US Insights
Research Rundown: The Latest Franchise Picks and Focus Stocks

Key Takeaway
This report aims to elucidate some of Jefferies' key research ideas. We revisit the Jefferies Franchise Picks List, which has outperformed the S&P 500 by 1674 bps from its December 2013 inception through August 2017. We also refresh our Focus List, which consists of stocks on which analysts tend to spend disproportionate time and where they've noticed particular interest in their often differentiated views.

Franchise Picks: The Jefferies Franchise Picks List is a selection of the highest conviction, Buy-rated stock ideas from across the Jefferies US Research coverage universe. Stocks included on the list should not have a differentiated aspect to the analysis and offer compelling risk-rewards. The current list is as follows: AbbVie, Activision, Ally Financial, Alphabet, Ball Corp., Boeing, Chevron, Dish Network, Delphi Auto, DXC Technology, FleetCor, Hain Celestial, Ingersoll-Rand, KeyCorp, Marathon Petroleum, Murphy USA, Newell, NVIDIA, Owens Corning, PayPal, Praxair, Stericycle, Textron, and Under Armour. The Franchise Pick list is kept up to date in real time, so these summary notes don’t tend to come with many changes, but today we are removing Range Resources, which was added because of our analyst’s view on the Memorial Resource transaction and because of a positive view on the price of natural gas, but the call has not worked, the company has experienced operational issues in the Cotton Valley, and though Jefferies maintains our Buy rating on the stock, we’re removing it from the Franchise Pick list as we no longer feel the level of differentiation or conviction in the call is high enough. Though we are not adding any stocks to the list today, the stocks which have been removed in the last six months are: Marathon Petroleum (MPC, added on 9/6), Praxair (PX, added on 8/10), Signature Bank (SBNY, added on 5/5 and removed on 9/7), Delphi Automotive (DLPH, added on 4/25) and Under Armour UAA (UAA, added on 3/24). The stocks which have been removed in the last six months are Range Resources (RRC, removed on 9/8), Signature Bank (SBNY, removed on 9/7), RPC Inc. (RES, removed on 9/6), Marathon Petroleum (MPC, removed on 7/20, added back on 9/6), Halliburton (HAL, removed on 6/9), and Urban Outfitters (URBN, removed on 5/17).

Focus List: At this time, the Focus List contains 90 institutionally relevant stocks where Jefferies analysts have observed elevated investor interest in their views and where those views are often differentiated. All of the Jefferies Franchise Picks are also on the Focus List, and many of the Focus List stocks are top picks for the respective analysts even if they’re not on the Franchise Picks list. The Focus List also contains some Underperform-rated stocks. Twenty-one stocks have been added to the list since we last published a Focus List on March 31, and the new stocks are highlighted within. We also removed twenty-five stocks. The average stock on the list has both higher market cap and higher average daily notional trading volume than the average S&P 500 stock.
Research Rundown: Jefferies Franchise Picks and Focus Stocks
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The Jefferies Franchise Pick List is a selection of the highest conviction, Buy-rated stock ideas across the Jefferies US Research coverage universe. Stocks are added to the Franchise Pick list in conjunction with pieces of research containing differentiated analysis, and/or opportunistically when stock moves create compelling entry points.
The Franchise Pick list is a selection of the highest conviction, Buy-rated stock ideas across the Jefferies US Research coverage universe.

Stocks are added to the Franchise Pick list in conjunction with pieces of research containing differentiated analysis, and/or opportunistically when stock moves create compelling entry points.

Stocks are removed from the list if the underlying investment thesis has come to fruition or if the thesis is disrupted.

Stocks may also be removed if a stop loss is triggered.

While the list does not have a market cap or daily notional trading volume minimum, liquidity of the underlying stocks is a consideration.

There is not a fixed number of stocks on the list, the number will vary with the number of ideas deemed worthy of the list, but the quantity has tended to be in the 20-25 range.

### Sector Breakdown

- Consumer Discretionary: 19%
- Financials: 12%
- Health Care: 4%
- Industrials: 19%
- Information Technology: 23%
- Materials: 8%
- Energy: 11%
- Consumer Staples: 4%

### Franchise Picks

<table>
<thead>
<tr>
<th>Franchise Picks</th>
<th>Ticker</th>
<th>Analyst</th>
</tr>
</thead>
<tbody>
<tr>
<td>AbbVie</td>
<td>ABBV</td>
<td>Jeff Holford</td>
</tr>
<tr>
<td>Activision</td>
<td>ATVI</td>
<td>Timothy O'Shea</td>
</tr>
<tr>
<td>Ally Financial</td>
<td>ALLY</td>
<td>John Hecht</td>
</tr>
<tr>
<td>Alphabet</td>
<td>GOOGL</td>
<td>Brian Fitzgerald</td>
</tr>
<tr>
<td>Ball Corp</td>
<td>BLL</td>
<td>Phil Ng</td>
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<tr>
<td>Boeing</td>
<td>BA</td>
<td>Howard Rubel</td>
</tr>
<tr>
<td>Chevron</td>
<td>CVX</td>
<td>Jason Gammel</td>
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<td>Delphi Automotive</td>
<td>DLP</td>
<td>David Kelley</td>
</tr>
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<td>Dish Network</td>
<td>DISH</td>
<td>Mike McCormack</td>
</tr>
<tr>
<td>DXC Technology</td>
<td>DXC</td>
<td>Ramsey El-Assal</td>
</tr>
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<td>FleetCor Technologies</td>
<td>FLT</td>
<td>Ramsey El-Assal</td>
</tr>
<tr>
<td>Hain Celestial</td>
<td>HAIN</td>
<td>Akshay Jagdale</td>
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<td>Ingersoll-Rand</td>
<td>IR</td>
<td>Stephen Volkmann</td>
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<td>Ken Usdin</td>
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<td>Corey Goldman</td>
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<td>MUSA</td>
<td>Chris Mandeville</td>
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<td>Newell Brands</td>
<td>NWL</td>
<td>Kevin Grundy</td>
</tr>
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<td>NVIDIA</td>
<td>NVDA</td>
<td>Mark Lipacis</td>
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<td>OC</td>
<td>Phil Ng</td>
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<td>PYPL</td>
<td>Ramsey El-Assal</td>
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<td>PX</td>
<td>Laurence Alexander</td>
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<td>Stericycle</td>
<td>SRCL</td>
<td>Sean Dodge</td>
</tr>
<tr>
<td>Textron</td>
<td>TXT</td>
<td>Sheila Kahyaoglou</td>
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<tr>
<td>Under Armour</td>
<td>UAA</td>
<td>Randy Konik</td>
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# Current Jefferies Franchise Picks – Company Comparison Table

<table>
<thead>
<tr>
<th>Ticker</th>
<th>Company Name</th>
<th>Market Cap (SM)</th>
<th>Analyst</th>
<th>Rating</th>
<th>Price Target</th>
<th>Current Price</th>
<th>C18 Jef EPS</th>
<th>C18 Cons. EPS</th>
<th>C18 Jef P/E</th>
<th>Return to S&amp;P†</th>
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<tbody>
<tr>
<td>ABBV</td>
<td>AbbVie, Inc.</td>
<td>119,956</td>
<td>Jeffrey Holford</td>
<td>Buy</td>
<td>94</td>
<td>75.3</td>
<td>6.78</td>
<td>6.51</td>
<td>13.62</td>
<td>-0.7%</td>
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<tr>
<td>ATVI</td>
<td>Activision Blizzard</td>
<td>49,108</td>
<td>Timothy O'Shea</td>
<td>Buy</td>
<td>78</td>
<td>65.1</td>
<td>2.49</td>
<td>2.52</td>
<td>25.70</td>
<td>238.1%</td>
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<tr>
<td>ALLY</td>
<td>Ally Financial Inc</td>
<td>10,086</td>
<td>John Hecht</td>
<td>Buy</td>
<td>28</td>
<td>22.4</td>
<td>2.64</td>
<td>2.64</td>
<td>8.55</td>
<td>-24.1%</td>
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<td>GOOGL</td>
<td>Alphabet Inc.</td>
<td>651,611</td>
<td>Brent Thill</td>
<td>Buy</td>
<td>1200</td>
<td>941.5</td>
<td>43.63</td>
<td>40.12</td>
<td>21.59</td>
<td>26.6%</td>
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<tr>
<td>BLL</td>
<td>Ball Corporation</td>
<td>14,068</td>
<td>Philip Ng</td>
<td>Buy</td>
<td>49</td>
<td>40.0</td>
<td>2.54</td>
<td>2.39</td>
<td>15.75</td>
<td>-13.4%</td>
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<td>BA</td>
<td>Boeing Company</td>
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<td>Howard A. Rubel</td>
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<td>275</td>
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<td>11.0</td>
<td>10.64</td>
<td>21.33</td>
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<td>CVX</td>
<td>Chevron</td>
<td>207,389</td>
<td>Jason Gammel</td>
<td>Buy</td>
<td>109.4</td>
<td>10.4</td>
<td>5.81</td>
<td>4.76</td>
<td>19.24</td>
<td>-3.0%</td>
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<td>DLPH</td>
<td>Delphi Automotive</td>
<td>25,774</td>
<td>David Kelley</td>
<td>Buy</td>
<td>106</td>
<td>96.6</td>
<td>N/A</td>
<td>7.32</td>
<td>N/A</td>
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<td>DISH</td>
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<td>26,638</td>
<td>Mike McCormack</td>
<td>Buy</td>
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<td>8.25</td>
<td>N/A</td>
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<td>Hain Celestial</td>
<td>4,083</td>
<td>Akshay Jagdale</td>
<td>Buy</td>
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<td>1.66</td>
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<td>IR</td>
<td>Ingersoll-Rand Plc</td>
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<td>Stephen Volkmann</td>
<td>Buy</td>
<td>105</td>
<td>84.8</td>
<td>5.2</td>
<td>5.15</td>
<td>16.23</td>
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<td>KEY</td>
<td>KeyCorp</td>
<td>18,260</td>
<td>Kenneth Usdin</td>
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<td>16.8</td>
<td>1.5</td>
<td>1.55</td>
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<td>Marathon Petroleum</td>
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<td>Corey Goldman</td>
<td>Buy</td>
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<td>4.4</td>
<td>4.58</td>
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<td>Kevin Grundy</td>
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<td>47.0</td>
<td>3.60</td>
<td>3.48</td>
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<td>NVDA</td>
<td>NVIDIA Corporation</td>
<td>99,546</td>
<td>Mark Lipacsi</td>
<td>Buy</td>
<td>180</td>
<td>165.9</td>
<td>4.12</td>
<td>3.97</td>
<td>40.25</td>
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<td>OC</td>
<td>Owens Corning</td>
<td>8,281</td>
<td>Philip Ng</td>
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<td>5.15</td>
<td>4.88</td>
<td>14.60</td>
<td>70.9%</td>
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<td>PYPL</td>
<td>PayPal Holdings Inc</td>
<td>73,671</td>
<td>Ramsey El-Assal</td>
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<td>70</td>
<td>61.3</td>
<td>2.22</td>
<td>2.21</td>
<td>27.59</td>
<td>51.1%</td>
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<tr>
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<td>Praxair, Inc.</td>
<td>37,274</td>
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<td>6.28</td>
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<td>2.0%</td>
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<td>SRCL</td>
<td>Stericycle, Inc.</td>
<td>6,003</td>
<td>Sean W. Dodge</td>
<td>Buy</td>
<td>108</td>
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<td>4.83</td>
<td>4.80</td>
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<td>-63.9%</td>
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<td>Textron Inc.</td>
<td>12,892</td>
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<td>Buy</td>
<td>60</td>
<td>48.7</td>
<td>2.85</td>
<td>2.95</td>
<td>17.12</td>
<td>-8.1%</td>
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<td>UAA</td>
<td>Under Armour</td>
<td>7,350</td>
<td>Randal J. Konik</td>
<td>Buy</td>
<td>28</td>
<td>16.8</td>
<td>0.58</td>
<td>0.44</td>
<td>29.36</td>
<td>-19.5%</td>
</tr>
</tbody>
</table>

**Source:** Bloomberg, FactSet, Jefferies

* EPS estimates are non-GAAP
† Reflects relative performance since addition, dividends reinvested
Since the inception of the Franchise Picks list in December 2013, the basket has outperformed the S&P 500. S&P Global Market Intelligence calculates the portfolio returns and their methodology employed assumes the portfolio is re-weighted both monthly and when stocks are added/removed from the List. Below we have broken down the relative individual performance of the current and historical portfolio of stocks on the list.

### Current List Relative Individual Performance

![Graph showing relative individual performance of stocks on the current list.]

**Note:** Stocks denoted with subtext have been added/removed from the Franchise Pick List on more than one occasion. Performance is tracked separately.

### Current and Past Franchise Picks – Relative Individual Performance

![Graph showing relative individual performance of current and past Franchise Picks.]

**Note:** Stocks denoted with subtext have been added/removed from the Franchise Pick List on more than one occasion. Performance is tracked separately.
Since the inception of the Franchise Picks list in December 2013 the basket has outperformed the S&P 500 by 1674bps on a total return basis. S&P Global Market Intelligence calculates the portfolio returns and their methodology employed assumes the portfolio is re-weighted both monthly and when stocks are added/removed from the List.

*The Jefferies Franchise Pick list performance is calculated by S&P Global Market Intelligence. The theoretical portfolio performance is calculated based on an initial asset base of $1m. The portfolio is rebalanced to equal-weighted positions every time a trade is made (i.e., any time a name is added/removed from the list).

Additionally, the portfolio is rebalanced to equal-weight at the end of every month. Jefferies supplies the dates on which we added and removed stock picks.

**S&P provides performance data on a lagging basis – 9/1/17 is our most up-to-date data.

Source: Jefferies, S&P Global Market Intelligence
**AbbVie - Jeffrey Holford, ABBV, PT $94**

AbbVie remains Jeff’s Top Global Pick and he has confidence that US biosimilar Humira launches will be delayed to 2022 vs consensus of 2019. With the IPRs for Humira RA dosing patents in the rearview mirror, Jeff expects near-term focus to shift to the rich pipeline catalysts in 2017, including the Venclexta MURANO readout mid-17, the Rova-T TRINITY readout 2H17, risankizumab PIII readouts in psoriasis in 2H17 and Imbruvica PIII interim look in NHL 4Q17/ 1Q18. As for the mid-term, Jeff recently increased his revenue estimates following further analysis of the R&D pipeline, which he still believes is undervalued. Jeff’s risk-adjusted 2021 estimated revenue for Rova-T in SCLC of $2.1B is well-ahead of consensus’ estimates for $779M. Jeff’s SOTP analysis implies positive asymmetry on Humira and the pipeline and his base case scenario on US Humira biosimilars indicate that the StumpCo. business trades at 8.1x 2020E EPS. He believes this implies significant upside potential on his Base Case HumiraCo. modeling. Jeff’s $94 PT reflects 11.2x his FY19e EPS estimate and is supported by DCF, SOTP, PE and PEG-relative valuations.

**Activision Blizzard – Timothy O’Shea, ATVI, PT $78**

Tim continues to see multiple tailwinds for ATVI. Video games are the fastest growing form of media and audience sizes continue to grow. In addition, a mix-shift towards direct-to-consumer digital downloads is driving structurally improved profitability industry-wide. The rapid pace of new console adoption and potential introduction for VR-centric models suggests demand for high-end experiences remains robust. Tim sees meaningful upside to ATVI estimates as management pursues large opportunities around in-game spending, advertising, mobile games, and eSports. Overwatch in particular should continue to drive ARPU ever higher and Tim believes will be an important driver of margin expansion. He thinks 2017 to be a foundational year and in 2018 he expects to see meaningful contribution from advertising. Tim also sees upside from Activision’s mobile pipeline. The company has been around since 1979 and has a deep well of interesting IP that could be developed as mobile games (like Nintendo). Longer term, Activision is the best positioned name in eSports (competitive video gaming), in Tim’s view, and is launching a league NT. Mobile advertising also appears to be off to a promising start, and he believes that it could be a $1B opportunity with meaningful revenue contribution by ’19. That said, he also believes that ATVI mobile titles, which we expect to launch in ’18 & ’19.

**Ally Financial - John Hecht, ALLY, PT $28**

John believes ALLY continues to represent a compelling value currently trading at ~8.5x FY18E EPS, below tangible book value, and he believes the stock at current levels overly-discounts credit risk and competitive threats. From an operating perspective, ALLY is now a leading auto lender and from a balance sheet perspective, ALLY has a diversified capital structure bolstered by low cost deposits driven by the growing online bank. With the ongoing replacement of unsecured debt with deposits and mix shift to increasing prime/near prime used car loans, ALLY has been able to expand its NIM beyond what is afforded by rising rates. Given the recent normalization of regulatory capital requirements, John expects NIM tailwinds and new product initiatives to continue to drive earnings growth and believes the company is well-positioned to achieve 2017-2019 objectives. Additionally, large banks are pulling back from the auto lending market, which should be positive for margins while we may see some used car price relief post-Harvey. John views ALLY’s prioritization of profitability over growth very favorably, particularly in the context that the company can now allocate excess capital/liquidity to shareholders. John’s $28 PT is based on ~10.5x FY18E EPS, which equates to ~1.2x adjusted TBV, a discount to peers.
Alphabet – Brent Thill & Brian Fitzgerald, GOOGL, PT $1,200

The Internet Team remains bullish on Alphabet due to continued expected mobile search growth and a positive stance on YouTube, as they believes online video is the biggest online ad growth driver and YouTube is best positioned to drive meaningful upside as it siphons TV ad budgets ($70B+ per year in the US alone) away from linear television. Paid clicks growth came in well-ahead of consensus expectations for the JulQ at 52% growth YoY vs. Street estimates for 35% growth, which the Internet team believes affirms Google’s ad business is benefiting from a meaningful increase in new ads served in the mobile and YouTube channels. Mobile search has been the number one driver of revenue growth for the past several quarters and the team sees continued opportunity given the ubiquity of smartphones and the important location and contextual signals from mobile devices. The team also believes 2018 will be a breakout year for Google Cloud, as it has added to its global datacenter footprint, built out its portfolio of solutions and brought on an enterprise-focused sales force. Shares of Alphabet also offer call options on artificial intelligence and autonomous vehicles—GOOGL is a leader in both and has a substantial lead in autonomous vehicles, as Waymo vehicles have driven many millions of miles on public roads more than peers’. Trading at 11x EV/EBITDA, the valuation looks compelling.

Ball Corporation - Phil Ng, BLL, PT $49

Phil believes BLL’s FCF profile is under-appreciated by the Street and sees upside to management’s FCF guidance for 2019. Management recently reiterated its $1B FCF guide for 2019 on the 2Q17 earnings call, and Phil believes the company’s robust cash generation thus far this year will translate to accelerated share buybacks. With FCF/share expected to grow 68% the next three years, favorable secular growth dynamics in beverage cans as it takes share from other substrates, and upside potential from cost synergies, Phil thinks the risk:reward is compelling at these levels. Additionally, with Ball now as the market leader following the Rexam acquisition, and showing good discipline by shuttering excess capacity in NA and Europe and improving its specialty can mix with investments in Spain and Arizona, we expect mix and its pricing power to improve the next few years. With BLL as the market leader and ARD launching its IPO in 2017, he thinks pricing in beverage cans could improve the next few years, which would be incremental to his estimates. Regardless, with the footprint rationalization BLL has completed in 17, coupled with the closures they’ve have in place for 2018, there is already line of sight achieving its year 2018 synergy target, with the bias to the upside. Shares currently trade with a 7.9% ‘19E FCF yield and Phil’s PT of $49 is based on 10.5x 2018E EV/EBITDA.
**Boeing - Howard Rubel, BA, PT $275**

Boeing is a Franchise Pick and one of Howard’s highest conviction names. Howard believes Boeing has the potential to continue improve its profitability through the timely completion of development milestones, and employment of more robotics and automation to drive quality and speed in the assembly process, and the completion of costly start-up work on the 787, items that were recently highlighted in a note of Howard’s focusing on the Composite Wing Center and robotics. Howard believes the US market is causing an extension in the demand for civil aircraft, and the Street seems too bearish on the commercial aero cycle; deliveries may not peak until 2020. Jefferies July Air Traffic survey registered a 3.8% YoY growth rate, which suggests July’s passenger traffic expanded by ~7.5%, a rate that is about 2.5 percentage points above long-term demand. Howard notes that better than expected traffic continues to push up yields. Recent draws from the parked fleet underscores this increase in demand. In addition, shares are attractively valued at ~14x Howard’s 2018 core EPS estimate of $12 plus $4.50 for B787 amortization.

**Chevron - Gammel, CVX, PT $130**

Jason believes Chevron is the most strategically advantaged in the super-major sector and forecasts an inflection in FCF moving forward as major capital projects reach completion, capex falls and production growth from high-margin products drive higher cash flow. Jason forecasts CFFO to grow from $19.4b in ’15 to $30.9b in ’19 which implies a 12% CAGR. The company’s Permian operations continue to progress and the company has made notable strides in increasing well flow rates and decreasing development and operating costs. CVX is also expected to monetize another 150-200k acres in 2H17/2018. Jason expects CVX production to meaningfully ramp in 2H17 and 2018, as the Australian LNG project reaches peak capacity and additional production flows through from the Permian. Jason estimates CVX’s break-even price will drop to $43/bbl in 2018 as its high-margin production in Australia and the Permian continues to ramp. In addition, shares remain attractively valued at 7.5x Jason’s ’18e EV/DACF vs. peers at 7.8x and has a current dividend yield of 4%, which is likely to grow.

**Delphi Auto – David Kelley, DLPH, PT $106**

David Kelley added DLPH to the Franchise Pick list believing that the market doesn’t give DLPH sufficient credit for the company’s important role in ADAS and autonomous vehicle technology. While direct exposure to ADAS may look small at less than 20% of sales, David’s enthusiasm for DLPH is around his view that the company’s key electrical/electronic architecture (E/EA) business helps to enable these more advanced systems by integrating technologies from various vendors (Intel/Mobileye, Nvidia, etc.). Delphi’s architecture systems should see rising content and rising value to the OEM as they become more critical in enabling vehicle evolution. David expects E/EA and active safety software content to grow revenues at about 10%/year for the next several years. Since being added to the list, DLPH announced a plan to spin its powertrain business, something which should help to unlock value by highlighting growth in the E/EA and Electronics & Safety businesses, and should act as a catalyst when complete. Still, the company trades at 8.6x 2018 EBITDA, which is still too cheap in David’s view given 5Y supplier average of 6.5x and the growth we expect.
Dish Network Corp - Michael McCormack, DISH, PT $80

Mike McCormack believes the market is mispricing DISH shares, not giving enough credit for the company’s spectrum, the Pay TV business or the strategic value. He believes DISH’s spectrum portfolio is dramatically undervalued and sees $39B of after-tax value, which is in line with current EV and therefore implies the market assigns no value to DISH’s TV business, which he believes is worth nearly $15B. Near-term, Mike expects investors will be focused on the IoT build-out and he expects the current plans will meet the build out requirements. Mike’s price target of $80 is based on a $1.35/Mhz-POP blended spectrum valuation, and he believes the market currently assigns $0.80/MHz-POP, roughly a 40% discount to his estimate. Mike assumes 4.5x EV/EBITDA for the underlying pay TV business and notes that there’s strategic value especially as a compliment to a mobility platform or for a company which is sub-scale in video.

DXC Technology— El-Assal, DXC, PT $100

Ramsey believes the Street is significantly undervaluing DXC and he sees strong margin expansion going forward driven primarily by merger cost synergies. DXC management reaffirmed their $1b F18 synergy target on their first standalone earnings report in early August and Ramsey continues to view the guide as conservative. Ramsey models mid-single digit percentage margin expansion and cost-synergies in-line with management’s guidance and sees meaningful upside to the company’s projected F20 EPS range. Ramsey recently raised his estimates and target price to reflect expectations for potential upside to merger synergy realization, an acceleration in near-term margin expansion, potential USPS divestiture, and tax rate normalization. Ramsey’s $100 target price is based on 12x his base case C19 EPS estimate of $8.04 +DCF.

FleetCor - El-Assal, FLT, PT $197

Ramsey believes FleetCor remains a strong secular growth story and forecasts robust revenue growth in F17/18 driven by global electronic payment trends, M&A, and potential European outsourcing partnerships. He forecasts gradual multiple expansion for shares as they recover from what he believes to be an erroneous pricing-related bear case. In addition, Ramsey sees upside to numbers from the recently announced Cambridge acquisition, and also sees further upside to his STP accretion estimates as he believes FLT will be able to implement material pricing actions as well as cross-sell the existing Brazil product suite into STP’s 85k corporate clients. Ramsey also believes potential European oil major outsourcing deal wins could represent a further catalyst. The stock currently trades at ~15x Ramsey’s $9.51 F18 EPS estimate, a meaningful discount to its historical average.
Hain Celestial - Akshay Jagdale, HAIN, PT $52

Akshay reiterates his conviction in HAIN, due to the underlying value of the company’s brands, category exposure and M&A optionality. Akshay sees three likely paths to value creation for the company including 1) the execution of management’s existing business plan with a pathway to $350-$375M in EBITDA in FY18, 2) portfolio brand simplification through the sale of non-core assets and 3) the sale of the business at a sum-of-the-parts valuation. Akshay believes there would be significant strategic interest in HAIN and analyzed several scenarios in which hypothetical buyers could acquire HAIN for $70/sh, ~23x ’18 EV/EBITDA. He estimates that by year 3, the deal would be 8% accretive to PF’s earnings, 4% to GIS and CAG’s and 1.4% to CPB.

Ingersoll – Rand - Stephen Volkmann, IR, PT $105

Ingersoll – Rand is one of Steve’s top conviction names given that the company’s largest exposures are the housing and commercial construction end markets, which have seen improvement over the last few years but still offer a significant pent-up replacement opportunity. Order rates for the climate business continue to outpace management guidance, suggesting upside to guidance and our estimates, and overall industry trends have performed above expectations despite industrial markets being weaker. Industrial segment operating margins improved 200bps YoY in 2Q17 and Steve believes the company can continue expanding margins through 2017 as the company should benefit from productivity and investments in new products. Steve forecasts incremental margins north of 50% as revenues in the Industrials segment improve off of trough levels. Stephen’s $105 price target incorporates a multiple of 200% EV/Sales and 13x EV/EBITDA on his 2018 estimates, a slight premium to the group, which Steve believes is warranted as IR continues to improve market share.

KeyCorp – Ken Usdin, KEY, PT $21

Ken added Key to the Franchise Pick list in September 2016 and he believes the company has meaningful growth levers and an attractive valuation in both absolute and relative terms. KEY currently trades at 11.5x on ’18 EPS, a 1.5x multiple discount to regional bank peers. Ken continues to expect that: 1) loan and fee growth will outpace peers given FNFG synergies, 2) legacy KEY operating leverage will remain intact, 3) FNFG synergies will provide an ongoing cost lever, 4) strong credit performance will keep losses low and 5) buybacks will help to reduce share count by around 3% per year. Ken’s $21 price target implies KEY should trade at 14x his 2018 EPS, 1x-2x above where shares currently trade, and near the group average.
**Marathon Petroleum - Goldman, MPC, PT $64**

Corey added MPC to the Franchise Pick list following a selloff in shares which was largely driven by the company’s decision not to spin the Speedway business. Corey had removed MPC from the Franchise Pick list on 7/20 as he believed the company would decide not to separate Speedway, something he expected to act as a negative catalyst. With the decision behind us, the overhang has been removed. Assuming that MPLX units are fairly valued at the current price, which is ~$7 below Corey’s MPLX target, MPC’s current equity value implies only ~6x EBITDA credit to Speedway, three turns cheaper than C-Store peers. In the event MPLX re-rates to a value in-line with peers, and assuming MPC continues to trade at current levels, Corey believes management may be forced to entertain the prospect for a potential Speedway separation down the road, which he thinks provides a floor for shares. In addition, Corey estimates that pro-forma for the final dropdown and IDR exchange, every $1/unit increase in MPLX’s unit price should translate to $1/share uplift to MPC shares. The IDR exchange in connection with the final dropdown will be the next major catalyst for shares and according to management the transactions should be completed by 4Q17/1Q18 and should yield MPC with ~$2.5B of after-tax cash proceeds, which Corey expects will be used for buybacks and ~355M incremental MLPX LP units. Corey’s MPC PT of $64 is SOP-derived and implies shares trade at ~8.8x ’18 EV/EBITDA.

**Murphy USA - Mandeville, MUSA, PT $84**

Setting aside an expected negative impact from Hurricane Harvey (and potentially Irma now as well), MUSA remains a Jefferies Franchise Pick and Chris continues to like the company’s long-term outlook: growing units 3-4%, improving the breakeven margin via both merchandise margin and expansion and store-level opex reductions, and utilizing its strong balance sheet/FCF generation (for share repurchases) to ultimately drive a ~10% EPS CAGR. MUSA has a healthy balance sheet (2.1x Net Debt/EBITDA), an expected FCF yield of 3% in 2018, and remains committed to enhancing shareholder value through buybacks (currently $110M remaining or 5% of its market cap; a new program is likely in the coming quarters). Following a recent pullback on near-term fuel margins and hurricane concerns, MUSA trades at only 7.3x EV/EBITDA, below 7.7x its long-term average, and Chris sees a strong value proposition for long-term investors willing to accept quarterly earnings volatility (due to fuel margin sensitivity).
Newell Brands - Grundy, NWL, PT $63

Kevin added Newell to the Franchise Pick list in December 2016 and his positive thesis is predicated on his view that value triggers remain underappreciated by consensus given: 1) strong visibility on $1B synergy target; 2) other synergy levers (working cap, portfolio rationalization); 3) best-in-class management; 4) $2B OCF by 2019 (~100% FCF conversion) is supportive of multiple expansion; 5) attractive valuation at ~14.5x adj. EV/ULFCF (~35% disc. to staples); and 6) asymmetrical risk reward ($63 PT, very plausible low-$80s bull case, less likely low-$40s bear case). Kevin is confident that if the management team can deliver on their targets, the shares will re-rate materially higher from current levels.

NVIDIA - Mark Lipacis, NVDA, PT $180

NVDA is uniquely investing in new platforms and tools that are enabling new markets like Deep Learning, VR, self-driving cars and, of course, PC Gaming and remains one of Mark’s highest conviction calls. He expects these secular growth vectors to continue to drive growth, and believes the company will be a key beneficiary of the fourth tectonic shift in computing, parallel processing. NVDA has beaten consensus expectations for nine consecutive quarters. Mark thinks the continued growth in Data Center underscores NVDA’s emergence as a standard in AI computing. Broad scale DL deployment is still in its early innings and he thinks DC sales can eclipse Gaming over the long term.  Mark increased his earnings power assumption based on his belief that the ramp of its next gen DC GPU, Volta, is better than its previous gen GPU and that estimates could prove too conservative over the next several quarters. He estimates NVDA has a 3 year EPS potential of ~$8.00. Longer term, he expects growth of Deep Learning applications, such as self-driving cars, will drive both upside surprises and order visibility.

Owens Corning - Ng, OC, PT $82

Phil believes that OC is poised to benefit from higher insulation prices in 2H17 and beyond, a higher base for roofing margins, and solid double-digit EBIT margins in its composites business. For insulation, market capacity utilization continues to tighten and OC controls an outsized portion of the idled operating capacity, which should support further price hikes given its history of being a disciplined market leader. With OC’s insulation margins still ~780 bps below its historical average, Phil believes this leaves plenty of room for expansion with incremental margins expected to reach 50% with solid pricing, driving earnings growth at a faster pace than its peers. On roofing, volumes have held up better than anticipated after seeing robust storm demand in 2016, and could see a better 2H17 with Hurricane Harvey and potentially Hurricane Irma. This healthy demand backdrop has helped OC manage price:cost and rebase long term margins at a higher level.  With the stock trading at 7.4x EV/EBITDA and 7.5% ‘18E FCF yield, Phil thinks it offers great value, significant runway for margin expansion in insulation and a good capital deployment story.
PayPal - El-Assal, PYPL, PT $70

Ramsey continues to recommend PayPal due to its scarcity value, strong top-line growth, improving profitability and global secular tailwinds. The company has entered partnerships with key players like Apple, players which were once believed by some to be substantial competitive threats. Ramsey recently updated his asset-lite analysis and the results of his scenario analysis support his view that the net impact of a less capital intensive credit model should prove manageable, especially if the loan sale proceeds are used to buyback shares. Additionally, Ramsey believes this shift will help to address investor concerns about the impact of a hypothetical weakening credit cycle. Ramsey’s analysis of the EBAY/PYPL relationship also suggests the EPS impact of a renegotiation in conjunction with the 2020 contract expiration should prove quite manageable. Ramsey believes management has taken a conservative approach to expectations regarding volume upside from Consumer Choice and he believes this will be an incremental driver for margin expansion for shares going forward. Ramsey’s $70 target is based on 32x his 2018 EPS of $2.22.

Praxair - Alexander, PX, PT $162

Laurence added PX to the Franchise Pick list in early August. A fall from the stock’s June highs combined with what we expect to be a successful tender of Linde shares in Q417 make for an attractive tactical setup. PX is interesting over the medium and short term too, however, and we believe newsflow on divestitures in 1H18 will likely provide incremental step-ups for the stock and clarity on synergies will help too. Pro forma for the Linde acquisition, the stock trades at about 10x 2018 EBITDA vs 11.5x for large cap chemical peers. If the tender is not successful, we believe that the company will resume a significant buyback, something that should limit investors’ downside. The macro backdrop should be supportive too, and we believe the stock could be a big beneficiary of a turn in the industrials capex cycle, something that Global Equity Strategist Sean Darby has suggested is likely.

Stericycle - Dodge, SRCL, PT $108

Sean believes Stericycle remains a quality business with double-digit earnings growth potential over the next five years. The company has seen several consecutive quarters of fundamental improvement and the company recently reaffirmed 2017 operating guidance on the 2Q call. As far as the upcoming ERP implementation is concerned, management is taking steps to minimize risks and drive incremental savings such that ’18 margins should be flat despite making the initial investments. Sean expects that as the company continues to broaden and cross-sell its service offerings, the resulting bundled prices compare very favorably to competitors’ alternatives, which should help to alleviate some competitive pressures. Despite SRCL’s highly-recurring and recession-resistant core business model and double-digit growth outlook, shares currently trade 15x ’18E EPS, which is almost a two turn discount to the S&P 500 and well below its 29x historical (10-year) average. Sean believes the stock has been unfairly punished by the recent modest uptick in pricing resets and the disclosure of an SEC subpoena management deemed immaterial. His $108 PT is based on 22x 2018E Cash EPS and assumes shares trade seven turns below their 10-year historic average.
Textron - Kahyaoglu, TXT, PT $60

Textron was added to the Franchise Picks list in late January 2017 following a weak 4Q16 earnings report which pressured shares. Unlike many other industrials, TXT’s end markets haven’t recovered much, we do expect modest recovery, and yet even on 2018 EPS which are still depressed, the stock trades at only an S&P multiple. Sheila believes the company is well-positioned for accelerating growth in the medium-term driven by a recovery in the BizJet market, growth in commercial helicopters and defense markets. Sheila raised her FCF forecast for ’17 to $750M following the 2Q17 report and she believes improved execution and stronger FCF going forward will drive a re-rating in shares. Sheila remains confident in management’s guide for MSD organic growth and double-digit EBIT growth in 2018. Shares trade at a 12-20% discount to peers on a P/E and EV/EBITDA basis, which Sheila believes does not reflect the company’s improved end-market demand and earnings trajectory.

Under Armour - Konik, UAA, PT $28

Randy upgraded Under Armour to Buy and added to the Franchise Pick list in late March, as he thinks the Street significantly undervalues the growth opportunities and scale from North America, footwear, international, women’s and lifestyle segments long-term. Since being added to the list, the competitive environment in athletic has remained highly promotional, Adidas has remained strong, and earnings estimates for NKE and UAA have gone lower. However, UAA is expected to launch the Curry 4 in Sep/Oct, a sneaker that’s received a lot of positive buzz, especially vs. the disappointing Curry 3. Also, UAA’s Dec Q comps are particularly easy—UAA saw a decline in EPS in the critical fourth quarter of 2016, the first time they had seen a contraction in 4Q EPS since the financial crisis. Additionally, UA currently has 300-400 points of distribution in China relative to NKE at 12,000 and ADS at 10,000. Randy thinks this under-penetration presents an opportunity for UA to scale in coming years, while peers trim accounts. Randy believes the numerous growth opportunities should allow for a return to mid-teens EBITDA growth in 2018. On a P/S basis, the stock trades at about 1.4x, the cheapest it’s been since the financial crisis and about 44% below NKE’s depressed P/S ratio.
Jefferies Focus Stocks

The Jefferies Focus Stock List contains 90 institutionally relevant stocks in which Jefferies analysts have observed elevated investor interest in their views. Also, Jefferies’ analysis around these stocks is often differentiated. The average stock on the list has both higher market cap and higher average daily notional trading volume than the average S&P 500 stock.

The following list of stocks are new additions to the Focus Stocks List: CBS, CC, CELG, CI, COO, DLPH, DXC, EL, EMN, FNSR, HPE, IBM, ICLR, LB, LITE, MSI, OCLR, ONCE, RIO, TROW, TSN
## Jefferies Focus Stocks—Company Comparison Table

**Source:** FactSet, Jefferies

### Consumer

<table>
<thead>
<tr>
<th>Ticker</th>
<th>Company Name</th>
<th>Market Cap ($M)</th>
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<th>C18 Jef P/E</th>
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</thead>
<tbody>
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### Energy

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### Financials

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**Source:** FactSet, Jefferies
## Jefferies Focus Stocks—Company Comparison Table

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<th>Company Name</th>
<th>Market Cap ($M)</th>
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<th>Current Price</th>
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Source: FactSet, Jefferies
## Jefferies Focus Stocks – Company Comparison Table

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<tr>
<th>Ticker</th>
<th>Company Name</th>
<th>Market Cap (SM)</th>
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<th>Rating</th>
<th>Price Target</th>
<th>Current Price</th>
<th>C18 jef EPS</th>
<th>C18 Cons. EPS</th>
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Source: FactSet, Jefferies
Consumer

**Tiffany & Co. (TIF, Buy, PT: $110)** - Randy expects GMs to benefit as the company positions itself to sell a more favorable mix of products, with emphasis on higher margin silver and fashion jewelry. In addition, he notes that data suggests US tourism trends are inflecting, which should improve topline results. He also thinks the company should benefit from lower commodity costs, which he expects will be combined with permanent GM boosts from cost discipline, and looks forward to an accelerated pace of product newness driven by the new CEO and Chief Artistic Officer.

**Under Armour (UAA, Konik, Buy, PT: $28)** - Randy upgraded Under Armour to Buy and added to the Franchise Pick list in late March, as he thinks the Street significantly undervalues the growth opportunities and scale from North America, footwear, international, women’s and lifestyle segments long-term. Since being added to the list, the competitive environment in athletic has remained highly promotional, Adidas has remained strong, and earnings estimates for NKE and UAA have gone lower. However, UAA is expected to launch the Curry 4 in Sep/Oct, a sneaker that’s received a lot of positive buzz, especially vs. the disappointing Curry 3. Also, UAA’s Dec Q comps are particularly easy — UAA saw a decline in EPS in the critical fourth quarter of 2016, the first time they had seen a contraction in 4Q EPS since the financial crisis. Additionally, UA currently has 300-400 points of distribution in China relative to NKE at 12,000 and ADS at 10,000. Randy thinks this under-penetration presents an opportunity for UA to scale in coming years, while peers trim accounts. Randy believes the numerous growth opportunities should allow for a return to mid-teens EBITDA growth in 2018. On a P/S basis, the stock trades at about 1.4x, the cheapest it’s been since the financial crisis and about 44% below NKE’s depressed P/S ratio.

**L Brands (LB, Konik, Underperform, PT: $30)** – Over the last year, PINK growth has slowed from DD growth to just MSD growth in F2Q18. Randy has observed the brand becoming more promotional, and his survey work shows consumers increasingly viewing the brand as overpriced. In addition, he sees the heightened competitive landscape from Aerie, Amazon brands and DTC brands continuing to threaten PINK and core VS. He expects the business to continue to underperform and his FY19 EPS estimate remains 35% below consensus.
Consumer

Kevin Grundy – Cosmetics, Household & Personal Care

Newell Brands (NWL, Buy, PT: $63) – Kevin added Newell to the Franchise Pick list in December 2016 and his positive thesis is predicated on his view that value triggers remain underappreciated by consensus given: 1) strong visibility on $1B synergy target; 2) other synergy levers (working cap, portfolio rationalization); 3) best-in-class management; 4) $2B OCF by 2019 (~100% FCF conversion) is supportive of multiple expansion; 5) attractive valuation at ~14.5x adj. EV/ULFCF (~35% disc. to staples); and 6) asymmetrical risk reward ($63 PT, very plausible low-$80s bull case, less likely low-$40s bear case). Kevin is confident that if the management team can deliver on their targets, the shares will re-rate materially higher from current levels.

Monster Beverage (MNST, Buy, PT: $65) – Monster is a top pick, with Kevin’s bullish thesis predicated on: (i) accelerating sales growth as US results inflect on recent innovation/RTD coffee capacity is restored and international market share gains drive ~11% topline CAGR; (ii) attractive valuation at 21x NTM EV/EBITDA (~1/2 standard deviation below historical average vs. KO/PEP); and (iii) strategic optionality should KO acquire the remaining 82% of outstanding shares, driving our $85 bull case.

Stephanie Wissink – Consumer Products

Estee Lauder (EL, Buy, PT: $122) — Stephanie sees upside to sales and earnings for EL driven by above-average organic growth and M&A complemented growth. She expects make-up sales, which account for ~40% of mix, to drive meaningful growth and believes EL is well-positioned for a recovery should skin recover from LSD growth rates to MSD growth. She believes their leading Beauty Forward will be a key initiative to unlock value for shares and drive 100bps of margin expansion. Steph forecasts a 1-2% M&A contribution to growth and she thinks recent deals show the management’s commitment to emerging brands and trends.
Consumer

**Akshay Jagdale – Food Products**

**Tyson Foods (TSN, Buy, PT: $75)** – Akshay’s long-term positive thesis on TSN is predicated on the company’s value-added growth strategy, which he believes is accelerated by the AdvancePierre Foods deal. Management recently provided above-consensus FY18 EPS guidance and raised their accretion guidance for the deal. Management’s accretion guide implies $5.30-$5.40 in FY18 EPS, though Akshay’s estimates are at the lower end of that range at $5.20 given his more cautious outlook on pork industry margins. Akshay believes the downward trajectory in Chicken and Prepared Foods margins over the past 3 months were transitory and he forecasts a meaningful rebound in performance in both segments over the near to mid-term horizons. Shares currently trade at 8.5x Akshay’s PF FY18 EV/EBITDA, a discount to the peer average of 12.7x.

**Hain Celestial (HAIN, Buy, PT: $52)** – Akshay reiterates his conviction in HAIN, due to the underlying value of the company’s brands, category exposure and M&A optionality. Akshay sees three likely paths to value creation for the company including 1) the execution of management’s existing business plan with a pathway to $350-$375M in EBITDA in FY18, 2) portfolio brand simplification through the sale of non-core assets and 3) the sale of the business at a sum-of-the-parts valuation. Akshay believes there would be significant strategic interest in HAIN and analyzed several scenarios in which hypothetical buyers could acquire HAIN for $70/sh, ~23x ’18 EV/EBITDA. He estimates that by year 3, the deal would be 8% accretive to PF’s earnings, 4% to GIS and CAG’s and 1.4% to CPB.

**Lamb Weston (LW, Buy, PT: $53)** - Akshay is positive on the near and long-term earnings prospects for the company, driven by their competitive potato cost-advantage and slow but steady growth in French fry demand. Akshay’s channel checks support his positive view on the favorable fundamentals for the frozen potato industry and notes that though investors have voiced concerns about planned capacity expansion, he believes the phasing of capacity expansion combined with global demand growth will result in a situation where demand continues to outpace supply. Akshay is positive on LW’s long-term earnings power and believes the price/mix will be meaningful contributor in the back half of 2018. He sees upside to FY18 guidance and estimates driven by strong JV earnings growth through better price realization and execution.
Consumer

**Murphy USA (MUSA, Buy, PT: $84)** – Setting aside an expected negative impact from Hurricane Harvey (and potentially Irma now as well), MUSA remains a Jefferies Franchise Pick and Chris continues to like the company’s long-term outlook: growing units 3-4%, improving the breakeven margin via both merchandise margin and expansion and store-level opex reductions, and utilizing its strong balance sheet/FCF generation (for share repurchases) to ultimately drive a ~10% EPS 5yr. CAGR. MUSA has a healthy balance sheet (2.1x Net Debt/EBITDA), an expected FCF yield of 3% in 2018, and remains committed to enhancing shareholder value through buybacks (currently $110M remaining or 5% of its market cap; a new program is likely in the coming quarters). Following a recent pullback on near-term fuel margins and hurricane concerns, MUSA trades at only 7.3x EV/EBITDA, below 7.7x its long-term average, and Chris sees a strong value proposition for long-term investors willing to accept quarterly earnings volatility (due to fuel margin sensitivity).

**Wal-Mart (WMT, Buy, PT: $93)** – Dan’s field checks point to meaningful execution improvement in stores and an opportunity to accelerate sales growth with price investments and growth in ecommerce. Contrary to the stock’s initial reaction, Dan believes Amazon’s acquisition of Whole Foods actually reinforces the importance of brick and mortar stores. In addition, Dan believes that aggressive actions in WMT’s online business (jet.com acquisition, addition of 3rd party sellers, etc.) makes the company more relevant as shopping habits continue to shift to ecommerce and should result in increased sales. As of F2Q18, WMT’s e-commerce GMV growth increased 67%, including acquisitions. The complexion of EBIT% is changing as GM% declines on price investment and SG&A growth slows. The company is expecting peak ecommerce expense growth this year and Dan believes WMT could start leveraging US expenses sometime in 2H. Dan’s estimates for F18 are 4.5% ahead of consensus.
Consumer

Dollar General (DG, Hold, PT: $73) – Dan believes that discounters are broadly benefitting from above-average income growth for lower income consumers, but believes those same consumers have also been willing to do more stock-up trips, which could benefit fully-assorted food players more than DG. He also believes the dollar store space needs to find a better balance between capacity growth and comp store sales. DG has been a growth story with contracting operating margins, due to softer sales, lower gross margin (due to markdowns and mix), and SG&A pressure from rising wages. The combination has led to DG multiple contraction.

Dollar Tree (DLTR, Hold, PT: $85) – While DLTR’s core business has shown nice improvement in recent quarters, the Family Dollar business continues to see soft sales. Meanwhile, it is accelerating the number of FD store openings to 300 and may be feeling the pressure from competitive openings. Meanwhile, FD is taking large gross margin gains, while competitors lower price and increase the price gap with FD. Rather than use merger integration synergies to increase gross margins, Dan believes that price investment to drive robust comps would provide a more substantial flow-through benefit. He also believes an improvement in comp store sales would be viewed as a more open-ended opportunity and command a higher multiple.

Target (TGT, Hold, PT: $59) – Earlier this year management reset sales and EPS expectations as it embarked on a multi-year investment program that includes store remodels, a shift to EDLP pricing, new brand launches, and supply chain optimization to reduce ecommerce fulfilment costs. Since dramatically lowering the bar, TGT has been able to produce upside to Street estimates. While Dan acknowledges the constructive changes management has made, he believes that the opportunity TGT has from store improvement is not as great as WMT’s and store traffic may not see as much change without a larger focus on grocery. Further, ecommerce at TGT may not see the same improvement WMT experienced without the development of a marketplace.
Energy

**Southern Company (SO, Buy, PT: $55)** - Anthony believes investors are pricing in too much exposure for Kemper and Vogtle and believes the overhang on shares in overdone with the remaining businesses operating in premium jurisdictions. Management’s guidance for EPS growth is 5%, which is consistent with Anthony’s Kemper-adjusted estimates. His forecast assumes an annual decline of 1.5% in O&M expense through 2019, which should provide a 5c tailwind to EPS. He believes this earnings lever is underappreciated by the Street. Shares currently trade at a modest discount to the group average with a 4.7% dividend yield. Anthony’s $55 target assumes shares trade at a slight premium to peers.

**FirstEnergy (FE, Hold, PT: $33)** – Anthony finds FE shares to be fair value and believes they should continue to trade at a discounted multiple given the challenges the company will face as it seeks to find a solution for Competitive Energy Services (CES). He believes management ended the uncertainty around the unregulated business by announcing that in 12-18 months it will no longer be part of FE. The company will pursue either: 1) re-regulation in Ohio, 2) sell the merchant assets, or 3) bankruptcy of FES. Anthony’s $33 target equates to 13.2x his 2019 EPS estimate of $2.50, which is a 6% discount to the group.

**Xcel Energy (XEL, Hold, PT: $50)** - Anthony believes the Steel for Fuel strategy will be successful in driving rate base growth, and thinks the company should be able to continue to close its ROE gap. Anthony projects a 3-year EPS CAGR of 5.9% driven by rate base growth and believes that new Minnesota legislation has the potential to reduce regulatory risk and close the ROE gap. That being said, shares trade near a group average large-cap multiple and he sees upside limited to ~5% premium.
Chevron (CVX, Buy, PT: $130) - Jason believes Chevron is the most strategically advantaged in the super-major sector and forecasts an inflection in FCF moving forward as major capital projects reach completion, capex falls and production growth from high-margin products drive higher cash flow. Jason forecasts CFFO to grow from $19.4b in ’15 to $30.9B in ’19 which implies a 12% CAGR. The company’s Permian operations continue to progress and the company has made notable strides in increasing well flow rates and decreasing development and operating costs. CVX is also expected to monetize another 150-200k acres in 2H17/2018. Jason expects CVX production to meaningfully ramp in 2H17 and 2018, as the Australian LNG project reaches peak capacity and additional production flows through from the Permian. Jason estimates CVX’s break-even price will drop to $43/bbl in 2018 as its high-margin production in Australia and the Permian continues to ramp. In addition, shares remain attractively valued at 7.5x Jason’s ’18e EV/DACF vs. peers at 7.8x and has a current dividend yield of 4%, which is likely to grow.

Corey Goldman – Refining & Marketing

Marathon Petroleum Corp (MPC, Buy, PT: $64) – Corey added MPC to the Franchise Pick list following a selloff in shares which was largely driven by the company’s decision not to spin the Speedway business. Corey had removed MPC from the Franchise Pick list on 7/20 as he believed the company would decide not to separate Speedway, something he expected to act as a negative catalyst. With the decision behind us, the overhang has been removed. Assuming that MPLX units are fairly valued at the current price, which is ~$7 below Corey’s MPLX target, MPC’s current equity value implies only ~6x EBITDA credit to Speedway, three turns cheaper than C-Store peers. In the event MPLX re-rates to a value in-line with peers, and assuming MPC continues to trade at current levels, Corey believes management may be forced to entertain the prospect for a potential Speedway separation down the road, which he thinks provides a floor for shares. In addition, Corey estimates that pro-forma for the final dropdown and IDR exchange, every $1/unit increase in MPLX’s unit price should translate to $1/share uplift to MPC shares. The IDR exchange in connection with the final dropdown will be the next major catalyst for shares and according to management the transactions should be completed by 4Q17/1Q18 and should yield MPC with ~$2.5B of after-tax cash proceeds, which Corey expects will be used for buybacks and ~355M incremental MLPX LP units. Corey’s MPC PT of $64 is SOP-derived and implies shares trade at ~8.8x ’18 EV/EBITDA.
Energy

Brad Handler – Oilfield Services & Equipment

**U.S. Silica Holdings (SLCA, Buy, PT: $40)** – Brad believes investor concerns about the pricing impact of West Texas supply adds is exaggerated and believes SLCA is the best-positioned relative to peers given their superior product portfolio, advantaged cost position and strong balance sheet. Silica has the highest fine-sand mix with ~86% of its pro-forma 21.3MM tpa capacity 40/70 and 100-mesh, strong logistics capabilities and first mover advantage in last mile containerized solutions that should benefit from rapid development of West Texas. We expect to see a continued demand shift to fine sand and believe pricing risk with fine is much lower than with coarse. Shares trade at 4.4x Brad’s ’18 EBITDA and 12x his estimated ’18 FCF/sh and he believes the stock could respond favorably if we see continued volume and pricing traction in the 2H17.
Financials

**Intercontinental Exchange (ICE, Buy, PT: $73)** – ICE is one of Dan’s top picks within Exchanges and he remains positive on the company’s earnings trajectory given stable to improving growth within the data business combined with management’s increased synergy expectations for the IDC transaction and buyback authorization. Dan believes changing global regulations, such as Mifid 2 will spur greater demand for pricing, reference and valuation data from clients globally. He expects data revenues to grow 6% in ’17 and another 13% by ’19 to ~$2.4M. Further, a more favorable regulatory backdrop for financial institutions and exchanges from regulators such as the CFTC, SEC and others has the potential to increase trading activity broadly.

**T. Rowe Price (TROW, Buy, PT: $96)** – TROW is one of Dan’s top picks as the company continues to generate strong investment performance vs. peers. As of 6/30/2017, 59% and 63% of TROW’s funds had top quartile performance vs. peers over a 3 and 5 year period, respectively. Dan believes growth outside the US, the expansion of distribution channels in the US through partnerships including SCHW and Fidelity, and technology/efficiency initiatives will be more than enough to offset the headwinds posed by the shift from active to passive management and generate positive organic growth on an annual basis. Dan’s 2018 EPS estimates are 2% ahead of consensus and he believes the Street is conservative with its fee estimates. In addition, TROW historically has traded at a 2-3 turn premium to the S&P 500 and the stock currently trades at ~15x ’18 earnings vs. the S&P at 17x.

**Charles Schwab (SCHW, Buy, PT: $49)** – Dan views SCHW as favorably positioned to grow NNA and earnings at an industry leading rate. Dan notes that year one of a 25bp hike would add $200-300M of incremental revenue and we are currently assuming two hikes in 2018. Net new assets in 2Q17 totaled +$63.9b, which was a multi-year high for the company. Continued investment in the business and net new asset growth remain the drivers of Dan’s positive view. Management continues to target growing the balance sheet to the $250B level in early ’18. Shares trade at ~19x Dan’s F18 EPS estimate, below the company’s pre-credit crisis average multiple of 21x-25x (2004-2007).
Financials

**Ally Financial (ALLY, Buy, PT: $28)** — John believes ALLY continues to represent a compelling value currently trading at ~8.5x FY18E EPS, below tangible book value, and he believes the stock at current levels overly-discounts credit risk and competitive threats. From an operating perspective, ALLY is now a leading auto lender and from a balance sheet perspective, ALLY has a diversified capital structure bolstered by low cost deposits driven by the growing online bank. With the ongoing replacement of unsecured debt with deposits and mix shift to increasing prime/near prime used car loans, ALLY has been able to expand its NIM beyond what is afforded by rising rates. Given the recent normalization of regulatory capital requirements, John expects NIM tailwinds and new product initiatives to continue to drive earnings growth and believes the company is well-positioned to achieve 2017-2019 objectives. Additionally, large banks are pulling back from the auto lending market, which should be positive for margins while we may see some used car price relief post-Harvey. John views ALLY’s prioritization of profitability over growth very favorably, particularly in the context that the company can now allocate excess capital/liquidity to shareholders. John’s $28 PT is based on ~10.5x FY18E EPS, which equates to ~1.2x adjusted TBV, a discount to peers.

**Santander Consumer (SC, Buy, PT: $18)** — John’s detailed analysis of Santander’s loan portfolio suggests stabilizing credit and lower NCO’s may benefit the company’s earnings and valuation as we approach CY18. The continued outperformance of 2016 vintages vs. 2015 should reduce the inflows of TDRs and provide further ALLL relief. John believes SC is one of the few companies we cover positioned for credit stability/improvement in 2018. He estimates that a 10bps reduction in NCO’s would result in a 10% increase in EPS for SC, and at ~7x FY18 EPS and a discount to book, he also expects multiple expansion with improved EPS and ROE. Lastly John would highlight the positives from the recent end of the Fed’s enforcement action on SCUSA including greater financial flexibility - both in terms of originations (volumes and mix) and capital returns as well as increased speculation around a potential parent company buyout.
Financials

John Hecht – Specialty Finance

**Synchrony Financial (SYF, Buy, PT: $40)** – John believes Synchrony is one of the best positioned players in the industry as it continues to benefit from better than industry loan growth and secular tailwinds in private-label/cobrand loan growth. He notes that the company’s focus on driving sales at a retail level makes it a unique partner for merchants, given their aligned interests. He expects the company’s continued focus on growing the loan portfolio in the high single digits, through the penetration of retail partners and new portfolio acquisition opportunities will continue to improve their B/S and EPS growth. John believes the stock is overly discounted on credit concerns as SYF’s 2015 and 1H16 vintages have been driving higher losses, triggering the larger than forecast reserve build in 1Q17. Importantly, he believes the 2H16 vintage is performing better and that SYF’s modest underwriting tightening in recent periods support stabilizing losses over time. Lastly, he notes the company has one of the highest reserves and that the RSA component shields profitability to a certain extent from higher losses.

Casey Haire – Regional Banks

**Signature Bank (SBNY, Buy, PT: $145)** – SBNY has underperformed in 2017 due to its taxi medallion exposure, and though Casey sees risk to consensus ’18 estimates due to overly optimistic Street NIM forecasts, he believes valuation largely reflects these headwinds and reversion risk. SBNY shares trade at just 13x ‘18E earnings, a 12% discount to peers, and Casey believes the attractive valuation limits downside. In addition, he believes upside could be significant if management pursues capital return or decides to partner with a larger institution.

**Western Alliance Bancorp (WAL, Buy, PT: $57)** – Western Alliance possesses top quartile TCE ratio within Casey’s coverage and he expects the company has the potential to reach 10% by YE-2017, which would put the bank in an excess capital position to either pursue M&A and/or provide a strong buffer to normalizing credit costs. Management has effectively used M&A to enhance earnings with four deals since 2012, which remains a wild-card going forward. That said, he believes that capital opportunities, which could include implementing a small dividend, are a possibility if the company is unable to find a deal. Further, takeout is also a possibility given CEO is a significant shareholder that has sold a bank before.
SVB Financial Group (SIVB, Buy, PT: $216) — Casey believes SVB will be able to generate above average loan growth in the long-term due to its unique exposure to Silicon Valley and secular tailwinds in the innovation markets. He expects low credit costs and while he conservatively does not model in any large securities/warrant gains, he believes it could contribute significantly to EPS results. SIVB also possesses one of the strongest asset sensitivity profiles among mid-cap banks, and thus is advantageously positioned to rising rates.

Ken Usdin – Trust & Regional Banks

Comerica Inc. (CMA, Buy, PT: $81) — Benefits from rate-sensitivity, efficiency program gains, and capital strength position CMA well for solid EPS growth and higher profitability. CMA also has an EPS lever in credit given its ~6% reserve on energy loans, while its GEAR Up initiatives will help control expenses and drive fee growth. Further, potential regulatory and/or tax reform would also help CMA proportionally more than most, given excess capital and a relatively high tax rate. While we see a near-term sale as unlikely, we believe the longer-term potential provides downside protection.

KeyCorp (KEY, Buy, PT: $21) — Ken added Key to the Franchise Pick list in September 2016 and he believes the company has meaningful growth levers and an attractive valuation in both absolute and relative terms. KEY currently trades at 11.5x on ’18 EPS, a 1.5x multiple discount to regional bank peers. Ken continues to expect that: 1) loan and fee growth will outpace peers given FNFG synergies, 2) legacy KEY operating leverage will remain intact, 3) FNFG synergies will provide an ongoing cost lever, 4) strong credit performance will keep losses low and 5) buybacks will help to reduce share count by around 3% per year. Ken’s $21 price target implies KEY should trade at 14x his 2018 EPS, 1x-2x above where shares currently trade, and near the group average.
Healthcare

**Michael Yee – Biotechnology**

**Celgene Corp (CELG, Buy, PT: $160)** – CELG shares are trading at a near historical trough-multiple at 15-16x versus the historical multiple of 14-25x and Michael believes multiple expansion will occur as the sector recovers over next 12 months and CELG has high earnings visibility. The company has three major Phase III readouts in 2018, the most of any large cap biotech company, and Michael sees potential upside to 2018 and 2020 guidance. He forecasts meaningful multiple expansion if the data is positive for these three readouts and Michael has a favorable outlook on the risk/reward basis for: Phase III Ozanimod in Ulcerative Colitis, Phase III GED-301 in Crohn’s, and XLRN in beta-thalassemia and myelodysplastic syndromes in 2018 – all of which he believes could set-up CELG for a new-product cycle story from 2018-2020.

**Spark Therapeutics (ONCE, Buy, PT: $95)** – Michael believes advancing multiple gene therapy pipeline programs and a strong gene therapy platform engine will drive Spark shares higher. Spark is a key leader in gene therapy medicines and Michael believes they could be the first company to have a FDA-approved gene therapy drug in the next 5 months and thinks they could have "multiple" hemophilia A/B products for patients. He expects shares to move higher as the company presents additional hemophilia A data, some of which is expected at ASH in December 2017. Michael believes the potential FDA approval of RPE-65 blindness program in Jan 2018 would be a key de-risking event and would position the company for a strong commercial launch in 2018. For these reasons, Michael also believes ONCE would make a strong M&A candidate.

**Brian Tanquilut – Health Care Facilities**

**Acadia Healthcare (ACHC, Buy, PT: $60)** – Brian sees ACHC as one of the only companies in HC Services that can sustainably grow organically in the high single digits, partly due to the growing demand for mental health services, including addiction treatment. In addition, he believes that last year's IMD exclusion repeal for managed Medicaid and government spending to support opioid addiction programs represent strong tailwinds. The stock is set up well with conservative guidance, and given management’s solid deal pipeline, M&A will be the kicker that drives earnings upside surprises and gets ACHC to EBITDA growth of 20%+. 
Healthcare

Brian Tanquilut – Health Care Facilities

**Envision Healthcare (EVHC, Buy, PT: $71)** – Brian expects the integration with AMSG will yield LT financial and strategic synergies, especially as the company establishes the largest 1-stop shop for hospital outsourcing services (that offers multiple service lines, including ER, anesthesia, radiology, hospitalist). He notes that the outpatient surgery business is poised for accelerating growth as key orthopedic (joint replacement) procedures shift from hospitals and into ambulatory surgery centers. In addition, he expects EVHC will realize ~$2B in net proceeds from the AMR sale, which will be used to de-lever the balance sheet, pursue accretive M&A in more attractive segments, such as physician services, and a possible share buyback.

**Walgreens (WBA, Buy, PT: $95)** – Brian is bullish on WBA given his view that the Street is underappreciating the volume acceleration that is likely to result from WBA’s recent partnerships with large PBMs including UNH/Optum, Prime Therapeutics, and the Department of Defense. Additionally, WBA has succeeded in reducing G&A expenses to offset expected gross margin declines and drive increased FCF (current yield >7%). In his view, the new asset purchase agreement for certain Rite-Aid stores should act as a clearing event for shares as WBA should be able to retain some deal synergy upside while also significantly increasing its buyback.
**Healthcare**

**Stericycle (SRCL, Buy, PT: $108)** - Sean believes Stericycle remains a quality business with double-digit earnings growth potential over the next five years. The company has seen several consecutive quarters of fundamental improvement and the company recently reaffirmed 2017 operating guidance on the 2Q call. As far as the upcoming ERP implementation is concerned, management is taking steps to minimize risks and drive incremental savings such that ’18 margins should be flat despite making the initial investments. Sean expects that as the company continues to broaden and cross-sell its service offerings, the resulting bundled prices compare very favorably to competitors’ alternatives, which should help to alleviate some competitive pressures. Despite SRCL’s highly-recurring and recession-resistant core business model and double-digit growth outlook, shares currently trade 15x ’18E EPS, which is almost a two turn discount to the S&P 500 and well below its 29x historical (10-year) average. Sean believes the stock has been unfairly punished by the recent modest uptick in pricing resets and the disclosure of an SEC subpoena management deemed immaterial. His $108 PT is based on 22x 2018E Cash EPS and assumes shares trade seven turns below their 10-year historic average.

**Brandon Couillard – Life Sciences & Diagnostic Tools**

**Agilent Technologies (A, Buy, PT: $70)** - Brandon views Agilent’s unique leverage to an uptick in Chemical/Energy end-market demand as a solid counterbalance to any potential Biopharma slowdown. Brandon is confident on C&E prospects into ’18 with the new Intuvo GC likely driving a multi-year upgrade cycle. The Intuvo 9000 marks A’s first new GC product cycle in ~10 years. The product started shipping in 2Q and he believes this product will be compelling enough to draw interest from cash-limited buyers, given the new innovations, ease of use and value proposition. Brandon is confident in the company’s core revenue growth target for +6% in FY17, supported by: 1) robust new product pipeline, 2) an expanding recurring revenue base, 3) ongoing strength in China & applied markets (food safety); and, 4) recovery in Chemical/Energy demand (+8% in FY17E vs. -3% in FY16E), supported by GC (gas chromatography) product launches.
Healthcare

Brandon Couillard – Life Sciences & Diagnostic Tools

Bio-Rad (BIO, Buy, PT: $275) – Bio-Rad is Brandon’s top mid-cap pick and he believes that BIO is at the cusp of a profit margin and ROIC inflection with the ERP transition now complete. The company reaffirmed its 20%+ EBITDA margin forecast on the 2Q17 earnings call, which supports Brandon’s 2020 forecasts for $10 in EPS and $13 FCF/sh. He expects the company Investor Day in November and announcement of the capital allocation plan to be positive catalysts for shares. He sees a pathway to $300-$350 of value in 2 years, which assumes no capital deployment or Sartorius equity appreciation. On normalizing margins and including the Sartorius stake the stock only implies 9x EBITDA, a 40% discount vs. peers.

Danaher Corp. (DHR, Buy, PT: $95) – DHR is Brandon’s top large-cap pick. The stock has lagged by a wide margin YTD, but he sees a pathway to accelerating core revenue growth in 2H17 / 2018 as Dental rebounds & CPHD rolls into the base, which he thinks will rekindle interest in the stock. Given >50% of the portfolio is “new” (acquired within last 5 yrs), he thinks DHR is still under-earning its potential & has more margin levers than most peers, which is under-appreciated by investors. Moving into 2018 with a leaner balance sheet, Brandon sees M&A as a source of potential upside; he sees ~$6-8B of capacity over the next 18 months, which he figures could add +8-10% of EPS power.

Dave Windley – Pharma Services & Managed Care

PRA Health Sciences (PRAH, Buy, PT: $92) – Dave believes that despite slowing outsourcing among large cap pharms, the CRO market will continue to benefit from high-single digit R&D spending growth by SMID-Cap Biotechs, which is ~30% of PRAH’s revenue. Strength in bookings and 22% YoY growth in backlog as of 2Q17 continue to support at least low-to-mid teens organic revenue growth in 2018. The company also announced the acquisition of Symphony Health, which secures a stable data source with a platform enabling PRAH to scale its big data strategies. Continued consolidation in the CRO space, which has been brisk of late, could see PRAH become a target, as one of few remaining quality players in the space.
**Healthcare**

**Cigna Corp (CI, Buy, PT: $201)** – Cigna remains Dave’s top pick within managed care. He believes the ability to deploy $7-$14b in capital gives the company significant flexibility. Additionally, Dave believes management’s 2021 EPS target of $16 is achievable with margin recovery in Group Disability & Life and a return to growth in MA in 2018. Despite the CI’s peer-leading performance YTD, shares still trade at ~14.8x ’18 earnings, a 2.5 turn discount to the group.

**ICON Plc (ICLR, Buy, PT: $122)** – Dave shifted his preference from INCR to ICLR in June, favoring the risk/reward for ICLR shares over the next 12 months. Dave sees solid appreciation potential as PFE concentration is reduced to 10-12% in FY18. With more aggressive M&A adding to the recent Mapi Group acquisition, ICLR could drive significant earnings accretion and another 23% upside in the stock. In 2Q17, ex-PFE revenue growth accelerated sequentially and management reaffirmed confidence in the cadence of growth over the next several quarters. Ex-PFE ICLR has a 1.4x TTM book-to-bill and Dave expects growth to be sustainable in the near to medium term. On a comparable basis, ICLR trades at a 1.7x discount to the group on ’18 earnings.

**Edwards Lifesciences Corp (EW, Buy, PT: $132)** - Raj remains bullish on EW as the company remains in the lead position in the transcatheter aortic valve replacement (TAVR) market with the Sapien 3 Ultra being launched in the EU in the 2H17 and mitral/tricuspid progress being made. Global TAVR sales are now annualizing over $3bn and while the sheer size of the market will lead to some slowing in growth, the market is still only 25% penetrated. Raj’s TAVR model forecasts $5.6B by 2021, which translates to a +15% CAGR. The mitral valve represents another considerable growth opportunity that is 3-4x the size of aortic and clinical efforts here are just beginning. Raj continues to believe mitral will become a larger part of the positive thesis on the stock.

**Raj Denhoy – Medical Supplies & Devices**

**Focus Stocks**
Healthcare

Raj Denhoy – Medical Supplies & Devices

**Abiomed (ABMD, Buy, PT: $175)** - Raj believes ABMD is one of the best positioned growth stories in medtech. With two PMAs secured; growing clinical support for Impella as a better tool for heart recovery; secure and supportive reimbursement; and geographic expansion—the company is still in the early phases of penetrating a TAM valued at nearly $6.5bn today but which could more than double to nearly $13bn with new technologies and indications. Raj models revenues of $445mn in FY17 growing to ~$1.2bn by FY21; average growth of 30%+, and these targets could prove conservative.

Anthony Petrone – Medical Supplies & Devices

**Cooper Companies (COO, Buy, PT: $250)** – Anthony’s proprietary lens web-tracker analysis suggests higher realized pricing and lower price discounts for Cooper. His latest webscrape showed a 46% stock-out rate for COO dailies and 20% for COO monthlies, which he believes points to a continuation of strong YTD performance. Anthony believes CVI is well-positioned on multiple fronts for continued share gains driven by the clariti/MyDay combo in dailies and launches of Energys, XR and Vitality in the non-daily space. Anthony sees potential for further upside to EPS for the 2H17 and his EPS estimate of $9.6 is in line with consensus. In addition, Anthony views COO as an attractive take-out candidate for Luxottica-Essilor overtime.
**Healthcare**

**AbbVie (ABBV, Buy, PT: $94)** – AbbVie remains Jeff’s Top Global Pick and he has confidence that US biosimilar Humira launches will be delayed to 2022 vs consensus of 2019. With the IPRs for Humira RA dosing patents in the rearview mirror, Jeff expects near-term focus to shift to the rich pipeline catalysts in 2017, including the Venclexta MURANO readout mid-17, the Rova-T TRINITY readout 2H17, risankizumab PIII readouts in psoriasis in 2H17 and Imbruvica PIII interim look in NHL 4Q17/1Q18. As for the mid-term, Jeff recently increased his revenue estimates following further analysis of the R&D pipeline, which he still believes is undervalued. Jeff’s risk-adjusted 2021 estimated revenue for Rova-T in SCLC of $2.1B is well-ahead of consensus’ estimates for $779M. Jeff’s SOTP analysis implies positive asymmetry on Humira and the pipeline and his base case scenario on US Humira biosimilars indicate that the StumpCo. business trades at 8.1x 2020E EPS. He believes this implies significant upside potential on his Base Case HumiraCo. modeling. Jeff’s $94 PT reflects 11.2x his FY19e EPS estimate and is supported by DCF, SOTP, PE and PEG-relative valuations.

**Bristol-Myers (BMY, Buy, PT: $66)** – Jeff thinks BMY could be an attractive takeout target given the potential for Opdivo outside NSCLC and its IO pipeline. Potential acquirers could include PFE, JNJ, Novartis and Sanofi, in his view, although potential suitors may wait until key 1L NSCLC studies have read-out. Jeff sees positive asymmetry with upcoming IO readouts in NSCLC and thinks rich IO catalysts in the 2H17/1H18 will help to drive earnings upside, despite IO competition in NSCLC. In Jeff’s worst case scenario, removing NSCLC implies a valuation of $48, and a likely subsequent takeover could provide an exit of at least $55 per share. Outside of NSCLC, the IO franchise should have multiple pivotal read outs in the next 12 months in 1L hepatocellular, 1L glioblastoma, 1L head and neck and 1L and 2L small cell lung cancers that could help drive earnings momentum. Jeff’s 2019 EPS estimate is 5% ahead of consensus.
Healthcare

**Dave Steinberg – Specialty Pharmaceuticals**

**Shire (SHPG, Buy, PT: $206)** – Dave believes the current risk/reward for Shire shares is attractive. And the forward multiple remains historically low at 9.5x. Despite poor investor sentiment surrounding the hemophilia franchise he sees a still solid overall base business, pending benefits from rapid deleveraging, and a pipeline with potentially several large assets that are arguably underappreciated. And the early launch metrics for new ADHD drug Mydayis look promising. A key potentially near term value creating event could be the sale or spinoff of the CNS business.

**Supernus (SUPN, Buy, PT: $51)** – Dave remains positive on the outlook for Supernus shares due to 1) continued strength in Rxs for key epilepsy products – Oxtellar XR and Trokendi XR – and 2) ongoing de-risking of the late stage pipeline – SPN-810 (impulse aggression ADHD) and SPN-812 (non-stimulant ADHD). Combined peak sales of these two assets could exceed $1B. Following the impressive 2Q earnings report, Dave raised his revenue and EPS estimates due to the robust launch of Trokendi XR in treating migraine prophylaxis. Additionally, with a strong balance sheet (cash of ~$200M and no debt), he sees optionality with potentially value creating acquisition(s) that could enhance the company’s near and longer term financial outlook. Conversely, Supernus could be increasingly viewed as a potential “takeout” candidate.
Industrials

**Howard Rubel - Aerospace & Defense**

**Boeing (BA, Buy, PT: $275)** – Boeing is a Franchise Pick and one of Howard’s highest conviction names. Howard believes Boeing has the potential to continue improve its profitability through the timely completion of development milestones, and employment of more robotics and automation to drive quality and speed in the assembly process, and the completion of costly start-up work on the 787, items that were recently highlighted in a note of Howard’s focusing on the Composite Wing Center and robotics. Howard believes the US market is causing an extension in the demand for civil aircraft, and the Street seems too bearish on the commercial aero cycle; deliveries may not peak until 2020. Jefferies July Air Traffic survey registered a 3.8% YoY growth rate, which suggests July’s passenger traffic expanded by ~7.5%, a rate that is about 2.5 percentage points above long-term demand. Howard notes that better than expected traffic continues to push up yields. Recent draws from the parked fleet underscores this increase in demand. In addition, shares are attractively valued at ~14x Howard’s 2018 core EPS estimate of $12 plus $4.50 for B787 amortization.

**Raytheon (RTN, Buy, PT: $190)** – Howard believes that Raytheon’s breadth of products and solutions have continued to appeal to a broad array of customers. With the widening of the company’s business solutions for missile defense and situational awareness, it has built a strong presence in these defense market and has enabled the company to deliver better than expected bookings year-to-date. He expects this should translate into greater volume growth going into 2018. Howard sees RTN well-positioned to capitalize on the change in tenor related to the need to modernize core air defense systems, as a result of the changing threat of drones and N. Korea’s activities. The company has made great progress on expanding the customer base and Howard estimates that the aggregate value of three recent customer-related deals could be in the $7-$12B range, including a development award for the LRSO, the next generation cruise missile.
Industrials

Howard Rubel - Aerospace & Defense

**General Dynamics (GD, Buy, PT: $220)** – Howard sees upside to shares given the strong backlog of Gulfstream and defense programs that should drive mid-single digit revenue growth in 2018 and produce a high-single digit EPS advance. The tone of the business jet market has improved and Gulfstream has remained solid as it transitions the G450 to the G500. The G500 enters service this year with the G600 entering next year and the book-to-bill for the most recent quarter was about 1x. He also anticipates a solid improvement in cash flow in ‘17 and ’18 as the company transitions to production of key Combat Systems programs. GD has set a long term target which results in an EPS CAGR that could average between 9% and 10% for the 2016 to 2020 period. Howard estimates 7-points can come from operations and close to 3 from capital deployment with EPS up 45% from 2016 levels to $12.40 in 2020.

Sheila Kahyaoglu – Aerospace & Defense, Government IT Services

**Textron Inc (TXT, Buy, PT: $60)** – Textron was added to the Franchise Picks list in late January 2017 following a weak 4Q16 earnings report which pressured shares. Unlike many other industrials, TXT’s end markets haven’t recovered much, we do expect modest recovery, and yet even on 2018 EPS which are still depressed, the stock trades at only an S&P multiple. Sheila believes the company is well-positioned for accelerating growth in the medium-term driven by a recovery in the BizJet market, growth in commercial helicopters and defense markets. Sheila raised her FCF forecast for ’17 to $750M following the 2Q17 report and she believes improved execution and stronger FCF going forward will drive a re-rating in shares. Sheila remains confident in management’s guide for MSD organic growth and double-digit EBIT growth in 2018. Shares trade at a 12-20% discount to peers on a P/E and EV/EBITDA basis, which Sheila believes does not reflect the company’s improved end-market demand and earnings trajectory.
Industrials

Bret Jordan – Autos & Automotive Aftermarket

**Advanced Auto Parts (AAP, Buy, PT: $130)** – Bret upgraded AAP in early July and sees potential for significant long-term margin expansion driven by improving operating efficiencies and execution by the new management team. Bret acknowledges there will likely be near-term margin headwinds from sales deleveraging and planned inventory reductions; however, longer-term he believes the new management team will be able to achieve 13-14% EBIT margins. In addition, Bret believes AAP’s strong Eastern market presence will be strategically valuable in the event the turnaround fails to gain traction. Fears that Amazon will make headway in the DIY market are legitimate, but 60% of AAP’s business is commercial and Bret sees Amazon as a much smaller threat in that side of the business. Bret’s 2018 EPS estimates are ~16% ahead of consensus estimates.

**LKQ (LKQ, Buy, PT: $37)** – Bret is confident in LKQ’s ability to continue to take share as growth in their North America business outperforms peers. Bret believes LKQ will continue to benefit from favorable industry dynamics including miles driven expansion and elevated collision frequency. The company recently announced they will be entering into the OE part business which we think will strengthen the company’s position as the leading distributor of collision parts via a broadening catalog. Shares trade at a modest discount to the 5Y average at 17.1x our above-consensus F18 EPS.

David Kelley – Autos & Automotive Aftermarket

**Delphi (Kelley, DLPH, Buy, PT: $106)** – David Kelley added DLPH to the Franchise Pick list believing that the market doesn’t give DLPH sufficient credit for the company’s important role in ADAS and autonomous vehicle technology. While direct exposure to ADAS may look small at less than 20% of sales, David’s enthusiasm for DLPH is around his view that the company’s key electrical/electronic architecture (E/EA) business helps to enable these more advanced systems by integrating technologies from various vendors (Intel/Mobileye, Nvidia, etc.). Delphi’s architecture systems should see rising content and rising value to the OEM as they become more critical in enabling vehicle evolution. We expect E/EA and active safety software content to grow revenues at about 10%/year for the next several years. Since being added to the list, DLPH announced a plan to spin its powertrain business, something which should help to unlock value by highlighting growth in the E/EA and Electronics & Safety businesses, and should act as a catalyst when complete. Still, the company trades at 8.6x 2018 EBITDA, which is still too cheap in David’s view given 5Y supplier average of 6.5x and the growth we expect.
**Industrials**

**Praxair (PX, Buy, PT: $162)** – Laurence added PX to the Franchise Pick list in early August. A fall from the stock’s June highs combined with what we expect to be a successful tender of Linde shares in Q417 make for an attractive tactical setup. PX is interesting over the medium and short term too, however, and we believe newsflow on divestitures in 1H18 will likely provide incremental step-ups for the stock and clarity on synergies will help too. Pro forma for the Linde acquisition, the stock trades at about 10x 2018 EBITDA vs 11.5x for large cap chemical peers. If the tender is not successful, we believed that the company will resume a significant buyback, something that should limit investors’ downside. The macro backdrop should be supportive too, and we believe the stock could be a big beneficiary of a turn in the industrials capex cycle, something that Global Equity Strategist Sean Darby has suggested is likely.

**Chemours (CC, Buy, PT: $60)** – Laurence pegs mid-cycle EBITDA for Chemours TiO2 franchise at $950M or ~$755/t, which is >2x the industry average due to feedstock flexibility and scale. He believes consolidation, a lack of vertical integration, discipline in China and less pressure from thrifting will keep margins higher for longer than the last cycle even with increasing ore prices. He forecasts 2018 to be a year of steepening cost curve, improving industry discipline and Opteon expansion. Laurence estimates CC trades at ~45% below replacement costs and his target implies shares trade at ~75% of replacement cost.

**Eastman Chemical (EMN, Buy, PT: $96)** – Laurence believes consolidation in tow, wrapping up legacy portfolio actions (ethylene, hedging), and embarking on a capital return cycle should narrow Eastman’s discount vs. peers over the next 6-12 months. He expects consolidation in tow to improve market fundamentals in the medium-term and believes peer portfolio shifts could eventually help balance supply/demand. Longer term, he believes innovation in items such as acetate yarn that leverage EMN’s integration will likely be margin accretive and by 2022-2025 he expects the cellulosics platform to return to growth. The company is on track to end 2017 at 2.7x net debt/EBITDA and Laurence believes the company will pivot to a capital return story generating $3B of FCF after dividends through 2020 and he estimates that $100M of buybacks add ~1% to EPS.
Industrials

**Ingersoll-Rand (IR, Buy, PT: $105)** - Ingersoll – Rand is one of Steve’s top conviction names given that the company’s largest exposures are the housing and commercial construction end markets, which have seen improvement over the last few years but still offer a significant pent-up replacement opportunity. Order rates for the climate business continue to outpace management guidance, suggesting upside to guidance and our estimates, and overall industry trends have performed above expectations despite industrial markets being weaker. Industrial segment operating margins improved 200bps YoY in 2Q17 and Steve believes the company can continue expanding margins through 2017 as the company should benefit from productivity and investments in new products. Steve forecasts incremental margins north of 50% as revenues in the Industrials segment improve off of trough levels. Stephen’s $105 price target incorporates a multiple of 200% EV/Sales and 13x EV/EBITDA on his 2018 estimates, a slight premium to the group, which Steve believes is warranted as IR continues to improve market share.

**Kennametal Inc. (KMT, Buy, PT: $50)** – KMT is one of the most attractive self-help stories within Steve’s coverage and the company recently appointed a new CEO to shepherd this continued turnaround. With EBIT margins more than 1000 bps. below industry peers, Kennametal has significant upside on its restructuring and consolidation efforts. As end markets recover and restructuring efforts drive margin expansion, Steve believes there is ample room for KMT to drive organic growth, and margins could move from mid-single to mid double digits. In this scenario KMT should have ~$3+ in mid cycle earnings power and trade at a mid-teens multiple.
Industrials

**Ball Corporation (BLL, Buy, PT: $49)** - Phil believes BLL’s FCF profile is under-appreciated by the Street and sees upside to management’s FCF guidance for 2019. Management recently reiterated its $1B FCF guide for 2019 on the 2Q17 earnings call, and Phil believes the company’s robust cash generation thus far this year will translate to accelerated share buybacks. With FCF/share expected to grow 68% the next three years, favorable secular growth dynamics in beverage cans as it takes share from other substrates, and upside potential from cost synergies, Phil thinks the risk:reward is compelling at these levels. Additionally, with Ball now as the market leader following the Rexam acquisition, and showing good discipline by shuttering excess capacity in NA and Europe and improving its specialty can mix with investments in Spain and Arizona, we expect mix and its pricing power to improve the next few years. With BLL as the market leader and ARD launching its IPO in 2017, he thinks pricing in beverage cans could improve the next few years, which would be incremental to his estimates. Regardless, with the footprint rationalization BLL has completed in 17, coupled with the closures they’ve have in place for 2018, there is already line of sight achieving its year 2018 synergy target, with the bias to the upside. Shares currently trade with a 7.9% ‘19E FCF yield and Phil’s PT of $49 is based on 10.5x 2018E EV/EBITDA.

**Owens Corning (OC, Buy, PT: $82)** – Phil believes that OC is poised to benefit from higher insulation prices in 2H17 and beyond, a higher base for roofing margins, and solid double-digit EBIT margins in its composites business. For insulation, market capacity utilization continues to tighten and OC controls an outsized portion of the idled operating capacity, which should support further price hikes given its history of being a disciplined market leader. With OC’s insulation margins still ~780 bps below its historical average, Phil believes this leaves plenty of room for expansion with incremental margins expected to reach 50% with solid pricing, driving earnings growth at a faster pace than its peers. On roofing, volumes have held up better than anticipated after seeing robust storm demand in 2016, and could see a better 2H17 with Hurricane Harvey and potentially Hurricane Irma. This healthy demand backdrop has helped OC manage price:cost and rebase long term margins at a higher level. With the stock trading at 7.4x EV/EBITDA and 7.5% ‘18E FCF yield, Phil thinks it offers great value, significant runway for margin expansion in insulation and a good capital deployment story.
Phil Ng - Paper & Packaging and Building Products

**WestRock Company (WRK, Buy, PT: $69)** - Phil believes the company is well-positioned to outperform since it has strong leverage to containerboard price increases, is the cheapest containerboard play and one of his favorite value ideas. Phil sees significant runway for earnings with the containerboard market tightening and likely to remain tight the next few years with limited capacity coming online. He notes that the company has the most runway for margin expansion out of peers and sees export and vertical integration initiatives driving ~100bps of margin expansion. Additionally, box shipments are seeing a more noticeable benefit from e-commerce and a multiplier effect on box demand, as it requires more boxes vs. shipping by bulk to brick and mortar stores. Phil believes this could drive multiple expansion as investors look for the next AMZN trade. With capex in check, Phil thinks WRK should be able to deliver 15-20% FCF growth and the stock trades attractively with a 10% FCF yield.
**Natural Resources**

**Rio Tinto (RIO, Buy, PT: $55)** – Chris believes RIO will benefit from strength in aluminum and copper prices and eventually stability in iron ore and expects shares to outperform other iron ore mining peers. Chris’ analysis suggests that an iron ore price of $50-$60/t is sustainable in the long term and he estimates the business will be a >$4b/year cash annuity for the company. He sees upside to aluminum prices driven by Chinese supply side reform as they continue to take actions to limit domestic production and he notes that though the business accounts for 25% of revenues it accounts for just 14% of EBIT. Chris notes that there is risk that management pursues large M&A opportunities in the future, likely in copper, though he does not see this risk as imminent. Valuation is also attractive with shares trading at 6.0x ‘18E EV/EBITDA.

**Freeport-McMoRan (FCX, Buy, PT: $23)** – FCX is one of Chris’ preferred names due to the company’s high leverage to the copper price. Chris forecasts a meaningful increase in the copper price starting in late 2018/early 2019 as the copper market should move into a significant, growing, multi-year deficit. Chris just raised his estimates for the copper price last week, as he now incorporates the expected demand from electric vehicles (EV), which use about 4x as much copper per vehicle as internal combustion vehicles. Increased EV market share should add about 3% to overall copper demand during the ’17-’35 period. Chris’ new 2018 copper forecast is $3.25/lb. In the near-term, Freeport’s share price is likely to be volatile and dependent on news flow from Indonesia as well as the impact of speculation in the copper market. A resolution to the Indonesia dispute would be a significant positive catalyst for Freeport shares. Longer-term, Chris expects a rising copper price to drive the FCX share price higher.
Alphabet Inc. (GOOGL, Buy, PT: $1,200) – The Internet Team remains bullish on Alphabet due to continued expected mobile search growth and a positive stance on YouTube, as they believe online video is the biggest online ad growth driver and YouTube is best positioned to drive meaningful upside as it siphons TV ad budgets ($70B+ per year in the US alone) away from linear television. Paid clicks growth came in well-ahead of consensus expectations for the JulQ at 52% growth YoY vs. Street estimates for 35% growth, which the Internet team believes affirms Google’s ad business is benefiting from a meaningful increase in new ads served in the mobile and YouTube channels. Mobile search has been the number one driver of revenue growth for the past several quarters and the team sees continued opportunity given the ubiquity of smartphones and the important location and contextual signals from mobile devices. The team also believes 2018 will be a breakout year for Google Cloud, as it has added to its global datacenter footprint, built out its portfolio of solutions and brought on an enterprise-focused sales force. Shares of Alphabet also offer call options on artificial intelligence and autonomous vehicles – GOOGL is a leader in both and has a substantial lead in autonomous vehicles, as Waymo vehicles have driven many millions of miles on public roads more than peers’. Trading at 11x EV/EBITDA, the valuation looks compelling.

Facebook, Inc. (FB, Buy, PT: $215) - The Internet team believes FB will outperform GOOGL and AMZN over the next 12 months as it grows its reach of the global population to nearly 40% by 2022, up from 25% today. They believe concerns over ad load are overdone and see upside to numbers through continued ARPU expansion as the company adds higher priced video advertising inventory. The team believes FB is best positioned to continue to capture share in digital advertising, driving incremental video views through additional professional content and believe Instagram continues to be under-monetized. Shares trade at ~26x ’18 earnings, but growing at a 28% 3Y CAGR and the team sees ~25% upside to their target of $215.
Technology

Activision Blizzard, Inc. (ATVI, Buy, PT: $78) – Tim continues to see multiple tailwinds for ATVI. Video games are the fastest growing form of media and audience sizes continue to grow. In addition, a mix-shift towards direct-to-consumer digital downloads is driving structurally improved profitability industry-wide. The rapid pace of new console adoption and potential introduction for VR-centric models suggests demand for high-end experiences remains robust. Tim sees meaningful upside to ATVI estimates as management pursues large opportunities around in-game spending, advertising, mobile games, and eSports. Overwatch in particular should continue to drive ARPU ever higher and Tim believes will be an important driver of margin expansion. He thinks 2017 to be a foundational year and in 2018 he expects to see meaningful contribution from advertising. Tim also sees upside from Activision’s mobile pipeline. The company has been around since 1979 and has a deep well of interesting IP that could be developed as mobile games (like Nintendo). Longer term, Activision is the best positioned name in eSports (competitive video gaming), in Tim’s view, and is launching a league NT. Mobile advertising also appears to be off to a promising start, and he believes that it could be a $1B opportunity with meaningful revenue contribution by ’19. That said, he also believes that ATVI mobile titles, which we expect to launch in ’18 & ’19.

HP Enterprise (HPE, Buy, PT: $17.50) – HPE is executing well in Servers, Storage and Networking and is now a more focused company post the spin of as well. FY18 should be a year of significant free cash flow improvement, which should help the stock begin to re-rate, and the integrations of Nimble and Simplivity also offer potential upside. HPE trades at 6x on an EV/CY18E EBITDA basis, below the group average of 7.5x. He believes this reflects overly bearish sentiment driven by public cloud adoption; he believes investors underestimate the role on premise IT Hardware will play for foreseeable future in enterprise infrastructure.
Technology

James Kisner – IT Hardware

**IBM (IBM, Underperform, PT: $125)** – James continues to rate IBM Underperform as he has observed earnings quality continuing to deteriorate over the past year as the company continues to rely on nonrecurring benefits from taxes and IP income. James believes IBM faces secular challenges in the Software business and competitive pressures in Services are underappreciated by investors. Watson gets a lot of attention, but James doesn’t believe it will drive significant growth and his checks suggest that many customers find it’s too expensive and undifferentiated. Shares currently trade at 10.5x his below consensus ‘18 EPS estimate of $13.49 and he believes it should trade at a discount to IT hardware peers given inferior growth prospects.

**Oclaro (OCLR, Buy, PT: $12.50); Lumentum (LITE, Buy, PT: $72); Finisar (FNSR, Buy, PT: $34)** – James is focused on the optical market and believes that participants should continue to benefit from: the NA metro network buildout, hyperscale demand for 100G client optics, the ongoing broadband buildout in China and 3D sensing (LITE, FNSR). James recommends all three of the stocks mentioned above and OCLR continues to be James’ top pick within the space as the company that has the most defensible business over the long run.

John Janedis – Media & Entertainment

**21st Century Fox (FOXA, Buy, PT: $35)** – With its attractive domestic and international cable network portfolios, 21st Century Fox is one of the best positioned content providers in the media universe in John’s view. John expects International revenue to grow at a HSD CAGR with substantial margin expansion driven by mix. John revisited his thesis on STAR India’s contribution to EBITDA growth. He believes this segment will contribute ~11% to F20 EBITDA and expects it will contribute 39% of EBITDA growth from F17-F20, making it a key driver of the stock going forward. Domestically, John believes that FOXA will continue to offset current pressure on subscriber trends through its investments in networks and increased digital distribution on Hulu / other VMVPDs. As a result, EBITDA growth should be at the top end of the group. Stock trades at 8.5x 2018 EV/EBITDA.
Technology

John Janedis – Media & Entertainment

**CBS Corp (CBS, Buy, PT: $73)** – John believes CBS will be increasingly viewed as a multi-platform content creator rather than simply “the network”. By 2020 he estimates the company will generate an incremental $2/sh. from retrans, Showtime OTT and All Access versus 2015. Assuming CBS reaches, or exceeds, it $2.5B retrans goal by 2020, this revenue stream alone will contribute > $2.50 to earnings, while incremental subs on vMVPD offerings offer an attractive mix to linear subs which should help mitigate the impact of potential cord cutting. In addition, if Showtime OTT reaches 4M subs by 2020, it could add an additional $0.35/sh to CBS’ earnings. CBS’ shares are trading at ~12x John’s above-consensus ’18 EPS estimates, which is in-line with the group multiple, despite earnings growth nearly 2x that of peers through 2020.

Ramsey El-Assal – Payments & Processors

**PayPal (PYPL, Buy, PT: $70)** – Ramsey continues to recommend PayPal due to its scarcity value, strong top-line growth, improving profitability and global secular tailwinds. The company has entered partnerships with key players like Apple, players which were once believed by some to be substantial competitive threats. Ramsey recently updated his asset-lite analysis and the results of his scenario analysis support his view that the net impact of a less capital intensive credit model should prove manageable, especially if the loan sale proceeds are used to buyback shares. Additionally, Ramsey believes this shift will help to address investor concerns about the impact of a hypothetical weakening credit cycle. Ramsey’s analysis of the EBAY/PYPL relationship also suggests the EPS impact of a renegotiation in conjunction with the 2020 contract expiration should prove quite manageable. Ramsey believes management has taken a conservative approach to expectations regarding volume upside from Consumer Choice and he believes this will be an incremental driver for margin expansion for shares going forward. Ramsey’s $70 target is based on 32x his 2018 EPS of $2.22.
**Technology**

**DXC Technology (DXC, Buy, PT: $100)** – Ramsey believes the Street is significantly undervaluing DXC and he sees strong margin expansion going forward driven primarily by merger cost synergies. DXC management reaffirmed their $1b F18 synergy target on their first standalone earnings report in early August and Ramsey continues to view the guide as conservative. Ramsey models mid-single digit percentage margin expansion and cost synergies in-line with management’s guidance and sees meaningful upside to the company’s projected F20 EPS range. Ramsey recently raised his estimates and target price to reflect expectations for potential upside to merger synergy realization, an acceleration in near-term margin expansion, potential USPS divestiture, and tax rate normalization. Ramsey’s $100 target price is based on 12x his base case C19 EPS estimate of $8.04 + DCF.

**FleetCor (FLT, Buy, PT: $197)** – Ramsey believes FleetCor remains a strong secular growth story and forecasts robust revenue growth in F17/18 driven by global electronic payment trends, M&A, and potential European outsourcing partnerships. He forecasts gradual multiple expansion for shares as they recover from what he believes to be an erroneous pricing-related bear case. In addition, Ramsey sees upside to numbers from the recently announced Cambridge acquisition, and also sees further upside to his STP accretion estimates as he believes FLT will be able to implement material pricing actions as well as cross-sell the existing Brazil product suite into STP’s 85k corporate clients. Ramsey also believes potential European oil major outsourcing deal wins could represent a further catalyst. The stock currently trades at ~15x Ramsey’s $9.51 F18 EPS estimate, a meaningful discount to its historical average.

**Mark Lipacis – Semiconductors**

**Advanced Micro Devices, Inc. (AMD, Buy, PT: $19)** – Mark believes there is upside to Street estimates for AMD as multiple product cycles ramp in 2H17. Following a successful 2Q, he anticipates GMs still have room to run as Ryzen ramps in desktop CPUs and the EPYC server offering gains share against INTC. Longer-term, he believes management is executing a turnaround, which along with the transition to parallel processing, will continue to help drive growth going forward. Mark’s 2018 EPS estimate of $0.49 is substantially ahead of the Street’s $0.32 estimate.
**Technology**

**NVIDIA Corporation (NVDA, Buy, PT: $180)** – NVDA is uniquely investing in new platforms and tools that are enabling new markets like Deep Learning, VR, self-driving cars and, of course, PC Gaming and remains one of Mark’s highest conviction calls. He expects these secular growth vectors to continue to drive growth, and believes the company will be a key beneficiary of the fourth tectonic shift in computing, parallel processing. NVDA has beaten consensus expectations for nine consecutive quarters. Mark thinks the continued growth in Data Center underscores NVDA’s emergence as a standard in AI computing. Broad scale DL deployment is still in its early innings and he thinks DC sales can eclipse Gaming over the long term. Mark increased his earnings power assumption based on his belief that the ramp of its next gen DC GPU, Volta, is better than its previous gen GPU and that estimates could prove too conservative over the next several quarters. He estimates NVDA has a 3 year EPS potential of ~$8.00. Longer term, he expects growth of Deep Learning applications, such as self-driving cars, will drive both upside surprises and order visibility.

**Oracle Corp (ORCL, Buy, PT: $60)** - John believes the 12c R2 product will be a major product cycle. The Windows release, which is expected in the 2H17, is the last remaining piece of the R2 release cycle and could be the final catalyst to get what he believes to be a multi-year product cycle going. His sensitivity analysis shows that 12cR2 could potentially add 2-9% of additional revenue growth to his estimates over the next few years. The company announced its F4Q17 earnings results in June and topline results were the strongest seen since 2012, with double-digit new business growth. John believes the shares offer compelling value vs. peers, with current levels trading at 15.8x F19E EPS.

**VMware, Inc. (VMW, Buy, PT: $129)** - John continues to believe that the opportunity for compute virtualization is greater than the market realizes as less than 50% of CPUs have been virtualized. He sees VMW as one of the best positioned names to benefit given the strength in their core compute business and increased traction from NSX (software defined networking) and VSAN (software defined storage), investment in End User Computing and meaningful go-to market synergies with Dell/EMC. He believes much of the outperformance in compute has been driven by an Enterprise License Agreement (ELA) renewal cycle, that should provide a tailwind to license and cash flow. John’s F19 EPS estimates are 5% ahead of consensus.
Technology

Salesforce.com, Inc. (CRM, Hold, PT: $84) – John thinks F18 guidance appears achievable, following the strong performance this past quarter. Management raised F18 revenue guidance by 1 pt to +23-24% on the F2Q18 call, above consensus expectations. John’s field checks and partner survey have indicated strong new business momentum in the enterprise segment, including strong traction in the vertical focused strategy, while the commercial segment momentum improved modestly recently though continues to show some signs of softness. John estimates 20% billings growth for F18 which implies flat new sub ACV growth (in organic, constant currency), a relatively low hurdle. However, the stock appears fairly valued at about 7.9x LTM EV/Subscription, or about 6.0x NTM/Revenue.

Mike McCormack – Telecommunications

AT&T (T, Buy, PT: $48) – Mike remains bullish on T’s prospects as the company continues leveraging the DirecTV product and furthers their OTT video solutions, with an eye to bundling with the wireless offerings. The promotional environment remains aggressive, though AT&T remains disciplined in its actions. Mike believes the company is well positioned to provide reliable service, especially since the traffic-inducing initiatives highlight the company’s confidence in its network. The announced transaction to acquire Time Warner inserts regulatory uncertainty, though the prospects of marrying content with distribution provides the opportunity for better growth, innovative programming, and a hedge against content cost inflation. The company’s 5%+ dividend yield puts it in the top 20 in the S&P.

Dish Network (DISH, Buy, PT: $80) – Mike McCormack believes the market is mispricing DISH shares, not giving enough credit for the company’s spectrum, the Pay TV business or the strategic value. He believes DISH’s spectrum portfolio is dramatically undervalued and sees $39B of after-tax value, which is in line with current EV and therefore implies the market assigns no value to DISH’s TV business, which he believes is worth nearly $15B. Near-term, Mike expects investors will be focused on the IoT build-out and he expects the current plans will meet the build out requirements. Mike’s price target of $80 is based on a $1.35/Mhz-POP blended spectrum valuation, and he believes the market currently assigns $0.80/MHz-POP, roughly a 40% discount to his estimate. Mike assumes 4.5x EV/EBITDA for the underlying pay TV business and notes that there’s strategic value especially as a compliment to a mobility platform or for a company which is sub-scale in video.
Technology

Mike McCormack – Telecommunications

T-Mobile (TMUS, Buy, PT: $80) – While the cash flow story is well known, Mike continues to like the prospects of continued share taking, relatively stable ARPU, and the strong cash generation. In addition, while Mike sees a lower level of probability than peers with respect to M&A, there remains a high probability TMUS remains relevant in any industry consolidation.

George Notter – Telecom and Networking Equipment

ARRIS International (ARRS, Buy, PT: $34) – George likes the risk/reward for ARRIS at current levels, trading at ~8.3x F18E EPS. George believes investor sentiment on STB’s is too negative, which is supported by solid existing customer demand and next generation STB development. George believes that Comcast has been able to put up industry leading video numbers partly because of ARRIS’ X1 STB. He expects the company to benefit from an escalating environment for broadband services among telecom service providers and cable MSOs. He believes the company’s ’17 CMTS and Transmission business will be particularly strong. The 2Q17 book-to-bill ratio totaled 1.01x vs. an average of 0.92x over the past 7 quarters, which in George’s view, point to continued strength in the business in the back half of the year.

Motorola Solutions (MSI, Buy, PT: $105) – George continues to believe that the LMR versus LTE debate is overblown. LTE networks, even with priority and preemption capabilities, aren’t going to supplant LMR radios for the bulk of Public Safety users. The recent Hurricane Harvey experience reinforces this. Looking forward, George expects that the business will continue to show solid Product revenue and backlog growth (+6% Y/Y and +15% respectively in the recent Q2). Better-than-expected EPS power will be driven by: 1) modest pricing increases; 2) the Managed Services initiative; 3) an improving climate for capital spending on Public Safety networks; and 4) accretive M&A deals. He also believes the stock will bridge the gap toward peer valuations - MSI currently trades at ~14x 2018 EPS versus the comp group at ~18x.
Table 1: JEF’s Macro Forecasts

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<th>Equity Markets</th>
<th>JEF’s Forecast</th>
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<td>TOPIX (Dec 2017)</td>
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<td>S&amp;P 500 Target (Dec 2017)</td>
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<td>Russell 2000 (Dec 2017)</td>
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<tr>
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<tr>
<td>Brent (4Q—2017)</td>
<td>2017E $1,244</td>
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<td>WTI (2017)</td>
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<th>Bond Yields (In %)</th>
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<td>US 2-Year (Qtr. Avg.)</td>
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<td>1.3</td>
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<tr>
<td>US 10-Year (Qtr. Avg.)</td>
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<td>2.3</td>
<td>2.4</td>
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<td>Fed Funds</td>
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<th>Economic Growth (In %)</th>
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<th>Euro Area</th>
<th>UK</th>
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<td>3Q-2016</td>
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<td>1.8</td>
<td>1.7</td>
<td>2.0</td>
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<tr>
<td>4Q-2016</td>
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<td>2.3</td>
<td>1.9</td>
<td>2.6</td>
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<tr>
<td>Annual 2016</td>
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<td>1.9</td>
<td>1.7</td>
<td>1.8</td>
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| 1Q-2017                          | 1.2   | 1.8   | 1.8       | 1.2   |
| 2Q-2017                          | 3.0   | 1.4   | 1.6       | 0.8   |
| 3Q-2017                          | 2.6   | 1.4   | 1.6       | 0.8   |
| 4Q-2017                          | 2.8   | 1.4   | 1.6       | 0.8   |
| Annual 2017                      | 2.1   | 1.8   | 1.7       | 1.5   |

Source: Jefferies
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• Kennametal Inc. (KMT: $34.85, BUY)
• KeyCorp (KEY: $16.91, BUY)
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• PRA Health Sciences (PRAH: $77.58, BUY)
• Praxair (PX: $131.77, BUY)
• Raytheon Company (RTN: $180.25, BUY)
• Rio Tinto (RIO: $49.15, BUY)
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• Sanofi (SAN FP: €82.38, HOLD)
• Santander Consumer USA Holdings (SC: $14.32, BUY)
• Shire (SHPG: $155.40, BUY)
• Signature Bank (SBNY: $125.86, BUY)
• Southern Company (SO: $49.28, BUY)
• Spark Therapeutics, Inc. (ONCE: $81.88, BUY)
• Stericycle, Inc. (SRCL: $70.50, BUY)
• Supernus Pharmaceuticals Inc. (SUPN: $46.75, BUY)
• SVB Financial Group (SIVB: $167.84, BUY)
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• The Cooper Companies, Inc. (COO: $241.14, BUY)
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• T-Mobile US (TMUS: $63.79, BUY)
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• Tyson Foods, Inc. (TSN: $64.95, BUY)
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• Under Armour (UAA: $17.03, BUY)
• Urban Outfitters, Inc. (URBN: $22.01, BUY)
• VMware, Inc. (VMW: $107.29, BUY)
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September 8, 2017
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