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Vintage Values | North America

Vintage Values 2021

Vintage Values 2021 assembles the best insights of Morgan Stanley Research for stocks to hold for 12 months: mid- to large-caps likely to realize superior risk-adjusted returns over the next year.

For '*Vintage Values 2021*', our 11th annual iteration in the series, Morgan Stanley Research's Stock Selection Committee (SSC) wove together fundamental and quantitative analyses to identify our top ideas.

We began by asking each of our North America analysts for their top pick for a one-year buy-and-hold investment horizon; almost 50 names were suggested by our analysts. The SSC, in conjunction with our US Equity Strategy team, considered each of these companies' macro exposure, industry positioning, valuation, and, crucially, the risk-reward profile, paying particular attention to the skew of the analysts' Bull- and Bear-Case valuation estimates.

The SSC also considered each stock's ranking within our Quantitative Equity Strategy team's Quality Score. Further, our Global Sustainability Research team worked with the SSC to integrate Environmental, Social, and Governance (ESG) analysis into the selection process.

In evaluating the makeup of the *Vintage Values* list, the SSC also considered the sector weighting recommendations of our US Equity Strategy team, led by Chief Strategist Michael Wilson.

Our '*Vintage Values 2020*' list produced a +7.80% return over the period from August 13, 2019 to August 19, 2020, underperforming the S&P 500 by 1037 basis points over that time frame. (See inside for more detail regarding *Vintage Values 2020*, as well as important disclosures).

Ally Financial	**Microsoft**
Amgen	**Mondelez International**
BlackRock	**Nike**
Dell Technologies	**Raymond James Financial**
Fortive	**Sherwin-Williams**
Johnson & Johnson	**TransUnion**
Madison Square Garden Sports	**Visa**
McKesson	**Yum! Brands**

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Vintage Values 2021 — Key Financial Data

Exhibit 1: Vintage Values 2021 — Key Financial Data

Ticker	Company name	Primary sector	Primary Analyst	Market Cap ($mn)	Share Price ($) 19-Aug	Price Target ($)	Earnings Per Share ($) 2020e	2021e	P/E, diluted 2020e	2021e	Div. Yield 2020e	2021e	FCF Yield 2020e	2021e	Adjusted Beta
ALLY.N	Ally Financial	Financials	Graseck, Betsy	8,325	22.27	31	1.24 e	3.45 e	17.9	6.4	3.4% e	3.6% e	NM	NM	1.67
AMGN.O	Amgen	Healthcare	Harrison, Matthew	140,853	240.49	281	15.75 e	17.49 e	15.3	13.8	2.6% e	2.9% e	8.0%	8.4%	0.85
BLK.N	BlackRock	Financials	Cyprys, Michael	89,927	589.75	652	29.35 e	31.81 e	20.1	18.5	2.5% e	2.6% e	NM	6.3%	1.16
DELL.N	Dell Technologies	Technology	Huberty, Katy	44,338	59.85	70	6.41 e	6.82 e	9.3	8.8	NA	NA	6.4%	9.0%	1.07
FTV.N	Fortive	Consumer Discretionary/Industrials	Pokrzywinski, Joshua	24,070	71.41	83	3.13 e	3.75 e	22.8	19.0	0.4% e	0.4% e	7.1%	6.6%	1.10
JNJ.N	Johnson & Johnson	Healthcare	Lewis, David	395,950	150.39	170	7.90 e	8.84 e	19.0	17.0	2.6% e	2.8% e	4.0%	5.3%	0.76
MSGS.N	Madison Square Garden Sports	Media	Swinburne, Benjamin	3,839	160.00	210	(2.56) e	(5.32) e	NM	NM	0.0% e	0.0% e	NM	NM	0.97
MCK.N	McKesson	Healthcare	Goldwasser, Ricky	24,870	153.34	204	14.98 e	18.62 e	10.2	8.2	1.1% e	1.1% e	11.1%	10.9%	0.92
MSFT.O	Microsoft	Technology	Weiss, Keith	1,586,937	209.70	230	5.76 e	6.60 e	35.3	31.8	1.0% e	1.1% e	2.8%	3.2%	0.90
MDLZ.O	Mondelez International	Consumer Staples	Mohsenian, Dara	81,072	56.76	65	2.62 e	2.86 e	21.6	19.8	2.1% e	2.3% e	4.5%	4.3%	0.83
NKE.N	Nike	Retail	Greenberger, Kimberly	169,076	108.39	121	1.97 e	2.61 e	NM	41.5	1.0% e	1.1% e	2.4%	2.1%	1.02
RJF.N	Raymond James Financial	Financials	Gosalia, Manan	10,266	74.85	91	5.24 e	5.93 e	14.3	12.6	2.0% e	2.0% e	NM	NM	1.15
SHW.N	Sherwin-Williams	Materials	Andrews, Vincent	60,556	665.09	700	22.65 e	26.00 e	29.4	25.6	0.8% e	1.1% e	3.8%	4.1%	1.06
TRU.N	TransUnion	Technology	Kaplan, Toni	16,088	84.63	105	2.87 e	3.42 e	29.4	24.7	0.4% e	0.4% e	3.5%	3.6%	1.26
V.N	Visa	Technology	Faucette, James	427,680	200.99	211	5.01 e	5.75 e	40.1	34.9	0.6% e	0.7% e	2.3%	3.1%	1.00
YUM.N	Yum! Brands	Consumer Discretionary/Industrials	Glass, John	28,310	93.93	103	3.31 e	3.78 e	28.4	24.8	2.0% e	2.0% e	2.1%	4.9%	1.13

Adjusted beta is the 3 year weekly historical beta which is smoothed by multiplying the raw beta by 0.67 plus 0.33
Source: ModelWare and Thomson Reuters, data as of 8/19/2020
Metrics are calculated using the ''for consensus' methodology.
NA = Not Applicable; NM = Not Meaningful

Vintage Values 2021

This is the 11th annual edition of *Vintage Values*. In compiling the list, our stock-selection framework blended our analysts' fundamental views with quantitative analysis.

We began by asking each of our North America analysts for their top pick for a one-year buy-and-hold investment horizon; almost 50 names were suggested by our analysts. Morgan Stanley Research's Stock Selection Committee (SSC), in conjunction with our US Equity Strategy team, assessed each company's macro exposure, industry positioning, valuation, and risk-reward profile, paying particular attention to the skew of the analysts' Bull- and Bear-Case valuation estimates.

The SSC also considered each stock's ranking within our Quant Strategy team's Quality scoring model. Additionally, the SSC collaborated with our Global Sustainability Research team to integrate ESG analysis into the process.

To arrive at our final list of 16 names, the SSC also considered the sector-weighting recommendations of our Chief US Equity Strategist Michael Wilson; predictably, *Vintage Values 2021* is broadly aligned with Mike's sector preferences — for instance, it is overweight Financials, Industrials, and Health Care, and underweight Technology.

The list has a bias toward high-quality stocks; it is also less expensive than the market on P/E and price-to-sales. Notably, 75% of the stocks in the portfolio are ranked as High Quality by our Quantitative Equity Research team's model, vs. 53% for the S&P 500. The average stock in the portfolio trades at a slight discount to the market on forward P/E (18.6x, vs 20.0x for the S&P 500). On Price/Sales, *Vintage Values 2021* is at a material discount to the market (0.9x vs 1.4x).

Our portfolio is tilted toward Growth names; 37% of our list is classified as "Growth" by our Quant Research Team's proprietary style model, vs. 26% for the index overall. Our list also favors large-cap stocks; 75% of the names are classified as either mega-cap or large-cap, and the average market cap of $194 billion is well above the $60 billion average for the S&P 500. The portfolio's beta is 1.03.

Further, we highlight that *Vintage Values 2021* has a better earnings revision profile than the overall market: the portfolio's 3-month smoothed earnings revision averages +9.9%, more than double the +4.7% for the S&P 500, and its up-to-down revisions ratio is 66%, which is also more than double the index's ratio of 32%.

Exhibit 2: Vintage Values Portfolio vs S&P 500 as of August 12, 2020

Category	Factor	Portfolio	Benchmark	Portfolio vs Benchmark
Valuation	Price-to-Book	2.9x	2.2x	1.3x
	Price-to-Fwd. Earnings	18.6x	20.0x	0.9x
	Price-to-Sales	0.9x	1.4x	0.7x
	Price-to-Oper. Cash flow	15.8x	11.3x	1.4x
	EV-to-EBIT	26.9x	25.6x	1.1x
	EV-Free Cash Flow	29.7x	29.5x	1.0x
	Dividend Yield	1.4%	3.0%	-1.6%
	Total Yield	3.4%	4.7%	-1.3%
	Free Cash Flow Yield	4.6%	4.2%	0.4%
Capital Use and Profitability	Cash-to-Market Capitalization	9.2%	11.3%	0.8x
	Capex-to-Sales	5.1%	8.9%	0.6x
	Accruals	2.2%	5.0%	0.4x
	Incremental Margin	18.0%	18.4%	-0.4%
	Asset Turnover	84.4%	67.3%	1.3x
	Gross Margin	48.0%	35.4%	12.7%
	Change in Shares Outstanding	-1.6%	2.3%	-3.9%
Growth and Investor Sentiment	9-Month Price Momentum	5.9%	-0.1%	6.0%
	3-Month Smoothed Earnings Revisions	9.9%	4.7%	5.2%
	Up-to-Down Revisions	65.6%	32.2%	33.4%
	Sales Stability	8.1%	11.9%	(3.8%)
	Beta	1.03	1.00	1.0x
Size	Market Cap	193,817	59,627	3.3x

Source: ClariFi, FactSet, Refinitiv, as interpreted by Morgan Stanley's Quantitative Equity Research team

Exhibit 3: Vintage Values Portfolio vs S&P 500 — Exposures as of August 12, 2020

Exposure	Group	Portfolio	Benchmark	Portfolio vs Benchmark
Size	Mega-Cap Stocks	31.3%	9.6%	21.7%
	Large-Cap Stocks	43.8%	44.4%	-0.7%
	Mid-Cap Stocks	18.8%	44.0%	-25.3%
	Small-Cap Stocks	6.3%	2.0%	4.3%
Quality	High	75.0%	53.4%	21.6%
	Medium	0.0%	18.2%	-18.2%
	Low	6.3%	4.6%	1.7%
	Junk	18.8%	23.8%	-5.1%
Style	Growth	37.5%	25.6%	11.9%
	Value	18.8%	36.2%	-17.5%
Cyclical/ Defensive	Cyclical	43.8%	44.4%	-0.7%
	Defensive	12.5%	25.0%	-12.5%
Sectors	Energy	0.0%	2.6%	-2.6%
	Materials	6.3%	2.6%	3.7%
	Industrials	12.5%	8.3%	4.2%
	Consumer Discretionary	12.5%	11.2%	1.3%
	Consumer Staples	6.3%	7.0%	-0.7%
	Health Care	18.8%	14.3%	4.4%
	Financials	18.8%	10.1%	8.7%
	Information Technology	18.8%	27.4%	-8.7%
	Telecommunication Services	6.3%	10.8%	-4.6%
	Utilities	0.0%	3.0%	-3.0%
	Real Estate	0.0%	2.7%	-2.7%

Source: ClariFi, FactSet, Refinitiv, as interpreted by Morgan Stanley's Quantitative Equity Research team
Note: The Vintage Values portfolio is equally weighted. The benchmark portfolio assumes a portfolio weighted equally for the size, quality, style, and cyclical-defensive categories. Sectors use the actual S&P 500 sector weights.

'*Vintage Values 2020*' underperformed the S&P 500. Last year's *Vintage Values* names produced a total return of +7.80% return over the period from August 13, 2019 to August 19, 2020, underperforming the S&P 500 by 1037 basis points over that period.

Exhibit 4: Performance of 'Vintage Values 2020' (August 13, 2019 - August 19, 2020)

Ticker	Company Name	Total Return	Contrib. to Portfolio Return
KO.N	Coca-Cola	-8.56%	-0.57%
CMCSA.O	Comcast	1.89%	0.13%
EMR.N	Emerson Electric	19.98%	1.33%
IBM.N	IBM	-4.27%	-0.28%
INTC.O	Intel	5.55%	0.37%
INVH.N	Invitation Homes	5.60%	0.37%
JPM.N	J.P.Morgan Chase & Co.	-6.68%	-0.45%
LH.N	Laboratory Corp. of America	9.93%	0.66%
MCD.N	McDonald's	-2.26%	-0.15%
MDLZ.O	Mondelez International	6.27%	0.42%
NEE.N	NextEra Energy	33.84%	2.26%
PGR.N	Progressive	17.91%	1.19%
DGX.N	Quest Diagnostics	18.49%	1.23%
WMT.N	Walmart	25.45%	1.70%
DIS.N	Walt Disney	-6.18%	-0.41%
Total		**7.80%**	**7.80%**
S&P 500		**18.17%**	**18.17%**

Source: Thomson Reuters, Bloomberg, Morgan Stanley Research. Data as of August 19, 2020.
This assumes the focus list was constituted with equal-weighted positions on August 13, 2019.
Results shown represent total absolute return (including dividends) and exclude brokerage
commissions and transaction costs.

Risk Reward – Ally Financial Inc (ALLY.N)

More Jobs, More Driving, More Auto Sales Should Drive Up Multiple

PRICE TARGET $31.00

Our price target is based on P/E, P/B vs ROE (a deconstructed PE) and cost of equity vs. our outlook for asset growth, credit risk, operating efficiency and capital return. Our target is ~0.75x P/BV on 2021e BVPS of ~$41, also 9x 2021e EPS of $3.45 (vs. LC Bank average of ~10x).

Consensus Price Target Distribution

$23.00 $27.72 $34.00
                  MS PT

◆ Mean   ◆ Morgan Stanley Estimates

Source: Thomson Reuters, Morgan Stanley Research

RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)

$35.00(+57.16%)   Prob (>35.00)~6.6%
$31.00(+39.20%)   Prob (> 31.00) ~14.4%
$22.27
$10.00(-55.10%)   Prob (<10.00)~16.5%

Key: — Historical Stock Performance ○ Current Stock Price ◆ Price Target

Source: Thomson Reuters, Morgan Stanley Research, Morgan Stanley Institutional Equities Division. The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of 19 Aug, 2020. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in either three-months' or one-years' time. View explanation of Options Probabilities methodology, here

OVERWEIGHT THESIS

■ More jobs as economy is reopening across the US. Good as 75%+ of unemployed expect to be rehired within 6 months. Return to work should bode well for a less severe downturn in credit quality. Market pricing in ~7% cumulative auto loss rate vs MSe ~5%
■ More driving since early May. Should bode well for loan growth, used car prices
■ Quicker than expected bounce in consumer demand for autos since late April coupled with slow ramp in auto production should be supportive of used car prices
■ Valuation attractive at ~0.5x 2021 book value per share on ROE of 9%

Consensus Rating Distribution
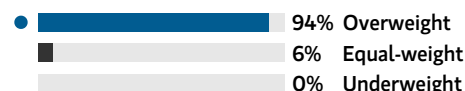
● ▬▬▬▬▬▬▬ 94% Overweight
▪ ▬ 6% Equal-weight
0% Underweight

● MS Rating

Source: Thomson Reuters, Morgan Stanley Research

Risk Reward Themes

Alphawise - Primary Research:	*Positive*
Out of consensus:	*Positive*

View descriptions of Risk Rewards Themes, here

BULL CASE $35.00

~0.9x Bull Case BVPS, 9x Bull Case EPS of $3.90

Loan losses only slightly higher as sharp V-shaped recovery drives unemployment back down to '19 levels: Economic activity rebounds quickly and GDP recovers. Fiscal stimulus drives unemployment rate close to pre-COVID levels. Loan losses remain benign, as used car prices increase amid sharp decline in car production/inventory levels while cumulative consumer auto loan losses rise to just ~3.5%.

BASE CASE $31.00

~0.75x Base Case BVPS, 9x Base Case EPS of $3.45

Loan Losses Peak Below Market Implied Levels: Stay-at-home policy drives a sharp -10% y/y contraction in US GDP in 2Q. Staggered return to work delivers a GDP decline of -8% y/y in 3Q and -6% y/y in 4Q, with a full 7% y/y rebound in FY21. Unemployment rate surges to 13% in 2Q20, declining to 10% by 4Q20 / 6.5% by 4Q21. Used car prices flattish over 2020/21. Fiscal spend has ameliorating benefit on credit risk. Over next 9 qtrs, cumulative auto losses of 5% vs stock pricing 7%

BEAR CASE $10.00

0.3x Bear Case BVPS of ~$37

L-shaped recovery on 2nd COVID wave; higher losses, lower used car prices, divi cut. Full year GDP contraction of -13% in 2020 followed by a weak +4% rebound in 2021. Unemployment rate remains elevated at ~10% through 2021, driving higher loan losses. Used car prices fall sharply, down 10% in 2020, as consumer demand for vehicles falls off and rental companies flood market with fleet supply. Bear Case EPS: $0.21

Risk Reward – Ally Financial Inc (ALLY.N)

KEY EARNINGS INPUTS

Drivers	2019	2020e	2021e	2022e
Average Total Loan Growth (%)	3.0	(4.5)	3.2	3.6
Average Lease Growth (%)	(0.9)	6.9	1.9	2.0
Net interest Margin (ex-OID) (%)	2.68	2.59	2.81	2.90
NCO Rate (Retail Auto Loans) (%)	1.29	1.64	2.08	2.00
Share Repurchases ($, mm)	1,039	104	1,264	527

CATALYST CALENDAR

Date	Event	Source: Thomson Reuters, Morgan Stanley
14 Oct 2020 - 19 Oct 2020	Q3 2020 Ally Financial Inc Earnings Release	

INVESTMENT DRIVERS

- Consumer credit deteriorates less than implied by forbearance
- Used car prices benefit from recovery, low inventory
- Peak in loan losses lower than market pricing
- V-shaped recovery drives better than expected demand for auto sales, ALLY loan growth

GLOBAL REVENUE EXPOSURE

● 100% North America

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies, here

MS ALPHA MODELS

1/5 BEST	24 Month Horizon	1/5 MOST	3 Month Horizon

Source: Thomson Reuters, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- Vaccine deployed, driving unemployment quickly down
- Used car prices rise, benefiting from higher sales, lower inventory
- Recent termination of CardWorks acquisition improves investor sentiment

RISKS TO DOWNSIDE

- Cumulative auto loan losses double, moving even higher vs stress test
- Used car prices fall sharply, down 10%+
- Failure of dealers weighs on commercial loan book, volumes
- Non-auto diversification efforts falter

OWNERSHIP POSITIONING

Inst. Owners, % Active	68.5%
HF Sector Long/Short Ratio	1.8x
HF Sector Net Exposure	7.2%

Thomson Reuters; MSPB Content. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure – Short Exposure).

MS ESTIMATES VS. CONSENSUS

FY Dec 2020e

Net income ($, mm)	149	466 / 437	562
EPS ($)	0.40	1.24 / 1.09	1.80
ROE (%)	(0.2)	3.2 / 2.1	4.7
DPS ($)	0.57	0.74	0.76

◆ Mean ◆ Morgan Stanley Estimates

Source: Thomson Reuters, Morgan Stanley Research

Risk Reward – Amgen Inc. (AMGN.O)

Pipeline optionality vs. management of legacy product erosion drives risk-reward

PRICE TARGET $281.00

We derive our PT from a discounted cash flows (DCF) analysis that uses a WACC of 10% and a terminal growth rate of 2% post 2030E (0% in bear case). The main revenue drivers in our model are the erosion of the base business due to biosimilars and maturation of the late-stage pipeline
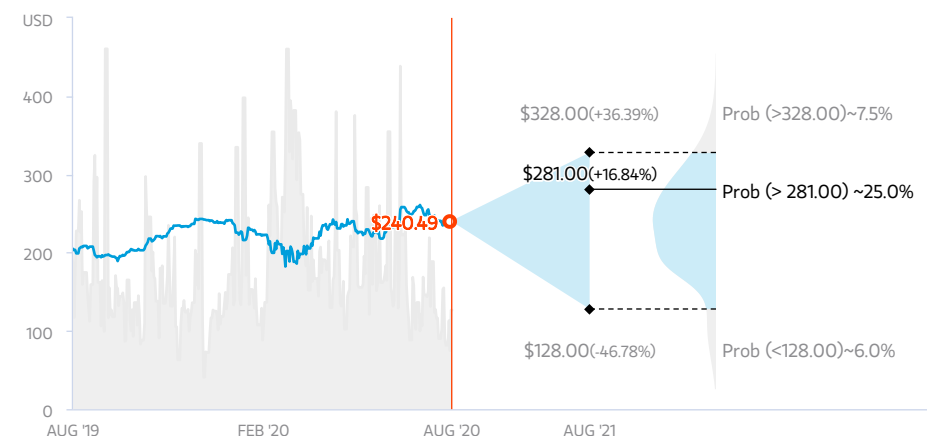
Consensus Price Target Distribution

$262.76

$185.00 ▬▬▬◆◆▬▬▬ $308.00
MS PT

◆ Mean ◆ Morgan Stanley Estimates

Source: Thomson Reuters, Morgan Stanley Research

RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)

USD

$328.00(+36.39%)   Prob (>328.00)~7.5%

$281.00(+16.84%)

$240.49 (Current Stock Price)   Prob (> 281.00) ~25.0%

$128.00(-46.78%)   Prob (<128.00)~6.0%

AUG '19   FEB '20   AUG '20   AUG '21

Key: ▬ Historical Stock Performance ○ Current Stock Price ◆ Price Target

Source: Thomson Reuters, Morgan Stanley Research, Morgan Stanley Institutional Equities Division. The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of 19 Aug, 2020. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in either three-months' or one-years' time. View explanation of Options Probabilities methodology, here

OVERWEIGHT THESIS

■ We are Overweight as we believe the upside from pipeline and recent launches helps reduce the long-term risk the company's current base business faces from biosimilars. Financial flexibility adds further potential for in-organic growth.

■ Stable base even with biosimilars: We believe Amgen can protect its key franchises from biosimilar competition in the near-term. In the longer-term, we forecast gradual share shift to biosimilars versus a cliff for key products Neulasta and Enbrel through our projection period

■ A diverse pipeline that is under-appreciated: We see upside to consensus estimates for AMG 510 in lung cancer, the BiTE platform, anti-inflammation assets and the biosimilar portfolio

Consensus Rating Distribution
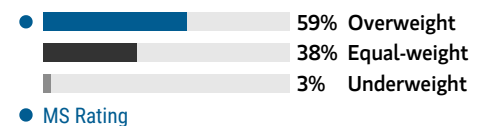
● ▬▬▬▬ 59% Overweight
▬▬▬ 38% Equal-weight
▬ 3% Underweight

● MS Rating

Source: Thomson Reuters, Morgan Stanley Research

Risk Reward Themes

Earnings Quality: *Positive*
Self-help: *Positive*

View descriptions of Risk Rewards Themes, here

BULL CASE	$328.00

DCF

Lower biosimilar impact coupled with outsized revenues from the pipeline: We assume: 1) ~$6.1B in pipeline sales by 2030E from Tezepelumab and BiTEs, 2) peak biosimilar revenue at ~$2.4B in 2024E, 3) Peak Aimovig sales at ~$940M in 2030E, 4) Modest 1st line penetration for Kyprolis with ~$3.3B in peak sales by 2027E, 5) Enbrel's long-term patents hold and biosimilars enter the market in 2029E, 6) Peak AMG 510 sales of $3.5B in 2030E

BASE CASE	$281.00

DCF

US biosimilars impact similar to trend in Europe, with modest results from the pipeline: We assume: 1) ~$4.1B in pipeline sales by 2030E from Tezepelumab and the BiTE platform, 2) peak biosimilar revenue at ~$2.4B in 2024E, 3) Peak Aimovig sales at ~$690M in 2030E, 4) Modest 1st line penetration for Kyprolis with ~$1.7B in peak sales by 2024E, 5) Enbrel biosimilars start to take share in 2023E, 6) Peak AMG 510 sales of $3.1B in 2030E

BEAR CASE	$128.00

DCF

Significant biosimilar impact, less pipeline contribution: We assume: We assume: 1) We assume pipeline failure of AMG 510 and Tezepelumab, 2) Only 3rd line penetration by Kyprolis in the relapsed/refractory market with ~$1.1B in peak sales by 2024E, declining Y/Y thereafter, 3) Notable impact to biosimilar exposed products (E.g., biosimilar Neulasta takes majority share quickly and Enbrel is exposed to biosimilars in the early 2020s), and 4) Weak Aimovig and Repatha growth

Risk Reward – Amgen Inc. (AMGN.O)

KEY EARNINGS INPUTS

Drivers	2019	2020e	2021e	2022e
Topline 3-Yr CAGR (%)	5.9	5.7	6.3	4.7
Bottom line 3-Yr CAGR (%)	12.1	16.0	16.1	12.1

CATALYST CALENDAR

Date	Event	Source: Thomson Reuters, Morgan Stanley
01 Apr 2020 - 30 Sep 2020	Enbrel appeal outcome revealed (filed by Sandoz)	
01 Apr 2020 - 30 Sep 2020	PhII Readout of AMG 510 in NSCLC (6 month follow up)	
H2 2020	AMG 701 BCMA HLE-BiTE initial clinical data in Multiple Meyloma	
H2 2020	First in Human Dose Escalation data: AMG 757 (DLL3)	
H2 2020	Potential regulatory filing for AMG 510	

INVESTMENT DRIVERS

- Continued launch performance of Aimovig (erenumab), approval and launch of Amgen biosimilar molecules, and advancement of Amgen's early-stage oncology pipeline
- Potential launch of pipeline products, such as AMG 510 and Tezepelumab

GLOBAL REVENUE EXPOSURE
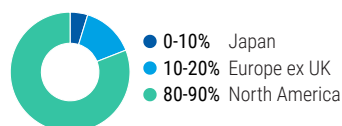
- **0-10%** Japan
- **10-20%** Europe ex UK
- **80-90%** North America

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies, here

MS ALPHA MODELS

2/5 BEST	24 Month Horizon	3/5 MOST	3 Month Horizon

Source: Thomson Reuters, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- Better-than-expected pipeline success on key late-stage drugs
- Margin expansion beyond expectations, driven by cost efficiencies

RISKS TO DOWNSIDE

- Greater erosion to legacy products from competitive biosimilars
- Limited BiTE success in solid tumors
- Failure of the late-stage pipeline, particularly Tezepelumab, AMG 510 and the Otezla label expansion study (ADVANCE)

OWNERSHIP POSITIONING

Inst. Owners, % Active	58.7%	
HF Sector Long/Short Ratio	2.2x	
HF Sector Net Exposure	16.7%	

Thomson Reuters; MSPB Content. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure – Short Exposure).

MS ESTIMATES VS. CONSENSUS

FY Dec 2020e

Sales / Revenue ($, mm)	25,018	25,428 / 25,441	26,000	
EBITDA ($, mm)	12,510	14,678 / 14,062	15,255	
Net income ($, mm)	9,026	9,281 / 9,290	9,803	
EPS ($)	15.36	15.75 / 15.77	16.61	

◆ Mean   ◆ Morgan Stanley Estimates

Source: Thomson Reuters, Morgan Stanley Research

Risk Reward – BlackRock Inc. (BLK.N)

Compelling Growth Prospects to Debunk "Too Big to Grow" Fears

PRICE TARGET $652.00

Derived from a 20.5x P/E multiple on 2021e EPS, a premium to the group, due to BLK's unrivaled product breadth as well as their ability to generate positive organic asset growth in most environments.
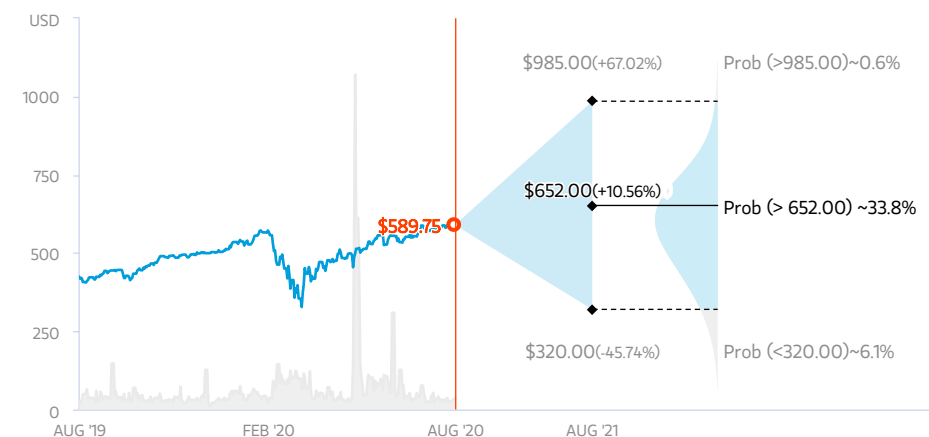
Consensus Price Target Distribution
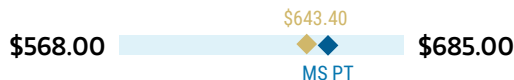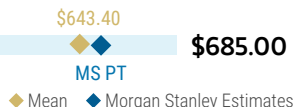
$643.40

$568.00 ▬▬▬◆◆▬▬▬ $685.00

MS PT

Source: Thomson Reuters, Morgan Stanley Research

◆ Mean   ◆ Morgan Stanley Estimates

RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)

$985.00(+67.02%)   Prob (>985.00)~0.6%

$589.75 ○

$652.00(+10.56%)   Prob (> 652.00) ~33.8%

$320.00(-45.74%)   Prob (<320.00)~6.1%

Key: — Historical Stock Performance   ○ Current Stock Price   ◆ Price Target

Source: Thomson Reuters, Morgan Stanley Research, Morgan Stanley Institutional Equities Division. The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of 19 Aug, 2020. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in either three-months' or one-years' time. View explanation of Options Probabilities methodology, here

OVERWEIGHT THESIS

■ We believe BLK is best positioned on the asset mgmt barbell given leading iShares ETF platform, multi-asset & alts combined with technology/Aladdin offerings that should drive ~10% EPS CAGR (2020-22e) via ~5% avg LT organic growth & continued op margin expansion.
■ We see further growth ahead for Alts, iShares, international penetration, and the institutional market in the US.
■ We expect premium to widen as BLK takes share in the midst of market dislocation and executes on improving organic revenue growth trajectory.

Consensus Rating Distribution
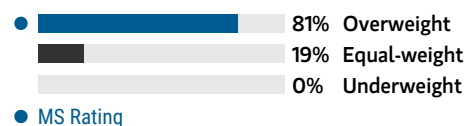
● ▬▬▬▬▬▬   81% Overweight
  ▬▬   19% Equal-weight
             0%   Underweight

● MS Rating

Source: Thomson Reuters, Morgan Stanley Research

Risk Reward Themes

Pricing Power:	*Negative*
Secular Growth:	*Positive*
Share Gain:	*Positive*

View descriptions of Risk Rewards Themes, here

BULL CASE $985.00

23.5x Bull Case 2021e Adj. EPS

Stronger flow pipeline (+10% in 2021). Flows substantially higher y/y as risk-taking brings flows to high fee products (active equity & alts) & bonds benefit from money in motion related inflows. Equity +15% NTM. Margin of 48%.

BASE CASE $652.00

20.5x Base Case 2021e Adj. EPS

+7% net inflows in 2021. Led by iShares, multi-asset & alternative products, as well as money market funds. Equity returns +6%. Margin of 45%.

BEAR CASE $320.00

15.5x Bear Case 2021e Adj. EPS

-3% net outflows in 2021. Investors pull out of nearly every product, except multi-asset & iShares. Equities lose -20% NTM. Margin of 40%.

Risk Reward – BlackRock Inc. (BLK.N)

KEY EARNINGS INPUTS

Drivers	2019	2020e	2021e	2022e
LT Net Flows (%) (%)	6.1	2.9	5.9	5.9
Mgmt Fees Margin (%)	0.175	0.168	0.163	0.159
Operating Margin (%)	43.7	44.0	44.9	45.2
EoP AUM ($, bn)	7,430	7,735	8,576	9,449
EBITDA ($, mm)	6,345	5,891	6,936	7,551

CATALYST CALENDAR

Source: Thomson Reuters, Morgan Stanley

Date	Event
13 Oct 2020 - 19 Oct 2020	Q3 2020 BlackRock Inc Earnings Release
13 Jan 2021 - 18 Jan 2021	Q4 2020 BlackRock Inc Earnings Release

INVESTMENT DRIVERS

- We see strong organic growth in higher fee products (alts, multi-asset) where BLK is a leader, and margin expansion driven by growth in scalable iShares ETF platform.
- Shift towards recurring technology based revenue through Aladdin and other bolt-ons

GLOBAL REVENUE EXPOSURE
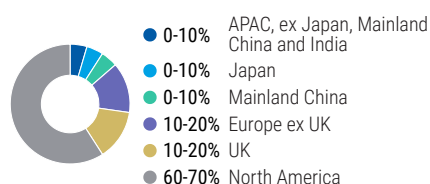
- 0-10% APAC, ex Japan, Mainland China and India
- 0-10% Japan
- 0-10% Mainland China
- 10-20% Europe ex UK
- 10-20% UK
- 60-70% North America

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies, here

MS ALPHA MODELS

2/5 BEST	24 Month Horizon	5/5 MOST	3 Month Horizon

Source: Thomson Reuters, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- Growth in highly scalable iShares franchise driving margin expansion and strong EPS growth
- Further growth in tech & high fee products such as alts, active equities, and multi-asset

RISKS TO DOWNSIDE

- Mrkt share loss in ETFs; lack of positive op leverage in declining mkts
- Worse than expected base fee pressure through pricing initiatives or mix shift
- Greater regulatory scrutiny; liquidity challenges in products

OWNERSHIP POSITIONING

Inst. Owners, % Active	64%
HF Sector Long/Short Ratio	1.8x
HF Sector Net Exposure	7.2%

Thomson Reuters; MSPB Content. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure – Short Exposure).

MS ESTIMATES VS. CONSENSUS

FY Dec 2020e

Sales / Revenue ($, mm)	14,904	15,145 / 15,198	15,375	
EBITDA ($, mm)	5,522	5,522 / 5,925	6,171	
Net income ($, mm)	4,552	4,552 / 4,610	4,664	
EPS ($)	29.35	29.35 / 29.81	30.48	

◆ Mean ◆ Morgan Stanley Estimates

Source: Thomson Reuters, Morgan Stanley Research

Risk Reward – Dell Technologies Inc. (DELL.N)

Undervalued In Light of Market Share Gains, Debt Paydown and VMW Optionality

PRICE TARGET $70.00

Our SOTP based PT assumes 7.0x FY22e Core EBITDA of $7.4B, which reflects the avg of where peers trade (HPQ, HPE, CSCO, NTAP, IBM, Lenovo). We apply a 15% discount to DELL's share of equity value in publicly traded subs, which reflects a 50% likelihood of a spin relative to the traditional 30% discount EMC received on its VMW ownership. We also include a 10% discount on total DELL to reflect leverage, concentrated ownership.

Consensus Price Target Distribution

$61.22

$44.00   ◆ ◆ $100.00

MS PT

◆ Mean   ◆ Morgan Stanley Estimates

Source: Thomson Reuters, Morgan Stanley Research

RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)

USD

$101.00(+68.76%)   Prob (>101.00)~3.5%

$70.00(+16.96%)   Prob (> 70.00) ~28.9%

$59.85

$34.00(-43.19%)   Prob (<34.00)~13.2%

AUG '19   FEB '20   AUG '20   AUG '21

Key: — Historical Stock Performance   ○ Current Stock Price   ◆ Price Target

Source: Thomson Reuters, Morgan Stanley Research, Morgan Stanley Institutional Equities Division. The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of 19 Aug, 2020. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in either three-months' or one-years' time. View explanation of Options Probabilities methodology, here

OVERWEIGHT THESIS

Dell is a full stack technology provider managing more data than any other IT provider, which positions the company well to capitalize on the 'Data Era'. A path to IG rating in the next ~12 months along with accelerating market share gains across ISG and CSG segments warrant a valuation in-line with peers. Dell's strategic evaluation of its VMware stake (announced 7/15/20) and commitment to go-to-market synergies positions the company to unlock trapped value while retaining operational exposure to a key asset. Our base case valuation assumes a 50% probability of a VMware spin, meanwhile our bull case valuation assumes a 100% probability.

Consensus Rating Distribution

●   50% Overweight
     50% Equal-weight
     0% Underweight

● MS Rating

Source: Thomson Reuters, Morgan Stanley Research

Risk Reward Themes

Macroeconomics:	*Negative*
Share Gain:	*Positive*
Special Situation:	*Positive*

View descriptions of Risk Rewards Themes, here

BULL CASE $101.00

7x FY21 Core EBITDA; DIsc: 0% subs & 10% DELL Core

VMW spin unlocks trapped value. Dell announces VMW spin in late 2021 with a $13B dividend from VMW allowing it to pay down an incremental $10.5B of debt and end CY21 with leverage in-line with peers. This reduces our consolidation discount from 30% to 0% in our SoTP analysis although a 10% discount on DELL core remains for concentrated voting power and index exclusion. DELL core trades in-line with peers 7x EV / EBITDA multiple.

BASE CASE $70.00

7x FY21 Core EBITDA; DIsc: 15% subs & 10% DELL

Share gains, de-levering, and increasingly likely VMW spin unlock value. A 50% probability of a VMW spin cuts the consolidation discount in half to 15% and give credit to half of the $10.5B incremental debt pay down in our full spin/bull case scenario. Share gains and improved paths to de-levering allow core Dell to trade more in-line with peers at 7x EV/EBITDA.

BEAR CASE $34.00

5x FY21 Core EBITDA; DIsc: 30% subs & 10% DELL

No VMW spin while weaker end market demand & related earnings pressure weakens the balance sheet. Greater than expected revenue decline due to slower economic recovery & cloud cannibalization of ISG revenue weakens Dell EBITDA & limits any improvement in the leverage ratio. Dell trades at a discount to the peer average due to higher leverage. VMW and Dell boards fail to agree to terms of a VMW spin which holds constant the historical 30% consolidation ratio we apply to Dell's 81% VMW ownership.

Risk Reward – Dell Technologies Inc. (DELL.N)

KEY EARNINGS INPUTS

Drivers	2020	2021e	2022e	2023e
Revenue Growth (Y/Y) (%)	1.3	(3.5)	3.0	6.5
Non-GAAP Gross Margin (%)	34.1	33.3	33.6	34.0
Non-GAAP Operating Margin (%)	11.0	10.4	10.3	10.8
FCF ($M) ($, mm)	6,738	2,923	4,128	6,452

CATALYST CALENDAR

Source: Thomson Reuters, Morgan Stanley

Date	Event
27 Aug 2020	Q2 2021 Dell Technologies Inc Earnings Release
27 Aug 2020	Q2 2021 Dell Technologies Inc Earnings Call
03 Sep 2020	IDC Final 2Q20 Storage Data
03 Sep 2020	IDC Final 2Q20 Server Data
24 Nov 2020	Q3 2021 Dell Technologies Inc Earnings Release

INVESTMENT DRIVERS

- VMW spin unlocks trapped value
- RSA sale, strong PC growth and/or VMW dividend allow for debt pay down, and IG rating
- Continued share gains in servers, storage and PCs
- Mix shift to storage benefits gross margin
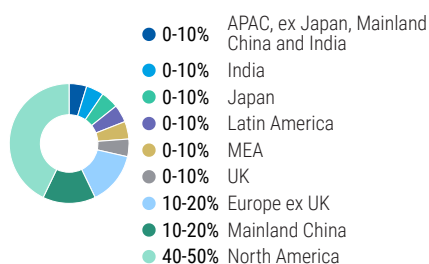
RISKS TO PT/RATING

RISKS TO UPSIDE

- VMware spin and cash dividend accelerates core debt pay down.
- Faster recession recovery & pent up demand
- Stronger share gains across PCs, Servers and Storage

RISKS TO DOWNSIDE

- Dell and VMW don't agree on terms for a VMW spin
- Longer recession accelerates public cloud migration & legacy server / storage declines
- Rate of share gains across servers & storage is short lived
- Slower debt paydown vs guidance

OWNERSHIP POSITIONING

Inst. Owners, % Active	78.4%
HF Sector Long/Short Ratio	2.6x
HF Sector Net Exposure	34.2%

Thomson Reuters; MSPB Content. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure – Short Exposure).

MS ESTIMATES VS. CONSENSUS

FY Jan 2022e

	Low	MS / Mean	High
Sales / Revenue ($, mm)	89,729	91,740 / 91,859	96,820
Net income ($, mm)	4,418	5,203 / 5,153	6,563
EPS ($)	5.87	6.82 / 6.78	8.76

◆ Mean   ◆ Morgan Stanley Estimates

Source: Thomson Reuters, Morgan Stanley Research

GLOBAL REVENUE EXPOSURE

- 0-10% APAC, ex Japan, Mainland China and India
- 0-10% India
- 0-10% Japan
- 0-10% Latin America
- 0-10% MEA
- 0-10% UK
- 10-20% Europe ex UK
- 10-20% Mainland China
- 40-50% North America

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies, here

MS ALPHA MODELS

1/5 BEST	24 Month Horizon	2/5 MOST	3 Month Horizon

Source: Thomson Reuters, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

Risk Reward – Fortive Corp (FTV.N)

Quality Portfolio & M&A Catalysts; Checks Right Boxes, Avoids Challenging Ones

PRICE TARGET $83.00

Our price target is based on our base case (24x RemainCo NTM EPS of $3.47) as described below. Our ~24x multiple assumes FTV trades at a ~10% discount to RemainCo peers, in between its 1-yr and long-term averages.

Consensus Price Target Distribution

$80.77

$74.00 ◆ ◆ $86.00

MS PT

Source: Thomson Reuters, Morgan Stanley Research

◆ Mean ◆ Morgan Stanley Estimates

RISK REWARD CHART

USD

$95.00(+33.03%)

$83.00(+16.23%)

○$71.41

$60.00(-15.98%)

Key: — Historical Stock Performance ○ Current Stock Price ◆ Price Target

Source: Thomson Reuters, Morgan Stanley Research
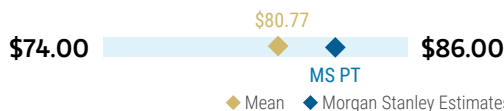
OVERWEIGHT THESIS

FTV's general industrial markets, profitable niche products, and the ability to augment growth through M&A check the right boxes and avoid the challenging ones. FTV is a short-cycle, high incremental margin business with both quality and cyclical components, and has increased recurring revenue 30%+. In addition, FTV has virtually no structural end market impairment given near-zero exposure to the problematic areas of aero, O&G, and non-resi. While Fluke and Tektronix are unavoidably cyclical and make up ~30% of the portfolio, they have incremental margins above 50% and we'd rather look past a deeper 2Q cyclical trough vs. other Multis and have the juice in a 2021 recovery.

Consensus Rating Distribution
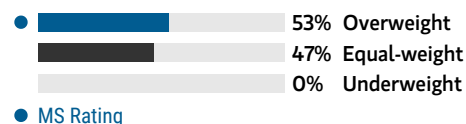
● 53% Overweight

47% Equal-weight

0% Underweight

● MS Rating

Source: Thomson Reuters, Morgan Stanley Research

Risk Reward Themes

Self-help:	*Positive*
Special Situation:	*Positive*

View descriptions of Risk Rewards Themes, here

BULL CASE $95.00

25x RemainCo NTM EPS of $3.82

IPO/Exchange Analysis. We value shares based on RemainCo's implied value post-separation. We assume RemainCo gets an additional ~$0.35 of acquired EPS using proceeds from the IPO and Vontier's opening balance sheet. In this M&A case, total pro-forma EPS is now $3.82 ($3.47 + $0.35). Our ~25x multiple assumes RemainCo trades at a roughly 5% discount to RemainCo peers, in-line with its long-term average.

BASE CASE $83.00

24x RemainCo NTM EPS of $3.47

IPO/Exchange Analysis. We value shares based on RemainCo's implied value post-separation. We assume Professional Instrumentation is down ~8% in 2020 with decrementals limited to ~30%. Given the cyclicality of Fluke and Tektronix making up ~50% of the RemainCo portfolio, we see this bouncing back in 2021 with 10%+ growth and 35-40% incrementals. Our ~24x multiple assumes RemainCo trades at a ~15% discount to RemainCo peers, in between its 1-yr and long-term averages.

BEAR CASE $60.00

20x Bear Case Total FTV NTM EPS of $3.00

We assume demand remains severely challenged beyond 2Q with a full year 2020 organic decline of ~12.5% with decrementals near 40%. We still expect a bounce back in 2021, but more modest than our base case at only 5%, and off of a an easier comp. Our ~20x multiple assumes FTV continues to trades at a ~20% discount to peers, slightly below current levels.

Risk Reward – Fortive Corp (FTV.N)

KEY EARNINGS INPUTS

Drivers	2019	2020e	2021e	2022e
Professional Instrumentation Organic Growth (%)	1.3	(7.9)	9.8	6.0
Industrial Technologies Core Growth (%)	2.9	(5.7)	6.8	1.5
Total Organic growth (%)	2.0	(7.0)	8.7	4.3
Total Adj. Operating margins (%)	21.9	21.5	22.8	23.6

CATALYST CALENDAR

Date	Event	Source: Thomson Reuters, Morgan Stanley
22 Oct 2020 - 26 Oct 2020	Q3 2020 Fortive Corp Earnings Release	

INVESTMENT DRIVERS

- Capital deployment towards accretive M&A post-separation, particularly if industrial multiples come under pressure.

GLOBAL REVENUE EXPOSURE
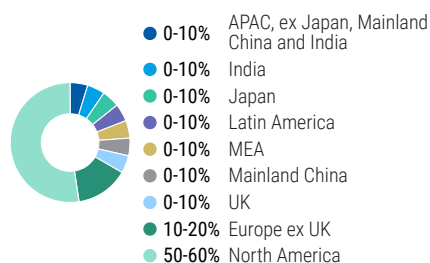
- 0-10% APAC, ex Japan, Mainland China and India
- 0-10% India
- 0-10% Japan
- 0-10% Latin America
- 0-10% MEA
- 0-10% Mainland China
- 0-10% UK
- 10-20% Europe ex UK
- 50-60% North America

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies, here

MS ALPHA MODELS

1/5 BEST	24 Month Horizon	2/5 MOST	3 Month Horizon

Source: Thomson Reuters, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- Quicker recovery in short cycle businesses (Fluke and Tek).
- Sizable M&A catalysts prior to separation.

RISKS TO DOWNSIDE

- A >10-15% peak/trough decline in revenues in a global recession scenario, which will likely pressure the multiple below current levels.
- Capital allocation missteps could see relative valuation contract.
- Extended overhang due to a delayed separation of Vontier.

OWNERSHIP POSITIONING

Inst. Owners, % Active	74.8%	
HF Sector Long/Short Ratio	1.5x	
HF Sector Net Exposure	6.1%	

Thomson Reuters; MSPB Content. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure – Short Exposure).

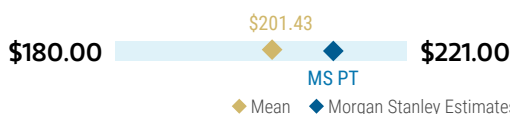## MS ESTIMATES VS. CONSENSUS

FY Dec 2020e

Sales / Revenue ($, mm)	6,935	6,987 / 6,987	7,046
EBITDA ($, mm)	1,334	1,334 / 1,573	1,702
Net income ($, mm)	1,070	1,120 / 1,129	1,164
EPS ($)	3.10	3.13 / 3.16	3.25

◆ Mean   ◆ Morgan Stanley Estimates

Source: Thomson Reuters, Morgan Stanley Research

Risk Reward – Johnson & Johnson (JNJ.N)

Johnson & Johnson Risk Reward

PRICE TARGET $170.00

Our price target of $170 for JNJ is based on a ~19.0x multiple off of our base case 2021e EPS, supported by our SOTP analysis. We assume J&J trades at a mid-single-discount multiple with S&P 500 given defensive-oriented profile, growth acceleration in Pharma, and improving fundamentals in Consumer/MD&D, balanced by litigation overhang.

Consensus Price Target Distribution

$166.06

$142.00 ━━━━◆━◆━━━━ $182.00

MS PT

Source: Thomson Reuters, Morgan Stanley Research

◆ Mean   ◆ Morgan Stanley Estimates

RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)

USD

$204.00 (+35.65%)   Prob (>204.00)~3.4%

$170.00 (+13.04%)   Prob (> 170.00) ~23.3%

$150.39

$110.00 (-26.86%)   Prob (<110.00)~12.0%

Key: — Historical Stock Performance ○ Current Stock Price ◆ Price Target

Source: Thomson Reuters, Morgan Stanley Research, Morgan Stanley Institutional Equities Division. The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of 19 Aug, 2020. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in either three-months' or one-years' time. View explanation of Options Probabilities methodology, here

OVERWEIGHT THESIS

■ Litigation liability has been more than reflected in J&J shares, in our view, creating a meaningful valuation disconnect vs. the S&P.
■ Pharma-driven acceleration is poised to drive the multiple higher in 2020 led by blockbuster franchises, pipeline launches and easing comparables.
■ Momentum in MD&D and Consumer segments should drive a more balanced growth profile which is less reliant on Pharma.

Consensus Rating Distribution

● ▬▬▬▬▬▬▬ 74% Overweight
  ▬▬▬   26% Equal-weight
            0% Underweight

● MS Rating

Source: Thomson Reuters, Morgan Stanley Research

Risk Reward Themes

Alphawise - Primary Research:	*Positive*
Earnings Quality:	*Positive*
Out of consensus:	*Positive*

View descriptions of Risk Rewards Themes, here

BULL CASE	$204.00	BASE CASE	$170.00	BEAR CASE	$110.00

BULL CASE $204.00

21.0x Bull Case 2021e EPS

COVID-19 impact is muted across Pharma and Consumer, and MD&D impact is less severe than anticipated. Pharma organic growth accelerates into the high-single digits with MD&D and Consumer demonstrating momentum. Operational leverage is generated leading to sustainable DD EPS growth. J&J makes progress on litigation processes and the overhang is gradually removed from shares. Aggregate legal liability is ~$8bn. J&J trades at a valuation more in-line to at a slight premium to the S&P.

BASE CASE $170.00

19.0x Base Case 2021e EPS; SOTP-supported

The majority of J&J's business remains relatively insulated from COVID-19 impact, with the exception of MD&D. Key blockbuster franchises and pipeline launches contribute to Pharma acceleration in 2020 driving the multiple and margins higher. Clarity toward a liability resolution progresses and aggregate liability is ~$14bn. The valuation disconnect vs. the S&P narrows as progress toward legal settlements are made.

BEAR CASE $110.00

14.0x Bear Case 2021e EPS

COVID-19 impact is more severe across segments. Competitive threats and biosimilar erosion continue leading to LSD/MSD growth in Pharma. MD&D and Consumer decelerate y/y as segments reverse course. P&L leverage is limited driven by an "Other Income" gap. Negative newsflow in opioids, talc, and Risperdal continue to weigh on shares an aggregate legal liability totals ~$24bn. J&J trades at a >20% discount to the S&P.

Risk Reward – Johnson & Johnson (JNJ.N)

KEY EARNINGS INPUTS

Drivers	2019	2020e	2021e	2022e
Organic Growth (%)	4.4	(0.0)	8.6	4.8
Pharma Organic Growth (%)	5.8	6.6	6.9	5.7
MD&D Organic Growth (%)	3.7	(12.1)	15.9	4.4
Operating Margin (%)	31.2	30.3	31.6	32.4
EPS ($)	8.69	7.90	8.84	9.58

INVESTMENT DRIVERS

- Progress toward litigation settlements can drive a narrowing of the discount to the S&P.
- Blockbusters and pipeline-driven launches drive Pharma acceleration with 1 point of incremental Pharma growth driving 50 bps to corporate.

GLOBAL REVENUE EXPOSURE
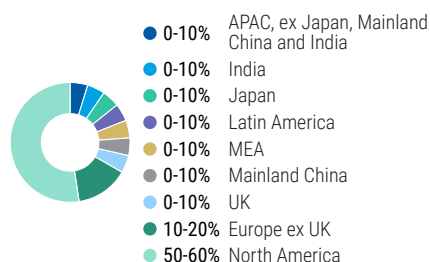
- 0-10% APAC, ex Japan, Mainland China and India
- 0-10% India
- 0-10% Japan
- 0-10% Latin America
- 0-10% MEA
- 0-10% Mainland China
- 0-10% UK
- 10-20% Europe ex UK
- 50-60% North America

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies, here

MS ALPHA MODELS

2/5 BEST	24 Month Horizon	3/5 MOST	3 Month Horizon

Source: Thomson Reuters, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- Pharmaceutical growth accelerates to the HSD sustainably
- Opioid and talc litigations are settled
- MD&D growth accelerates

RISKS TO DOWNSIDE

- Litigation overhang persists / legal liabilities are greater than anticipated
- Pharma pipeline is unable to offset biosimilar and competitive risks
- COVID-19 impact to MD&D is more severe
- Turnarounds in Consumer and MD&D fail to materialize or slower than expected

OWNERSHIP POSITIONING

Inst. Owners, % Active	55.2%
HF Sector Long/Short Ratio	2.2x
HF Sector Net Exposure	16.7%

Thomson Reuters; MSPB Content. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure – Short Exposure).

MS ESTIMATES VS. CONSENSUS

FY Dec 2020e

Sales / Revenue ($, mm)	79,728	81,133 / 80,606	81,264
EBIT ($, mm)	20,038	24,568 / 23,815	24,723
EPS ($)	7.75	7.90 / 7.87	7.95

◆ Mean   ◆ Morgan Stanley Estimates

Source: Thomson Reuters, Morgan Stanley Research
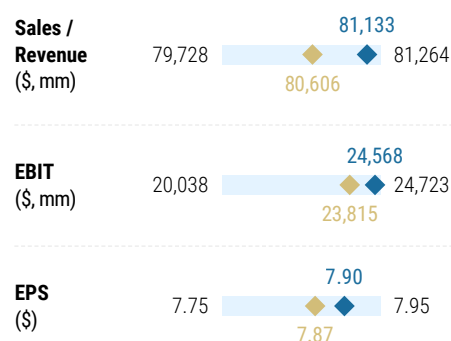
Risk Reward – Madison Square Garden Sports Corp (MSGS.N)

Pure Play Sports Entity at Compelling Discount to Private Market Value

PRICE TARGET $210.00

Our $210 price target is based on the Knicks' and Rangers' net asset values at YE20, applying a 15% discount in our base case and adjusting for the NPV of the Arena License Agreement. It is higher than our DCF-driven FMV, which reflects the higher private market value of MSG's sports team assets.

Consensus Price Target Distribution

$180.00 — $201.43 — MS PT — $221.00

◆ Mean   ◆ Morgan Stanley Estimates

Source: Thomson Reuters, Morgan Stanley Research

RISK REWARD CHART

USD

$300.00(+87.50%)

$210.00(+31.25%)

$160.00

$110.00(-31.25%)

AUG '19   FEB '20   AUG '20   AUG '21

Key: — Historical Stock Performance   ◯ Current Stock Price   ◆ Price Target

Source: Thomson Reuters, Morgan Stanley Research
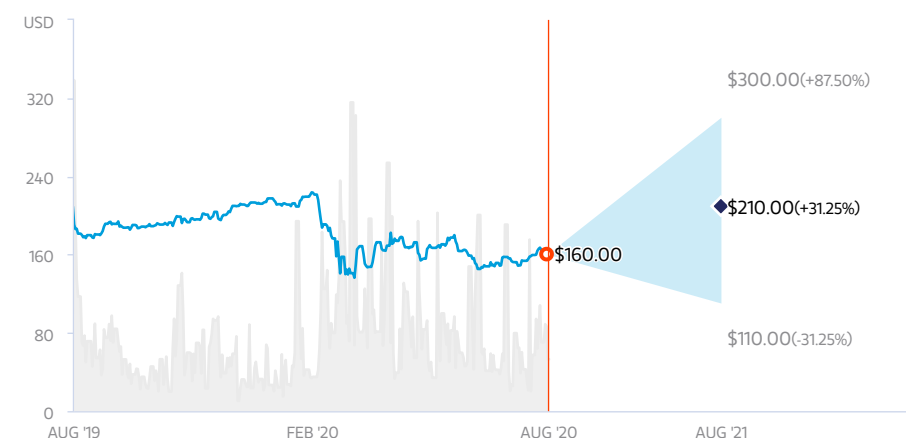
OVERWEIGHT THESIS

We estimate that MSG's sports teams currently trade at a ~30-40% discount to private market value, a compelling discount.

Consensus Rating Distribution

● ▬▬▬▬▬ 100% Overweight
  ▬▬▬▬▬ 0% Equal-weight
  ▬▬▬▬▬ 0% Underweight

● MS Rating

Source: Thomson Reuters, Morgan Stanley Research
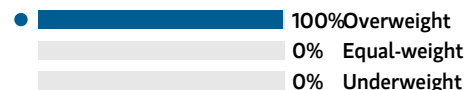
Risk Reward Themes

Secular Growth:	*Positive*
Self-help:	*Positive*
Special Situation:	*Positive*

View descriptions of Risk Rewards Themes, here

BULL CASE $300.00	BASE CASE $210.00	BEAR CASE $110.00
Successful sale at a 20% premium	**Sports trades at ~15% discount to private mkt**	**Discount to private market value widens to ~50%**
~20% premium to teams private mkt value	Teams at ~15% discount to private mkt value	Teams at ~50% disc. to private mkt value
MSG announces a sale of 'trophy' assets (Knicks, Rangers), or other action that market sees paving way to a sale. This bolsters a 20% premium to the teams' estimated private market values.	Lacking further catalysts to fully close the gap, the Ent spin-off nevertheless tightens the teams' discount to private value to ~15% on increased simplicity of asset portfolio.	Teams trade at a ~50% discount to private value, reflecting reduced optimism around potential monetization.

Risk Reward – Madison Square Garden Sports Corp (MSGS.N)

KEY EARNINGS INPUTS

Drivers	2019	2020e	2021e	2022e
Total League Distributions (Nat'l + Local) ($, mm)	266	241	280	299
Total Event-Related Revenue ($, mm)	264	227	1	264
MSG Sports Adj. Cash EBITDA ($, mm)	94.0	32.3	(90.3)	106.1

INVESTMENT DRIVERS

- NBA/NHL team values have potential for growth, esp. with regard to sponsorship
- NBA/NHL team value estimates will likely be driven by future team sales, visibility is low.

GLOBAL REVENUE EXPOSURE
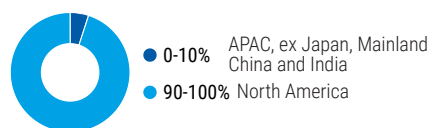
- 0-10% APAC, ex Japan, Mainland China and India
- 90-100% North America

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies, here

MS ALPHA MODELS

| 3/5 BEST | 24 Month Horizon | 3/5 MOST | 3 Month Horizon |

Source: Thomson Reuters, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- Better team performance and higher comparable team sales

RISKS TO DOWNSIDE

- Poor team performance or comparable team sales at lower-than-expected values
- Higher Knicks payroll could drive higher luxury tax penalties, diminishing Sports profitability

OWNERSHIP POSITIONING

Inst. Owners, % Active	74%
HF Sector Long/Short Ratio	3x
HF Sector Net Exposure	16%

Thomson Reuters; MSPB Content. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure – Short Exposure).

MS ESTIMATES VS. CONSENSUS

FY Jun 2020e

EPS ($) ◆ (2.56)
Note: There are not sufficient brokers supplying consensus data for this metric

EBITDA ($, mm) ◆ (19)
Note: There are not sufficient brokers supplying consensus data for this metric

◆ Mean ◆ Morgan Stanley Estimates

Source: Thomson Reuters, Morgan Stanley Research

Risk Reward – McKesson Corporation (MCK.N)

Growth from specialty revenues; Strong balance sheet mitigates opioids risk

PRICE TARGET $204.00

Our DCF-based PT assumes 3.0%-3.5% mid-term revenue growth, 0.25% terminal growth, and applies a WACC of 5.4%. We are assuming a $19.2B opioid litigation payment (including $18B in settlement, and $1.2B in legal fees), with 36% paid upfront, and remainder over 18 years. We estimate MCK is responsible for ~38%.

Consensus Price Target Distribution

$184.56

$150.00 ▬▬▬◆▬▬◆ $210.00
                        MS PT

Source: Thomson Reuters, Morgan Stanley Research

◆ Mean ◆ Morgan Stanley Estimates

RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)

USD

$292.00(+90.43%)   Prob (>292.00)~0.0%

$204.00(+33.04%)
                          Prob (> 204.00) ~17.2%
$153.34

$69.00(-55.00%)   Prob (<69.00)~5.8%

AUG '19   FEB '20   AUG '20   AUG '21

Key: ▬ Historical Stock Performance ○ Current Stock Price ◆ Price Target

Source: Thomson Reuters, Morgan Stanley Research, Morgan Stanley Institutional Equities Division. The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of 19 Aug, 2020. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in either three-months' or one-years' time. View explanation of Options Probabilities methodology, here

OVERWEIGHT THESIS

■ McKesson is the largest distributor of pharmaceuticals and medical supplies in the United States.
■ We estimate that McKesson Specialty revenue is >$30 billion, the second largest exposure among the three distributors. This segment includes faster-growing and higher-margin specialty services.
■ Although McKesson has the largest potential liability attributable to opioid-related litigation among the distributors, we believe that McKesson also has the strongest balance sheet and has the best ability to weather any potential liabilities.
■ Continued risk from branded drug inflation, generic price deflation, customer contract losses, reimbursement pressure and future litigation.

Consensus Rating Distribution
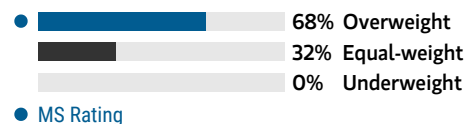
● ▬▬▬▬▬▬   68% Overweight
▬▬▬   32% Equal-weight
              0% Underweight

● MS Rating

Source: Thomson Reuters, Morgan Stanley Research

Risk Reward Themes

Pricing Power: *Negative*

View descriptions of Risk Rewards Themes, here

BULL CASE $292.00

10.8x 2021 EBITDA, excl. $26/sh opioid liabilities

Assumes: 1) Brand inflation goes to HSD, 2) Generic inflation in LSD, 3) global opioid settlement of $19.2B ($1.2B fees paid upfront, with remainder over 18 years), 4) Lower sell-side discounts to customers, 5) higher topline growth and gross margin on specialty.

Implied multiple is relatively in-line with the maximum MCK 1-yr multiple over the last 3 years, which included a mix of generic deflation and inflation trends, as well as regulatory concerns.

BASE CASE $204.00

9.4x 2021 EBITDA, excl. $33/sh opioid liabilities

Assumes: 1) Brand inflation remains in LSD-MSD, 2) Generic deflation in LSD, 3) global opioid liability of $19.2B, with 36% paid upfront and remainder over 18 years.

Implied multiple is relatively in-line with the average MCK 1-yr multiple over the last 7 years.

BEAR CASE $69.00

6.4x 2021 EBITDA, excl. $39/sh opioid liabilities

Assumes: 1) Brand inflation goes to zero, 2) Generic deflation deteriorates, 3) global opioid liability of $21.5B, with $2B legal fees upfront and remainder over 15 years, 4) Higher sell side discounts to customers, 5) lower topline growth and gross margin on specialty.

Implied multiple is relatively in-line with the minimum MCK 1-yr multiple over the last 7 years, when regulatory concerns and opioid liabilities came to a head.

Risk Reward – McKesson Corporation (MCK.N)

KEY EARNINGS INPUTS

Drivers	2020	2021e	2022e	2023e
US Pharma Core Distribution EBIT Y/Y Growth (%)	3.7	(5.6)	2.7	4.3
US Pharma Core Distribution Revenue Y/Y Growth (%)	9.1	1.9	10.6	5.0
EPS Y/Y Growth (%)	10.0	0.3	24.3	12.3

CATALYST CALENDAR

Source: Thomson Reuters, Morgan Stanley

Date	Event
28 Oct 2020 - 02 Nov 2020	Q2 2021 McKesson Corp Earnings Release

INVESTMENT DRIVERS

- Quarterly earnings
- Customer wins/losses
- Drug price increases, particularly in January
- Generic manufacturer commentary on generic deflation
- News flow about Opioid litigation settlements
- Capital deployment; M&A transactions

GLOBAL REVENUE EXPOSURE

- 0-10% Europe ex UK
- 0-10% UK
- 80-90% North America

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies, here

MS ALPHA MODELS

2/5 BEST	24 Month Horizon	2/5 MOST	3 Month Horizon

Source: Thomson Reuters, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- Increase in branded inflation
- Generic price stabilization
- Acceleration of growth from specialty drug distribution and services
- Reimbursement headwinds in Europe abate

RISKS TO DOWNSIDE

- Significant slowdown in branded inflation
- Deterioration in generic price deflation
- Continued price pressure and margin erosion within independent pharmacies
- Increase in Opioid legal settlement payment

OWNERSHIP POSITIONING

Inst. Owners, % Active	63.6%
HF Sector Long/Short Ratio	2.2x
HF Sector Net Exposure	16.7%

Thomson Reuters; MSPB Content. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure – Short Exposure).

MS ESTIMATES VS. CONSENSUS

FY Mar 2022e

Sales / Revenue ($, mm)	245,581	250,704	256,770
EBITDA ($, mm)	4,075	4,387 / 4,335	4,830
Net income ($, mm)	2,428	2,776 / 2,680	2,848
EPS ($)	15.63	17.06	18.62

◆ Mean ◆ Morgan Stanley Estimates

Source: Thomson Reuters, Morgan Stanley Research

Risk Reward – Microsoft (MSFT.O)

Commercial Cloud & Expanding Margins Drive Underpriced Teens Earnings Growth

PRICE TARGET $230.00

~32x Base Case CY21e GAAP EPS of $7.12

Consensus Price Target Distribution
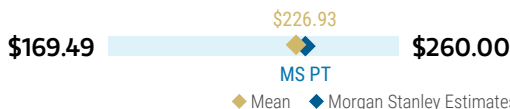
$169.49 $226.93 $260.00

MS PT

◆ Mean   ◆ Morgan Stanley Estimates

Source: Thomson Reuters, Morgan Stanley Research

RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)

$290.00(+38.29%)   Prob (>290.00)~10.3%

$230.00(+9.68%)

$209.70   Prob (> 230.00) ~35.0%

$150.00(-28.47%)   Prob (<150.00)~20.0%

Key: — Historical Stock Performance ◯ Current Stock Price ◆ Price Target

Source: Thomson Reuters, Morgan Stanley Research, Morgan Stanley Institutional Equities Division. The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of 19 Aug, 2020. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in either three-months' or one-years' time. View explanation of Options Probabilities methodology, here

OVERWEIGHT THESIS

■ Strong positioning for public cloud adoption, large distribution channels and installed customer base, and improving margins support a path well beyond $1T mkt cap. Durable double-digit NT rev growth is supported by Azure (winning in public cloud), data center (share gains and positive pricing trends), O365 (base growth and ARPU uplift) and LinkedIn. GM % improvement, continued opex discipline and strong capital return lead to durable teens total return profile.

■ At 30x CY21e GAAP EPS, MSFT trades at a premium to the S&P, warranted due to MSFT's premium return profile. Multiple expansion will likely come from gaining comfort in the durability of commercial business gross profit dollars.

Consensus Rating Distribution
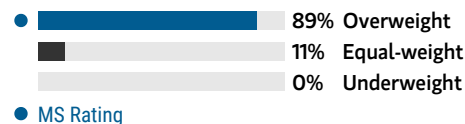
● ▬▬▬▬▬▬ 89% Overweight

▬ 11% Equal-weight

0% Underweight

● MS Rating

Source: Thomson Reuters, Morgan Stanley Research

Risk Reward Themes

Earnings Quality: *Positive*
Secular Growth: *Positive*

View descriptions of Risk Rewards Themes, here

BULL CASE $290.00

36x Bull Case CY21e EPS: $8.03

Azure and O365 Drive Top-Line Growth. Intelligent Cloud grows at a 22% CY19-21e CAGR from rapid Azure adoption and sustained legacy and hybrid Server growth. Adoption of higher priced O365 Commercial SKUs and LinkedIn drive Productivity and Business Processes to ~$56B in CY21. Operating margins expand to ~41% and CY21e EPS is $8.03. 36x is in line with >$50B market cap software peers.

BASE CASE $230.00

32x Base Case CY21e GAAP EPS of $7.12

Durability of Growth — Confident in Double DIgit CY19e-CY21e Revenue CAGR: Top line drivers include Azure (MSFT emerging as a public cloud winner), Data center (share gains & positive pricing trends), O365 (base growth & per user pricing lift), and LinkedIn. Op margins expand to ~39% in CY21. Double-digit FY19-FY22 EPS growth and a ~1.5% div yld drive a mid-teens total return profile and CY21e EPS of $7.12. At 32x EPS, MSFT trades at a slight discount to >$50 billion market-cap software peers.

BEAR CASE $150.00

~23x Bear Case CY21e EPS: $6.58

Commercial Cloud Growth Decelerates Significantly. Slower cloud growth drags on PBP and IC segment growth; MPC declines from Windows weakness. Total revenue grows at a 9% CY19-CY21 revenue CAGR. Operating margins reach 38% in CY21e yielding CY21e EPS of $6.58. 23x multiple is in line with low growth large cap software peers.

Risk Reward – Microsoft (MSFT.O)

KEY EARNINGS INPUTS

Drivers	2019	2020e	2021e	2022e
Azure Revenue Growth (%)	71.2	55.9	39.7	36.0
Server Products On-Prem Growth (%)	5.7	7.4	2.3	2.0
Gross Margins (%)	65.9	67.8	69.0	69.8
Operating Margins (%)	34.1	37.0	38.7	40.0
GAAP EPS Growth (%)	21.9	21.3	14.6	16.0

INVESTMENT DRIVERS

- Sustainability of commercial growth, cloud momentum, improving cloud margins
- Improving PC data points

GLOBAL REVENUE EXPOSURE

- 0-10% APAC, ex Japan, Mainland China and India
- 0-10% India
- 0-10% Japan
- 0-10% Latin America
- 0-10% MEA
- 0-10% Mainland China
- 0-10% UK
- 10-20% Europe ex UK
- 50-60% North America

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies, here

MS ALPHA MODELS

3/5 BEST	24 Month Horizon	1/5 MOST	3 Month Horizon

Source: Thomson Reuters, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- Operational efficiencies leading to greater than anticipated economies of scale
- Cloud adoption accelerates, with Azure as convincing winner

RISKS TO DOWNSIDE

- Weak macro impacting global PC sales
- On-premises cannibalization by Cloud
- Increased data center investments hurt margins

OWNERSHIP POSITIONING

Inst. Owners, % Active	61%
HF Sector Long/Short Ratio	2.6x
HF Sector Net Exposure	34.2%

Thomson Reuters; MSPB Content. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure – Short Exposure).

MS ESTIMATES VS. CONSENSUS

FY Jun 2020e

Sales / Revenue ($, mm): 140,269 — 141,503 — 143,015
EBITDA ($, mm): 64,381 — 65,146 — 65,755 — 66,117
Net income ($, mm): 43,118 — 43,405 — 44,281 — 44,320
EPS ($): 5.61 — 5.65 — 5.76

◆ Mean ◆ Morgan Stanley Estimates
Source: Thomson Reuters, Morgan Stanley Research

Risk Reward – Mondelez International Inc (MDLZ.O)

Accelerating Topline Growth Post-COVID and Margin Expansion Above Peers

PRICE TARGET $65.00

Our $65 PT is based on 23x CY21e EPS. Our 23x CY21e P/E multiple is at a ~HSD% discount to our average target multiple for multinational CPG peers, below MDLZ's historical 5% discount.

Consensus Price Target Distribution $60.00 $62.86 $68.00

MS PT

Source: Thomson Reuters, Morgan Stanley Research

◆ Mean   ◆ Morgan Stanley Estimates

RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)

$77.00(+35.66%)   Prob (>77.00)~3.3%

$65.00(+14.52%)   Prob (> 65.00) ~23.3%

$56.76

$40.00(-29.53%)   Prob (<40.00)~11.4%

Key: — Historical Stock Performance   ○ Current Stock Price   ◆ Price Target

Source: Thomson Reuters, Morgan Stanley Research, Morgan Stanley Institutional Equities Division. The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of 19 Aug, 2020. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in either three-months' or one-years' time. View explanation of Options Probabilities methodology, here

OVERWEIGHT THESIS

MDLZ is our top pick in food. We believe MDLZ's long-term organic sales growth has accelerated sustainably to the ~3.5% level after an expected COVID depressed 2020 at 3%, driven by: (1) Favorable geographic/category exposure (emerging markets and snacking categories); (2) strategic changes (focus on local brands and topline expansion, changes in incentive comp); (3) market share trends improving from higher investment and supply chain benefits; and (4) US topline growth trends accelerating with strong market share. We argue MDLZ's topline/EPS growth profile is more similar to mega-cap CPG peers (KO/PEP/PG/CL), and valuation looks compelling at a nearly ~20% discount to mega-cap CPG peers.

Consensus Rating Distribution
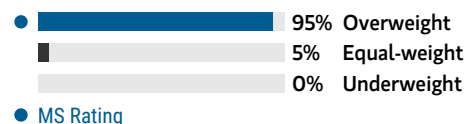
● ▬▬▬▬▬▬▬   95% Overweight
  ▬   5% Equal-weight
                   0% Underweight

● MS Rating

Source: Thomson Reuters, Morgan Stanley Research

Risk Reward Themes

Self-help: *Positive*

View descriptions of Risk Rewards Themes, here

BULL CASE $77.00

~25x CY21e EPS (implies ~18x EV/EBITDA)

~5% organic topline growth, ~7% EBIT growth: +150 bps of volume upside from higher market share trends, robust cost savings drive $100M of profit upside, and USD depreciates -5%. The market attributes increased strategic potential, driving valuation to ~25x CY21e EPS (implies ~18x EV/EBITDA).

BASE CASE $65.00

~23x CY21e EPS (implies ~17x EV/EBITDA)

Organic topline growth of ~3.5%, EBIT growth of ~5.5%: Organic sales growth of ~3% in 2020 and ~3.5% longer-term with OM's up ~30 bps annually on topline growth, pricing, and cost savings. Valuation expands to ~23x CY21e EPS (implies ~17x EV/EBITDA).

BEAR CASE $40.00

~18x CY21e EPS (implies ~12x EV/EBITDA)

~1% organic sales growth, ~1.5% EBIT growth: Pricing moderates vs. historical trends due to lower inflation in emerging markets, category volume growth does not fully recover on lower pricing and is pressured by health & wellness/COVID concerns, and USD appreciates +5%. Dissipating strategic potential contracts valuation to ~18x CY21e EPS (implies ~12x EV/EBITDA).

Risk Reward – Mondelez International Inc (MDLZ.O)

BULL BASE BEAR DRIVERS

BULL $77.00

4.00	Increased Strategic Halo
2.00	-5% USD Downside
2.00	150 Bps Topline Upside on Mrkt Share Gains
4.00	$100M Incremental Cost Cutting

BASE $65.00

4.00	+5% USD Downside
5.00	100 Bps Pricing Downside
5.00	200 bps From Weaker Category Growth
11.00	Strategic Halo Dissipates

BEAR $40.00
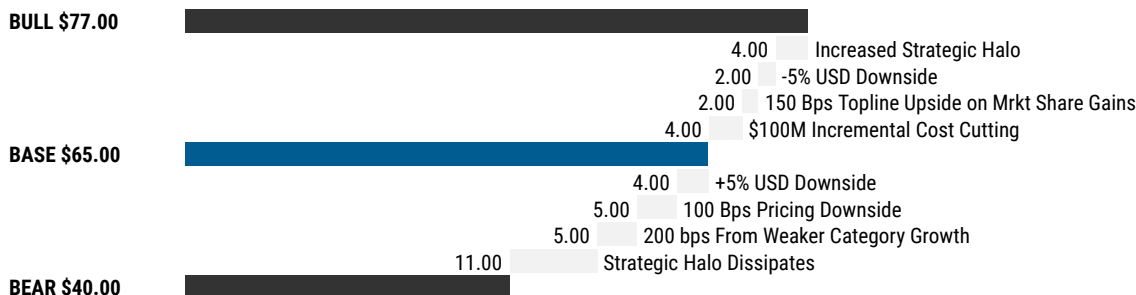
KEY EARNINGS INPUTS

Drivers	2019	2020e	2021e	2022e
Organic Sales Growth (%)	4.1	3.3	4.0	3.4
GM (bps change)	(15.7)	(30.0)	60.0	30.0
Operating Margin (bps change)	(14.8)	(14.6)	69.5	28.1
Constant-Currency EPS % growth (%)	11.8	6.6	8.8	6.8

CATALYST CALENDAR

Date	Event	Source: Thomson Reuters, Morgan Stanley
27 Oct 2020 - 02 Nov 2020	Q3 2020 Mondelez International Inc Earnings Release	
27 Jan 2021 - 01 Feb 2021	Q4 2020 Mondelez International Inc Earnings Release	

INVESTMENT DRIVERS

- Rebounding snacks category growth
- Higher category expansion, especially with more at-home consumption
- Reinvestment behind brands/A&P spending
- Favorable strategy changes
- COVID-19 related impact on supply chain disruptions and pantry-loading

RISKS TO PT/RATING

RISKS TO UPSIDE

Higher volume growth and better than expected pricing, snacking growth remains elevated post COVID, acceleration in trends in EMs, improved snacking category growth, FX tailwinds.

RISKS TO DOWNSIDE

Lower volume growth from pricing, weaker pricing, volume pressure in MDLZ's categories, COVID related costs linger, health/wellness pressure, FX headwinds, weaker margin expansion on higher reinvestment

OWNERSHIP POSITIONING

Inst. Owners, % Active	62.9%
HF Sector Long/Short Ratio	1.1x
HF Sector Net Exposure	0.4%

Thomson Reuters; MSPB Content. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure – Short Exposure).

MS ESTIMATES VS. CONSENSUS

FY Dec 2020e

Sales / Revenue ($, mm)	25,897	26,295 / 26,195	26,396
EBITDA ($, mm)	5,273	5,382	5,965
Net income ($, mm)	3,590	3,719	3,778
EPS ($)	2.48	2.59 / 2.62	2.63

◆ Mean ◆ Morgan Stanley Estimates

Source: Thomson Reuters, Morgan Stanley Research

GLOBAL REVENUE EXPOSURE

- 0-10% APAC, ex Japan, Mainland China and India
- 0-10% India
- 0-10% Japan
- 0-10% MEA
- 0-10% Mainland China
- 0-10% UK
- 10-20% Latin America
- 20-30% North America
- 30-40% Europe ex UK

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies, here

MS ALPHA MODELS

| 2/5 BEST | 24 Month Horizon | 4/5 MOST | 3 Month Horizon |

Source: Thomson Reuters, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

Risk Reward – Nike Inc. (NKE.N)

Digital Transformation To Drive Long-Term Margin Expansion

PRICE TARGET $121.00

Our price target reflects our $121 base case, which is derived from a DCF analysis and supported by P/E multiples. Our base case DCF uses a 5.7% WACC and a 2.5% long-term growth rate (3.5% in our bull case / 1.5% in our bear case). The growth rate is based on our bullish global athleticwear view.

Consensus Price Target Distribution
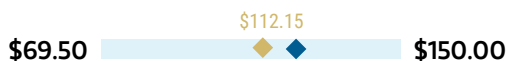
$112.15

$69.50 ◆ ◆ $150.00

MS PT

Source: Thomson Reuters, Morgan Stanley Research

◆ Mean   ◆ Morgan Stanley Estimates

RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)

$201.00(+85.44%)   Prob (>201.00)~0.1%

$121.00(+11.63%)   Prob (> 121.00) ~34.4%

$108.39

$62.00(-42.80%)   Prob (<62.00)~8.3%

Key: — Historical Stock Performance ○ Current Stock Price ◆ Price Target

Source: Thomson Reuters, Morgan Stanley Research, Morgan Stanley Institutional Equities Division. The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of 19 Aug, 2020. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in either three-months' or one-years' time. View explanation of Options Probabilities methodology, here

OVERWEIGHT THESIS

- NKE is in the early innings of transition from a wholesaler to a DTC brand. Success would make it one of few to benefit from the shift to eComm (~15% of '20 sales)
- Its DTC business (~33% of '20 sales) should ignite its next phase of margin-accretive revenue growth, driving a 20%+ 5Y EPS CAGR
- NKE also stands to benefit from advancing global consumer activewear demand (due to the WFH-induced preference for comfort-oriented apparel/footwear and increased focus on health & wellness)
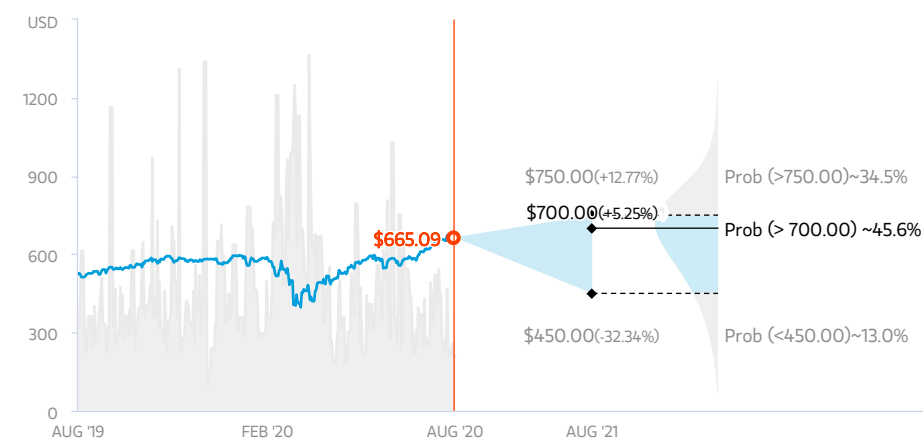- NKE's strategic portfolio decisions, tech investments, and supply chain innovation also creates LT competitive advantages, and are further supported by an industry-leading balance sheet

Consensus Rating Distribution

● ▬▬▬ 79% Overweight
▬ 18% Equal-weight
▌ 3% Underweight

● MS Rating
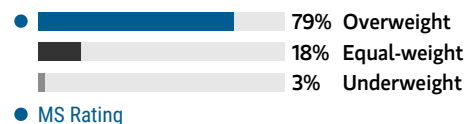
Source: Thomson Reuters, Morgan Stanley Research

Risk Reward Themes

Pricing Power: *Positive*
Self-help: *Positive*
Share Gain: *Positive*

View descriptions of Risk Rewards Themes, here

BULL CASE $201.00

84x Bull case FY21e EPS $2.40

"G.O.A.T." NKE delivers a ~9% 4Y revenue CAGR, at the high end of management's +HSD plan, as the global activewear market grows faster than anticipated, ADS slows globally, and the business recovers quickly post the '20e recession. DTC growth accelerates and "manufacturing revolution" benefits materialize more quickly than anticipated, driving ~75 bps of average annual GM expansion. ~15% long-term ('25e) EBIT margin business. Strong cash flow and innovation create a moat around the business.

BASE CASE $121.00

61x Base case FY21e EPS $1.97

Slam Dunk. ~7% 4Y revenue CAGR, in-line with management's +HSD plan, and ~50 bps of average annual gross margin expansion (on the low end of +50-75 bps management guidance for conservatism purposes) driven by a mix shift to DTC and supply chain innovation (lower product costs, shorter lead times, and greater full price selling), lead to ~70 bps+ of average annual EBIT margin expansion ('23e-'25e). ~13%+ LT EBIT margin business ('25e). Case contemplates '20-'21e recession.

BEAR CASE $62.00

34x Bear case FY21e EPS $1.85

Cool Down. ~5%+ 4Y revenue CAGR, below management's +HSD plan, as NA potentially returns to declines, international grows slower than expected (as sportswear trend cools off globally), innovation slows, and the '20e-'21e recession is longer in duration than currently expected. ~25 bps of average annual gross margin expansion ('21e-'25e). ~11%+ LT EBIT margin business ('25e).

Risk Reward – Nike Inc. (NKE.N)

KEY EARNINGS INPUTS

Drivers	2020	2021e	2022e	2023e
Total DTC (Nike Direct) Sales Growth (%)	14.3	NA	NA	NA
North America Sales Growth (%)	(8.9)	(0.9)	5.8	5.3
International Sales Growth (%)	(1.0)	6.1	12.8	12.0
Gross Margin (%)	43.4	43.1	44.5	45.0
EBIT Margin (%)	8.3	9.7	11.3	11.9

INVESTMENT DRIVERS

- Total Sales Growth: Reported geographically (NA, EMEA, China, and APLA)
- Gross Margin: Driven by input costs, channel/product mix, FX, DC, and inventory mgmt
- EBIT Margin: Driven by marketing cost, R&D, own stores expenses, and eComm fulfillment

GLOBAL REVENUE EXPOSURE
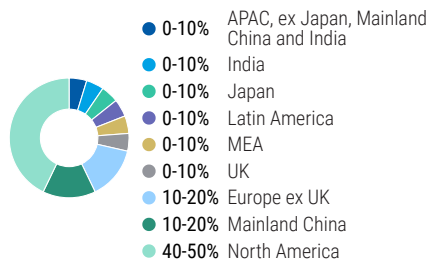
- 0-10% APAC, ex Japan, Mainland China and India
- 0-10% India
- 0-10% Japan
- 0-10% Latin America
- 0-10% MEA
- 0-10% UK
- 10-20% Europe ex UK
- 10-20% Mainland China
- 40-50% North America

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies, here

MS ALPHA MODELS

5/5 BEST	24 Month Horizon	2/5 MOST	3 Month Horizon

Source: Thomson Reuters, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- Faster global activewear market growth
- DTC strategy acceleration
- Market share gains
- Ongoing supply chain innovation
- Sustainable NA segment growth
- Better-than-feared COVID-19 impact/potential recession

RISKS TO DOWNSIDE

- Tariff risk
- Competitive risk (ADS)
- China/international macroeconomic slowdown
- NA declines
- FX headwinds
- ESG mismanagement
- Worse-than-feared COVID-19 impact/potential recession

OWNERSHIP POSITIONING

Inst. Owners, % Active	64%
HF Sector Long/Short Ratio	2x
HF Sector Net Exposure	14.4%

Thomson Reuters; MSPB Content. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure – Short Exposure).

MS ESTIMATES VS. CONSENSUS

FY May 2021e
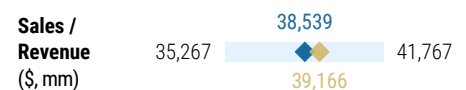
Sales / Revenue ($, mm)	35,267	38,539 / 39,166	41,767
EBIT ($, mm)	3,565	3,750 / 4,285	5,168
EBITDA ($, mm)	4,265	4,471 / 5,078	6,036
EPS ($)	1.90	1.97 / 2.33	2.76

◆ Mean   ◆ Morgan Stanley Estimates

Source: Thomson Reuters, Morgan Stanley Research

Risk Reward – Raymond James Financial Inc. (RJF.N)

A Wealth Manager Priced Like a Bank

PRICE TARGET $91.00

Our price target is based on P/E. We use a 14.5x Target P/E on our C2021 EPS of $6.29. This 14.5x is relatively in-line with the 14-15x NTM P/E in a zero-lower bound rate environment. 14.5x is also in-line with the NTM P/E multiple RJF has traded at one year after a recession.

Consensus Price Target Distribution

$65.00 $74.75 $91.00

MS PT

Source: Thomson Reuters, Morgan Stanley Research

◆ Mean   ◆ Morgan Stanley Estimates

RISK REWARD CHART

$125.00 (+67.00%)

$91.00 (+21.58%)

$74.85

$41.00 (-45.22%)

Key: — Historical Stock Performance ◯ Current Stock Price ◆ Price Target

Source: Thomson Reuters, Morgan Stanley Research

OVERWEIGHT THESIS

■ RJF is trading at 12x our C2021 EPS. Yes lower rates are putting pressure on NIM, but net new money is growing at 7%, with market appreciation on top. We expect multiple starts rising toward our 14.5x target as Net Interest Income stabilizes by year end.

■ We believe Covid-19 disruption presents a unique trigger points for consolidation in the wealth management industry. We expect advisors will increasingly join larger players that can offer access to capital, provide technology capabilities, and improve efficiency and advisor productivity. With its superior technology offering and advisor first business model, RJF appears particularly well positioned to capitalize on this trend.

Consensus Rating Distribution

● 30% Overweight
  50% Equal-weight
  20% Underweight

● MS Rating
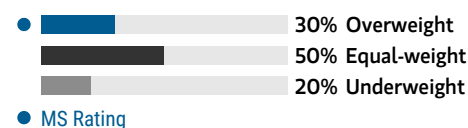
Source: Thomson Reuters, Morgan Stanley Research

Risk Reward Themes

Macroeconomics: *Positive*
Share Gain: *Positive*

View descriptions of Risk Rewards Themes, here

BULL CASE $125.00

15.0x Bull Case C2021e EPS of $8.32

Faster economic recovery, but Fed funds rate remains at 0-0.25%: Faster recovery from the outbreak drives markets higher sooner, positive for client asset growth. Fed funds remain at zero lower bound. Advisor recruitment accelerates. Industry consolidation accelerates, RJF is a key beneficiary and M&A drives 10-15% EPS growth.

BASE CASE $91.00

14.5x Base Case C2021e EPS of $6.29

Modestly improving markets and accelerating recruitment: Fed funds at zero lower bound, and staying there for the foreseeable future. Advisor recruitment accelerates. Buybacks resume in 2021. We do not bake in M&A related benefits in our base case.

BEAR CASE $41.00

13.0x Bear Case C2021e EPS of $3.16

Shallow rebound, Fed funds rate remains at 0-0.25%: Covid-19 disruptions persist into year-end, and the US recession becomes deeper and more prolonged, driving market headwinds and further economic disruption. Fed funds remain at zero lower bound. Weak recruitment and the absence of acquisition opportunities drive low growth in the WM business.

Risk Reward – Raymond James Financial Inc. (RJF.N)

KEY EARNINGS INPUTS

Drivers	2019	2020e	2021e	2022e
Private Client Group Asset Growth Y/Y (%)	5.7	7.0	12.0	10.5
Revenue Growth Y/Y (%)	6.4	0.9	0.4	8.0
Pretax Margins (%)	18.0	12.3	13.7	14.6
Net Interest Margin (%)	3.32	2.65	2.07	2.01

CATALYST CALENDAR

Source: Thomson Reuters, Morgan Stanley

Date	Event
23 Sep 2020	August 2020 Raymond James Financial Inc Operating Results
21 Oct 2020	Q4 2020 Raymond James Financial Inc Earnings Release
24 Nov 2020	October 2020 Raymond James Financial Inc Operating Results
22 Dec 2020	November 2020 Raymond James Financial Inc Operating Results
20 Jan 2021 - 25 Jan 2021	Q1 2021 Raymond James Financial Inc Earnings Release

INVESTMENT DRIVERS

- Advisor recruitment
- M&A
- Rate outlook
- Capital market performance
- Cost control
- Capital return

GLOBAL REVENUE EXPOSURE
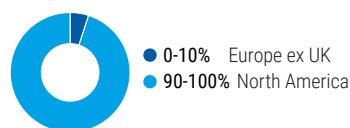
- 0-10% Europe ex UK
- 90-100% North America

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies, here

MS ALPHA MODELS

2/5 BEST	24 Month Horizon	1/5 MOST	3 Month Horizon

Source: Thomson Reuters, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- RJF benefits from strong, accretive M&A opportunities
- Markets move significantly higher, driving client assets higher
- Significantly stronger advisor recruitment
- Strong cost control, driving higher than expected pretax margins

RISKS TO DOWNSIDE

- Prolonged US recession and weak markets
- Absence of M&A opportunities at a reasonable price
- Weak advisor recruitment
- Inability to drive expenses down
- Credit costs rise

OWNERSHIP POSITIONING

Inst. Owners, % Active	62.3%
HF Sector Long/Short Ratio	1.8x
HF Sector Net Exposure	7.2%

Thomson Reuters; MSPB Content. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure – Short Exposure).

MS ESTIMATES VS. CONSENSUS

FY Sep 2020e

Sales / Revenue ($, mm)
6,744 — 7,808 / 7,854 / 7,706

EPS ($)
3.23 — 5.24 / 5.84 / 5.38

◆ Mean ◆ Morgan Stanley Estimates

Source: Thomson Reuters, Morgan Stanley Research

Risk Reward – Sherwin-Williams Co. (SHW.N)

Demand Deferral Not Denial, Lower Raws To Help In The Mean Time

PRICE TARGET $700.00

Our $700 PT assumes the mid point between our Base Case ($650) and our Bull Case ($750), which we believe the probability is increasingly leaning towards. The multiple of 2021 Base Case EPS (27x) is above the higher end (25x) of the 2013-2018 range vs. other "luxury chemicals" such as Ecolab, Air Products and Linde, who have exceeded their historical ranges. Note that Sherwin has generated superior growth, returns and FCF vs. those peers.

Consensus Price Target Distribution

$668.82

$575.00   ◆ ◆ $750.00

MS PT

Source: Thomson Reuters, Morgan Stanley Research

◆ Mean   ◆ Morgan Stanley Estimates

RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)

USD

$750.00 (+12.77%)   Prob (>750.00)~34.5%

$700.00 (+5.25%)   Prob (> 700.00) ~45.6%

$665.09

$450.00 (-32.34%)   Prob (<450.00)~13.0%

AUG '19   FEB '20   AUG '20   AUG '21

Key: — Historical Stock Performance   ⊙ Current Stock Price   ◆ Price Target

Source: Thomson Reuters, Morgan Stanley Research, Morgan Stanley Institutional Equities Division. The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of 19 Aug, 2020. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in either three-months' or one-years' time. View explanation of Options Probabilities methodology, here

OVERWEIGHT THESIS

■ Pro paint demand has been deferred, not denied by COVID. The step up in home renovation during COVID will continue post COVID as discretionary spending is reallocated to the home.

■ Sherwin has likely gained further market share during COVID as smaller players generally were not as well positioned to remain open, do not have sophisticated online platform, do not offer curb side pick-up, cannot extend credit to same extent, and/or have 3,000 company owned trucks for delivery. These share gains compound ongoing gains from digital/data analytics efforts that are still in early stages.

■ Sherwin has maintained price despite raw material cost declines = strong leverage as volume recovers.

Consensus Rating Distribution

●   52%   Overweight

    45%   Equal-weight

    3%   Underweight
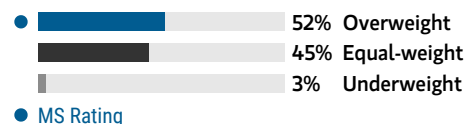
● MS Rating

Source: Thomson Reuters, Morgan Stanley Research

BULL CASE $750.00

25x $30 2021 Bull Case EPS

Post-COVID and shallow recession, HSD/LDD same store sales growth recovery as home improvement cycle more robust than envisioned and weather allows for progress against deferred demand from 2019/2020. Raw material costs remain at low levels and Sherwin holds price. Consumer margins rebuilt to higher base. Modest industrial improvement. Significant share repurchases.

BASE CASE $650.00

~25x ~$26 2021e Cash EPS

SSS challenged by lock downs in 2Q20, but begins to recover in 3Q20 and accelerates into 2021 as COVID drives a new home renovation cycle. Sherwin's store share gains compound. Lower raw materials flow through in 2H20-1H21. Remaining Valspar synergies captured. Consumer business continues to recapture margin while Industrial lags with macro.

BEAR CASE $450.00

~23x 2021 Bear Case EPS of $20

Limited SSS recovery as lingering recession post-COVID-19 limits home improvement cycle and existing home sales stall. 2020 DIY strength reverses in 2021. Industrial weakens on recession conditions. Raw materials a modest offset. Multiple contracts modestly.

Risk Reward – Sherwin-Williams Co. (SHW.N)

KEY EARNINGS INPUTS

Drivers	2019	2020e	2021e	2022e
Same Stores Sales Growth (%)	5.3	1.3	6.5	3.0
TAG PBT ($, mm)	2,057	2,134	2,501	2,636
Performance PBT ($, mm)	711	655	708	742
Consumer PBT ($, mm)	469	587	499	529
EBIT Growth (%)	11.2	4.8	11.4	6.1

INVESTMENT DRIVERS

- Same-store-sales acceleration following market share gains
- Improved performance at Lowe's from new partnership, which should rebuild Consumer segment margins
- Monthly US housing data (housing starts, existing home sales, home improvement spending)

GLOBAL REVENUE EXPOSURE
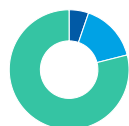
- 0-10% Europe ex UK
- 10-20% Latin America
- 70-80% North America

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies, here

MS ALPHA MODELS

5/5 BEST	24 Month Horizon	3/5 MOST	3 Month Horizon

Source: Thomson Reuters, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- Greater-than-expected North American architectural paint backlog
- Continued market share gains on recent reinvestment initiatives
- Raw material deflation throughout 2020

RISKS TO DOWNSIDE

- COVID-19 demand deferral
- Industrial market weakness
- TiO2 and petrochemical price increases
- Any significant negative data-point that calls US housing into question could lead to a multiple de-rating

OWNERSHIP POSITIONING

Inst. Owners, % Active	67.8%
HF Sector Long/Short Ratio	1.6x
HF Sector Net Exposure	2.1%

Thomson Reuters; MSPB Content. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure – Short Exposure).

MS ESTIMATES VS. CONSENSUS

FY Dec 2020e

Sales / Revenue ($, mm)	17,453	17,924 / 17,872	18,006
EBIT ($, mm)	2,665	3,005 / 2,912	3,083
EBITDA ($, mm)	3,068	3,276 / 3,292	3,593
EPS ($)	20.51	22.65 / 22.73	23.56

◆ Mean ◆ Morgan Stanley Estimates

Source: Thomson Reuters, Morgan Stanley Research

Risk Reward – TransUnion (TRU.N)

Long Term Growth Runway With Attractive Valuation vs. Peers

PRICE TARGET $105.00

Derived from our DCF model. Our DCF includes a 6.6% WACC and a 2.75% terminal growth rate, implying a 16.9x terminal multiple.

Consensus Price Target Distribution
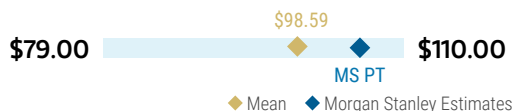
$98.59

$79.00 ◆ ◆ $110.00

MS PT

Source: Thomson Reuters, Morgan Stanley Research

◆ Mean ◆ Morgan Stanley Estimates

RISK REWARD CHART

$151.00 (+78.42%)

$105.00 (+24.07%)

$84.63

$49.00 (-42.10%)

Key: — Historical Stock Performance ◯ Current Stock Price ◆ Price Target

Source: Thomson Reuters, Morgan Stanley Research

OVERWEIGHT THESIS

■ TRU is a best in class credit bureau that has an ample runway for growth driven by innovation, expanding in attractive markets (e.g. healthcare, insurance), extending its consumer reach (e.g. more indirect partnerships), and leveraging its global operating model (expanding its solutions to additional markets).
■ Management has demonstrated strong execution historically, showing its ability to grow above peers; TRU's diversified verticals reduce risk and drive HSD growth in our model following a 2020 recession.
■ The stock is trading at a 3x discount to Information Services peers, despite what we view as an intact growth runway in a post COVID-19 environment.

Consensus Rating Distribution

● ▬▬▬▬▬	72% Overweight
▬▬	28% Equal-weight
	0% Underweight

● MS Rating
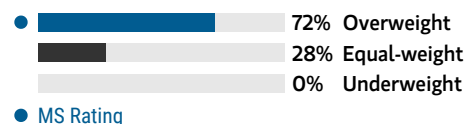
Source: Thomson Reuters, Morgan Stanley Research

Risk Reward Themes

Share Gain: *Positive*
Macroeconomics: *Negative*

View descriptions of Risk Rewards Themes, here

BULL CASE $151.00	BASE CASE $105.00	BEAR CASE $49.00
24.8x Bull Case 22e EV/MS Adj. EBITDA	19.5x Base Case 22e EV/MS Adj. EBITDA	13.8x Bear Case 22e EV/MS Adj. EBITDA
Strong and rapid snapback following 2020 recession. Global credit growth and newer verticals like rental screening, insurance & healthcare contribute to top-line strength. Strong growth in EM drives Int'l revenue growth and margin expansion. Revenue and adj. EBITDA CAGRs of 9% and 10% through '24; adj. EBITDA margins expand from 40% in '19 to 42% in '24.	**Following modest 1% growth in 2020, credit growth returns rapidly as new products facilitate high-single-digit growth. Int'l grows double digits due to the recent Callcredit acquisition and rapid growth in India market.** Revenue and adj. EBITDA CAGRs of 7% and 8% through '24; adj. EBITDA margins expand from 40% in '19 to 41.5% in '24.	**Prolonged recession as global macro environment pressure top-line growth. Competitive pressures limit growth in Consumer Interactive.** Revenue and adj. EBITDA are flat through '24; adj. EBITDA margins of 39.5% in '24.

Risk Reward – TransUnion (TRU.N)

KEY EARNINGS INPUTS

Drivers	2019	2020e	2021e	2022e
Total Organic Growth (%)	9.2	0.9	9.0	8.7
U.S. Markets Organic Growth (%)	8.2	3.7	7.6	8.5
International Organic Growth (%)	14.9	(6.2)	17.6	12.5
Consumer Organic Growth (%)	4.6	1.1	3.7	4.5
EPS Growth (%)	12.5	1.9	19.0	14.8

CATALYST CALENDAR

Date	Event	Source: Thomson Reuters, Morgan Stanley
20 Oct 2020 - 26 Oct 2020	Q3 2020 TransUnion Earnings Release	

INVESTMENT DRIVERS

- Strong Near-Term Growth: TRU grew 9% on an organic c/c basis in '19, above most Analytics peers, driven by new products and verticals (e.g. healthcare, insurance)
- U.S. Markets (core bureau) has gained share post the EFX breach, growing 8% in '19

GLOBAL REVENUE EXPOSURE
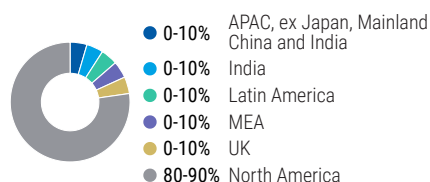
- ● 0-10% APAC, ex Japan, Mainland China and India
- ● 0-10% India
- ● 0-10% Latin America
- ● 0-10% MEA
- ● 0-10% UK
- ● 80-90% North America

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies, here

MS ALPHA MODELS

4/5 BEST	24 Month Horizon	1/5 MOST	3 Month Horizon

Source: Thomson Reuters, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- Rapid snap-back in consumer credit
- Product innovation drives stronger-than-expected growth
- Callcredit exceeds expectations

RISKS TO DOWNSIDE

- Deep and prolonged economic slowdown driving lower demand for credit info and pressuring mortgage/card applications
- Slowdown in new business if competition from EFX intensifies
- Elevated leverage level
- Increased industry regulation in response to Equifax data breach

OWNERSHIP POSITIONING

Inst. Owners, % Active	77%
HF Sector Long/Short Ratio	1.5x
HF Sector Net Exposure	6.1%

Thomson Reuters; MSPB Content. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure – Short Exposure).

MS ESTIMATES VS. CONSENSUS

FY Dec 2020e

Sales / Revenue ($, mm)	2,602	2,664 / 2,666	2,703
EBITDA ($, mm)	953	1,020 / 1,015	1,046
EPS ($)	2.71	2.87 / 2.85	2.94

◆ Mean   ◆ Morgan Stanley Estimates

Source: Thomson Reuters, Morgan Stanley Research

Risk Reward – Visa Inc. (V.N)

Resilient double-digit returns over the medium term offers appealing risk reward

PRICE TARGET $211.00

Based on 29.0x target P/E multiple on our base-case CY22 EPS estimate. This target multiple is in-line with V's 3-year multiple, which we think is justified, as long-term fundamental drivers remain in-tact despite near-term Covid-19 related headwinds

Consensus Price Target Distribution

$221.67

$185.00 ◆ ◆ **$250.00**

MS PT

Source: Thomson Reuters, Morgan Stanley Research

◆ Mean ◆ Morgan Stanley Estimates

RISK REWARD CHART

USD

$272.00 (+35.33%)

$200.99

◆$211.00 (+4.98%)

$144.00 (-28.35%)

AUG '19   FEB '20   AUG '20   AUG '21

Key: — Historical Stock Performance ⊙ Current Stock Price ◆ Price Target

Source: Thomson Reuters, Morgan Stanley Research

OVERWEIGHT THESIS

V is on of our preferred stocks, as it is a key beneficiary of resilient global consumer spend growth, the ongoing shift from cash to electronic payments, and broadening merchant acceptance. Global Personal Consumption Expenditure and secular growth drivers should support high-single digit volume growth and low double-digit revenue growth in the near-to-medium term. The threat of disruption from new entrants is fairly low given Visa?s competitive cost structure and moat. Continued investment in longer term initiatives (faster payments, P2P, B2B) and partnerships continue to increase its TAM and offer an opportunity for compounding double digit earnings growth for the foreseeable future.

Consensus Rating Distribution
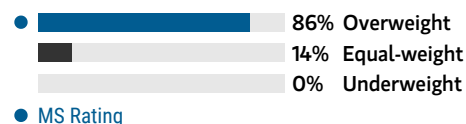
● ▬▬▬▬▬ **86% Overweight**
▬▬ **14% Equal-weight**
  0% Underweight

● MS Rating

Source: Thomson Reuters, Morgan Stanley Research

Risk Reward Themes

Earnings Quality:	*Positive*
Pricing Power:	*Positive*
Secular Growth:	*Positive*

View descriptions of Risk Rewards Themes, here

BULL CASE	$272.00	BASE CASE	$211.00	BEAR CASE	$144.00

33x CY22e bull-case $8.25 EPS

Organic payment vols growth (cc) rebounds quickly to teens growth in FY21, and V returns to share gains and stable macro trends, which drive strong credit/debit volume growth. FY20 revenue growth falls to -4.1% but then bounces to 16.7% in FY21, as the economy quickly rebounds. Mgmt still delivers 13% '19-'22 EPS CAGR, driven by buybacks and expense management.

29x CY22e base-case $7.29 EPS

Organic payment vols contract YoY in FY20 but returns to double digit growth in FY21 as V recovers from COVID-19 related impacts. Net revenues are down 5.1% YoY in FY20 but bounce back to 11.2% in FY21. Expense management and buybacks drive 9% EPS CAGR from '19-'22.

23x CY22e bear-case $6.25 EPS

Organic payment volume growth (cc) gradually recovers to mid-single digit growth from severe macro slowdown. Revenue contracts 6.2% in FY20 but expands 4.7% in FY21 and 11.4% by FY22. Margin expansion and buyback potential is limited but still enables low-single digit EPS growth, despite prolonged COVID-19 and FX headwinds. Renewed regulatory concerns weigh on the multiple.

Risk Reward – Visa Inc. (V.N)

KEY EARNINGS INPUTS

Drivers	2019	2020e	2021e	2022e
US Payment Volume YoY Growth (%)	8.8	3.3	7.9	6.5
Total Payment Volume YoY Growth (%)	5.7	(0.5)	10.6	8.3
Total Revenue YoY Growth (%)	11.5	(5.1)	11.2	15.1
Adj. Operating Margin (%)	66.9	64.8	66.3	69.2
Adj. EPS Growth (%)	18.2	(7.2)	14.8	22.9

CATALYST CALENDAR

Date	Event	Source: Thomson Reuters, Morgan Stanley
22 Oct 2020 - 26 Oct 2020	Q4 2020 Visa Inc Earnings Release	
27 Jan 2021 - 31 Jan 2021	Visa Inc Annual Shareholders Meeting	
28 Jan 2021 - 01 Feb 2021	Q1 2021 Visa Inc Earnings Release	

INVESTMENT DRIVERS

- Growth in global personal consumer expenditure
- Shift of consumer payments from cash to card
- Market share gains from key competitors and local schemes
- Adoption/monetization of B2B offerings
- Regulatory environment
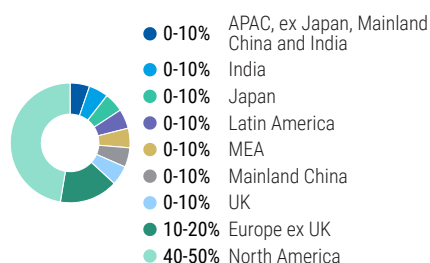
RISKS TO PT/RATING

RISKS TO UPSIDE

- Ability to continue to meet/beat expectations
- Portfolio wins in Europe, with most of their contracts renegotiated
- Faster-than-expected adoption/scaling of B2B solutions, driving multiple expansion

RISKS TO DOWNSIDE

- Material slowdown in consumer spend; Further slowdown in cross-border growth
- Portfolio losses in the US
- Regulatory changes in key markets promoting domestic schemes

MS ESTIMATES VS. CONSENSUS

FY Sep 2021e

Sales / Revenue ($, mm) — 23,123 | 24,256 / 24,182 | 25,675

EBIT ($, mm) — 15,296 | 16,076 / 16,149 | 18,012

EPS ($) — 5.53 | 5.75 / 5.82 | 6.40

◆ Mean   ◆ Morgan Stanley Estimates

Source: Thomson Reuters, Morgan Stanley Research

GLOBAL REVENUE EXPOSURE

- 0-10% APAC, ex Japan, Mainland China and India
- 0-10% India
- 0-10% Japan
- 0-10% Latin America
- 0-10% MEA
- 0-10% Mainland China
- 0-10% UK
- 10-20% Europe ex UK
- 40-50% North America

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies, here

OWNERSHIP POSITIONING

Inst. Owners, % Active	66.9%
HF Sector Long/Short Ratio	2.6x
HF Sector Net Exposure	34.2%

Thomson Reuters; MSPB Content. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure – Short Exposure).

MS ALPHA MODELS

3/5 BEST	24 Month Horizon	1/5 MOST	3 Month Horizon

Source: Thomson Reuters, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

Risk Reward – Yum! Brands, Inc. (YUM.N)

Global Multi-Brand Operator with Diverse Expansion Channels Abroad

PRICE TARGET $103.00

Our PT is based on 27x 2021E EPS of $3.78, representing strong normalized system sales growth vs. the 'all-franchised' QSR peer set (outside of Covid-19 impact). Multiple consistent with longer term history.

Consensus Price Target Distribution

$80.00 — $99.00 / MS PT — $110.00

Source: Thomson Reuters, Morgan Stanley Research

◆ Mean ◆ Morgan Stanley Estimates

RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)

$131.00(+39.47%)   Prob (>131.00)~5.9%

$103.00(+9.66%)   Prob (> 103.00) ~37.9%

$93.93 (Current Stock Price)

$68.00(-27.61%)   Prob (<68.00)~15.4%

Key: — Historical Stock Performance ○ Current Stock Price ◆ Price Target

Source: Thomson Reuters, Morgan Stanley Research, Morgan Stanley Institutional Equities Division. The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of 19 Aug, 2020. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in either three-months' or one-years' time. View explanation of Options Probabilities methodology, here

OVERWEIGHT THESIS

- YUM is a globally and brand-diversified, near all franchised, asset-light QSR brand owner
- Transitioned to 98% franchised, reduced ongoing capex to ~$100M, targets G&A at 1.7% of system sales and +100% FCF conversion
- "New" YUM is one of the only true large-scale growth opportunities for restaurants, in our view, and has significant exposure to the world's largest developing markets (+35% EM); global comps running similar to peers pre-Covid 19
- Valuation gap creates an opportunity given still strong fundamentals, in our view
- Pizza Hut US fears reflected in the stock, but only ~8% of op profit and in a bear case present little risk to EPS

Consensus Rating Distribution

● 30% Overweight
67% Equal-weight
4% Underweight

● MS Rating
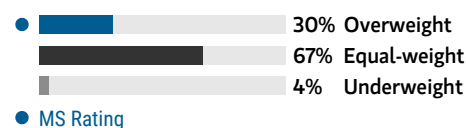
Source: Thomson Reuters, Morgan Stanley Research

BULL CASE — $131.00

30x CY21E bull case EPS of $4.38

All-franchised: Covid-19 recovery faster than base case, earnings mostly normalize by 2021. YUM resumes buybacks and takes advantage of cost savings, while accelerating unit growth to 5%. PH turns around domestically and TB successfully begins expanding internationally.

BASE CASE — $103.00

27x CY21E base case EPS of 3.78

Executes Plan: YUM's transformation completed, at 98% franchised, leverage of ~5x (post-Covid) and G&A reaching ~1.5% of system sales by 2022. Unit growth of +4% after disruption in 2020 is supported by KFC, PH, and TB international expansion.

BEAR CASE — $68.00

21x CY21E bear case EPS of $3.25

Chickening out: PH comps negative, and TB fails to expand successfully internationally. While only 14% of YUM's op profit, YUMC challenges weigh on portfolio. Further G&A cuts with refranchising do not materialize. Covid-19 disruption continues in 2021 globally driven by additional waves of infection.

Risk Reward – Yum! Brands, Inc. (YUM.N)

KEY EARNINGS INPUTS

Drivers	2019	2020e	2021e	2022e
KFC system SSS (%)	4.0	(9.2)	12.0	2.0
Pizza Hut system SSS (%)	0.0	(4.5)	5.6	2.0
System unit growth (%)	4.3	0.5	4.0	3.9
Core operating profit growth Y/Y (%)	12.5	(10.7)	15.4	8.7
Operating margin (ex-special items) (%)	34.7	32.3	34.6	34.9

INVESTMENT DRIVERS

- Systems sales growth exceeding 7% goal long term
- Improved US SSS anticipated, especially at PH
- Increased new capital return goals (goal of $6.5-$7 B expired at end of '19)

GLOBAL REVENUE EXPOSURE
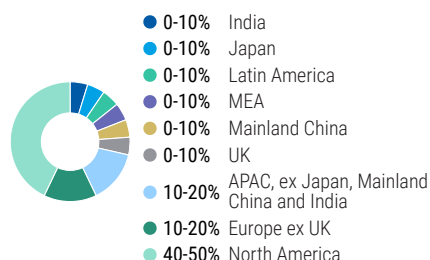
- ● 0-10% India
- ● 0-10% Japan
- ● 0-10% Latin America
- ● 0-10% MEA
- ● 0-10% Mainland China
- ● 0-10% UK
- ● 10-20% APAC, ex Japan, Mainland China and India
- ● 10-20% Europe ex UK
- ● 40-50% North America

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies, here

MS ALPHA MODELS

3/5 BEST	24 Month Horizon	5/5 MOST	3 Month Horizon

Source: Thomson Reuters, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- Faster Covid-19 recovery.
- Successful PH turnaround drives sales/profits.
- Additional cost savings drive margins above base case.
- Long term upside from HABT acquisition.

RISKS TO DOWNSIDE

- Second wave of Covid-19 more disruptive and drives longer recession.
- Challenges at Pizza Hut persist and require corporate assistance.
- Inability to successfully expand TB and HABT.
- Weakness in KFC sales (~50% of global profits).

OWNERSHIP POSITIONING

Inst. Owners, % Active	63.5%
HF Sector Long/Short Ratio	2x
HF Sector Net Exposure	14.4%

Thomson Reuters; MSPB Content. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure – Short Exposure).

MS ESTIMATES VS. CONSENSUS

FY Dec 2021e

Sales / Revenue ($, mm)	5,335	5,745 / 6,183	6,828
EBITDA ($, mm)	2,003	2,093 / 2,123	2,234
EBIT ($, mm)	1,859	1,995 / 1,997	2,166
EPS ($)	3.60	3.78 / 3.90	4.25
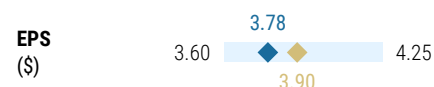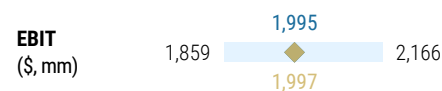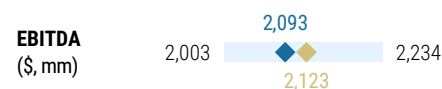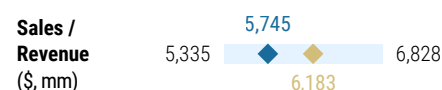
◆ Mean ◆ Morgan Stanley Estimates

Source: Thomson Reuters, Morgan Stanley Research

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(as of July 31, 2020)

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STOCK RATING CATEGORY	COVERAGE UNIVERSE		INVESTMENT BANKING CLIENTS (IBC)			OTHER MATERIAL INVESTMENT SERVICES CLIENTS (MISC)	
	COUNT	% OF TOTAL	COUNT	% OF TOTAL IBC	% OF RATING CATEGORY	COUNT	% OF TOTAL OTHER MISC
Overweight/Buy	1288	39%	337	45%	26%	573	39%
Equal-weight/Hold	1418	43%	328	44%	23%	678	46%
Not-Rated/Hold	4	0%	1	0%	25%	3	0%
Underweight/Sell	554	17%	86	11%	16%	225	15%
TOTAL	3,264		752			1479	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

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