectrum). Outsized wireless growth, ancillary yet accretive internet, & cost savings post-merger position T-Mobile to drive sustainable financial growth.

Investment Thesis

As Sprint synergies dissipate in '24E, we expect postpaid phone service growth & equipment efficiencies to drive core adj. EBITDA growth at 2x that of service rev. for the next 2 years. With cable competition steady, T-Mobile has the strongest position of the Big 3 to maintain postpaid phone market share through competitive pricing at the 3+ lines, 5G network leadership, and not fully tapped markets in small/rural (est. +3.2M net adds through '25E) & enterprise. Finally, w/ a 60% take-rate of prem. plans by new customers & higher relative Go5G pricing, '24E guide for flat postpaid phone ARPU is consistent in funding a larger promo budget to drive acquisition & retention. Such pts translate to double-digit FCF yield baked into TMUS's upside, while its +25% EV/EBITDA premium (8.4x) compared to VZ & T (6.5x) appears fully warranted when considering the premium closes to ~11% if adjusted for expected buybacks.

Catalyst

1) Add'l spectrum & network investments extend T-Mobile's 5G leadership & net adds

2) Fiber investments to drive cost savings & consumer retention/ARPA growth post FWA

Valuation & Risks

We value TMUS on '26E EBITDA (post-targeted Buybacks) for a '24YE valuation of $200/ sh. PT. Risks: inc'd competition, net neutrality regulation, tax reforms.

LINK TO MOST RECENT TMUS NOTE

RATING:
Outperform

CLOSE PRICE:
$161.23

% UPSIDE:
24.0%

Source: FactSet, as of 4pm ET on 01/31/2024

VIEW TMUS MODEL
VIEW COMP TABLE

Telecom
Market Overweight

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[1]Price as of 4pm ET on 7/6/2023

VICI PROPERTIES, INC. (VICI) PT: $41

Market Cap (MM)	Street Ratings	Short Interest	Avg. Daily Volume (90D)	Date Added to WAL	Price Added to WAL
$31,160	Buy	2.04%	6.4MM	03/22/23	$31.53[1]

Source: FactSet, as of 4pm ET on 01/31/2024 | WAL = Wolfe Alpha List

RATING:
Outperform

CLOSE PRICE:
$30.12

% UPSIDE:
36.1%

Source: FactSet, as of 4pm ET on 01/31/2024

VIEW VICI MODEL
VIEW COMP TABLE

Net Lease
Market Weight

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View Andrew's Research

Why We Added VICI to The Wolfe Alpha List

VICI is among our favorite ideas for 2024. Our macro outlook is "slower (growth) and lower (rates)," which leads to favoring duration to insulate from economic sensitivity and falling rental inflation, supportive of Net Lease. VICI has predictable growth even in an economic downturn and continues to see strong spreads between its implied cap rate and acquisition cap rates.

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 ~$35 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 embedded CPI resets on a majority of leases, which should provide strong same-store growth in 2024.
- 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: 1) VICI does not have obvious credit issues and collected 100% of rents during the pandemic; and 2) VICI will likely outperform if inflation persists due to CPI-linked leases. Guidance is conservative in only assuming base escalators.

Valuation & Risks

VICI's PEG is below our coverage average, and we value VICI on a P/AFFO basis. 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

WALMART (WMT) PT: $181

Market Cap (MM)	Street Ratings	Short Interest	Avg. Daily Volume (90D)	Date Added to WAL	Price Added to WAL
$444,892	Buy	0.86%	7.0MM	01/18/23	$144.41[1]

Source: FactSet, as of 4pm ET on 01/31/2024 | WAL = Wolfe Alpha List

Why We Added WMT to The Wolfe Alpha List

Our latest checks suggested that value-focused discounters are picking up share due to the choppy macro backdrop. We view this as a strong read through to WMT, which is broadly considered the price leader in its categories. We think WMT can benefit in either a worsened or improved macro, via further share gains or improved consumer spending on discretionary products.

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 few traditional retailers with the scale (>$15bn in capex) and competitive advantages to compete against Amazon in eCommerce.

In the near term, we think investors are looking ahead to 2024 margins (with some interest in holiday trends).

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). Profitability tailwinds from lower investment levels are expected to 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 (e.g. ,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 that incremental customers the company has added will likely increase spend in a better macro environment.

Valuation & Risks

We use an NTM P/E multiple to arrive at our year-end price target. Downside Risks: 1) Comp momentum decelerates significantly in the US; 2) Online sales growth decelerates despite increasing investments in this channel; 3) General merchandise sales are impacted by slowdown in economy

LINK TO MOST RECENT WMT NOTE

RATING:
Outperform

CLOSE PRICE:
$165.25

% UPSIDE:
9.5%

Source: FactSet, as of 4pm ET on 01/31/2024

VIEW WMT MODEL
VIEW COMP TABLE

Food Retailers
Market Overweight

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

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

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