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BofA SECURITIES

Global Research Highlights

How is the consumer doing?

Investment Strategy

Services spending elevated

Aditya Bhave and team relayed their thoughts on the economy given recent noise around the consumer raised by companies reporting this earnings season. In the team's view, the economy experienced a negative supply shock ('stagflation') in 2022 and a positive one in 2023 ('Goldilocks scenario'). However despite elevated inflation, real services spending has surged in recent months. This robust demand (and resulting potential for services inflation) is due to ongoing positive labor supply issues which are generating substantial income growth. The team addresses the contrasting message from consumer-oriented companies, which tend to skew more towards goods sectors and thus may not be as representative of services strength. On the low-income consumer, BAC US aggregated credit card data does not point to clear signs of weakness. However, the team does highlight rising delinquencies as something to watch. All in all, the resilience of services demand supports the case that rate hikes are likely delayed further in their view.

Consumer survey shows bright spots

Robbie Ohmes conducted his latest Monthly Consumer Survey (launched in December 2020) where they asked ~1000 respondents about their spending expectations. Big ticket spending expectations were higher sequentially and year over year. 43.0% of respondents expect to buy a vehicle vs. 35.8% last month and 41.2% last year. Plans to buy a New Home over the next 12 months have returned to 20%+ levels for the first time in twelve months and increased from 18.5% last month to 24.3% in May. Respondents also expect to spend more in grocery, home improvement/renovations, and home furnishings.

The Artificial Intelligence (AI) theme rolls on

This week was a big week in AI, with another version of Chat GPT rolled out. Separately, the keynote at Google's I/O event was packed with announcements featuring Gemini integration across Google's ecosystem from Search, Workspace, Android and Assistant. The event also highlighted improved large language models. In Justin Post's view, the event supports their thesis that Google has industry leading AI and machine learning capabilities and that the pace of AI innovation has accelerated. He and his team see Google as a net AI beneficiary and believe growing Gen-AI integrations should likely help drive higher usage and incremental spend across Search, Cloud and Workspace.

Elsewhere, Cisco Systems reported a solid quarter with signs of growth acceleration. Trends point to strength from AI demand (specifically for CSCO's Ethernet-based AI networking gear) along with a potential recovery in orders for campus and data center switching. Tal Liani believes that the integration of recently acquired Splunk is going well. Excluding the impact of Splunk integration and excluding the impact of backlog absorption, Cisco guided its core revenues to grow 5% YoY next year, which marks an acceleration from historical trends.

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Global

Investment Strategy
BofAS

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US Economic Viewpoint

Consumer FAQs: “stagflation”, lower-income stress and market implications

“Stagflation” was so 2022

After the miss on 1Q GDP growth and continued upside surprises on inflation, the “stagflation” narrative has resurfaced. We push back. The economy was hit by a negative supply shock (i.e., “stagflation”) in 2022 and a positive one (i.e., “Goldilocks”) in 2023. In recent months, however, real services spending has surged despite elevated inflation. This is symptomatic of robust demand. In our view, the key risk to watch is re-acceleration in (services) demand, not “stagflation.”

Income growth, rotation likely boosting services demand

We see a few potential reasons for the pickup in demand-driven services inflation. The ongoing positive labor supply shock is generating substantial income growth, which supports aggregate demand. This can be inflationary. Moreover, goods deflation could be opening up room in the consumer wallet for services spending. It also helps that spending shares are yet to fully normalize from the pandemic-era rotation to goods.

Macro vs. micro

Our sanguine view on the US consumer is at odds with the concerns raised by many consumer names during 1Q earnings. We think this is partly because consumer stocks are more skewed toward goods sectors, while spending has been stronger of late in services. Regarding reports of “trade down” behavior, some of this could reflect the fact that inflation is pushing consumers to “shop around” more than usual.

Lower-income consumers: no clear signs of cracks…

Lower-income consumer stress was a major focus in earnings commentary. However, in the BAC aggregated credit and debit card data, lower-income spending has generally outpaced higher-income spending on a y/y basis since early 2023, even excluding necessities (i.e., groceries and gas). This is consistent with the strength in blue-collar wage growth since the start of the pandemic.

…But credit card delinquencies are flashing yellow

Perhaps the biggest concern about lower-income consumers is the surge in credit card delinquencies. The NY Fed reports that these consumers have the highest and fastest-rising delinquency rates, and are the most likely to be “maxed-out” on their cards. However, credit cards make up only a small share of total consumer debt. The overall consumer balance sheet is still strong, supporting a solid spending outlook. Even lower-income consumers should hold up as long as the labor market remains healthy.

Market implications: risks skewed toward delayed cuts

The resilience of services demand means rate cuts are off the table until there is clear evidence of services disinflation and cooling demand. Risks to our base case that cuts will start in December are skewed toward a delay. Reasons include a higher terminal rate reducing the urgency to cut, potential post-election fiscal stimulus announcements and a desire to see how inflation plays out in 1Q 2025, given the recent trend of outsized January prints. To the extent that certain consumer names have already been weighed down by negative earnings calls, a higher rates regime could be an additional headwind.

Click US Economic Viewpoint for full report including important disclosures.

16 May 2024

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Global Fund Manager Survey

The "No Landing" Peak

BofA May Global Fund Manager Survey

Bottom Line: most bullish FMS since Nov'21 driven by optimism on rate cuts rather than EPS; 8/10 say cuts in H2 & no recession, FMS cash levels down to 4.0% (3-year low), stock allocation highest since Jan'22; sentiment not at "close-eyes-and-sell" levels but risk assets vulnerable to more evidence of stagflation (inflation up, growth down).

FMS on Macro: 1st drop in global GDP & EPS expectations since Sep'23 as US macro pessimism jumps; odds of "no landing" peak (31%) but 78% say recession "unlikely," "soft landing" still consensus (56%) & "hard landing" odds (11%) low; record 55% say fiscal policy "too stimulative" (Chart 1) indicating peak "tailwind" from govt spending.

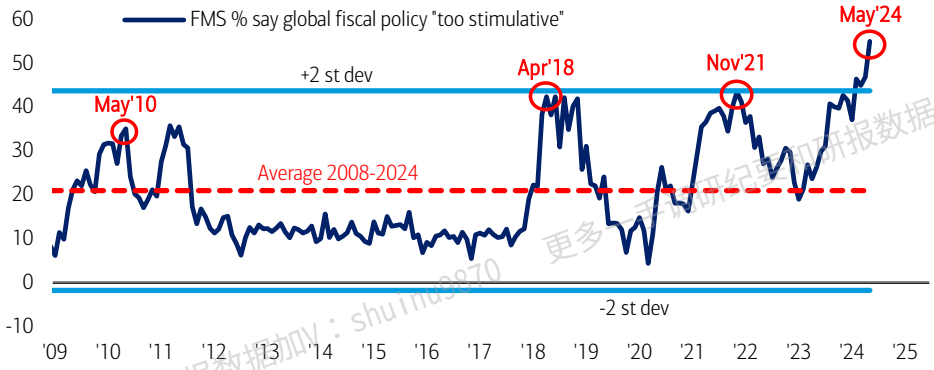
FMS on Policy: 82% expect Fed to cut H2'24, 78% expect Fed to cut 2, 3 or more times next 12 months, 47% expect lower bond yields...little wonder "higher inflation" (41%) = #1 tail risk for investors (then "geopolitics" 18%, "hard landing" 14%).

FMS on Crowds: most crowded trade = "long Magnificent 7" (51%), followed by "long US dollar" (12%) & "short China equities" (11%).

FMS on AA: modest defensive rotation in May (to staples from industrials); in absolute terms investors have big OWs in stocks (large cap growth), health care, tech, Europe, commodities, big UWs in REITs (largest since Jun'09), utilities, UK, discretionary, bonds.

FMS Contrarian Trades: trades for stagflation and/or hard landing...cash>stocks, REITs>commodities, UK/China>Europe/Japan, utilities>tech, discretionary>health care.

Chart 1: FMS perception of global fiscal policy...most stimulative on record
% FMS investors saying global fiscal policy is "too stimulative"



Source: BofA Global Fund Manager Survey

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BofA Data Analytics

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Notes to Readers

Source for all tables and charts:
BofA Fund Manager Survey, DataStream

Survey period 3rd to 9th May 2024

245 panellists with $642bn AUM participated in the May survey. 209 participants with $562bn AUM responded to the Global FMS questions and 134 participants with $301bn AUM responded to the Regional FMS questions.

How to join the FMS panel

Investors/clients are encouraged to sign up to participate in the Survey. This can be done by contacting Michael Hartnett or your BofA sales representative.

Participants in the survey will continue to receive the full set of monthly results but only for the relevant month in which they participate.

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The RIC Report

Scale up, or power down

Hints of the "stag" and the 'flation from the bottom-up

Companies are reporting what lagged macro data might be missing: consumers feeling squeezed, and firms facing high input costs (Exhibit 2). The shift from a 2% world to a 5% world rolls on...own value & quality stocks and Prudent Yield bonds. Commodities (COM) hedge inflation and are a better "40" than Treasuries (see Exhibit 3).

A darling new economy, getting ahead of itself

Data centers, AI, onshoring, & electrification will strain the fragile grid. Power inflation is already at 40-year highs (Exhibit 1) and BofA analysts expect +2.1-2.8% US demand per year, or 70GW by 2030. The rapid march of AI could be halted if supply doesn't appear.

A shunned old economy to the rescue

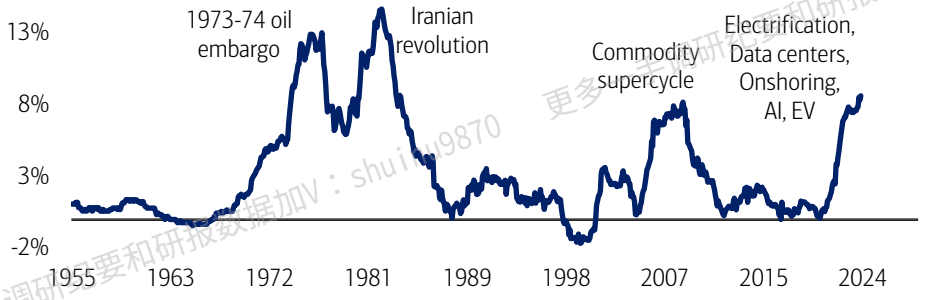
Our global commodity strategy colleagues see only 55-60GW of deliverable new power. The capacity factors (actual uptime) for wind & solar are just too low. We suggest 19 stock & ETF ideas for exposure to the key suppliers (Exhibit 4): commodities, utilities, industrials, mining, oil & gas. One idea: a 10% nuclear plant "uprate" could fill the electricity shortfall without new building.

Heard on the 15th floor: "More utility supply? Nothing big's getting built until 2026." "To expand capacity, mines need to see $12k copper prices for a full market cycle." "The breakthrough technologies are great; none are commercially viable just yet." "If the tech firms can't buy power, they'll have to build it. The margins are there." More inside.

What if the future takes forever

Sweeping regulations could block new energy. Without policy realism, low-end consumer stagflation plus high-end tech bottlenecks could be the things that take down cyclical sectors, now 68% of the market. The Mag 7 trade at 37x EPS; without power, what P/E?

Exhibit1: Electricity inflation is the highest in 40 years, just as data center & AI demand surge
US electricity CPI component, 3-year annualized change



Source: BofA Research Investment Committee, Haver

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14 May 2024

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View Transcript

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Consumer

May Consumer Survey: Big Ticket spending expectations up sequentially & y/y

Industry Overview

Monthly Consumer Survey Series – May 2024

As part of our Monthly Consumer Survey Series (launched in December 2020, see report), we surveyed ~1,000 respondents in the US in May (results from May 8 – May 13) regarding spending expectations. Key highlights from this month's survey:

Next 12-month expectations increased in Auto & Home

New Vehicle next 12-month spending expectations have increased significantly in May on a sequential and year-over-year basis, with 43.0% of respondents expecting to buy a vehicle vs. 35.8% last month and 41.2% last year. This is the highest level since Jan 2023 and showed the largest sequential improvement in all four big ticket categories. Plans to buy a **New Home** over the next 12 months have returned to 20%+ levels for the first time in twelve months and increased from 18.5% last month to 24.3% in May.

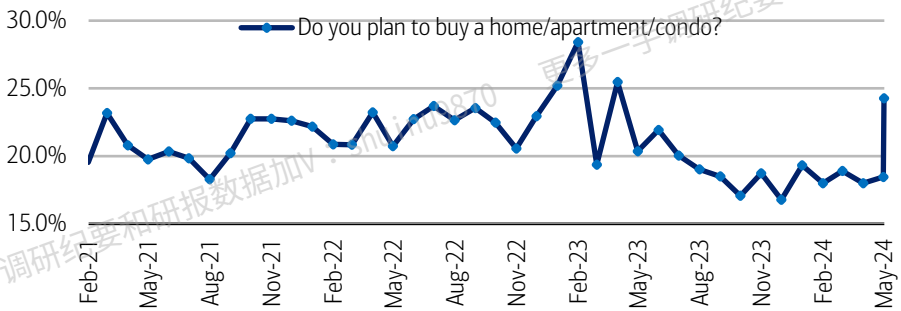
Where are next 3-month spending expectations rising?

Grocery remains the top category where the most respondents (over 35% of them) expect to spend more during the next 3 months. **Home Improvement & Renovations** also has over 30% of respondents in May expect to spend more over the next 3 months – which is up significantly on both a sequential and year-over-year basis (see Exhibit 6 and Exhibit 7). **Home Furnishings** saw a sharp increase in respondents expecting to spend more from 23.33% in May 2023 to 27.10% in May 2024.

Surveying Inflation and Promotion Expectations

Fewer than 65% of respondents continue to notice the most dramatic price increases in **Grocery** (see Exhibit 47), down significantly from 72.5% in May LY and 72.1% last month. Similarly, fewer respondents are noticing the most dramatic price increases at **Restaurants/bars** sequentially. Interestingly, about 42% of survey respondents in May have not noticed an uptick in discounts/promos/price reductions – down significantly from 49.4% LY and 49.9% last month.

Exhibit 1: Monthly Big Ticket Spending – New Home
Plans to buy a New Home have returned to 20%+ levels for the first time in twelve months



Source: Survey Monkey, BofA Global Research; Respondents: ~1,000 each month

BofA GLOBAL RESEARCH

Click Consumer for full report including important disclosures.

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3MS:
3-month weighted average spending

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Sector Focus Point

Health Care: a macro and micro deep dive

Does macro matter for Health Care? More than it used to

Ahead of BofA's Health Care (HC) Conference, we deconstruct Health Care with a macro lens. HC has historically been an idiosyncratic, stock pickers sector where pipeline, innovation, brand and patents are bigger drivers than rates, inflation etc. We highlight the micro view of our analysts inside (also see SMID note). But note that HC industries have seen more macro co-movement (higher average intra-stock correlations) perhaps attributable to increased leverage, rate sensitivity of long duration Biotech, and/or rampant wage/cost/pricing volatility. Today our macro indicators favor cyclical sectors over HC. But long-term tailwinds from secular opportunities remain compelling.

Investor perception: increasingly defensive...

Health Care has traded as though it is more defensive than it was during prior cycles given that (1) the low beta sector has grown even more negatively correlated with cyclical measures like ISM and credit availability. Also, generalists are now bullish on HC, where the sector became a consensus overweight by every flavor of active manager since early '22 amid recession concerns.

...vs. reality: increasingly risky

...but fundamental measures indicate deteriorating rather than improving quality, evidenced by a demonstrable increase in earnings volatility since 2021 especially relative to other defensive sectors. Biotech and Pharma trade like low beta sectors but have higher EPS volatility (read fundamental beta) than the index. HC leverage has increased, and where the sector was net cash positive in 2010, its leverage ratio is now in line with Industrials'. Credit spreads were lower but are now in line with Investment Grade averages. Earnings have held up (see: Corps deliver) but bear scrutiny if rates remain high.

Still strong long-term secular tailwinds

Besides GLP-1 which drove a massive bifurcation in performance between Pharma, Med-Tech and a wide array of non-HC industries (see GLP-1 impacts), AI is a bullish theme for productivity with applications in new drug discovery, reducing clinical trial failure rates, improving diagnostics and assisting in patient care. Aging demographics is hardly a new story, but still argues for increasing health care vs. discretionary spend.

Policy swing factors: election, regs, rates & wages

HC is likely to be less of a focus during campaign season than prior presidential elections, according to Andrew Bressler, but we will likely hear Inflation Reduction Act drug pricing reform. Mergers have picked up as IPOs have slowed, but the FTC and DOJ continue to be aggressive in their review of healthcare mergers and anti-trust activity. Uncertainty around the timing of Fed rate cuts could weigh on Biotech/Pharma. For hospitals, labor is the biggest cost, so even small changes could be meaningful; here in addition to AI benefits, immigration policy and labor participation should be monitored.

Investment decisions should not be made prior to reading the research report, which includes important information and disclosures.
Click Sector Focus Point for full report including important disclosures.

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Exhibit 1: HC large cap stock ideas
BofA analyst stock ideas

Ticker	Company
COR	Cencora, Inc.
CVS	CVS Health Corporation
ISRG	Intuitive Surgical, Inc.
MCK	McKesson Corporation
MRK	Merck & Co., Inc.
TMO	Thermo Fisher Scientific Inc.
UNH	UnitedHealth Group Incorporated

Source: BofA Global Research

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Cisco Systems

Solid quarter with signs of growth acceleration beneath the surface

Reiterate Rating: BUY | PO: 60.00 USD | Price: 49.67 USD

Quarter tracking better than expected

3Q24 product revenue was about $70mn better than expectations, and EPS of $0.88 had a 6c beat to Street estimates (see page 3 for details). While the outperformance was mostly on the back of previously reduced expectations, we highlight the expected growth acceleration in FY25. The company expects to fully absorb the excess backlog by 4Q24, and its preliminary growth guidance for FY25 suggests core growth ex-Splunk at roughly 5% YoY, driven by an improved security portfolio, 3Q recovery in orders for campus and data center switching, and line of sight to $1bn of orders for Ethernet-based AI networking gear. Splunk is also expected to start seeing the benefit of being introduced to Cisco's channels. We fine-tune our estimates to reflect guidance. Reiterate Buy and $60 PO.

Signs of growth recovery into FY25

Cisco launched five new security platforms in the last 12 months, including Hypershield, a unique distributed AI-native cybersecurity solution built into Cisco's networking fabric. Security orders are ramping, yet 80% of the security portfolio is ratable, with security revenue growth expected to accelerate in the next few quarters. AI networking is another growth opportunity with line of sight to $1bn in orders by FY25, mostly with Cloud Titans, likely to start converting to revenue in 1H25 and ramping in 2H25. Opportunities exist with Cisco's optical and networking offerings and Cisco noted it participates in three of the four largest trials. Splunk's integration is also going well, and management expects to see the impact of its wide distribution next year. Taking Cisco's ~3% FY25 revenue growth guidance and excluding Splunk and $4.5bn in FY24 backlog contribution, management implicitly expects Cisco's core revenue ex-Splunk to recover to 5% growth next year.

Margins continue to improve

Gross margin improved 310bps YoY to 68.3%, supported by 70bps of contribution from Splunk, higher subscription revenues, better product mix, and lower freight costs. Operating margin was up 30bps YoY with disciplined cost management offset by expenses related to the integration of Splunk and training of Cisco and Splunk sales teams. The company expects Splunk to be accretive to gross margin and FCF in FY25 and expects to start seeing revenue and cost synergies in 2H25.

Estimates (Jul) (US$)	2022A	2023A	2024E	2025E	2026E
EPS	3.36	3.89	3.70	3.61	4.00
GAAP EPS	2.82	3.07	2.49	2.13	2.47
EPS Change (YoY)	4.3%	15.8%	-4.9%	-2.4%	10.8%
Consensus EPS (Bloomberg)			3.64	3.71	4.00
DPS	1.49	1.54	1.57	1.56	1.56
EPS Ex-Options Expense	3.36	3.89	3.70	3.61	4.00
Valuation (Jul)					
P/E	14.8x	12.8x	13.4x	13.8x	12.4x
GAAP P/E	17.6x	16.2x	19.9x	23.3x	20.1x
Dividend Yield	3.0%	3.1%	3.2%	3.1%	3.1%
EV / EBITDA*	8.6x	8.0x	8.1x	7.5x	7.0x
Free Cash Flow Yield*	6.1%	9.0%	5.0%	7.7%	8.3%

Investment decisions should not be made prior to reading the research report, which includes the opinion key and other important information and disclosures.
Click Cisco Systems for full report including important disclosures.

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Equity

Key Changes

(US$)	Previous	Current
2024E Rev (m)	53,638.0	53,662.2
2025E Rev (m)	57,047.5	55,290.1
2026E Rev (m)	59,500.5	57,506.8
2024E EPS	3.63	3.70
2025E EPS	3.75	3.61
2026E EPS	4.08	4.00
2024E DPS	1.56	1.57

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Stock Data

Price	49.67 USD
Price Objective	60.00 USD
Date Established	15-Apr-2024
Investment Opinion	B-1-7
52-Week Range	45.70 USD - 58.19 USD
Mrkt Val (mn) / Shares Out (mn)	210,700 USD / 4,242.0
Free Float	91.3%
Average Daily Value (mn)	832.13 USD
BofA Ticker / Exchange	CSCO / NAS
Bloomberg / Reuters	CSCO US / CSCO.OQ
ROE (2024E)	33.2%
Net Dbt to Eqty (Jul-2023A)	-3.9%

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Trupanion

Turning corner on margins; upgrading shares to Buy

Rating Change: BUY | PO: 49.00 USD | Price: 31.30 USD

Upgrading to Buy as margins begin to improve

Insurance is a cyclical industry where pricing is a lagging function of loss trends. During extremes these cyclical patterns can be more pronounced. The inflationary spike of 2H21-1H23 was essentially unprecedented since the 1970s. When inflation accelerates more than anticipated, underwriting margins deteriorate, and insurers must raise the price of risk to restore margins. Other times, insurers over-shoot the pricing mark with reactionary price increase as they attempt to combat periods of under-earning. We believe that period of under-earning will quickly transition to over-earning over the next 18 months, and we are upgrading shares of Trupanion to a Buy recommendation.

Expected to return to target margins by year-end 2024

We believe Trupanion may have bent the loss experience curve following significant rate change working through its book. Trupanion has been aggressive with filing for higher rate with regulators and currently has 27% rate flowing through its book. Management has guided to attaining its 15% target operating margin by YE24. However, there is a real possibility the company may over-shoot given the amount of excess rate over its 15% veterinary inflation rate assumption.

We have seen this play out recently in auto insurance

Auto insurance is currently in the hardest market in over 50 years. The 2020 pandemic resulted in a period of suppressed auto loss data as a large proportion of the population avoided driving while sheltering at home. With minimal auto accidents and closed courts, typical signals to auto insurers were distorted, resulting in the industry falling behind loss cost trends upon the reopening of the economy. Auto insurers have aggressively sought higher rate in order to restore profitability. While individual companies have moved at different paces, we expect the industry to earn excess underwriting profits in 2025-26. This could prove a similar antecedent to the current margin improvement at Trupanion, but investors in pet insurance may be slow to recognize the similarity.

Raising PO to $49; more upside even after short squeeze

Shares of TRUP have rallied 9% over the past four trading days as highly shorted stocks with large retail trading volumes have surged on short covering. We are rolling the valuation cohort of new business one year forward (2026, formerly 2025) which includes a steep increase in the margin on newly acquired business. Our $49 PO (formerly $35) is based upon our discounted cash flow model, which has increased materially following a return to normalized profitability. Downside risks remain resurgent inflation as well as constraints on growth from capital availability.

Estimates (Dec) (US$)	2022A	2023A	2024E	2025E	2026E
EPS	(1.10)	(1.08)	(0.12)	0.43	0.74
EPS Change (YoY)	23.6%	-1.8%	-88.9%	-458.3%	72.1%
Consensus EPS (Bloomberg)			(0.12)	0.43	NA
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	NM	NM	NM	72.8x	42.3x

Investment decisions should not be made prior to reading the research report, which includes the opinion key and other important information and disclosures.
Click Trupanion for full report including important disclosures.

16 May 2024

Equity

Key Changes

(US$)	Previous	Current
Inv. Opinion	C-2-9	C-1-9
Inv. Rating	NEUTRAL	BUY
Price Obj.	35.00	49.00

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Stock Data

Price	31.30 USD
Price Objective	49.00 USD
Date Established	16-May-2024
Investment Opinion	C-1-9
52-Week Range	18.45 USD - 36.66 USD
Mrkt Val (mn) / Shares Out (mn)	1,315 USD / 42.0
Free Float	77.4%
Average Daily Value (mn)	23.59 USD
BofA Ticker / Exchange	TRUP / NAS
Bloomberg / Reuters	TRUP US / TRUP.OQ
ROE (2024E)	0%
Net Dbt to Eqty (Dec-2023A)	NA

RBC: capital required by regulators

ARPU: average revenue per user

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Alphabet

Google I/O Review: A look into the everything AI, Gemini Era

Maintain Rating: BUY | PO: 200.00 USD | Price: 170.34 USD

AI on stage at I/O

Google I/O keynote was packed with announcements featuring Gemini integration across Google's ecosystem from Search, Workspace, Android and Assistant. The event also included launch of a variety of improved LLMs and 6th generation TPUs. We think I/O supported our thesis that Google has industry leading AI/ML capabilities and pace of AI innovation has accelerated. We continue to see Google as a net AI beneficiary and believe growing Gen-AI integrations should likely help drive higher usage and incremental spend across Search, Cloud and Workspace. Maintain Buy.

Better Search responses with SGE

Google announced plans to roll out SGE to all users in the US with a broader global rollout in coming months. Mgmt. noted that improved context understanding from Gen-AI integrations is enabling users to leverage Search for more complex questions, leading to higher usage, click through rates & user satisfaction. Google also noted that ads will continue to appear in dedicated slots throughout SGE search interactions. The company also highlighted plans to introduce new SGE features including: 1) Allowing users to get more details or simplify SGE responses, 2) Option to ask more complex questions, 3) Planning capabilities (such as meals, trips, etc.), 4) User friendly output that makes it easy to explore results, & 5) Ability to ask questions from videos. Our Take: Broader SGE rollout indicates that Google is making progress with both use cases & monetization.

Growing portfolio of LLMs

There is no question that Google is an AI usage leader as the company indicated it has 2bn users & 1.5mn developers using Gemini across Google tools. Google announced an upgraded version of Gemini 1.5 Pro with improvements across key use cases such as translation, coding & reasoning. The company also introduced a lighter-weight Gemini model, Flash 1.5, which is optimized for cost efficiency & tasks with low latency. Google also launched an upgraded version of open-source LLMs, Gemma 2 and a new LLM, PaliGemma, which is optimized for image related tasks. Our Take: An expanding LLM portfolio supporting different use cases (and cost needs) should help grow adoption of Google's AI platform within the developer community.

Launches next generation of high performance of TPUs

Google also announced the 6th generation of TPUs, called Trillium, that deliver 4.7x improvement in compute performance per chip. Trillium will be available to Cloud customers in late 2024. Google also introduced a video generating model, Veo and an upgraded version of image generating model, Image 3. The company noted both these models have an advanced understanding of natural language & visual semantics and generate images/video that closely represents a user's creative vision, capturing the intent behind a user prompt. Our Take: Google's proprietary TPUs could be a differentiator for Cloud sales and help reduce internal compute costs. Video generation model could further boost confidence in Google's AI capabilities post image generation issues.

Investment decisions should not be made prior to reading the research report, which includes the opinion key and other important information and disclosures. Click Alphabet for full report including important disclosures.

15 May 2024

Equity

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Stock Data

Price (NAS / NAS)	170.34 USD / 171.93 USD
Price Objective	200.00 USD / 200.00 USD
Date Established	26-Apr-2024 / 26-Apr-2024
Investment Opinion	B-1-7 / B-1-7
52-Week Range	115.35 USD - 174.71 USD
Market Value (mn)	2,114,771 USD
Free Float	99.6%
Average Daily Value	4920.30 USD
Shares Outstanding (mn)	12,415.0 / 12,415.0
BofA Ticker / Exchange	GOOGL / NAS
BofA Ticker / Exchange	GOOG / NAS
Bloomberg / Reuters	GOOGL US / GOOGL.OQ
ROE (2024E)	32.4%
Net Dbt to Eqty (Dec-2023A)	1.2%

AI: Artificial Intelligence
Gen-AI: Generative AI
ML: Machine Learning
LLM: Large Language Model
TPU: Tensor Processing Unit
SGE: Search Generative Experience
OS: Operating System
Q&A: Question and Answer

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Price objective basis & risk

Alphabet (GOOGL / GOOG)
Our price objective of $200/$200 is based on 21x 2025E core Google GAAP EPS plus cash per share. Alphabet has traded at an average multiple of 22x GAAP P/E over the last ten years and we think our multiple is reasonable vs history given expectations for double-digit revenue growth, Cloud margin expansion, and opportunity to capitalize on strong AI assets.

Downside risks are: 1) loss of search traffic to AI tools from competitors, 2) LLM integration in search may take longer than expected or negatively impact search revenues, 3) revenue pressure from compliance with the EU Digital Markets Act (DMA), 4) adverse judge ruling on the ongoing Department of Justice (DOJ) search distribution trial, and 5) potential for increasing Capex and lower FCF-given AI investments.

Cencora Inc (COR)
Our $256 price objective is based on about 18.5x CY24E P/E. This multiple is at about the five-year high, although we would argue that was artificially high due to the period of generic inflation. This also represents a bigger discount to the S&P 500 vs. the last five years. We think this discount is warranted given it incorporates the modest growth slowdown seen by COR and the rest of the supply chain as well as encompasses some competitive risks.

Downside risks to our PO are incrementally worse drug pricing pressure, increased competition creating gross profit headwinds, the risk of Amazon or another disruptive force entering the supply chain market, ongoing uncertainties and headlines related to the opioid litigation process, fundamental questions tied to EU-related profit pressures and Fx headwinds, inability to mitigate hyperinflation in Türkiye, any market volatility tied to the COVID outbreak, and potential government intervention in drug pricing controls.

Upside risks to our PO are any potential volume pickup, increases in buyside/sellside spreads, further opportunities for cost savings, upside related to the Alliance Healthcare acquisition, incremental contributions from COVID antiviral pills, and a deepening relationship with Walgreens, COR's largest customer.

Cisco Systems (CSCO)
Our $60 PO is based on roughly 14.5x EV/FCF using our CY2025 estimate, in-line with tech peers at 9-20x (appropriate given Cisco's stability and high 3.0%+ dividend yield). We also focus on FCF to better capture software revenue growth and the shift to subscription models.

Downside risks to our price objective are: (1) deterioration in the spending environment, (2) lack of growth in public spending, a vertical that Cisco dominates, (3) downside risk to gross margin stemming from pricing and competitive pressures, (4) technological changes that would adversely impact high profit switching and routing segments, (5) inability to drive technological innovation in its core and new growth segments through organic innovation and acquisitions, and (6) change in customer behavior that would result in revenue pressure in services and other key areas.

Upside risks to our price objective are: (1) higher than expected growth in key markets, particularly switching and routing, and (2) solid market share gains in security and observability.

CVS Health (CVS)
Our $77 price objective is based on about 11x our CY24 EPS estimate. This multiple is below the five-year average on an absolute basis and near the lower end of the historical

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range of 10.0x-17.5x. This also represents a bigger discount to the S&P500 vs. the last five years. The discount reflects margin pressure across CVS's core Pharmacy Services and Retail Pharmacy segments and uncertainty around drug prices.

Downside risks to our PO are failure to generate expected benefits from the Aetna combination (or have any regulatory issues in a highly regulated business), growing competitive risks in the pharmacy benefit market (including competitive pricing around rebates), business disruption tied to Covid any potential impact from ongoing opioid-related investigations, any issues with the closing and integration of the pending Signify Health/Oak Street transactions, costs and mitigation efforts needed to address the lost Stars ratings for CVS' MA plans, potential regulatory risk across the HCB and Pharmacy Services businesses, a slowdown in 340B, and slowing prescription/insurance trends. Upside risks to our PO are any potential prescription volume pickup, faster and stronger than expected synergies from Aetna, biosimilar contributions, and improving front-end performance (including better attach rates post-Covid).

Intuitive Surgical (ISRG)
Our $450 PO is based on roughly 50x our 2026E EPS. We think the premium multiple relative to average large cap peers is justified given ISRG's expected mid-teens top-line growth over the next several years, nearly 3x that of the medtech market, and ISRG is well ahead vs competition in one of the most significant growth markets in medtech (soft tissue robotics). ISRG pipeline also justifies our multiple as ISRG is spending over $500m a year in R&D and it's a matter of time before the fruits of these investments show up in estimates.

Downside risks are 1) lower surgical volumes due to covid, 2) slowdown in hospital capital spending, 3) other competitive entrants and 4) supply chain headwinds.

McKesson (MCK)
Our $590 price objective is based on roughly 19x our CY24 EPS estimate. This multiple is in-line with/slightly above the long-term year average and is essentially in line with the S&P 500 multiple. This multiple contemplates MCK's attractive long-term growth profile relative to peers in the index.

Downside risks to our PO are incrementally worse drug pricing pressure, increased competition creating gross profit headwinds, the risk of other disruptive force entering the supply chain market, ongoing uncertainties and headlines related to the opioid litigation process, any volatility tied to COVID-related utilization drop-offs, any impact from changes in customer standing, and lack of available attractive capital deployment opportunities.

Upside risks are any potential volume pickup, increases in buy-side/sell-side spreads, increasing contribution from COVID vaccines and other related products, and further opportunities for cost savings or capital deployment contributions post-health IT divestiture.

Merck & Co. (MRK)
Our $150 price objective (PO) is based on the intrinsic value of Merck standalone. We use a 50/50 blended average of our P/E multiple applied to 2025E EPS (we think the current 13x vs.13x peer average makes sense to reflect continued strength of Merck's core growth franchises but broader Keytruda concentration risk concerns) and risk-adjusted DCF (7% WACC and 0% terminal growth rate).

Risks to our PO are 1) impressive competitor readouts results in key immuno-oncology (I/O) indications, 2) negative outcomes from the company's later-stage assets in ongoing development, and 3) pressures from headline risks facing the sector (including drug pricing reform).

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Thermo Fisher Scientific (TMO)
Our $600 PO is based on a discounted cash flow (DCF) model that assumes an 8% weighted-average cost of capital (WACC) and a 3% terminal growth rate. We believe this discount rate is appropriate due to TMO's leading position in the global life sciences market, given the size, market leadership, maturity, and stability of the company's consumables focused business. Our $600 PO implies EV/EBITDA multiple of about 22x our FY25 ests, both of which are in-line with TMO's median over the last 10 years.

Risks to our price objective are headwinds and business disruption due to the COVID-19 pandemic, deal integration risks, lower-than-expected deal synergies, slower growth in emerging markets, pricing erosion, lower healthcare utilization trends, soft uptake of new products, competition, and weak R&D funding.

Trupanion (TRUP)
Our $49 price objective is based on summing the value of future and legacy pets' earnings. Legacy business is valued at 1x the runoff discounted cash flow (DCF) valuation of the current economics. Future value is based on putting a multiple on the long-term value added by next year's new pets and putting a multiple on that. We value the Trupanion core businesses at a 8x multiple based on our lifetime value forecast derived from our 2026 pet count estimates. The Pets Best business, which will be in a form of run-off, we value at 3x. The non-subscription businesses (Pets best/other) make up less than $100mn of the equity valuation. We believe the subscription business could trade at a premium-to-market multiple given its higher revenue growth rate, currently 20% in 2023-2024 in our model. We believe the Trupanion is in the process of margin improvement and will be likely over-earning over the next 18 months.

Downside risks to our PO are 1) the company misses on execution of its five-year growth plan, 2) the revenue growth rate deteriorates to at-or-below that of he broader pet insurance market, 3) pet owners show higher price sensitivity to Trupanion's high-ticket product vs cheaper competitor products and 4) Trupanion fails to improve penetration rates in current markets. Upside risks recognize the very high retail short interest in the stock where a low bar where favorable news could have an outsized impact.

Analyst Certification

We, Adam Ron, Allen Lutz, CFA, Andrew Obin, Cameron Taylor, David W. Barden, CFA, F. Paul Cole, Geoff Meacham, James Redfern, Jason Fairclough, Joanna Gajuk, John Murphy, CFA, Joshua Shanker, Justin Post, Kevin Fischbeck, CFA, Lawson Winder, CFA, Mariana Perez Mora, Michael Feniger, Michael Ryskin, Neel Mitra, CFA, Savita Subramanian, Tal Liani, Travis Steed, Vivek Arya and Wamsi Mohan, hereby certify that the views each of us has expressed in this research report accurately reflect each of our respective personal views about the subject securities and issuers. We also certify that no part of our respective compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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US - Internet Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Alphabet	GOOGL	GOOGL US	Justin Post
	Alphabet	GOOG	GOOG US	Justin Post
	Amazon.com	AMZN	AMZN US	Justin Post
	AppLovin	APP	APP US	Omar Dessouky, CFA
	Bumble	BMBL	BMBL US	Curtis Nagle, CFA
	DoorDash	DASH	DASH US	Michael McGovern
	Electronic Arts	EA	EA US	Omar Dessouky, CFA
	Ibotta	IBTA	IBTA US	Curtis Nagle, CFA
	Integral Ad Science Holding Corp.	IAS	IAS US	Omar Dessouky, CFA
	LegalZoom	LZ	LZ US	Michael McGovern
	Match Group	MTCH	MTCH US	Curtis Nagle, CFA
	Meta Platforms Inc	META	META US	Justin Post
	Pinterest	PINS	PINS US	Justin Post
	RH	RH	RH US	Curtis Nagle, CFA
	Roblox Corp. Class A	RBLX	RBLX US	Omar Dessouky, CFA
	Squarespace, Inc.	SQSP	SQSP US	Michael McGovern
	Uber	UBER	UBER US	Justin Post
	Udemy Inc	UDMY	UDMY US	Curtis Nagle, CFA
	Vivid Seats	SEAT	SEAT US	Curtis Nagle, CFA
	Wayfair	W	W US	Curtis Nagle, CFA
	Wix.com	WIX	WIX US	Michael McGovern
NEUTRAL				
	ACV Auctions	ACVA	ACVA US	Curtis Nagle, CFA
	Airbnb	ABNB	ABNB US	Justin Post
	Beyond Inc	BYON	BYON US	Curtis Nagle, CFA
	Booking Holdings Inc	BKNG	BKNG US	Justin Post
	Digital Turbine, Inc	APPS	APPS US	Omar Dessouky, CFA
	Duolingo	DUOL	DUOL US	Curtis Nagle, CFA
	eBay	EBAY	EBAY US	Justin Post
	Etsy, Inc.	ETSY	ETSY US	Curtis Nagle, CFA
	Expedia	EXPE	EXPE US	Justin Post
	Instacart	CART	CART US	Justin Post
	Magnite, Inc.	MGNI	MGNI US	Omar Dessouky, CFA
	Reddit	RDDT	RDDT US	Justin Post
	Snap	SNAP	SNAP US	Justin Post
	Take-Two Interactive	TTWO	TTWO US	Omar Dessouky, CFA
	Zillow	ZG	ZG US	Curtis Nagle, CFA
	Zillow	Z	Z US	Curtis Nagle, CFA
UNDERPERFORM				
	Chewy Inc	CHWY	CHWY US	Curtis Nagle, CFA
	DoubleVerify Holdings, Inc.	DV	DV US	Omar Dessouky, CFA
	Lyft, Inc.	LYFT	LYFT US	Michael McGovern
	Opendoor Technologies	OPEN	OPEN US	Curtis Nagle, CFA
	Peloton	PTON	PTON US	Curtis Nagle, CFA
	Playtika	PLTK	PLTK US	Omar Dessouky, CFA
	Redfin Corp	RDFN	RDFN US	Curtis Nagle, CFA
	Shutterstock	SSTK	SSTK US	Curtis Nagle, CFA

US - Telecom and Data Networking Equipment Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Akamai	AKAM	AKAM US	Madeline Brooks
	Amdocs	DOX	DOX US	Tal Liani
	Arista Networks	ANET	ANET US	Tal Liani
	Cellebrite	CLBT	CLBT US	Tomer Zilberman
	Check Point Software Technologies	CHKP	CHKP US	Tal Liani
	Ciena	CIEN	CIEN US	Tal Liani
	Cisco Systems	CSCO	CSCO US	Tal Liani
	CrowdStrike Holdings Inc.	CRWD	CRWD US	Tal Liani

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US - Telecom and Data Networking Equipment Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	CyberArk	CYBR	CYBR US	Tal Liani
	Fortinet	FTNT	FTNT US	Tal Liani
	Gen Digital, Inc.	GEN	GEN US	Tomer Zilberman
	Motorola Solutions	MSI	MSI US	Tomer Zilberman
	Okta Inc	OKTA	OKTA US	Madeline Brooks
	Qualcomm	QCOM	QCOM US	Tal Liani
	SentinelOne, Inc.	S	S US	Tal Liani
	Zscaler	ZS	ZS US	Tal Liani
NEUTRAL				
	Palo Alto Networks	PANW	PANW US	Tal Liani
UNDERPERFORM				
	Cloudflare	NET	NET US	Madeline Brooks
	CommScope	COMM	COMM US	Tal Liani
	F5 Inc	FFIV	FFIV US	Tal Liani
	Fastly	FSLY	FSLY US	Madeline Brooks
	InterDigital, Inc.	IDCC	IDCC US	Tal Liani
	SecureWorks	SCWX	SCWX US	Tal Liani

US - Medical Technology & Devices Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Abbott Laboratories	ABT	ABT US	Travis Steed
	Axonics	AXNX	AXNX US	Travis Steed
	Bausch & Lomb	BLCO	BLCO US	Craig Bijou
	Becton Dickinson	BDX	BDX US	Travis Steed
	Boston Scientific	BSX	BSX US	Travis Steed
	Dexcom	DXCM	DXCM US	Travis Steed
	Edwards Lifesciences	EW	EW US	Travis Steed
	Inari Medical	NARI	NARI US	Travis Steed
	Insulet	PODD	PODD US	Travis Steed
	Integer Holdings Corporation	ITGR	ITGR US	Craig Bijou
	Intuitive Surgical	ISRG	ISRG US	Travis Steed
	Medtronic	MDT	MDT US	Travis Steed
	Paragon 28	FNA	FNA US	Craig Bijou
	Procept BioRobotics Corporation	PRCT	PRCT US	Craig Bijou
	RxSight	RXST	RXST US	Craig Bijou
	Si-Bone	SIBN	SIBN US	Craig Bijou
	Stryker	SYK	SYK US	Travis Steed
	The Cooper Companies	COO	COO US	Craig Bijou
NEUTRAL				
	Baxter International Inc	BAX	BAX US	Travis Steed
	Conmed	CNMD	CNMD US	Travis Steed
	GE HealthCare	GEHC	GEHC US	Craig Bijou
	Inspire Medical	INSP	INSP US	Travis Steed
	Merit Medical	MMSI	MMSI US	Craig Bijou
	Solventum	SOLV	SOLV US	Travis Steed
	Teleflex Incorporated	TFX	TFX US	Craig Bijou
	Zimmer Biomet	ZBH	ZBH US	Travis Steed
UNDERPERFORM				
	Embecta	EMBC	EMBC US	Travis Steed
	Globus Medical	GMED	GMED US	Craig Bijou
	Integra Lifesciences	IART	IART US	Craig Bijou
	Nevro	NVRO	NVRO US	Travis Steed
	Outset Medical	OM	OM US	Travis Steed
	Silk Road Medical	SILK	SILK US	Travis Steed
	Tandem Diabetes Care	TNDM	TNDM US	Travis Steed

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US - Life Science, Diagnostic Tools and Animal Health Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Avantor, Inc.	AVTR	AVTR US	Michael Ryskin
	Bruker Corporation	BRKR	BRKR US	Michael Ryskin
	Certara	CERT	CERT US	Michael Ryskin
	Charles River Laboratories	CRL	CRL US	Michael Ryskin
	Elanco Animal Health	ELAN	ELAN US	Michael Ryskin
	Exact Sciences	EXAS	EXAS US	Michael Ryskin
	Guardant Health	GH	GH US	Michael Ryskin
	ICON plc	ICLR	ICLR US	Michael Ryskin
	IQVIA Holdings Inc	IQV	IQV US	Michael Ryskin
	LabCorp	LH	LH US	Michael Ryskin
	Maravai	MRVI	MRVI US	Michael Ryskin
	Qiagen	QGEN	QGEN US	Michael Ryskin
	Qiagen N.V.	XQGNF	QIA GY	Michael Ryskin
	Quest Diagnostics	DGX	DGX US	Michael Ryskin
	Stevanato Group S.p.A.	STVN	STVN US	Michael Ryskin
	Thermo Fisher Scientific	TMO	TMO US	Michael Ryskin
	West Pharmaceutical Services	WST	WST US	Michael Ryskin
	Zoetis Inc.	ZTS	ZTS US	Michael Ryskin
NEUTRAL				
	10x Genomics, Inc.	TXG	TXG US	Michael Ryskin
	Agilent Technologies	A	A US	Michael Ryskin
	Danaher Corporation	DHR	DHR US	Michael Ryskin
	Hologic, Inc.	HOLX	HOLX US	Michael Ryskin
	IDEXX Laboratories	IDXX	IDXX US	Michael Ryskin
	Mettler-Toledo	MTD	MTD US	Michael Ryskin
	NeoGenomics Inc.	NEO	NEO US	Michael Ryskin
	Revvity Inc	RVTY	RVTY US	Michael Ryskin
	Schrodinger, Inc.	SDGR	SDGR US	Michael Ryskin
	Waters Corp.	WAT	WAT US	Michael Ryskin
UNDERPERFORM				
	Align Technology	ALGN	ALGN US	Michael Ryskin
	Evotec SE	EVO	EVO US	Michael Ryskin
	Fortrea	FTRE	FTRE US	Michael Ryskin
	Ginkgo Bioworks Holdings, Inc	DNA	DNA US	Michael Ryskin
	Illumina, Inc.	ILMN	ILMN US	Michael Ryskin
	Myriad Genetics	MYGN	MYGN US	Michael Ryskin
	Phibro Animal Health	PAHC	PAHC US	Michael Ryskin

US - Healthcare Technology & Distribution Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Accolade	ACCD	ACCD US	Allen Lutz, CFA
	American Well Corp	AMWL	AMWL US	Allen Lutz, CFA
	Cencora Inc	COR	COR US	Allen Lutz, CFA
	CVS Health	CVS	CVS US	Allen Lutz, CFA
	Definitive Healthcare Corp	DH	DH US	Allen Lutz, CFA
	dentalcorp	YDNTL	DNTL CN	Allen Lutz, CFA
	Envista	NVST	NVST US	Allen Lutz, CFA
	HealthEquity Inc	HQY	HQY US	Allen Lutz, CFA
	Hims & Hers	HIMS	HIMS US	Allen Lutz, CFA
	McKesson	MCK	MCK US	Allen Lutz, CFA
	Omnicell Inc.	OMCL	OMCL US	Allen Lutz, CFA
	Patterson Companies	PDCO	PDCO US	Allen Lutz, CFA
	Progyny	PGNY	PGNY US	Allen Lutz, CFA
NEUTRAL				
	Cardinal Health	CAH	CAH US	Allen Lutz, CFA
	Dentsply Sirona, Inc.	XRAY	XRAY US	Allen Lutz, CFA
	Doximity Inc	DOCS	DOCS US	Allen Lutz, CFA
	Teladoc Health	TDOC	TDOC US	Allen Lutz, CFA

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US - Healthcare Technology & Distribution Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
UNDERPERFORM				
	GoodRx	GDRX	GDRX US	Allen Lutz, CFA
	Henry Schein	HSIC	HSIC US	Allen Lutz, CFA
	Owens & Minor	OMI	OMI US	Allen Lutz, CFA
	Premier, Inc.	PINC	PINC US	Allen Lutz, CFA
	Walgreens Boots Alliance	WBA	WBA US	Allen Lutz, CFA

US - Insurance Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Aflac	AFL	AFL US	Joshua Shanker
	Allstate Corp.	ALL	ALL US	Joshua Shanker
	Arch Capital	ACGL	ACGL US	Joshua Shanker
	Assurant	AIZ	AIZ US	Grace Carter, CFA
	Axis Capital	AXS	AXS US	Joshua Shanker
	Baldwin Insurance Group Inc	BRP	BRP US	Grace Carter, CFA
	Cincinnati Financial Corporation	CINF	CINF US	Grace Carter, CFA
	Corebridge Financial	CRBG	CRBG US	Joshua Shanker
	Everest Group Ltd	EG	EG US	Joshua Shanker
	Intact Financial	YIFC	IFC CN	Grace Carter, CFA
	Intact Financial	IFCZF	IFCZF US	Grace Carter, CFA
	MetLife	MET	MET US	Joshua Shanker
	Progressive	PGR	PGR US	Joshua Shanker
	RenaissanceRe	RNR	RNR US	Joshua Shanker
	The Hartford	HIG	HIG US	Joshua Shanker
	Trupanion	TRUP	TRUP US	Joshua Shanker
	Voya	VOYA	VOYA US	Joshua Shanker
	W.R. Berkley	WRB	WRB US	Joshua Shanker
NEUTRAL				
	American International Group	AIG	AIG US	Joshua Shanker
	Aon	AON	AON US	Grace Carter, CFA
	Lincoln National	LNC	LNC US	Joshua Shanker
	Marsh McLennan	MMC	MMC US	Grace Carter, CFA
	Principal Financial Group	PFG	PFG US	Joshua Shanker
	Prudential Financial	PRU	PRU US	Joshua Shanker
	The Hanover	THG	THG US	Grace Carter, CFA
	Unum	UNM	UNM US	Joshua Shanker
UNDERPERFORM				
	Arthur J. Gallagher & Co.	AJG	AJG US	Grace Carter, CFA
	Brown & Brown	BRO	BRO US	Grace Carter, CFA
	Chubb Ltd	CB	CB US	Joshua Shanker
	CNA Financial	CNA	CNA US	Joshua Shanker
	Goosehead Insurance Inc.	GSHD	GSHD US	Joshua Shanker
	Selective	SIGI	SIGI US	Grace Carter, CFA
	Travelers Cos	TRV	TRV US	Joshua Shanker
	Willis Towers Watson	WTW	WTW US	Grace Carter, CFA

US - Biopharmaceuticals Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	89bio, Inc	ETNB	ETNB US	Alexandria Hammond
	Acumen Pharma	ABOS	ABOS US	Jason Zemansky
	Agios Pharmaceuticals	AGIO	AGIO US	Alec W. Stranahan
	Apogee Therapeutics	APGE	APGE US	Geoff Meacham
	Avidity Biosciences	RNA	RNA US	Geoff Meacham
	BioMarin	BMRN	BMRN US	Geoff Meacham
	BioXcel Therapeutics	BTAI	BTAI US	Alec W. Stranahan

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US - Biopharmaceuticals Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	BridgeBio Pharma	BBIO	BBIO US	Jason Zemansky
	Caribou	CRBU	CRBU US	Geoff Meacham
	CRISPR Therapeutics	CRSP	CRSP US	Geoff Meacham
	Eli Lilly and Company	LLY	LLY US	Geoff Meacham
	Gilead Sciences Inc.	GILD	GILD US	Geoff Meacham
	HUTCHMED	HCM	HCM US	Alec W. Stranahan
	Immatics	IMTX	IMTX US	Alec W. Stranahan
	Insmed Incorporated	INSM	INSM US	Jason Zemansky
	Intellia Therapeutics	NTLA	NTLA US	Mary Kate Davis
	Janux Therapeutics	JANX	JANX US	Alec W. Stranahan
	Keros	KROS	KROS US	Jason Zemansky
	Kiniksa Pharmaceuticals, Ltd.	KNSA	KNSA US	Geoff Meacham
	Krystal Biotech	KRYS	KRYS US	Alec W. Stranahan
	Kura Oncology	KURA	KURA US	Jason Zemansky
	Liquidia Corporation	LQDA	LQDA US	Jason M. Gerberry
	Lyell Immunopharma	LYEL	LYEL US	Geoff Meacham
	MeiraGTx	MGTX	MGTX US	Alec W. Stranahan
	Merck & Co.	MRK	MRK US	Geoff Meacham
	Mineralys Therapeutics	MLYS	MLYS US	Geoff Meacham
	Neumora Therapeutics	NMRA	NMRA US	Geoff Meacham
	Regenxbio, Inc.	RGNX	RGNX US	Alec W. Stranahan
	Revolution Medicines	RVMD	RVMD US	Alec W. Stranahan
	Rocket Pharmaceuticals, Inc.	RCKT	RCKT US	Jason Zemansky
	Royalty Pharma	RPRX	RPRX US	Geoff Meacham
	Sana Biotechnology	SANA	SANA US	Geoff Meacham
	SpringWorks	SWTX	SWTX US	Alec W. Stranahan
	Syndax Pharmaceuticals	SNDX	SNDX US	Jason Zemansky
	Travere Therapeutics Inc	TVTX	TVTX US	Jason Zemansky
	Turnstone Biologics	TSBX	TSBX US	Geoff Meacham
	Vertex Pharmaceuticals Inc.	VRTX	VRTX US	Geoff Meacham
	Werewolf Therapeutics	HOWL	HOWL US	Jason Zemansky
	Xencor	XNCR	XNCR US	Alec W. Stranahan
NEUTRAL				
	AbbVie	ABBV	ABBV US	Geoff Meacham
	Akero Therapeutics	AKRO	AKRO US	Alexandria Hammond
	Alector, Inc	ALEC	ALEC US	Alec W. Stranahan
	Amgen Inc.	AMGN	AMGN US	Geoff Meacham
	Amylyx Pharmaceuticals	AMLX	AMLX US	Geoff Meacham
	Arcus Biosciences	RCUS	RCUS US	Jason Zemansky
	Beam Therapeutics	BEAM	BEAM US	Mary Kate Davis
	Biogen Inc.	BIIB	BIIB US	Geoff Meacham
	Bristol-Myers Squibb	BMY	BMY US	Geoff Meacham
	Cytokinetics, Incorporated	CYTK	CYTK US	Jason Zemansky
	Editas Medicine	EDIT	EDIT US	Mary Kate Davis
	Erasca	ERAS	ERAS US	Alec W. Stranahan
	Esperion	ESPR	ESPR US	Jason Zemansky
	Exscientia	EXAI	EXAI US	Alec W. Stranahan
	IGM Biosciences	IGMS	IGMS US	Geoff Meacham
	Johnson & Johnson	JNJ	JNJ US	Geoff Meacham
	Kymera Therapeutics	KYMR	KYMR US	Geoff Meacham
	Moderna	MRNA	MRNA US	Geoff Meacham
	Novavax	NVAX	NVAX US	Alec W. Stranahan
	Pfizer	PFE	PFE US	Geoff Meacham
	Recursion Pharmaceuticals, Inc.	RXRX	RXRX US	Alec W. Stranahan
	Tyra Biosciences	TYRA	TYRA US	Jason Zemansky
	Vir	VIR	VIR US	Alec W. Stranahan
	Y-mAbs Therapeutics, Inc	YMAB	YMAB US	Alec W. Stranahan
UNDERPERFORM				
	AlloVir, Inc.	ALVR	ALVR US	Jason Zemansky
	CureVac	CVAC	CVAC US	Geoff Meacham
	Day One Biopharmaceuticals	DAWN	DAWN US	Alec W. Stranahan
	Madrigal Pharmaceuticals	MDGL	MDGL US	Alexandria Hammond
	Regeneron Pharmaceuticals Inc.	REGN	REGN US	Geoff Meacham
	TG Therapeutics	TGTX	TGTX US	Alec W. Stranahan

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US - Biopharmaceuticals Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst

iQmethod℠ Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5 Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings	**Numerator**	**Denominator**
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt – Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit	**Numerator**	**Denominator**
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap = Current Share Price × Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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Equity Investment Rating Distribution: Financial Services Group (as of 31 Mar 2024)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	157	55.67%	Buy	96	61.15%
Hold	62	21.99%	Hold	45	72.58%
Sell	63	22.34%	Sell	32	50.79%

Equity Investment Rating Distribution: Health Care Group (as of 31 Mar 2024)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	231	59.08%	Buy	119	51.52%
Hold	91	23.27%	Hold	40	43.96%
Sell	69	17.65%	Sell	31	44.93%

Equity Investment Rating Distribution: Technology Group (as of 31 Mar 2024)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	217	54.25%	Buy	110	50.69%
Hold	94	23.50%	Hold	47	50.00%
Sell	89	22.25%	Sell	25	28.09%

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Equity Investment Rating Distribution: Telecommunications Group (as of 31 Mar 2024)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	68	60.18%	Buy	45	66.18%
Hold	20	17.70%	Hold	13	65.00%
Sell	25	22.12%	Sell	13	52.00%

Equity Investment Rating Distribution: Global Group (as of 31 Mar 2024)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	1848	53.43%	Buy	1067	57.74%
Hold	810	23.42%	Hold	468	57.78%
Sell	801	23.16%	Sell	370	46.19%

[R1] Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster[R2]
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

[R2]Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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