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## Vintage Values | North America

## Vintage Values 2023

Vintage Values 2023 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 2023', our 13th 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 recommendation for a one-year buy-and-hold investment horizon; more than 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 2022' list produced a -4.64% return over the period from August 20, 2021 to August 23, 2022, outperforming the S&P 500 by 100 basis points over that time frame. (See inside for more detail regarding *Vintage Values* 2022, as well as important disclosures).

Amazon.com

CBOE Global Markets

CDW Corp.

Eli Lilly &amp; Co.

Endeavor Group

Exxon Mobil

Ferrari

Lockheed Martin

Monster Beverage

Palo Alto Networks

Simon Property

State Street Corp.

Thermo Fisher Scientific

Visa

Zoetis

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For analyst certification and other important disclosures, refer to the Disclosure Section, located at the end of this report.

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# Vintage Values 2023

## Exhibit 1: Key Financial Data

Ticker	Company name	Primary sector	Primary Analyst	Market Cap (mn)	Share price	Price target	Upside to price target (%)	Bull case value, per share	Bear case value, per share	Earnings Per Share	P/E, diluted	Div. yield (%)	FCF yield (%)	Raw Beta	Adjusted Beta
					23-Aug					2022e 2023e	2022e 2023e	2022e 2023e	2022e 2023e		
AMZN.O	Amazon.com Inc	Technology	Nowak, Brian	1,361,261	133.62	175.00	31.0%	245.00	80.00	0.32 e 2.49 e	NM NM	0.0% e 0.0% e	-1.2% -0.5%	0.80 e	0.87
CBOE.Z	CBOE Global Markets Inc.	Financials	Cypriys, Michael	12,935	121.96	140.00	14.8%	196.00	81.00	6.58 e 6.99 e	18.5 17.4	1.6% e 1.7% e	NM NM	0.68 e	0.78
CDW.O	CDW Corporation	Technology	Woodring, Erik	25,002	184.87	227.00	22.8%	337.00	146.00	9.62 e 10.41 e	19.2 17.8	1.1% e 1.2% e	4.1% 4.0%	1.36 e	1.24
LLY.N	El Lilly & Co.	Healthcare	Flynn, Terence	299,400	315.10	395.00	25.4%	509.00	187.00	8.04 e 9.80 e	39.2 32.2	1.2% e 1.4% e	2.2% 2.4%	0.63 e	0.75
EDR.N	Endeavor Group Holdings, Inc	Media	Swinburne, Benjamin	10,704	22.79	30.00	31.6%	45.00	16.00	2.71 e 1.20 e	8.4 19.0	0.0% e 0.0% e	4.3% 6.0%	NM	NM
XOM.N	Exxon Mobil Corporation	Energy/Utilities	McDermott, Devin	408,428	98.00	106.00	8.2%	140.00	74.00	12.06 e 10.84 e	8.1 9.0	3.6% e 3.7% e	14.8% 11.7%	0.94 e	0.96
RACE.N	Ferrari NV	Consumer Discretionary/Industrials	Jonas, Adam	39,275	201.90	300.00	48.6%	420.00	180.00	4.93 e 5.57 e	40.8 36.1	0.6% e 0.8% e	2.1% 1.9%	0.84 e	0.89
LMT.N	Lockheed Martin Corp	Consumer Discretionary/Industrials	Ulwag, Kristine	114,843	433.12	522.00	20.5%	690.00	328.00	21.65 e 28.30 e	20.0 15.3	2.7% e 2.9% e	5.7% 5.7%	0.81 e	0.88
MINST.O	Monster Beverage Corp	Consumer Staples	Mohsenian, Dara	47,504	90.16	109.00	20.9%	138.00	83.00	2.35 e 3.08 e	38.4 29.3	0.0% e 0.0% e	1.6% 3.1%	0.87 e	0.92
PANW.O	Palo Alto Networks Inc	Technology	Fodderwala, Hamza	56,743	569.51	823.00	44.5%	905.00	421.00	7.56 e 9.33 e	NM NM	NA NA	3.0% 3.6%	1.01 e	1.00
SPG.N	Simon Property Group Inc	Property	Hill, Richard	34,975	106.84	133.00	24.5%	175.00	60.00	11.82 e 12.28 e	9.0 8.7	6.3% e 6.3% e	6.6% 7.6%	1.99 e	1.66
STT.N	State Street Corporation	Financials	Graseck, Betsy	26,016	70.77	86.00	21.5%	106.00	54.00	7.25 e 8.77 e	9.8 8.1	3.4% e 3.6% e	NM NM	1.24 e	1.16
TMO.N	Thermo Fisher Scientific Inc.	Healthcare	Savant, Tejas	224,483	572.97	678.00	18.3%	757.00	534.00	22.96 e 24.28 e	25.0 23.6	0.2% e 0.2% e	3.4% 4.2%	0.74 e	0.83
V.N	Visa Inc.	Technology	Faucette, James	427,834	206.80	291.00	40.7%	336.00	189.00	7.42 e 8.47 e	27.9 24.4	0.7% e 0.8% e	3.8% 3.7%	1.00 e	1.00
ZTS.N	Zoetis Inc.	Healthcare	Wright, Erin	76,035	162.42	264.00	62.5%	310.00	168.00	5.02 e 5.78 e	32.4 28.1	0.7% e 0.7% e	2.6% 3.6%	0.91 e	0.94

Source: ModelWare and Thomson Reuters, data as of 8/23/2022

Adjusted beta is the 3 year weekly historical beta which is smoothed by multiplying the raw beta by 0.67 plus 0.33

Metrics are calculated using the "for consensus" methodology.

NA = Not Applicable; NM = Not Meaningful

\*For RACE.N: Numbers represent EUR, except Market cap, Share price, Price target, Bull case value and Bear case value.

\*For SPG.N: Numbers in EPS column represent FFO per share.

\*For SPG.N: Numbers in P/E column represent P/FFO per share

## Vintage Values 2023

This is the 13th 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 recommendation for a one-year buy-and-hold investment horizon; more than 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 15 names, the SSC also considered the sector weighting recommendations of our Chief US Equity Strategist Michael Wilson; *Vintage Values 2023* is broadly aligned with Mike's sector preferences — for instance, it is overweight Health Care and Real Estate.

The list has a bias toward high-quality stocks; although it screens as more expensive than the market on several multiples-based metrics, it is more attractive on key cash-flow-based valuation measures. Additionally, it has a beta below 1. The average stock in the portfolio is currently trading at an 11% premium to the market on forward P/E (20.4 vs. 18.4x for the S&P 500) and a 17% premium on Price/Sales (2.8x vs 2.4x). However, *Vintage Values 2023* is materially less expensive than the index based on Enterprise Value-to-Operating Cash Flow, and carries a more attractive FCF yield (5.0% vs. 4.7% for the market).

Interestingly, at a time when our US Equity Strategy team is highly focused on relative earnings revisions, which have been negative for the market as a whole, *Vintage Values 2023* has a far superior revisions profile vs. the S&P 500: 3-Month Smoothed Revisions are slightly positive, versus negative-3.8% for the index. Further, the portfolio's Up-to-Down revisions ratio, while negative, is more than 40 percentage points above the S&P 500's.

In terms of style, it is weighted toward Growth: 60% of our list is classified as "Growth" by our Quant Research Team's proprietary style model, well above the 39% for the index overall; 7% is classified as "Value" by our Quant model, vs. 25% for the S&P 500 (the remaining 33% are classified as neither Growth nor Value, according to our Quant team's style model). It is slightly more defensive than the market: 33% of the stocks are classified as "Cyclical" vs 41% for the S&P 500, and 27% are "Defensive", vs. 24% for the index.

Our list also favors large-cap stocks; 63% of the names are classified as either mega-cap or large-cap, and the average market cap of \$211 billion is well above the \$74 billion average for the S&P 500. The portfolio's beta is 0.95.

**Exhibit 2:** Vintage Values 2023 vs S&P 500 as of August 23, 2022

	Factor	Portfolio	Benchmark	Portfolio vs Benchmark
<b>Valuation</b>	Price-to-Book	5.2x	4.1x	1.3x
	Price-to-Fwd. Earnings	20.4x	18.4x	1.1x
	Price-to-Sales	2.8x	2.4x	1.2x
	Price-to-Oper. Cash flow	15.7x	14.5x	1.1x
	EV-to-EBIT	23.7x	26.7x	0.9x
	EV-Free Cash Flow	49.5x	125.2x	0.4x
	Dividend Yield	1.2%	2.0%	-0.8%
	Total Yield	2.1%	3.3%	-1.2%
	Free Cash Flow Yield	5.0%	4.7%	0.3%
<b>Capital Use and Profitability</b>	Cash-to-Market Capitalization	31.2%	16.3%	1.9x
	Capex-to-Sales	4.4%	6.8%	0.7x
	Accruals	11.6%	7.8%	1.5x
	Incremental Margin	23.5%	27.5%	-4.1%
	Asset Turnover	67.1%	73.0%	0.9x
	Gross Margin	44.1%	45.4%	-1.3%
	Change in Shares Outstanding	0.3%	-0.3%	0.5%
<b>Growth and Investor Sentiment</b>	9-Month Price Momentum	-3.3%	-5.4%	2.1%
	3-Month Smoothed Earnings Revisions	0.4%	-3.8%	4.2%
	Up-to-Down Revisions	(43.3%)	(86.3%)	42.9%
	Sales Stability	11.2%	13.0%	(1.8%)
	Beta	0.95	1.00	0.9x
<b>Size</b>	Market Cap	210,591	73,717	2.9x

Source: Source: Clarifi, FactSet, Refinitiv, as interpreted by Morgan Stanley's Quantitative Equity Research team.  
\* The Vintage Values portfolio is equally weighted. .

**Exhibit 3:** Vintage Values 2023 vs S&P 500 Exposures as of August 23, 2022

Exposure	Group	Portfolio	Benchmark	Portfolio vs Benchmark
Size	Mega-Cap Stocks	33.3%	10.0%	23.3%
	Large-Cap Stocks	40.0%	45.2%	-5.2%
	Mid-Cap Stocks	26.7%	44.4%	-17.7%
	Small-Cap Stocks	0.0%	0.4%	-0.4%
Quality	High	60.0%	46.0%	14.0%
	Medium	0.0%	3.6%	-3.6%
	Low	6.7%	4.4%	2.3%
	Junk	33.3%	46.0%	-12.7%
Style	Growth	60.0%	39.2%	20.8%
	Value	6.7%	25.2%	-18.5%
Cyclical/ Defensive	Cyclical	33.3%	41.4%	-8.1%
	Defensive	26.7%	23.6%	3.1%
Sectors	Energy	6.7%	4.6%	2.1%
	Materials	0.0%	2.5%	-2.5%
	Industrials	6.7%	7.9%	-1.3%
	Consumer Discretionary	13.3%	11.5%	1.8%
	Consumer Staples	6.7%	6.7%	0.0%
	Health Care	20.0%	14.0%	6.0%
	Financials	13.3%	10.7%	2.6%
	Information Technology	20.0%	27.8%	-7.8%
	Communication Services	6.7%	8.3%	-1.7%
	Utilities	0.0%	3.1%	-3.1%
	Real Estate	6.7%	2.8%	3.8%

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

**'Vintage Values 2022' outperformed the S&P 500.** Last year's *Vintage Values* names produced a total return of -4.64% over the period from August 20, 2021 to August 23, 2022, outperforming the S&P 500 by 100basis points over that period.

**Exhibit 4:** Performance of 'Vintage Values 2022' (August 20, 2021-August 23, 2022)

Ticker	Company name	Total Return	Contrib. to Portfolio Return
GOOGL.O	Alphabet Inc.	-17.15%	-1.14%
APO.N	Apollo Global Management Inc	6.03%	0.40%
KO.N	Coca-Cola Co.	16.97%	1.13%
CTSH.O	Cognizant Technology Solutions Corp	-12.73%	-0.85%
RACE.N	Ferrari NV	-5.09%	-0.34%
GILD.O	Gilead Sciences Inc.	-8.04%	-0.54%
JCI.N	Johnson Controls International Plc	-23.19%	-1.55%
MSFT.O	Microsoft	-8.40%	-0.56%
MDLZ.O	Mondelez International Inc	2.64%	0.18%
NCR.N	NCR Corp.	-22.55%	-1.50%
NOC.N	Northrop Grumman Corp.	35.20%	2.35%
SYF.N	Synchrony Financial	-29.33%	-1.96%
UNH.N	UnitedHealth Group Inc	26.37%	1.76%
V.N	Visa Inc.	-9.98%	-0.67%
WMG.O	Warner Music Group Corp.	-20.33%	-1.36%
<b>Total</b>		<b>-4.64%</b>	<b>-4.64%</b>
<b>S&amp;P 500</b>		<b>-5.64%</b>	<b>-5.64%</b>

Source: Source: Thomson Reuters, Bloomberg, Morgan Stanley Research. Data as of August 23, 2022. This assumes the focus list was constituted with equal-weighted positions on August 20, 2021. Results shown represent total absolute return (including dividends) and exclude brokerage commissions and transaction costs.

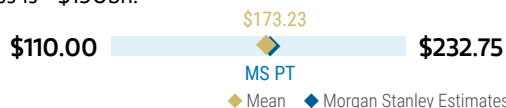
Risk Reward – Amazon.com Inc (AMZN.O) Top Pick

## AMZN Risk Reward

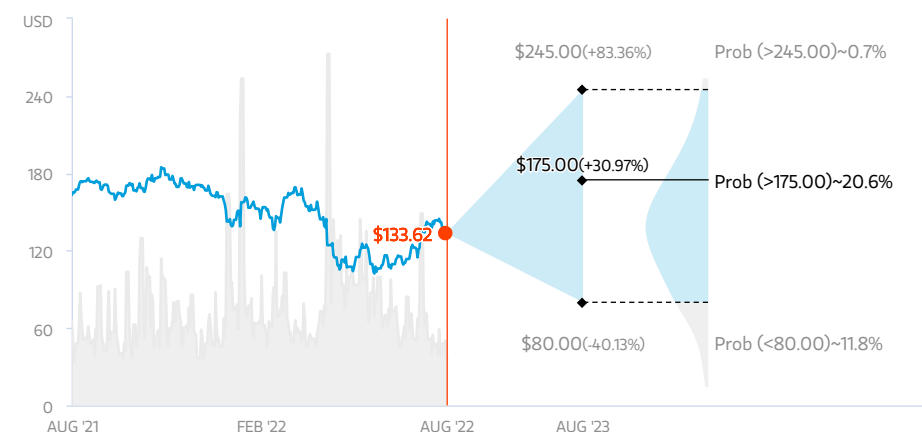
PRICE TARGET **\$175.00**

We apply a sum-of-the-parts valuation on AMZN's five businesses (1P, 3P, AWS, Subscription, and Advertising/Other). We value core retail at ~\$500bn based on 1P reaching 1.00% '24 op margins and 3P reaching a 18% EBITDA margin. AWS is worth ~\$790bn, Prime sub revenues are worth ~\$300bn and AMZN's ad business is ~\$190bn.

## Consensus Price Target Distribution



## RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)

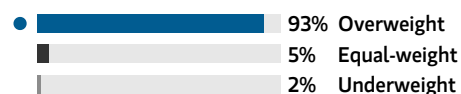


Source: Refinitiv, Morgan Stanley Research, Morgan Stanley Institutional Equities Division. The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of 23 Aug, 2022. All figures are approximate risk-neutral probabilities 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

- Amazon's high-margin businesses continue to allow Amazon to drive greater profitability while still continuing to invest (last mile delivery, fulfillment, Prime Now, Fresh, Prime digital content, Alexa/Echo, India, AWS, etc).
- Amazon Prime membership growth drives recurring revenue and positive mix shift.
- Cloud adoption hitting an inflection point.
- Advertising serves as a key area for both further growth potential and profitability flow-through.

## Consensus Rating Distribution



## MS Rating

Source: Refinitiv, Morgan Stanley Research

## Risk Reward Themes

Secular Growth: *Positive*  
 New Data Era: *Positive*  
 Technology Diffusion: *Positive*

View descriptions of Risk Rewards Themes [here](#)

**BULL CASE \$245.00**

~11x Bull Case '22e EV/EBITDA Disc. Back to '23

We apply a sum-of-the-parts valuation on AMZN's five businesses (1P, 3P, AWS, Subscription, and Advertising/Other). We value core retail at ~\$760bn based on 1P reaching 3.5% '24 op margins and 3P reaching a 20% EBITDA margin. AWS is worth ~\$1trln, Prime sub revenues are worth ~\$395bn and AMZN's ad business is ~\$325bn.

**BASE CASE \$175.00**

~18x EV/ '23 EBITDA

We apply a sum-of-the-parts valuation on AMZN's five businesses (1P, 3P, AWS, Subscription, and Advertising/Other). We value core retail at ~\$500bn based on 1P reaching 1.00% '24 operating margins and 3P reaching a 18% EBITDA margin. AWS is worth ~\$790bn, Prime sub revenues are worth ~\$300bn and AMZN's ad business is ~\$190bn.

**BEAR CASE \$80.00**

~9x Bear Case 23e EV/EBITDA

Investments step up. Heavy investments in last mile, fulfillment, digital content, Prime, devices and international expansion markets, and AWS price cuts continue, which along with higher technology & content expense, pressure margins. Our bear case is based on a DCF in which we treat AMZN's operating leases as a full cash expense.



## Risk Reward – Amazon.com Inc (AMZN.O)

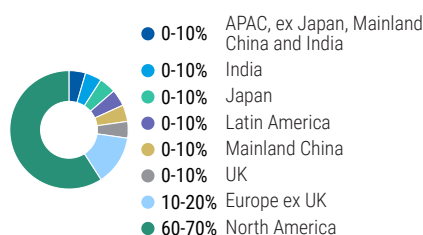
## KEY EARNINGS INPUTS

Drivers	2021	2022e	2023e	2024e
Revenue (\$, mm)	469,822	529,372	611,422	699,113
Gross Profit (\$, mm)	198,018	229,741	283,562	334,767
GAAP EBIT (\$, mm)	24,879	18,637	32,418	40,596
Paid Unit Growth (y/y) (%)	15.5	6.4	15.4	12.9
AWS Revenue Growth (%)	37.1	32.6	27.6	23.5

## INVESTMENT DRIVERS

- Amazon's high-margin businesses continue to allow Amazon to drive greater profitability while still continuing to invest
- Cloud is in a multi-decade secular adoption cycle
- Amazon is gaining share in eCommerce/retail and share of consumers' wallets

## GLOBAL REVENUE EXPOSURE



Source: Morgan Stanley Research Estimate  
View explanation of regional hierarchies [here](#)

## MS ALPHA MODELS

<b>4/5 BEST</b>	<b>24 Month Horizon</b>	<b>5/5 MOST</b>	<b>3 Month Horizon</b>
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Source: Refinitiv, 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 than expected AWS rev growth and margin expansion
- 1-day shipping cost transition goes faster than expected
- Amazon succeeds in expanding its TAM (logistics, advertising, grocery, etc)

## RISKS TO DOWNSIDE

- Investments step up and continue for longer than expected
- Unit growth slows
- AWS revenue decelerates and/or margins decline

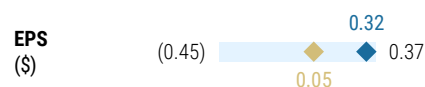
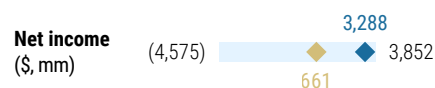
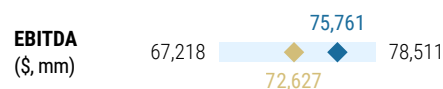
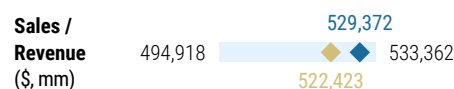
## OWNERSHIP POSITIONING

Inst. Owners, % Active	60.5%				
HF Sector Long/Short Ratio	1.4x				
HF Sector Net Exposure	8.5%				

Refinitiv; 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 2022e



◆ Mean ◆ Morgan Stanley Estimates

Source: Refinitiv, Morgan Stanley Research

## Risk Reward – CBOE Global Markets Inc. (CBOE.Z)

Volatility Boosts Volumes Outlook, Index Options Key Cash Cows

### PRICE TARGET \$140.00

Based on 20x base case 2023e operating EPS (implied 14x 2023e EV / EBITDA), which reflects a ~20% premium to S&P (in-line vs historical premium). Target 20x P/E multiple is also in-line with CBOE's historical 3-yr average.

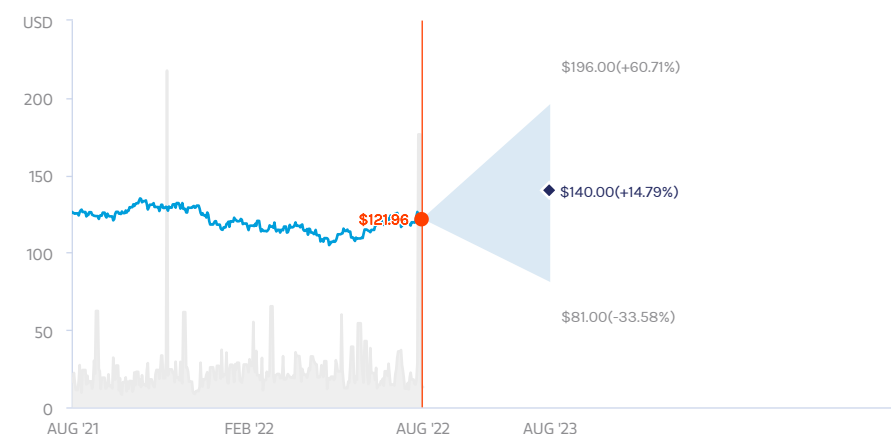
#### Consensus Price Target Distribution

\$118.00  \$153.00

Source: Refinitiv, Morgan Stanley Research

\$137.64  
MS PT  
◆ Mean ◆ Morgan Stanley Estimates

### RISK REWARD CHART



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

Source: Refinitiv, Morgan Stanley Research

### OVERWEIGHT THESIS

- Rising recession risks and elevated market volatility support robust outlook for trading volumes, and transactional revs represent 70% of firm revs.
- CBOE's proprietary index option products are cash cows with pricing power and high incremental margins that are poised to benefit from increased volatility as market participants look to manage and express risks exposure.
- In addition to the cyclical uplift, CBOE has invested in a number of initiatives to support the long-term growth potential of the index suite (i.e. SPX tues/thurs expiries, global trading hours, nanos contracts). While still early days, we can see long term growth to volumes as initiatives scale and gain traction.

#### Consensus Rating Distribution



● MS Rating

Source: Refinitiv, Morgan Stanley Research

#### Risk Reward Themes

Disruption: Positive  
Market Share: Positive  
Self-help: Positive

View descriptions of Risk Rewards Themes [here](#)

### BULL CASE \$196.00

24x 2023e bull case operating EPS of \$8.19

More positive growth outlook driven by macro tailwinds, strong strategic pivot to data & analytics, successful retail distribution, and resilience in proprietary products. 2023e adj. EBITDA margin of 65.5%.

### BASE CASE \$140.00

20x 2023e base case operating EPS of \$6.99

Proprietary index options benefit from volatile macro backdrop. Index options contribute higher fees and margins, boosting earnings outlook. 2023e adj. EBITDA margin of 63%.

### BEAR CASE \$81.00

16x 2023e bear case operating EPS of \$5.04

Macro headwinds, slower than expected strategic pivot, and competitive pressures in proprietary products and cash equities hurt top-line growth and margins. 2023e adj. EBITDA margin of 56%.

## Risk Reward – CBOE Global Markets Inc. (CBOE.Z)

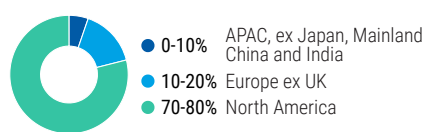
## KEY EARNINGS INPUTS

Drivers	2021	2022e	2023e	2024e
Net Revenues (\$, mm)	1,476	1,721	1,846	1,832
Total Adj. Expenses (\$, mm)	531	664	720	726
Adj. EBITDA (\$, mm)	987	1,088	1,157	1,139
Adj. EBITDA Margin (%)	66.9	63.2	62.7	62.2
Adj. EPS	6.06	6.58	6.99	6.99

## INVESTMENT DRIVERS

- Investor appetite for proprietary VIX and SPX products
- Demand for market data (proprietary and non-proprietary) and access/connectivity
- Market share and pricing in US/EU cash equities

## GLOBAL REVENUE EXPOSURE



Source: Morgan Stanley Research Estimate  
View explanation of regional hierarchies [here](#)

## MS ALPHA MODELS

4/5 BEST	24 Month Horizon	5/5 MOST	3 Month Horizon
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Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

## RISKS TO PT/RATING

## RISKS TO UPSIDE

- Elevated volumes fueled by prolonged market volatility
- More persistent client engagement and adoption of proprietary products
- Mkt share gains in US/European equities
- Newer initiatives gain traction lifting revs faster

## RISKS TO DOWNSIDE

- Reduced investor interest for CBOE's products that weigh on growth
- Greater competitive pressures in cash equities
- Regulatory changes to market structure; headwinds in market data rev

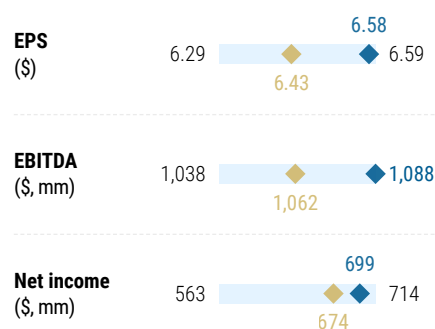
## OWNERSHIP POSITIONING

Inst. Owners, % Active	56.9%				
HF Sector Long/Short Ratio	1.5x				
HF Sector Net Exposure	6.9%				

Refinitiv; 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 2022e



◆ Mean ◆ Morgan Stanley Estimates

Source: Refinitiv, Morgan Stanley Research

## Risk Reward – CDW Corporation (CDW.O)

A Long-Term Compounder Set to Benefit from Increasing Services Mix

### PRICE TARGET \$227.00

CDW continues to execute and leverage its broad product portfolio & customer end-market exposure. Sirius helps expand FY22 gross margins to 19% and operating margins to 8.2%. Our PT applies a 21.8x P/E (implied by regression of peers) to 2023e EPS of \$10.41.

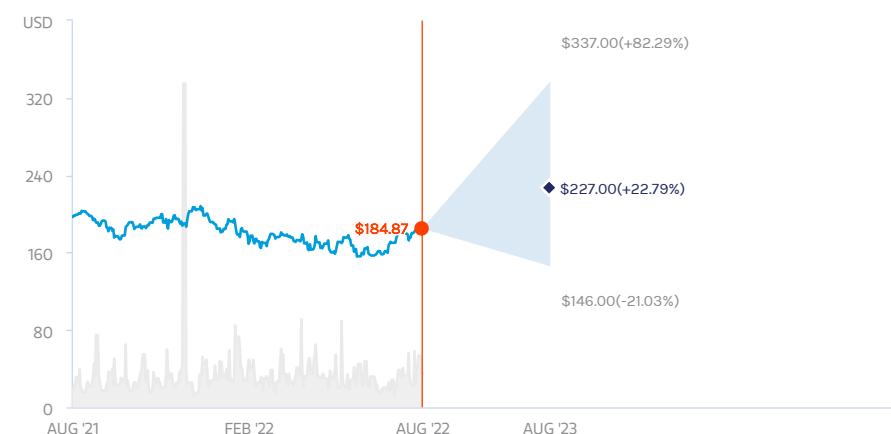
#### Consensus Price Target Distribution

\$202.00 \$216.69 \$240.00

Source: Refinitiv, Morgan Stanley Research

MS PT  
Mean Morgan Stanley Estimates

### RISK REWARD CHART



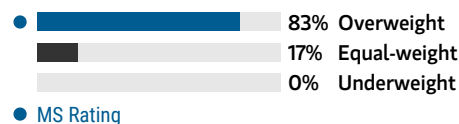
Key: — Historical Stock Performance ● Current Stock Price ◆ Price Target

Source: Refinitiv, Morgan Stanley Research

### OVERWEIGHT THESIS

CDW is a beneficiary of structurally higher IT spending, and with the stock trading at 17x P/E, we believe shares are attractively valued. We believe CDW is set to outperform relative to the rest of our coverage despite the current macro uncertainty as its diversified portfolio allows customers to pivot to growing areas of the IT market. This is evidenced by the fact that CDW has consistently outperformed US IT market growth by ~300 bps on average, even in periods of challenged PC market growth. As a result, we see the potential for upward earnings revisions this year. An increasing mix of Services revenue should also serve as a valuation tailwind, which we reflect in our \$227 price target.

#### Consensus Rating Distribution



Source: Refinitiv, Morgan Stanley Research

#### Risk Reward Themes

Market Share: Positive  
Secular Growth: Positive  
Technology Diffusion: Positive

View descriptions of Risk Rewards Themes [here](#)

### BULL CASE \$337.00

28.1x Bull Case FY23e EPS of \$11.98

CDW begins to re-rate on cloud opportunity and grows teens in 2022. Netted down revenue is >30% of gross profit, which drives a re-rating similar to Apple when Services was >30% of GP. Supply improves quicker than expected and demand remains strong, allowing CDW to grow at an over 300 bps growth premium to US IT market growth. Sirius leads to meaningful margin accretion. Shares trade at 28.1x FY23 EPS of \$11.98.

### BASE CASE \$227.00

22x Base Case FY23e EPS of \$10.41

CDW continues to execute and leverage its broad product portfolio & customer end-market exposure. CDW navigates the tight supply environment, and constraints begin to ease in 2H22. CDW benefits from its diversified end-markets, expands netted down revenue mix, and grows revenue in-line with its 7.25-8.25% guidance range. Sirius helps expand FY22 GM to 18.9% and operating margins to 8.2%. Our PT applies 22x P/E (implied by regression of peers) to FY23 EPS of \$10.41.

### BEAR CASE \$146.00

16.5x Bear Case FY23e EPS of \$8.85

Moderating PC demand drives low-to-mid single digit revenue growth in 2022. Geopolitical uncertainty causes downward revisions to US IT market growth of 4% and/or CDW fails to outperform. Pro forma gross margins contract rather than expand due to lower-than-expected netted down revenue. CDW trades at a modest discount to the S&P 500 at 16.5x given concerns around cannibalization of on-prem infrastructure spend from cloud adoption.

## Risk Reward – CDW Corporation (CDW.O)

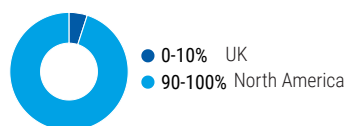
## KEY EARNINGS INPUTS

Drivers	2021	2022e	2023e	2024e
Revenue Growth (Y/Y) (%)	12.7	17.1	5.4	6.9
Gross Margin (%)	17.1	19.0	19.2	19.3
Non-GAAP Operating Margin (%)	7.9	8.2	8.2	8.3
Non-GAAP EPS Growth (Y/Y) (%)	20.8	20.7	8.3	9.6

## INVESTMENT DRIVERS

- US IT budget growth / declines
- Commercial and public sector PC demand
- IT spending as a % of capex
- Share gains / losses

## GLOBAL REVENUE EXPOSURE



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

## RISKS TO PT/RATING

## RISKS TO UPSIDE

- IT market growth accelerates
- Sirius acquisition accretion exceeds expectations
- PC demand more durable
- Unexpected growth opportunities emerge
- Netted down mix shift drives GM expansion

## RISKS TO DOWNSIDE

- Supply constraints cap upside
- Demand fades due to geopolitical uncertainty
- Double ordering in 2021 leads to slower growth in 2022
- PC demand moderates faster
- Accelerating cloud adoption cannibalizes on-prem spend

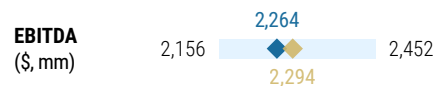
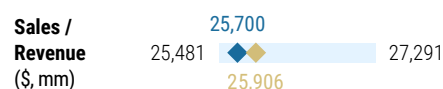
## OWNERSHIP POSITIONING

Inst. Owners, % Active	66.2%	
HF Sector Long/Short Ratio	2.2x	
HF Sector Net Exposure	32.9%	

Refinitiv; 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 2023e



◆ Mean ◆ Morgan Stanley Estimates

Source: Refinitiv, Morgan Stanley Research

## Risk Reward – Eli Lilly & Co. (LLY.N) Top Pick

Mounjaro and new product cycles will fuel best growth in industry

### PRICE TARGET **\$395.00**

Our 12-month price target of \$395 is based on a 35x P/E multiple applied to our 3Q 2023 to 2Q 2024 EPS estimate of \$11.29. This multiple is above LLY's 10-year average (20x) and the industry (14.5x) but deserved given the company's growth profile and pipeline optionality.

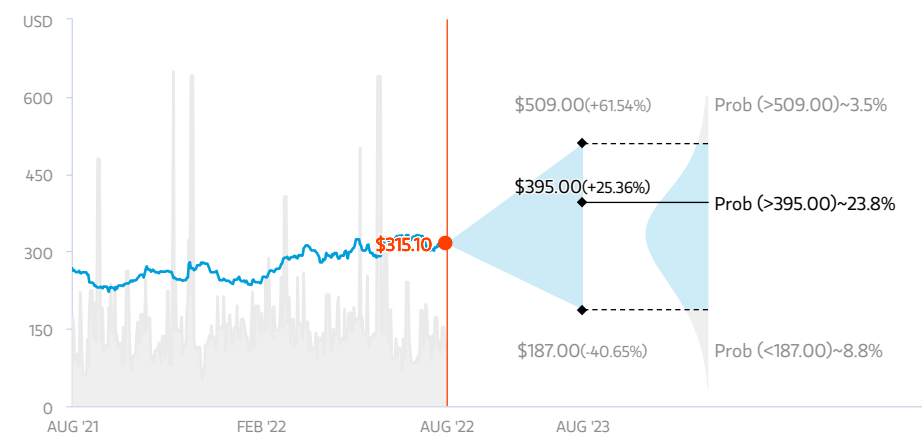
#### Consensus Price Target Distribution

**\$268.00** ◆ **\$395.00**  
MS PT

Source: Refinitiv, Morgan Stanley Research

◆ Mean ◆ Morgan Stanley Estimates

### RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)



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

Source: Refinitiv, 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 23 Aug, 2022. 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

LLY has the most robust new product cycle (and hence growth) outlook in Pharma as the company could launch five new drugs over the next two years (across large end markets such as diabetes, Alzheimer's disease, cancer and immunology), two of which we project could achieve 2030 sales in excess of \$5bn on an un-risk adjusted basis. Our work on Mounjaro (Tirzepatide) for diabetes and obesity underpins our thesis. All in we project that these new launches will boost LLY's top line by 40%+ (2025 vs. 2022) with Mounjaro accounting for half of this, expand operating margins to 40% from 30% (2025 vs. 2022), and put LLY on pace to deliver 2025/2030 EPS of ~\$15.81/\$23.77.

#### Consensus Rating Distribution

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

#### MS Rating

Source: Refinitiv, Morgan Stanley Research

#### Risk Reward Themes

Market Share: *Positive*  
 Secular Growth: *Positive*  
 Technology Diffusion: *Positive*

View descriptions of Risk Rewards Themes [here](#)

#### BULL CASE

**\$509.00**

##### 44x bull case 3Q23-2Q24 EPS

**Strong commercial momentum across LLY's new product cycles.** Tirzepatide is approved by the FDA for obesity indication launches in 2024. Commercial uptake in both T2D and obesity indications is very robust, leading to 2030 sales of \$28bn. We project LLY could post 2025/2030 EPS of ~\$16.90/\$28.23. Competitor Alzheimer's data in 2H22 (and LLY's Donanemab data in 2023) provides further upside optionality.

#### BASE CASE

**\$395.00**

##### 35x base case 3Q23-2Q24 EPS

**We expect the FDA to approve Tirzepatide for obesity indication in 2024.** We model '23/'25/'30 Tirzepatide WW sales of \$2.3bn/\$5.6bn/\$18.9bn. For Donanemab we assume a 50% POS and '30 risk adjusted sales of \$3.2bn. We believe setup into competitor Ph3 data reads is favorable as we see minimal value in LLY stock for Dmab. Top-line growth should drive operating margin leverage (40% in 2025) and we project LLY could post EPS of ~\$15.81/\$23.77 in '25/'30.

#### BEAR CASE

**\$187.00**

##### 18x bear case 3Q23-2Q24 EPS

**Tirzepatide is approved by the FDA in obesity, but fails to capture significant market share.** Tirzepatide is marginally successful in capturing market share for T2D indication, leading to 2025/2030 sales of \$2.6bn/\$4.3bn.

## Risk Reward – Eli Lilly &amp; Co. (LLY.N)

## KEY EARNINGS INPUTS

Drivers	2021	2022e	2023e	2024e
Total revenues growth (%)	15.4	1.8	9.0	13.5
Trulicity growth (%)	27.7	17.9	(0.8)	(10.0)
Taltz growth (%)	23.7	14.0	13.0	7.0
Gross profit growth (%)	12.5	3.4	11.6	15.5
Operating income, EBITA growth (%)	4.4	10.0	20.3	30.0

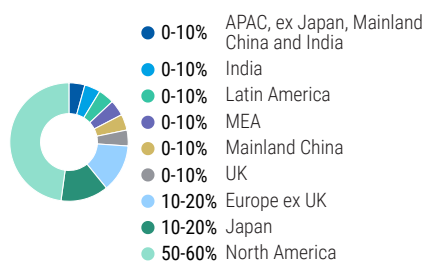
## CATALYST CALENDAR

Date	Event	Source: Refinitiv, Morgan Stanley
H2 2022	Lecanemab: BiIB/Eisai's Phase 3 Alzheimer's data	
H2 2022	Gantenerumab: Roche's Phase 3 Alzheimer's data	
Q3 2022	Wegovy: Novo's interim analysis of Phase 3 obesity CVOT trial	
01 Jul 2022 - 30 Jun 2023	Donanemab: FDA action on accelerated approval in Alzheimer's	

## INVESTMENT DRIVERS

- New product cycles
- Operating margin expansion
- Near term data readouts

## GLOBAL REVENUE EXPOSURE



Source: Morgan Stanley Research Estimate  
View explanation of regional hierarchies [here](#)

## MS ALPHA MODELS

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

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

## SUSTAINABILITY &amp; ESG

Indicator of Change	0.22	+1.0	-1.0
Disclosure Rate	29%		

## RISKS TO PT/RATING

## RISKS TO UPSIDE

- Tirzepatide has positive outcomes trials in obesity, opens new market
- Donanemab is successful in the ongoing Ph3 program and is approved
- New product cycles drive best in class revenue growth and operating margin expansion

## RISKS TO DOWNSIDE

- Tirzepatide isn't approved for obesity
- Donanemab fails in the ongoing Ph3 Alzheimer's disease program
- New product cycles disappoint, LLY invests more to maintain operating margin

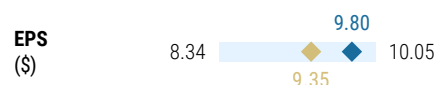
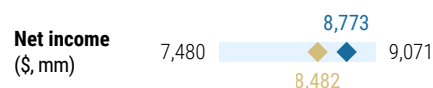
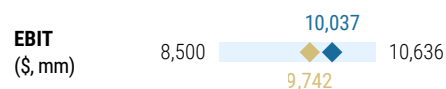
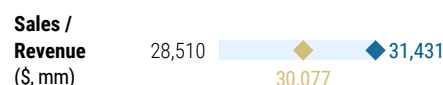
## OWNERSHIP POSITIONING

Inst. Owners, % Active	56%	
HF Sector Long/Short Ratio	2.2x	
HF Sector Net Exposure	20.5%	

Refinitiv; 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 2023e



◆ Mean ◆ Morgan Stanley Estimates

Source: Refinitiv, Morgan Stanley Research

## Risk Reward – Endeavor Group Holdings, Inc (EDR.N)

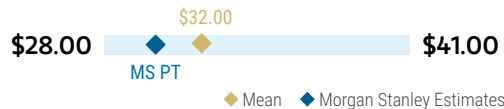
Top Pick

Play on Premium Talent, IP, and Sports Assets

### PRICE TARGET \$30.00

Our \$30 PT is based on ~15x fwd. base case EBITDA (MS-defined) and is supported by our DCF-driven fair market value.

#### Consensus Price Target Distribution



### RISK REWARD CHART



Source: Refinitiv, Morgan Stanley Research

#### BULL CASE

\$45.00

~19x fwd. EBITDA

We assume a more rapid re-opening recovery driving top line revenue CAGR of 8-9%, 100-150bps ahead of our base case. At the UFC, we expect the next round of domestic US rights to renew at a 2.5x AAV. Total company operating margins hit ~23% by 2023.

#### BASE CASE

\$30.00

~15x fwd. EBITDA

We see a revenue CAGR of ~7-8% between '21-'24E, driven by a return to live events and rising monetization opportunities at WME. At the UFC, we expect the next round of US rights to renew at 2.0x AAV. Total company operating margins hit 22% by 2023.

#### BEAR CASE

\$16.00

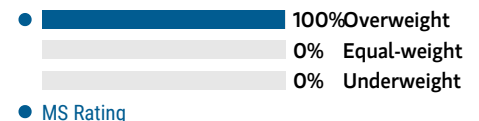
~10-11x fwd. EBITDA

We assume a more tepid re-opening and our revenue growth CAGR of 6-7% is 50-150bps lower than our base case. At the UFC, we expect the next round of domestic US rights to renew at a 1.5x AAV. Total company operating margins hit ~22% by 2023.

### OVERWEIGHT THESIS

- Endeavor offers exposure to powerful growth drivers in the industry, including appreciating sports rights, streaming content spend, and re-opening
- The UFC is a strategic asset with real scarcity value and upcoming rights renewal in 2026
- Lower growth live events and marketing agencies and company financial leverage provide some risk to shares

#### Consensus Rating Distribution



#### Risk Reward Themes

Secular Growth: Positive  
Self-help: Positive  
Market Share: Positive

View descriptions of Risk Rewards Themes [here](#)



## Risk Reward – Endeavor Group Holdings, Inc (EDR.N)

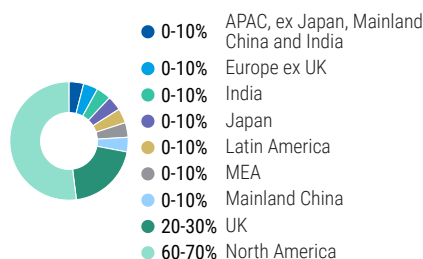
### KEY EARNINGS INPUTS

Drivers	2021	2022e	2023e	2024e
OSP Revenues (\$, mm)	1,108	1,333	1,403	1,492
OSP EBITDA (\$, mm)	538	616	614	663
Representation Revenues (\$, mm)	1,960	1,596	1,706	1,809
Representation EBITDA (\$, mm)	383	516	559	601
UFC EBITDA (\$, mm)	515	579	606	655

### INVESTMENT DRIVERS

- Any change, better or worse, in the macro environment and re-opening timelines
- Popularity of UFC and demand for niche sports IP content driving streaming platform scale
- Increasing or moderating pace of industry content spend

### GLOBAL REVENUE EXPOSURE



Source: Morgan Stanley Research Estimate  
View explanation of regional hierarchies [here](#)

### RISKS TO PT/RATING

#### RISKS TO UPSIDE

- More rapid re-opening driving faster top-line
- Higher efficiencies in cost base driving operating leverage margins
- UFC domestic rights renewal of 2.5x in 2026e

#### RISKS TO DOWNSIDE

- Worsening macro conditions and a slower re-opening recovery
- Higher talent costs and more cost savings reversing, driving lower operating margins
- UFC domestic rights renewal of 1.5x in 2026e

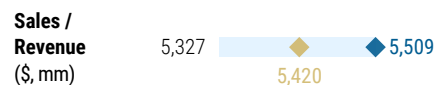
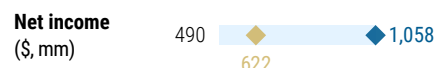
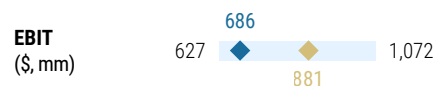
### OWNERSHIP POSITIONING

Inst. Owners, % Active	95.5%				
HF Sector Long/Short Ratio	2.3x				
HF Sector Net Exposure	11.1%				

Refinitiv; 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 2022e



◆ Mean ◆ Morgan Stanley Estimates

Source: Refinitiv, Morgan Stanley Research

## Risk Reward – Exxon Mobil Corporation (XOM.N)

Spending cuts and margin recovery has improved FCF & dividend sustainability

### PRICE TARGET \$106.00

Base case of \$106/sh which is a 50/50 blend of 1) a target multiple of 6.5x 2023e EV/DACF (\$112/share) and 2) our discounted cash flow value of \$100/share (with a WACC of 8.1% and terminal EV/EBITDA multiple of 5.9x).

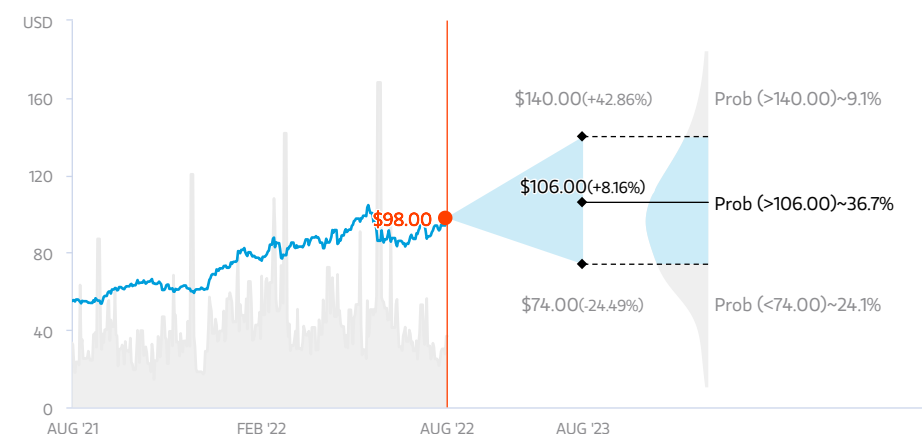
#### Consensus Price Target Distribution

\$70.80  \$134.00

Source: Refinitiv, Morgan Stanley Research

\$103.24  
MS PT  
Mean Morgan Stanley Estimates

### RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)



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

Source: Refinitiv, 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 23 Aug, 2022. 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

- **Improving FCF outlook and dividend sustainability.** With a more constructive commodity price outlook, lower capital spending, and additional cash operating cost savings, the dividend is covered in 2021 and averages >100% over the next 5-years on our estimates. Improving dividend sustainability supports yield compression for XOM relative to CVX.
- **Cost cuts defend the dividend.** In 2020, XOM reduced 2022-25 spending plans to \$20-25B from \$30-35B (recently extended to 2027), improving dividend sustainability while limiting further pull on the balance sheet. Additionally, XOM is targeting \$6B in structural operating cost reductions by 2023 which should put upward pressure on consensus FCF estimates

#### Consensus Rating Distribution

● 50% Overweight  
■ 47% Equal-weight  
■ 3% Underweight

● MS Rating

Source: Refinitiv, Morgan Stanley Research

#### Risk Reward Themes

Renewable Energy: *Positive*

View descriptions of Risk Rewards Themes [here](#)

#### BULL CASE

**\$140.00**

##### 8.2x 2023e EV/DACF of \$79 B

Bull case of \$140/sh is based on a 50/50 blend of 1) a target multiple of 6.5x 2023e EV/DACF (\$133/share) and 2) our discounted cash flow value of \$147/share. Scenario assumes \$87.50 WTI, \$90 Brent, \$3.75 Henry Hub, and refining margins increase ~10%.

#### BASE CASE

**\$106.00**

##### 7.3x 2023e EV/DACF of \$67 B

Base case of \$106/sh which is a 50/50 blend of 1) a target multiple of 6.5x 2023e EV/DACF (\$112/share) and 2) our discounted cash flow value of \$100/share (with a WACC of 8.1% and terminal EV/EBITDA multiple of 5.9x). Scenario assumes long-term (2025+) \$67.50 WTI, \$70 Brent, \$3.25 Henry Hub.

#### BEAR CASE

**\$74.00**

##### 6.7x 2023e EV/DACF of \$53 B

Bear case of \$74/sh is based on a 50/50 blend of 1) a target multiple of 6.5x 2023e EV/DACF (\$81/share) and 2) our discounted cash flow value of \$66/share. Scenario assumes \$47.50 WTI, \$50 Brent, \$2.75 Henry Hub, and refining margins decline ~10%.

## Risk Reward – Exxon Mobil Corporation (XOM.N)

## KEY EARNINGS INPUTS

Drivers	2021	2022e	2023e	2024e
Oil Production (Mbbbl/d)	2,017	2,084	2,178	2,284
Total Production (Mboe/d)	3,712	3,693	3,725	3,826
Realized Oil Price (\$)	59.90	92.25	83.31	74.32
Realized Gas Price (\$)	7.11	9.33	6.90	5.92
EBITDA Margin per Boe (\$)	39.54	74.28	62.02	48.46

## CATALYST CALENDAR

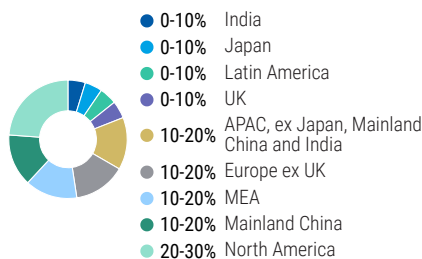
Date	Event
28 Oct 2022	Q3 2022 Exxon Mobil Corp Earnings Release

Source: Refinitiv, Morgan Stanley

## INVESTMENT DRIVERS

- Capex
- Capital efficiency
- Commodity prices including oil & gas, LNG, crack spreads, and chemicals margins
- Major capital projects including Guyana, Permian, Brazil, Papua New Guinea LNG, Mozambique

## GLOBAL REVENUE EXPOSURE



Source: Morgan Stanley Research Estimate  
View explanation of regional hierarchies [here](#)

## MS ALPHA MODELS

5/5 BEST	24 Month Horizon	1/5 MOST	3 Month Horizon
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Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

## SUSTAINABILITY &amp; ESG

Indicator of Change	0.29	+1.0	-1.0
Disclosure Rate	67%		

## RISKS TO PT/RATING

## RISKS TO UPSIDE

- Higher commodity prices, including liquefied natural gas (LNG)
- Successful execution of major capital projects
- Permian well performance improvements
- Additional cost cuts

## RISKS TO DOWNSIDE

- Lower commodity prices
- Cost overruns on major capital projects
- Service cost inflation in the Permian erodes returns
- Geopolitical risk could impact production volumes and/or returns; Guyana is a particular focus now.

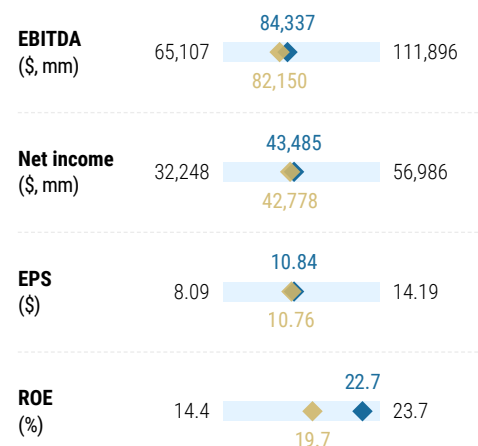
## OWNERSHIP POSITIONING

Inst. Owners, % Active	46.4%
HF Sector Long/Short Ratio	2x
HF Sector Net Exposure	6.7%

Refinitiv; 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 2023e



◆ Mean ◆ Morgan Stanley Estimates

Source: Refinitiv, Morgan Stanley Research

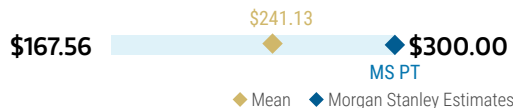
## Risk Reward – Ferrari NV (RACE.N) Top Pick

Leading Luxury Brand & High Quality Earnings - On a Road to EVs

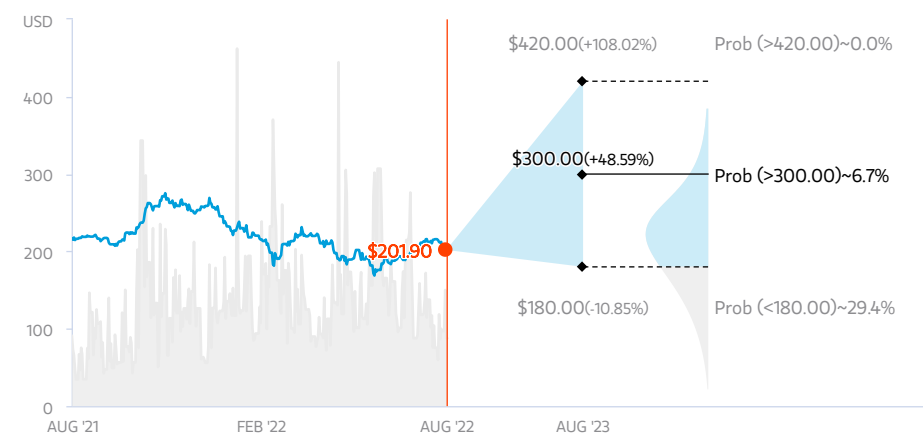
### PRICE TARGET **\$300.00**

Our \$300 PT has been derived using a 18 year DCF Valuation to 2040 applying a WACC of 8.4%. We apply an exit multiple of 17x. Exit assumptions also include a 27.4% EBIT margin & 38.7% EBITDA margin.

#### Consensus Price Target Distribution



### RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)



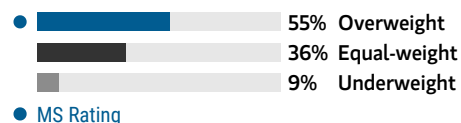
Source: Refinitiv, Morgan Stanley Research, Morgan Stanley Institutional Equities Division. The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of 23 Aug, 2022. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in either three-months' or one-years' time. View explanation of Options Probabilities methodology [here](#)

Source: Refinitiv, 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 23 Aug, 2022. 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

Growth potential and strong execution. Global shipments of >13k units in 2022, growing at a 7.3% CAGR to 2030 ending at ~21.0k shipments. Adj. EBITDA margins remain 35% in 2022 on strong mix and pricing. Ferrari trades at a justified premium to luxury brands, but at a discount to luxury leader, Hermes, albeit with more opportunity to grow organically via: new customers, new segments and geographically in China & Asia-Pac, as well as exhibiting a unique moat with a world renowned brand and a 12+ month customer orderbook.

#### Consensus Rating Distribution



#### Risk Reward Themes

Pricing Power: *Positive*

View descriptions of Risk Rewards Themes [here](#)

### BULL CASE **\$420.00**

~30.8x 2024e Bull Case EBITDA of ~€2.4bn

**Firing on all 12 cylinders.** RACE beats guidance, releases long-term plans and the market prices in higher growth and profitability on outer reference years, while retaining a multiple greater than luxury brand peer leader, Hermes, as well as the market assuming better-than-expected cost performance on incremental volume, mix and ancillary revenue opportunities. The shift to EVs is extremely profitable and customers embrace Ferrari BEVs.

### BASE CASE **\$300.00**

~26.4x 2024e EBITDA of ~€2.0bn

**Compounding growth potential and strong execution.** Global shipments of 13.0k units in 2022, growing at a 7.3% CAGR to 2030 ending at ~21k shipments. Adj. EBITDA margins remain 35% in 2022 on strong mix & pricing. RACE trades at a justified premium to luxury brands, but at a discount to luxury leader, Hermes. Opportunity to grow organically via: new customers, new segments & geographically. RACE continues to maintain a 12+ month customer orderbook. EVs are additive to brand & margins.

### BEAR CASE **\$180.00**

~17.6x 2024e Bear Case EBITDA of ~€1.8bn

**Burnout and re-rate down.** Global shipments do not rise as expected on a weaker macro backdrop, with more persistent demand problems & cancellations ensuing. Production halts and recalls. Margins come in over 200 bps below base case as costs are higher than anticipated & new models contribute less to mix. RACE trades closer to lower end of luxury peer group. RACE LT targets lower than anticipated. BEVs fail to deliver on both customer demand & margins. Loss of brand relevance.

## Risk Reward – Ferrari NV (RACE.N)

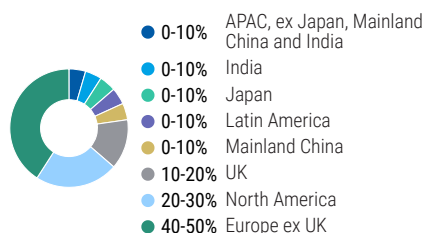
## KEY EARNINGS INPUTS

Drivers	2021	2022e	2023e	2024e
ASPs (€) (€)	320,355	317,782	327,315	337,135
Units	11,155.0	13,001.2	13,838.8	14,810.7
EBITDA (€mm) (€, mm)	1,531	1,721	1,800	2,001
Diluted EPS (€) (€)	4.50	4.93	5.57	6.28
Free Cash Flow (€mm) (€, mm)	550	784	710	804

## INVESTMENT DRIVERS

- New Product Launches
- ASPs, Sales, Margins, FCF
- Residual Values
- Guidance Revisions
- F1 Performance
- Brand Value

## GLOBAL REVENUE EXPOSURE



Source: Morgan Stanley Research Estimate  
View explanation of regional hierarchies [here](#)

## SUSTAINABILITY &amp; ESG

Indicator of Change	0.60	+1.0	-1.0
Disclosure Rate	75%		

## RISKS TO PT/RATING

## RISKS TO UPSIDE

- Robust orderbook, new customers, new models, shipment growth
- High ASPs, strong mix & margins
- Commoditization of EVs mean more value is placed on Ferrari ICE

## RISKS TO DOWNSIDE

- Weakness in demand or production issues
- Execution risk around brand expansion
- Increases in engineering costs to EV migration & EVs could hurt value proposition
- F1 R&D costs higher than expected
- Austerity limits perception of Ferrari owners

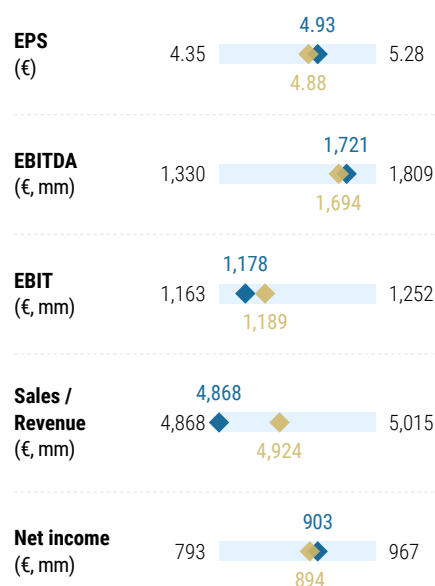
## OWNERSHIP POSITIONING

Inst. Owners, % Active	86.6%				
HF Sector Long/Short Ratio	1.4x				
HF Sector Net Exposure	8.5%				

Refinitiv; 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 2022e



◆ Mean ◆ Morgan Stanley Estimates

Source: Refinitiv, Morgan Stanley Research

## Risk Reward – Lockheed Martin Corp (LMT.N)

A Well-Balanced Bellwether

PRICE TARGET **\$522.00**

We arrive at our price target of \$522 by placing a ~18.5x multiple on base case 2023E EPS of \$28.30. Lockheed Martin has typically traded in line with peers on most metrics, reflecting its solid performance, quality balance sheet, and high-end portfolio of products.

## Consensus Price Target Distribution

\$374.00 ◆ \$459.28 ◆ \$539.00

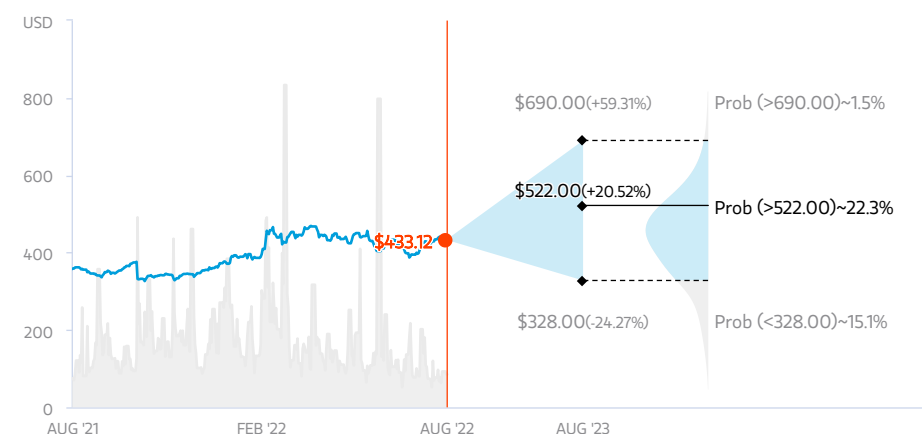
Source: Refinitiv, Morgan Stanley Research

◆ Mean ◆ Morgan Stanley Estimates

## OVERWEIGHT THESIS

We view Lockheed as one of the most well positioned companies with leadership positions in hypersonics, directed energy, autonomy, multi-domain operations and space. Additionally the company has one of the most well insulated and visible earnings profiles in the group as a result of the F-35 program that makes up nearly 30% of total company revenues that is paired with multi-decade visibility. We expect the stock to outperform peers due to its defensible portfolio, steady execution, strong free cash flow generation, and underlevered balance sheet.

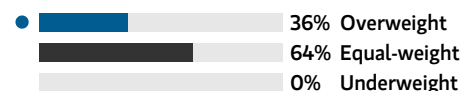
## RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)



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

Source: Refinitiv, 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 23 Aug, 2022. 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](#)

## Consensus Rating Distribution



## MS Rating

Source: Refinitiv, Morgan Stanley Research

## Risk Reward Themes

Secular Growth: *Positive*View descriptions of Risk Rewards Themes [here](#)**BULL CASE** **\$690.00**

~21x P/E multiple on CY2023E EPS

Our bull case is reflective of the following in 2023E:

**Multiple:** ~21x P/E on bull case EPS**Revenue:** ~4% CAGR (2021-2026)**EBITDA Margin:** ~16%**Tax Rate:** ~18%**BASE CASE** **\$522.00**

~18.5x P/E multiple on CY2023E EPS

Our base case is reflective of the following in 2023E:

**Multiple:** ~18.5x P/E on base case EPS**Revenue:** ~3.5% CAGR (2021-2026)**EBITDA Margin:** ~14%**Tax Rate:** ~18%**BEAR CASE** **\$328.00**

~13x P/E multiple on CY2023E EPS

Our bear case is reflective of the following in 2023E:

**Multiple:** ~13x P/E on base case EPS**Revenue:** ~2% CAGR (2021-2026)**EBITDA Margin:** ~13.5%**Tax Rate:** ~18%

## Risk Reward – Lockheed Martin Corp (LMT.N)

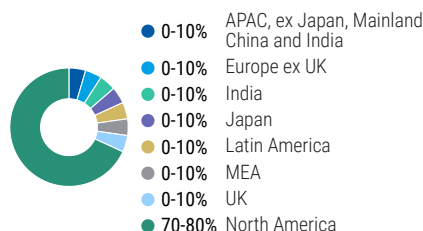
## KEY EARNINGS INPUTS

Drivers	2021	2022e	2023e	2024e
Sales (mm)	NA	NA	67,182	69,971
EPS	NA	NA	28.30	29.05
Operating Income (mm)	NA	NA	8,716	8,907
Free Cash Flow (mm)	NA	NA	6,511	6,646

## INVESTMENT DRIVERS

- F-35 provides visibility into 2040, although production growth will slow in coming years
- Biden's Defense Policy and resulting DoD budget
- Emerging Pension headwinds
- U.S. DoD investments in advanced capabilities

## GLOBAL REVENUE EXPOSURE



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

## SUSTAINABILITY &amp; ESG

Indicator of Change	0.12	+1.0	-1.0
Disclosure Rate	40%		

## RISKS TO PT/RATING

## RISKS TO UPSIDE

- Increase in perceived or realized security threats
- Easing export policy stimulates growth in international sales

## RISKS TO DOWNSIDE

- Decrease in perceived or realized security threats
- Tightening of export policy hinders growth in international sales
- New entrants from commercial players

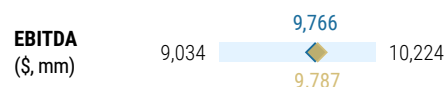
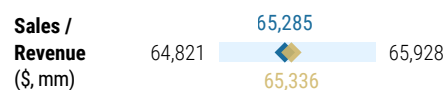
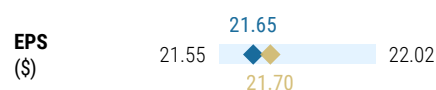
## OWNERSHIP POSITIONING

Inst. Owners, % Active	44.5%	
HF Sector Long/Short Ratio	1.4x	
HF Sector Net Exposure	6.7%	

Refinitiv; 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 2022e



◆ Mean ◆ Morgan Stanley Estimates

Source: Refinitiv, Morgan Stanley Research

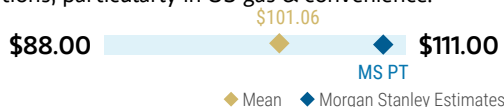
## Risk Reward – Monster Beverage Corp (MNST.O) Top Pick

Valuation Does Not Reflect Outsized LT Growth Prospects

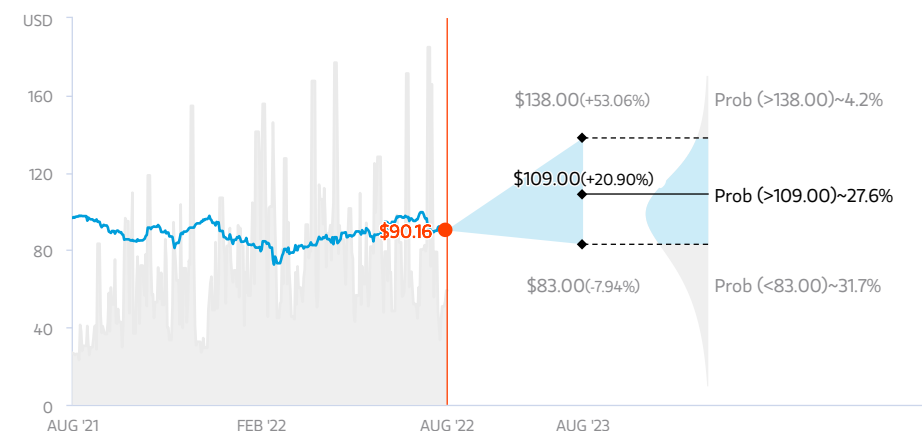
### PRICE TARGET **\$109.00**

Our PT is derived from a ~35x CY23e P/E, with rebounding energy drink trends in the US and International markets post COVID-19 disruptions, particularly in US gas & convenience.

#### Consensus Price Target Distribution



### RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)



Source: Refinitiv, 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 23 Aug, 2022. 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](#)

Source: Refinitiv, 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 23 Aug, 2022. 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](#)

#### BULL CASE

**\$138.00**

~43x CY23e Bull Case EPS

**Topline growth of high-teens%.** Market share gains and building category growth post COVID drives 500/750 bps of US/Int'l revenue upside, lower commodities drive 100 bp of gross margin upside, and a consolidation premium increases, driving multiple expansion to ~43x CY23e P/E, in line with MNST's peak in recent years.

#### BASE CASE

**\$109.00**

~35x CY23e Base Case EPS

**MNST delivers ~low DD% topline growth (HSD% US and ~high-teens% international).** Valuation expands to ~35x CY23e P/E, reflecting accelerating growth.

#### BEAR CASE

**\$83.00**

~28x CY23e Bear Case EPS

**Topline weakness.** Market share pressure from competitive brands, macro weakness, and decelerating category growth drives 500 bps of US revenue downside and 750 bps internationally. Reinvestment comes in higher than our forecast, compressing the multiple to ~28x CY23e P/E.

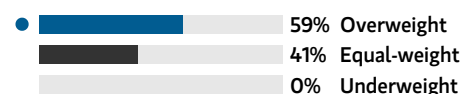
### OVERWEIGHT THESIS

#### Topline Re-accelerating Post COVID-19

**Impacts:** We forecast MNST topline re-accelerating to LDD% growth annually the next few years post COVID, above consensus, and driven by high teens international growth.

**Compelling Valuation:** We believe MNST's valuation looks compelling, with our 12% LT topline growth forecast above the 9% rate the market is pricing in from an implied DCF standpoint and consensus forecasts.

#### Consensus Rating Distribution



#### MS Rating

Source: Refinitiv, Morgan Stanley Research

#### Risk Reward Themes

Market Share: *Positive*  
Pricing Power: *Positive*  
Secular Growth: *Positive*

View descriptions of Risk Rewards Themes [here](#)



## Risk Reward – Monster Beverage Corp (MNST.O)

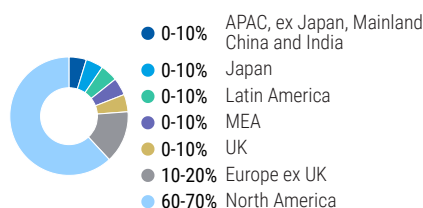
## KEY EARNINGS INPUTS

Drivers	2021	2022e	2023e	2024e
Net Sales % local currency growth (%)	19.2	NA	NA	NA
US Sales % growth (%)	13.5	NA	NA	NA
International Sales % local currency growth (%)	30.7	NA	NA	NA
Gross Margin Bps Change	(313.6)	NA	NA	NA
EPS % Growth (%)	(2.1)	NA	NA	NA

## INVESTMENT DRIVERS

- Building international topline momentum
- US scanner data trends
- Less competitive threat from smaller players and Coke Energy
- Inflecting gross margins
- COVID-19 impact

## GLOBAL REVENUE EXPOSURE



Source: Morgan Stanley Research Estimate  
View explanation of regional hierarchies [here](#)

## MS ALPHA MODELS

<b>5/5 BEST</b>	<b>24 Month Horizon</b>	<b>4/5 MOST</b>	<b>3 Month Horizon</b>
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Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

## RISKS TO PT/RATING

## RISKS TO UPSIDE

Coke Energy launch in the US is unsuccessful, higher contribution from innovation (including Reign), higher int'l sales growth & market share gains, early resolution of COVID-19.

## RISKS TO DOWNSIDE

Weaker macro/higher unemployment impact on category, smaller brands gain more market share in the US, lower gross margins (product/geographic mix), int'l margins weaker than our forecast, and COVID-19 impacts linger.

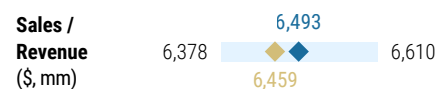
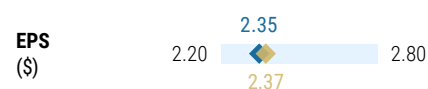
## OWNERSHIP POSITIONING

Inst. Owners, % Active	66.8%	<div><div></div><div></div><div></div><div></div><div></div></div>
HF Sector Long/Short Ratio	1x	<div><div></div><div></div><div></div><div></div><div></div></div>
HF Sector Net Exposure	0.1%	<div><div></div><div></div><div></div><div></div><div></div></div>

Refinitiv; 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 2022e



◆ Mean ◆ Morgan Stanley Estimates

Source: Refinitiv, Morgan Stanley Research

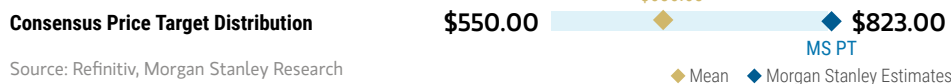
## Risk Reward – Palo Alto Networks Inc (PANW.O)

Top Pick

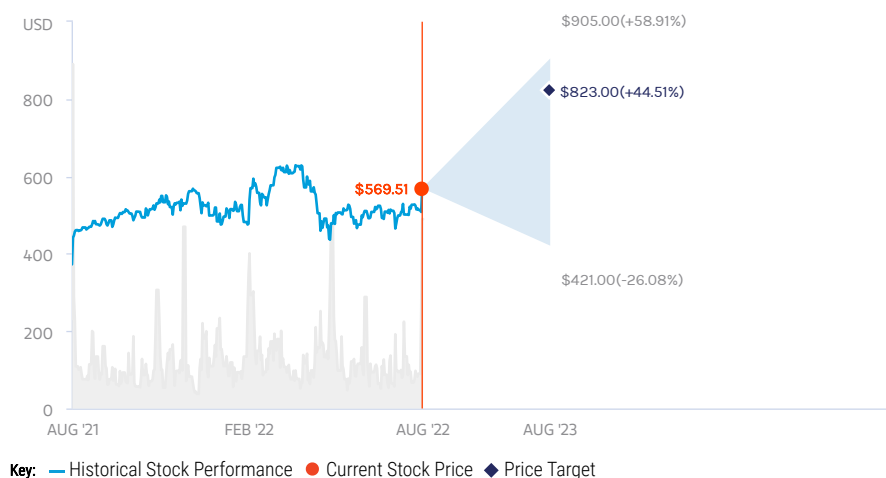
Durable FCF Growth Not Reflected in Current Multiple

## PRICE TARGET \$823.00

Based on 29x Base Case 2024e FCF per share of \$29.59, Discounted Back at 10.3% WACC



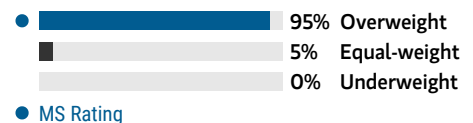
## RISK REWARD CHART



## OVERWEIGHT THESIS

- Palo Alto Networks offers a disruptive platform, well positioned to address the evolving threat landscape. We believe Palo Alto Networks will continue to differentiate itself from its peers as it proves out a broader TAM around a NextGen Security Platform (and executing to that opportunity).
- With strong secular positioning and the drive towards higher operating margins, we remain confident in the durability of our FCF estimates. Currently trading at 22x CY23e FCF vs. our model, which looks for ~26% FCF CAGR from CY22-24e, we continue to see attractive risk/reward in PANW shares.

## Consensus Rating Distribution



Source: Refinitiv, Morgan Stanley Research

## Risk Reward Themes

Secular Growth: *Positive*View descriptions of Risk Rewards Themes [here](#)

## BULL CASE

\$905.00

30x Bull Case 2024e FCF per share of \$31.71

**Consolidating the Broader Security Market.** Total revenue grows at a 22% CAGR over the next 2 years and reaches \$9.4B by CY24, still a small % of the >\$80B in spending in security product and services. Operating margins move to ~21% by CY24 due to robust new business growth with FCF as a % of rev. of 37%. PANW trades 30x EV/FCF multiple in CY24, supported by 23% CAGR FCF growth, and discounted back at 10.3% WACC.

## BASE CASE

\$823.00

29x Base Case 2024e FCF per share of \$29.59

**Sustaining Above Market Growth.** PANW sustains an 5% CAGR to reach 106K customers in CY24. Cumulative lic/customer grows at a 10% CAGR and total revenue reaches \$8.8B by CY24. Operating margins improve to ~22% by CY24 through G&A and R&D leverage and a growing recurring rev. base. FCF as a % of rev. at ~37% by CY24 and a robust growth rate sustains 29x EV/FCF in CY24, a multiple relatively in line with large cap security software peers, and discounted back at 10.3% WACC.

## BEAR CASE

\$421.00

17x Bear Case 2024e FCF per share of \$25.15

**Slowing Growth.** Prolonged macro slowdown and slower firewall demand persists, while new product traction stalls. Total revenue growth slows to 16% from CY22-CY24, as the new customer adds slow and expansion of existing customer becomes more muted. PANW trades at 17x EV/FCF on CY24.

## Risk Reward – Palo Alto Networks Inc (PANW.O)

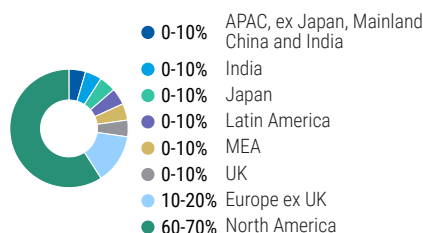
### KEY EARNINGS INPUTS

Drivers	2022	2023e	2024e	2025e
Product & Licensing Revenue YoY Growth (%)	21.7	5.0	2.8	4.0
Total Billings YoY Growth (%)	36.6	20.2	13.0	22.0
Non Firewall Billings YoY Growth (%)	63.7	38.5	25.8	33.5
Free Cash Flow Margin (%)	32.6	33.9	34.6	36.9

### INVESTMENT DRIVERS

- Firewall refresh activity sustains through CY22/23
- New product introductions and greater subscription attach
- Faster adoption of non-firewall offerings (Prisma Cloud/Access, Cortex)

### GLOBAL REVENUE EXPOSURE



Source: Morgan Stanley Research Estimate  
View explanation of regional hierarchies [here](#)

### MS ALPHA MODELS

<b>3/5 BEST</b>	<b>24 Month Horizon</b>	<b>3/5 MOST</b>	<b>3 Month Horizon</b>
---------------------	-----------------------------	---------------------	----------------------------

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

### RISKS TO PT/RATING

#### RISKS TO UPSIDE

- Stronger refresh cycle and higher firewall attach rates
- Faster uptake of new Cloud-based Next-Gen Security solutions

#### RISKS TO DOWNSIDE

- Executive turnover could drive greater than expected sales disruption
- Slowing firewall refreshes could drive a greater than expected impact to PANW's top line growth
- An increasingly competitive environment could necessitate additional S&M spending, limiting margin leverage.

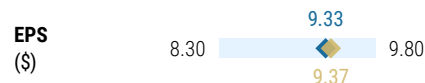
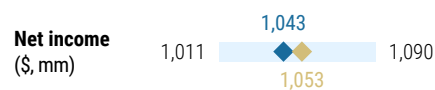
### OWNERSHIP POSITIONING

Inst. Owners, % Active	70%	
HF Sector Long/Short Ratio	2.2x	
HF Sector Net Exposure	32.9%	

Refinitiv; 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 Jul 2023e



◆ Mean ◆ Morgan Stanley Estimates

Source: Refinitiv, Morgan Stanley Research

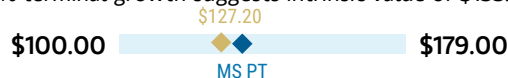
## Risk Reward – Simon Property Group Inc (SPG.N)

Best In Class Mall Operator; Conviction in Recovery Path Grows

## PRICE TARGET \$133.00

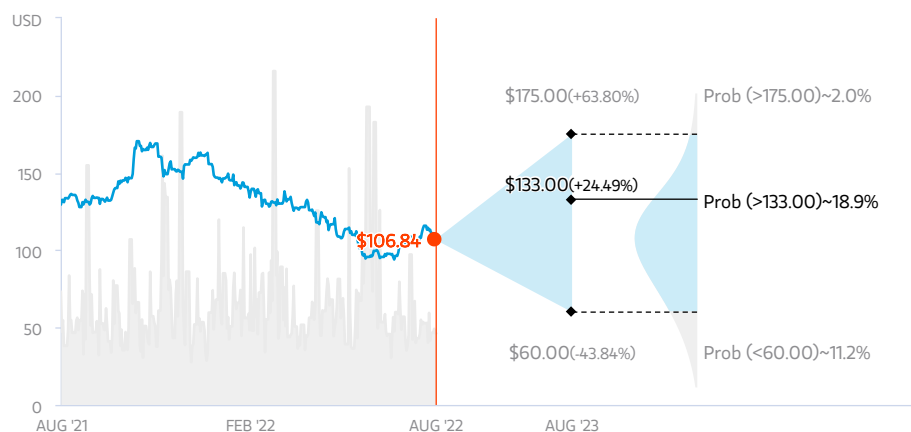
We apply an ~11x multiple to our '23e FFO of \$12.28 to arrive at our \$133 PT. This multiple compares to the 5yr avg of 12x and the 10yr avg 15x. We model FCF of ~\$3.5bn in 2025e versus \$2.73bn in 2019 as we assume there is a 4.5% permanent impairment in total (consolidated & unconsolidated property) NOI in 2025 vs 2019. DCF with a 8.2% cost of equity (5.2% ERP; 3.5% risk free rate) & 1.5% terminal growth suggests intrinsic value of \$133.

## Consensus Price Target Distribution



◆ Mean ◆ Morgan Stanley Estimates

## RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)



Source: Refinitiv, 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 23 Aug, 2022. 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 expect SPG to prove to be a long term winner from the shake-up in retail given its strong balance sheet and ability to self-fund (re)development costs with FCF generation. Three factors differentiate their portfolio: 1) malls contributed only ~55% of total NOI, 2) after a 35% rationalization in the mall landscape, we estimate a ~4.5% hit to total NOI and 3) greater negotiating leverage with tenants post the acquisition of TCO's higher quality malls. We expect the stock to re-rate to an FFO multiple of ~11x that is ~1x below the 5yr avg and ~3.5x below the 10yr avg.

## Consensus Rating Distribution



## MS Rating

Source: Refinitiv, Morgan Stanley Research

## Risk Reward Themes

Disruption: Negative

View descriptions of Risk Rewards Themes [here](#)

## BULL CASE

\$175.00

~14x 2023e \$12.49 FFO

We apply a ~14x multiple that is 6x below the peak multiple of 20x, is below the current strip group avg. multiple on '22, and is 0.7x below the 10 year avg multiple. We model FCF of ~\$3.6bn in 2025e versus \$2.73bn in 2019 as total NOI recovers to 1% above '19 levels in '25. Net debt to EBITDA falls to 4.9x in 2025. Our analysis is supported by a DCF with 2.5% terminal growth and a 7.5% cost of equity (70bps tighter than base case) that suggests intrinsic value of \$181.

## BASE CASE

\$133.00

~11x 2023e \$12.28 FFO

Our ~11x multiple compares to the 5yr average of 12.0x and the 10yr average of 15x. We model FCF of ~\$3.5bn in 2025e versus \$2.73bn in 2019 as we assume there is a 4.5% permanent impairment in total NOI for SPG in 2025 vs 2019. Net debt to EBITDA falls to 5.2x in 2025. Our analysis is supported by a DCF with 1.5% implied terminal growth and a ~8.2% cost of equity (5.2% equity risk premium and 3.5% risk free rate) suggests intrinsic value at \$133.

## BEAR CASE

\$60.00

~5x 2023e \$11.68 FFO

We apply a 5x multiple to our 2023e FFO of \$11.68 to arrive at our bear PT of \$60. This multiple compares to the GFC and COVID troughs multiple of 4.6x. We model FCF of ~\$3.0bn in 2025e versus \$2.73bn in 2019 as we assume there is a ~11% permanent impairment in total NOI for SPG in 2025 vs 2019. Net debt to EBITDA is roughly flat at 6x in '23-'25. SPG is the only remaining public mall REIT as peers face even greater challenges leading to bankruptcy risk.

## Risk Reward – Simon Property Group Inc (SPG.N)

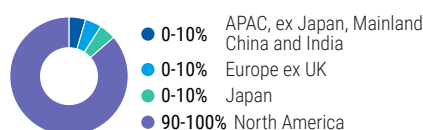
### KEY EARNINGS INPUTS

Drivers	2021	2022e	2023e	2024e
FFO Growth (Row 99) (%)	31.0	(1.0)	3.9	3.9
Dividend Payout Ratio (Row 108) (%)	53.0	59.7	59.5	57.1
Same Store NOI Growth (Row 122) (%)	16.4	2.8	(0.4)	1.8

### INVESTMENT DRIVERS

- Integrating TRG following acquisition
- Earnings from retail investments
- +\$1 billion per year development / redevelopment project pipeline
- SPG's strategy focuses on owning shopping centers across the price spectrum; class A malls to premium outlets

### GLOBAL REVENUE EXPOSURE



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

### SUSTAINABILITY & ESG

Indicator of Change	0.38	+1.0	-1.0
Disclosure Rate	36%		

### RISKS TO PT/RATING

#### RISKS TO UPSIDE

- Retail tenants store closures and bankruptcies moderate
- A weaker dollar could be a tailwind for spending in tourist centric locations
- Major acquisition or stock buybacks

#### RISKS TO DOWNSIDE

- Fixed lease income declines in absolute terms
- COVID-19 impact and recession permanently impair top line revenues
- Debt covenant breaches
- Tenant bankruptcies

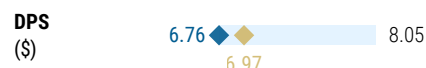
### OWNERSHIP POSITIONING

Inst. Owners, % Active	51%				
HF Sector Long/Short Ratio	1.1x				
HF Sector Net Exposure	0.4%				

Refinitiv; 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 2022e



◆ Mean ◆ Morgan Stanley Estimates

Source: Refinitiv, Morgan Stanley Research

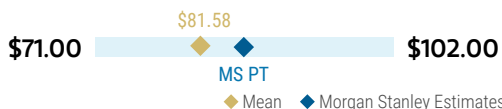
## Risk Reward – State Street Corporation (STT.N)

Driving Efficiencies

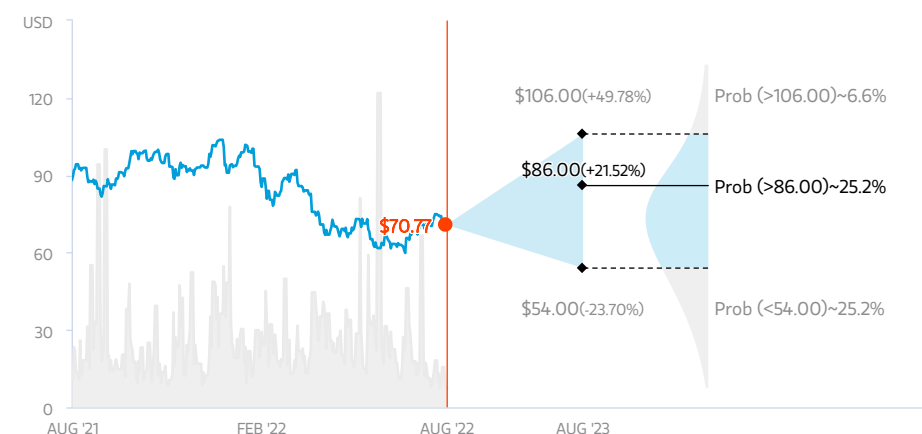
## PRICE TARGET \$86.00

Our price targets are set by triangulating PE, PB vs ROE (a deconstructed PE) and cost of equity relative to our outlook for asset growth, credit risk, operating efficiency and capital return. Target Price reflects a 10x 2023 PE.

## Consensus Price Target Distribution



## RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)



Source: Refinitiv, 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 23 Aug, 2022. 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

- Overweight on valuation, as we think STT should trade at 10x 2023 PE or 1.7x PB given our expectation for a 1.3% ROE in 2023. Current valuation implies a 13% cost of equity on a relatively low risk stock, too high in our opinion.
- STT is one of the most rate-sensitive names in our coverage. That's particularly true on the short end, as a 50bp increase in front end rates increases EPS by 9%.
- STT is laser focused on driving efficiencies and delivering positive operating leverage, even in an inflationary environment. We model over 200bps of positive operating leverage in 2023

## Consensus Rating Distribution



## MS Rating

Source: Refinitiv, Morgan Stanley Research

## Risk Reward Themes

Contrarian: Positive  
Self-help: Positive

View descriptions of Risk Rewards Themes [here](#)

## BULL CASE

\$106.00

## 12x Bull Case 2023 EPS

**Resilient economic growth.** Deglobalization drives accelerating on-shoring, resulting in strong real wage growth. Gen Y enters heavy consumption years, increasing loan growth. Gen Z enters workforce, increasing productivity. Credit remains benign. Commercial loan growth accelerates on inventory / infrastructure/ capex buildout. Capital markets revenues bounce back strongly in 2023. Unemployment flat. Fed rate hikes bring inflation down to ~2% by YE 2023 without causing a recession.

## BASE CASE

\$86.00

## 10x Base Case 2023 EPS

**Slowing economic growth.** Inflation is a capital call as borrowers need more funding. QT slows deposit growth and increases deposit and other funding costs. Result is higher lending standards, slowing loan growth. Higher rates crimp levered borrowers. Credit losses rise to 2019 levels for C&I. SP500 at 3900 in June 2023. Recession fear drives 2/10 curve inversion. Buybacks suspended through 3Q22.

## BEAR CASE

\$54.00

## 9x Bear Case 2023 EPS

**Recession.** Stubbornly high inflation drives Fed to raise rates faster/higher than forward curve, causing sharper demand destruction. Unemployment spikes. C&I losses rise to recessionary levels. Capital markets related revenues under pressure for longer. Buybacks are halted across the board.

## Risk Reward – State Street Corporation (STT.N)

## KEY EARNINGS INPUTS

Drivers	2021	2022e	2023e	2024e
NIM (%)	0.74	0.98	1.26	1.42
Fee Growth, Y/Y (%)	5.4	(3.3)	12.3	2.3
EOP AUCA Growth, Y/Y (%)	12.6	(13.3)	15.7	4.0
EOP AUM Growth, Y/Y (%)	19.4	(16.9)	2.0	3.0
Operating Leverage, Y/Y (%)	0.1	1.2	1.7	2.6

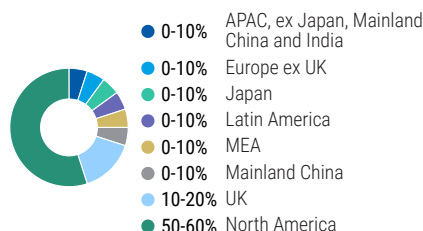
## CATALYST CALENDAR

Date	Event	Source: Refinitiv, Morgan Stanley
12 Sep 2022	State Street Corp at Barclays Global Financial Services Conference	
17 Oct 2022 - 21 Oct 2022	Q3 2022 State Street Corp Earnings Release	
17 Jan 2023 - 23 Jan 2023	Q4 2022 State Street Corp Earnings Release	
TBD	BBH Acquisition Approval	

## INVESTMENT DRIVERS

- BBH Deal Closure
- Positive Operating Leverage
- Global equity markets
- Global bond markets
- Expense management
- Higher rates
- Non-interest bearing deposit flows
- Fee rate compression

## GLOBAL REVENUE EXPOSURE



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

## SUSTAINABILITY &amp; ESG

Indicator of Change	0.27	+1.0	-1.0
Disclosure Rate	69%		

## RISKS TO PT/RATING

## RISKS TO UPSIDE

- BBH Acquisition is Approved and Closes
- Higher rates sooner
- Increased expense cuts that don't impact customer service quality
- Higher FX Volatility
- Weaker USD

## RISKS TO DOWNSIDE

- Weaker than expected financial markets
- Pressure on long end of the curve and/or delayed rate hikes
- Margin pressure on servicing fee rates
- Stronger USD
- Geopolitical risks

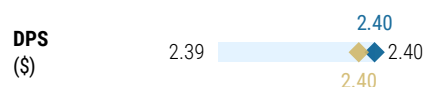
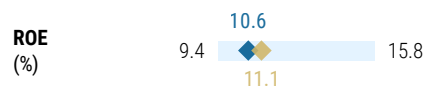
## OWNERSHIP POSITIONING

Inst. Owners, % Active	62.6%	
HF Sector Long/Short Ratio	1.5x	
HF Sector Net Exposure	6.9%	

Refinitiv; 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 2022e



◆ Mean ◆ Morgan Stanley Estimates

Source: Refinitiv, Morgan Stanley Research

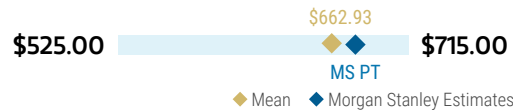
## Risk Reward – Thermo Fisher Scientific Inc. (TMO.N) Top Pick

Leading Consolidator with a Durable and Significant COVID-19 Tailwind

### PRICE TARGET **\$678.00**

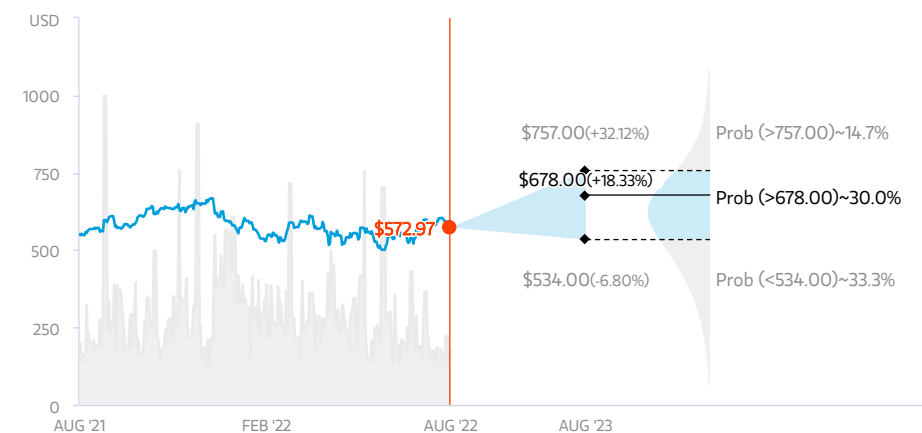
Our PT is based on a target forward multiple of ~23.5x EV/2022 EBITDA, premium to peers trading at ~22x.

#### Consensus Price Target Distribution



Source: Refinitiv, Morgan Stanley Research

### RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)



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

Source: Refinitiv, 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 23 Aug, 2022. 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](#)

#### BULL CASE

**\$757.00**

**Higher COVID tailwind, robust base business demand**

Our Bull Case valuation assumes greater COVID-19 tailwinds in 2022 than our base case, coupled with a faster recovery in the base business. In particular, we expect ramping CDMO services revenue from manufacturing a number of COVID-19 vaccines in addition to potential resurgence of COVID-19 spread globally driving robust demand for COVID-19 related testing kits and reagents through 2022. We use a target 2022 EV/EBITDA multiple of 21.5x.

#### BASE CASE

**\$678.00**

**Continued organic growth and smart M&A**

Our Base Case valuation assumes recovery of the base business, coupled with PPD integration and COVID-19 vaccine manufacturing representing a meaningful tailwind for 2022 growth. We use a target 2022 EV/EBITDA multiple of 23.5x.

#### BEAR CASE

**\$534.00**

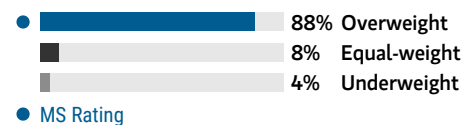
**Prolonged COVID-19 impact stunts growth**

Our Bear Case valuation assumes greater COVID-19 headwinds in the base business coupled with a more modest COVID-19 tailwind and a difficult comp, resulting in lower revenue growth in 2022. We use a target 2022 EV/EBITDA multiple of 21x.

### OVERWEIGHT THESIS

Driven by end market strength and share gains in Biopharma and emerging markets, we expect TMO to meaningfully outpace peers, with diversification and scale embedding best-in-class resilience and flexibility. M&A optionality and durable COVID-19 upside further support our Overweight thesis.

#### Consensus Rating Distribution



Source: Refinitiv, Morgan Stanley Research

#### Risk Reward Themes

**Market Share:** *Positive*

View descriptions of Risk Rewards Themes [here](#)



## Risk Reward – Thermo Fisher Scientific Inc. (TMO.N)

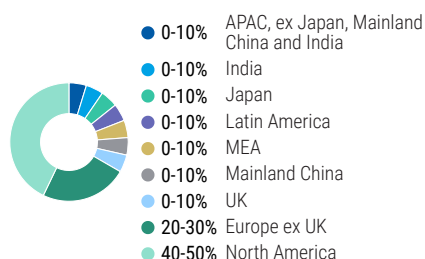
### KEY EARNINGS INPUTS

Drivers	2021	2022e	2023e	2024e
Diluted EPS (\$, mm)	25.13	22.96	24.28	27.57
Organic Growth (%)	16.9	(3.5)	3.0	8.0
Adj EBITDA (\$, mm)	12,969	11,926	12,377	13,928

### INVESTMENT DRIVERS

- A focused expansion into high growth end markets and geographies
- Broad product/service menu, coupled with scale drives best-in class resilience in the business model
- Operating margin expansion via price/volume and benefits of scale

### GLOBAL REVENUE EXPOSURE



Source: Morgan Stanley Research Estimate  
View explanation of regional hierarchies [here](#)

### MS ALPHA MODELS

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

Source: Refinitiv, 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 tailwind / lower than expected headwind from COVID-19 pandemic
- Improved macroeconomic conditions could influence spending of customers

#### RISKS TO DOWNSIDE

- Lower than expected tailwind / greater than expected headwind from COVID-19 pandemic
- As a global company, a downturn in political climate and regional conditions could adversely impact operations in those regions

### OWNERSHIP POSITIONING

Inst. Owners, % Active	67.7%				
HF Sector Long/Short Ratio	2.2x				
HF Sector Net Exposure	20.5%				

Refinitiv; 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 2022e

Sales / Revenue (\$, mm)	42,973	43,155	43,249	43,753
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EBITDA (\$, mm)	11,585	11,926	11,905	12,335
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EPS (\$)	22.84	22.96	23.00	23.75
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◆ Mean ◆ Morgan Stanley Estimates

Source: Refinitiv, Morgan Stanley Research

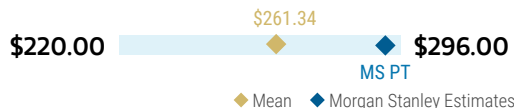
## Risk Reward – Visa Inc. (V.N)

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

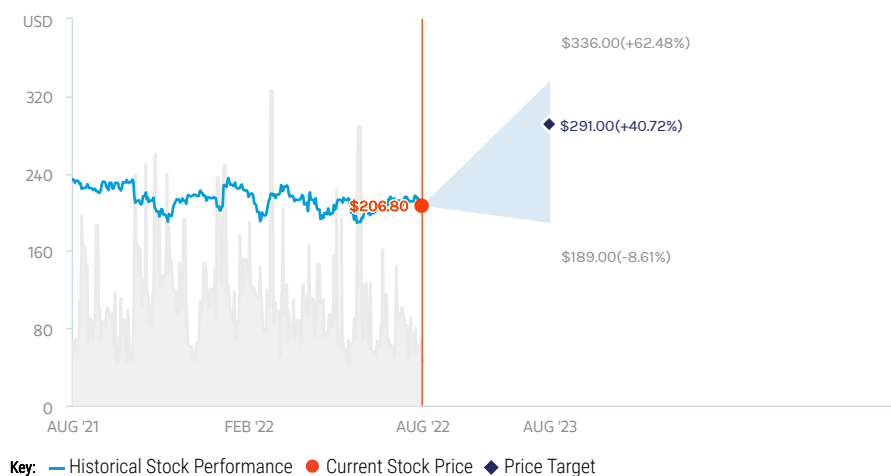
## PRICE TARGET \$291.00

Based on 33.0x target P/E multiple on our base-case CY23 EPS estimate. This target multiple is 1.5x premium to the V's 3-year average multiple given more growth opportunities and a 2x discount to our valuation for Mastercard given slower medium-term growth at V off a large base.

## Consensus Price Target Distribution



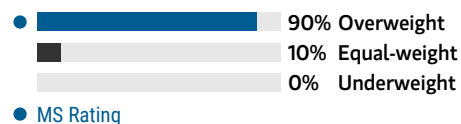
## RISK REWARD CHART



## OVERWEIGHT THESIS

V is one 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 low double-digit revenue growth in the near-to-medium term. We see upside opportunity from faster-than expected recovery of travel and the sustained strength of cross-border ecommerce. 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



Source: Refinitiv, Morgan Stanley Research

## Risk Reward Themes

Pricing Power: *Positive*  
 Secular Growth: *Positive*

View descriptions of Risk Rewards Themes [here](#)

## BULL CASE

\$336.00

## 35x CY23e bull-case EPS

Upside from new initiatives and growth channels combined with organic payment volume growth drives a high-teens revenue CAGR in 2021-24, accompanied by a low-20% annual EPS growth.

## BASE CASE

\$291.00

## 33x CY23e base-case EPS

Organic payment volume recovery continues as spending recovers from COVID-19 related impacts and international tourism climbs back. Net revenues grow at a mid-teens CAGR in 2021-24, with the fastest growth in 2022 as travel and domestic spending continue to recover. Adj. EPS grows high-teens on scale and buybacks.

## BEAR CASE

\$189.00

## 23x CY23e bear-case EPS

Organic payment volume growth slows as Covid-19 impacts worsen and international tourism remains weak, resulting in a low-teens revenue growth CAGR in 2021-24, while Adj. EPS grows mid-teens as V invests to defend its position.

## Risk Reward – Visa Inc. (V.N)

## KEY EARNINGS INPUTS

Drivers	2021	2022e	2023e	2024e
US Payment Volume YoY Growth (%)	21.2	15.0	10.2	7.2
Total Payment Volume YoY Growth (%)	18.1	12.4	9.5	8.6
Total Revenue YoY Growth (%)	10.3	20.6	13.1	11.3
Adj. Operating Margin (%)	66.5	67.9	68.4	69.7
Adj. EPS Growth (%)	17.4	25.5	14.1	15.1

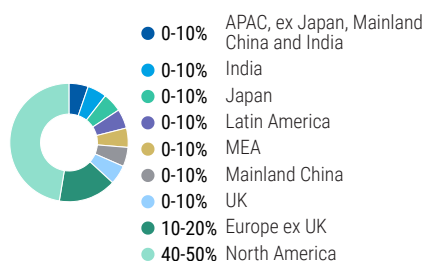
## CATALYST CALENDAR

Date	Event	Source: Refinitiv, Morgan Stanley
25 Jan 2023 - 29 Jan 2023	Visa Inc Annual Shareholders Meeting	

## 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

## GLOBAL REVENUE EXPOSURE



Source: Morgan Stanley Research Estimate  
View explanation of regional hierarchies [here](#)

## MS ALPHA MODELS

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

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

## SUSTAINABILITY &amp; ESG

Indicator of Change	0.58	+1.0	-1.0
Disclosure Rate	57%		

## RISKS TO PT/RATING

## RISKS TO UPSIDE

- Faster than expected recovery of cross-border tourism
- Ability to continue to meet/beat expectations
- 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

## OWNERSHIP POSITIONING

Inst. Owners, % Active	66.4%	
HF Sector Long/Short Ratio	2.2x	
HF Sector Net Exposure	32.9%	

Refinitiv; 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 2023e

Sales / Revenue (\$, mm)	30,306	32,862	33,987
		32,441	

EBIT (\$, mm)	20,261	22,472	23,213
		22,122	

EPS (\$)	7.67	8.47	8.87
		8.42	

◆ Mean ◆ Morgan Stanley Estimates

Source: Refinitiv, Morgan Stanley Research

## Risk Reward – Zoetis Inc. (ZTS.N) Top Pick

Compelling Advantages in Leadership Positioning and Innovation

### PRICE TARGET **\$264.00**

46x base case 2023E EPS. Our target multiple is at a premium to its Animal Health peers (26x), which we believe is warranted given its leadership positioning, innovation catalysts, margin expansion, and capital deployment optionality. Our PT is also based on our Discounted Cash Flow Analysis that uses a WACC of 4% and a 2% terminal growth rate.

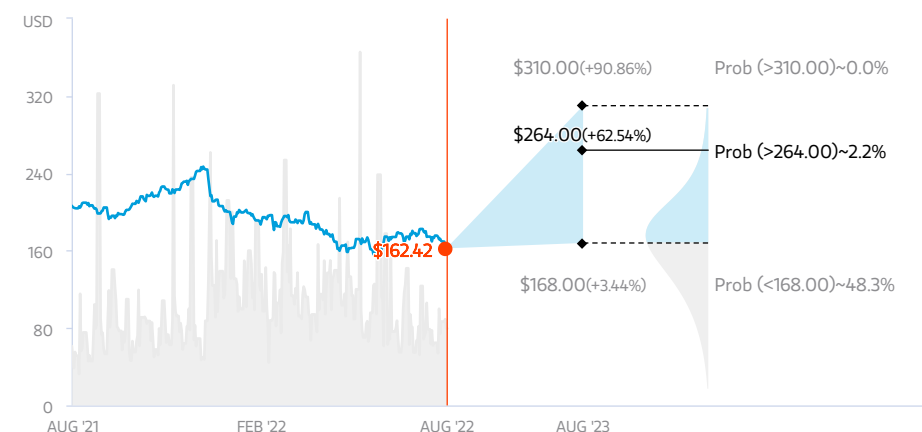
#### Consensus Price Target Distribution

**\$205.00** \$228.73 **\$264.00**

Source: Refinitiv, Morgan Stanley Research

◆ Mean ◆ Morgan Stanley Estimates

### RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)



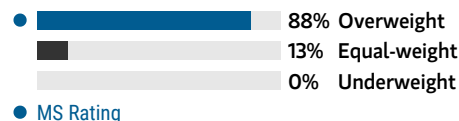
Key: — Historical Stock Performance ● Current Stock Price ◆ Price Target

Source: Refinitiv, 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 23 Aug, 2022. 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

- Powerful structural tailwinds across animal health should support demand for ZTS's products and services as the industry leader.
- Company-specific drivers in innovation and expanding exposure to faster-growing categories (companion animal and diagnostics) will support above-market topline growth and double-digit earnings growth.
- Faster growth, positive new product developments, and tuck-in M&A potential yield Bull Case upside. Financial shortfalls, competitive pressures and new product disappointments yield Bear Case downside.

#### Consensus Rating Distribution



Source: Refinitiv, Morgan Stanley Research

#### Risk Reward Themes

Secular Growth: *Positive*  
Market Share: *Positive*

View descriptions of Risk Rewards Themes [here](#)

#### BULL CASE

**\$310.00**

51x bull case 2023E EPS

Revenue and earnings results exceed expectations, new products gain meaningful traction, and capital deployment activity offers upside. Strong sales growth and accelerated market share gains from Simparica Trio and novel monoclonal antibodies for pain exceed expectations. Organic EPS upside of 5% plus M&A upside of 3% yields EPS 8% above forecast.

#### BASE CASE

**\$264.00**

46x base case 2023E EPS

ZTS will continue to benefit from robust Animal Health fundamentals as an industry leader and innovation. We expect growing traction for new products and ancillary offerings with best-in-class commercialization execution, supporting +HSD topline growth, which along with 100 bps of operating margin expansion annually on increasingly favorable species/product mix and continuing operational efficiency initiatives, will drive +DD earnings growth.

#### BEAR CASE

**\$168.00**

32x bear case 2023E EPS

Traction for new products and overall financial results fall short of expectations. ZTS faces greater than expected competitive pressures and product launch challenges across parasiticides, atopic dermatitis, and new pain monoclonal antibodies. Company misses EPS estimate by 8% and the P/E multiple contracts.

## Risk Reward – Zoetis Inc. (ZTS.N)

### KEY EARNINGS INPUTS

Drivers	2021	2022e	2023e	2024e
Net revenues growth (%)	16.5	6.4	9.0	7.7
Gross profit growth (%)	18.1	6.5	9.6	8.3
EBITDA growth (%)	18.6	7.2	12.5	9.1

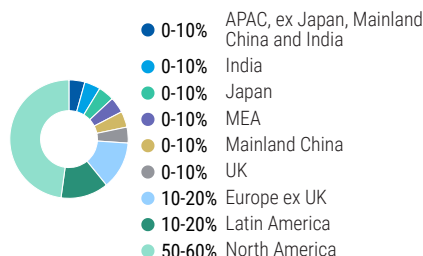
### CATALYST CALENDAR

Date	Event	Source: Refinitiv, Morgan Stanley
30 Jun 2022 - 31 Dec 2022	Launch Librela in the US	
H2 2022	Launch Solensia in the US (US FDA Approval as of mid-Jan.)	

### INVESTMENT DRIVERS

- Quarterly results and guidance updates
- Global animal health demand dynamics
- Pipeline developments
- Capital Deployment

### GLOBAL REVENUE EXPOSURE



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

### RISKS TO PT/RATING

#### RISKS TO UPSIDE

- Meaningful upside from quarterly results/guidance updates
- Better than expected traction for market-leading growth franchises (Apoquel, Cytoint, Simparica Trio, upcoming monoclonal antibodies for pain) remain unchallenged
- Capital deployment/M&A

#### RISKS TO DOWNSIDE

- Sales/earnings shortfalls
- Competitive threats to key products
- Unexpected deterioration in pet spending
- Unfavorable regulatory dynamics across livestock

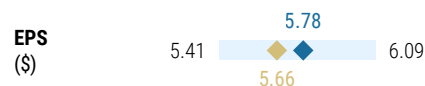
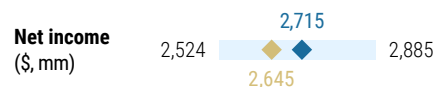
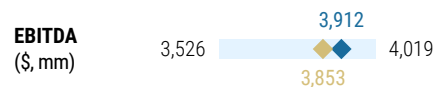
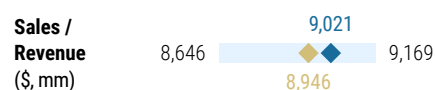
### OWNERSHIP POSITIONING

Inst. Owners, % Active	64.4%				
HF Sector Long/Short Ratio	2.2x				
HF Sector Net Exposure	20.5%				

Refinitiv; 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 2023e



◆ Mean ◆ Morgan Stanley Estimates

Source: Refinitiv, Morgan Stanley Research

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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
<b>Overweight/Buy</b>	<b>1366</b>	<b>39%</b>	<b>318</b>	<b>42%</b>	<b>23%</b>	<b>593</b>	<b>39%</b>
<b>Equal-weight/Hold</b>	<b>1559</b>	<b>44%</b>	<b>357</b>	<b>47%</b>	<b>23%</b>	<b>708</b>	<b>46%</b>
<b>Not-Rated/Hold</b>	<b>0</b>	<b>0%</b>	<b>0</b>	<b>0%</b>	<b>0%</b>	<b>0</b>	<b>0%</b>
<b>Underweight/Sell</b>	<b>613</b>	<b>17%</b>	<b>91</b>	<b>12%</b>	<b>15%</b>	<b>226</b>	<b>15%</b>
<b>TOTAL</b>	<b>3,538</b>		<b>766</b>			<b>1527</b>	

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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