

U.S. Equity Research

Views from Around the Room: 2021 Outlook



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Equity Research | Americas



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U.S. Equity Research

Views from Around the Room: 2021 Outlook

The Road Ahead: The pandemic will continue to shape the fortunes of industries and companies through and beyond a COVID-19 world. Progress made on the vaccine is encouraging, but we are still dealing with the pandemic, and risks for the market and economy remain. Looking ahead, we expect 2021 to be defined by recovery and a return toward normalcy.

Getting Back to Normal: Jonathan Golub, our Chief U.S. Equity Strategist, forecasts a year-end 2021 target for the S&P 500 of 4,050, representing 9% upside. Jonathan sees EPS growth of 20% and 13% in 2021-22 accompanied by modest multiple contraction. Proceeding through 2021 and toward 2022, the virus will be a fading memory, the economy robust but decelerating, the yield curve steeper, volatility lower, and the rotation into Cyclical largely behind us. Jonathan remains Overweight Technology, Financials, and Healthcare; Neutral on Cyclical; and Underweight on Non-Cyclical ex-Health Care.

Connecting the Dots from Themes to Stocks: Each of our sector teams have highlighted the key debates and themes in their respective spaces, as well as their preferred ways to be exposed to them. Eight sector teams and 41 analysts looked across their coverage and sought to answer these questions and more.

What's Inside: We have leveraged the breadth of the CS Equity Research department, drawing on both the views of our fundamental analysts and our HOLT® specialists. Jonathan Golub provides his view first, followed by views from the individual sectors, and we bottom-line everything with our stock picks.

Outperform / Underperform Rated Stocks for 2021

Industry	Analyst	Outperform Rated Stocks	Underperform Rated Stocks
Basic Materials			
Chemicals & Agriculture	Chris Parkinson	ASH, FMC, MOS	CMP
Metal & Mining	Curt Woodworth	TECKb.TO, CSTM, CCK	X
Consumer			
Beverages	Kaamil Gajrawala	MNST, KO, STZ	
Gaming, Lodging + Leisure	Ben Chaiken	MTN, SEAS, HGV, VAC	SGMS
Household, Personal Care	Kaamil Gajrawala	REYN, CHD	
Packaged Food and Food Retail	Rob Moskow	MDLZ, HSY	KHC
Restaurants	Lauren Silberman	PZZA, CMG	JACK
Retail: Hardlines / Broadlines	Seth Sigman	AAP, TGT, ASO, HD	WSM, GME
Retail: Softlines	Michael Binetti	TJX, ULTA, RL	
Energy / Utilities			
Exploration and Production (E&P)	William Janela	EOG, XEC, EQT	OXY, RRC
Integrated Oil and Bio-Fuels	Manav Gupta	SU, CVX, DAR	PBF, PARR
Midstream	Spiro Dounis	LNG, TRGP, EPD	NGL, ENLC
Oilfield Services & Equipment	Jacob Lundberg	CHX, BKR, NOV	RES, PTEN
Renewables and Alternative Energy	Michael Weinstein	RUN, NEP, BE	FSLR
Utilities (Electric and Gas)	Michael Weinstein	CNP, PNW, VST	WEC
Financials			
Asset Managers & Brokers	Craig Siegenthaler	APO, FOCS, BLK	BEN
Banks: Large Cap	Susan Katzke	JPM, BAC, GS	
Exchanges	Ari Ghosh	TW, NDAQ, ICE	
Insurance: Life	Andrew Kligerman	VOYA, AMP, EQH, ATH, GL	
Insurance: Property & Casualty	Mike Zaremski	AFG, CB, WRB	CINF, LMND
Mortgage Finance	Doug Harter	PFSI, PMT, NRZ	MITT
Payments, Processors, & FinTech	Timothy Chiodo	GPN, PYPL, SQ	WU
Specialty Finance	Moshe Orenbuch	SYF, OMF, ALLY	AXP, CACC
Healthcare			
Biotechnology: Large Cap	Evan Seigerman	REGN, BIIB, VRTX, MRTX, MGNX	
Biotechnology: SMID Cap	Martin Auster	INSM, UTHR	CRTX, CVAC
Healthcare Distribution	Jailendra Singh	ABC	
Healthcare Technology	Jailendra Singh	CHNG, TDOC, SLQT	
Life Science Tools & Diagnostics	Erin Wright	ZTS, ALGN, IQV, SYNH	PETS
Managed Care & Healthcare Facilities	A.J. Rice	UNH, ANTM, HCA	
Medical Supplies and Devices	Matt Miksic	EW, SYK, GMED	ZBH

Outperform / Underperform Rated Stocks for 2021

Industry	Analyst	Outperform Rated Stocks	Underperform Rated Stocks
Industrials			
Aerospace & Defense	Rob Spingarn	WWD, HWM, CACI	ERJ
Airlines	Jose Caiado	LUV, DAL	AAL
Autos	Dan Levy	APTV, LEA, MGA, ADNT, DAN	
Electrical Equipment & Multi-Industry	John Walsh	EMR, FTV, JCI	XYL
Engineering & Construction	Jamie Cook	MTZ	
Homebuilders & Building Products	Adam Baumgarten	DHI, MAS, BLD	WHR
Machinery	Jamie Cook	DE	
Transportation	Allison Landry	UPS, CSX, FDX	CHRW
Services			
Business, Commercial & Information Services	Kevin McVeigh	MCO, TRI, EFX	IRM
TMT			
Communications Infrastructure	Sami Badri	SWCH, EQIX, DLR, AMT, SBAC	
Internet	Stephen Ju	GOOGL, AMZN, MELI	ZNGA
IT Hardware	Matthew Cabral	IBM, NTAP, CDW, RXT	HPE
Media	Doug Mitchelson	DIS, DISCA	AMC
Semiconductors & SemiCap Equipment	John Pitzer	MU, MCHP, ADI, KLAC	ON
Software	Brad Zelnick	ZI, INTU, PING, ZS	ZM
Telecom	Doug Mitchelson	CMCSA, CHTR, TMUS	
Telecom & Networking Equipment	Sami Badri	MSI, FFIV, COMM	JNPR

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U.S. Equity Strategy

2021 Outlook – Getting Back to Normal

S&P 500 to 4050 by Year-End 2021, 9% upside: Our 2021 bullish call is based on EPS growth of 20% and 13% in 2021-22 accompanied by modest multiple contraction. Our 2021 forecasts are designed to answer a simple question: What will the future (2022) look like in the future (end of 2021). As we look toward 2022, the virus will be a fading memory, the economy robust, but decelerating, the yield curve steeper, volatility lower, and the rotation into Cyclical largely behind us.

2021 Sector Leadership: Overweight – TECH+: faster sales growth, superior margins, robust FCF, and low leverage. **Financials:** improving credit conditions, increasing transaction volumes, and a steepening yield curve. Health Care: robust earnings trend. **Neutral – Cyclical:** the greatest sequential improvement in economic activity is well behind us and moderating. **Underweight – Non-Cyclicals ex-Health Care:** falling volatility and rising rates make them and their high yields less appealing.

Near-Term Risks Real but Likely to Fade: While optimistic, we see a number near-term risks: (1) investor optimism is extremely extended, (2) production and distribution challenges could hamper the vaccine's rollout, (3) rising case counts could result in shutdowns, disrupting the holiday season, and (4) stimulus could remain politically unattainable. On a positive note, the successful vaccination of seniors and front-line workers could expedite the renormalization process well before herd immunity is achieved.

S&P 500 Price and Earnings Targets

S&P 500 Price Level	Price	% Change
Current (as of 12/11/2020)	3,663	
2021 Year-End Target Price	4,050	10.6%
Operating Earnings	EPS	YoY Change
2019 Actual	\$164.58	1.0%
2020 Estimate	\$140.00	-14.9%
2021 Estimate	\$168.00	20.0%
2022 Estimate	\$190.00	13.1%
P/E Multiples on Credit Suisse Estimates	P/E	Change
Current on NTM EPS Estimate	22.0x	
Year-end 2021 on 2022 EPS	21.3x	-0.7x

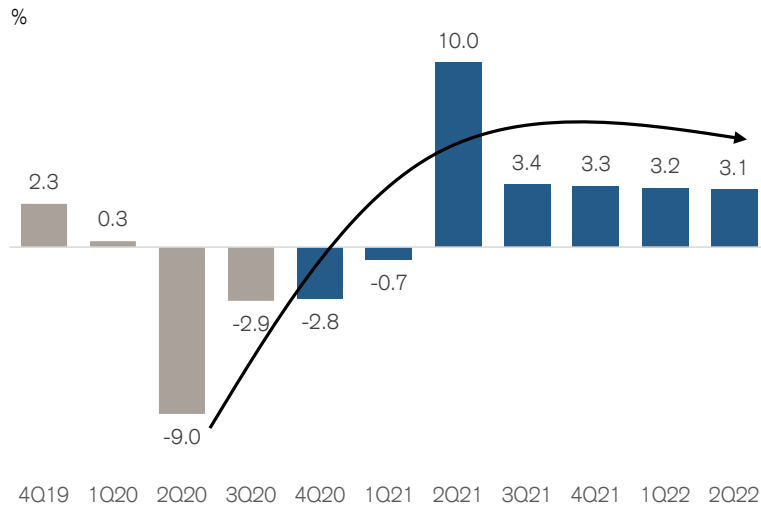
Source: Standard & Poor's, Thomson Financial, FactSet, Credit Suisse estimates

Sector Recommendations

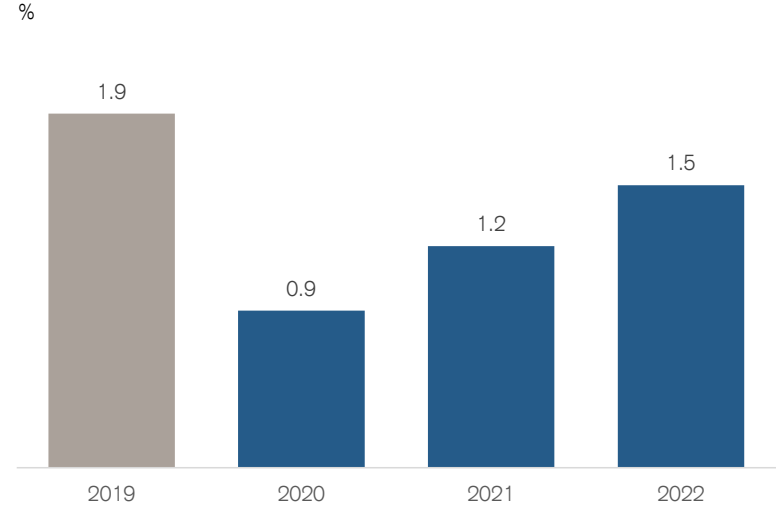
Overweight	Market Weight	Underweight
Technology	Industrials Materials Energy Discretionary ex-Int. Retail	REITs
Communication Svcs		Staples
Internet Retail		Utilities
Health Care		
Financials		
Key: Recently Upgraded Recently Downgraded		

U.S. Equity Strategy

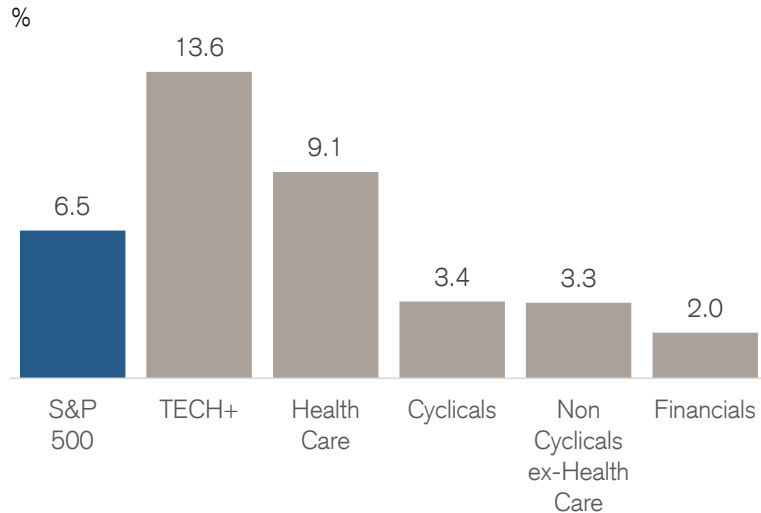
Real GDP with YoY Consensus Estimates



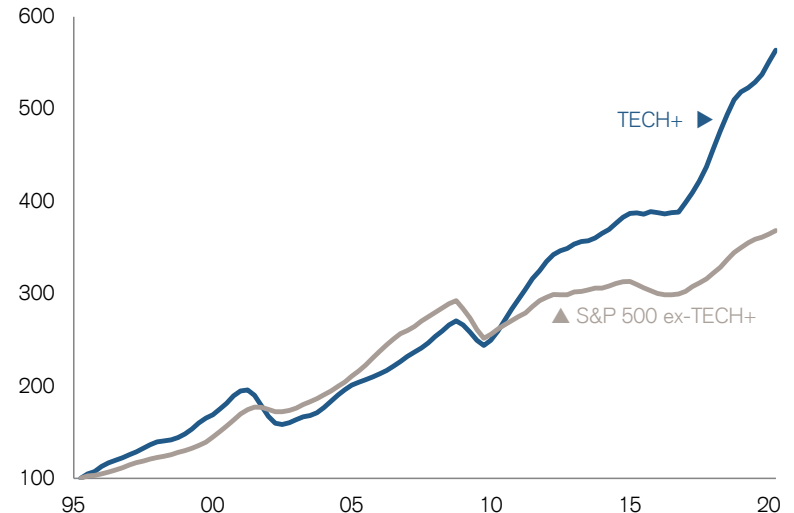
10-Year Treasury Yield with Consensus Estimates



2020-22 Consensus EPS Growth CAGR



Case for TECH+: Revenue Growth (Indexed to 100)



Source: BEA, Federal Reserve, the BLOOMBERG PROFESSIONAL™ service, Standard & Poor's, Thomson Financial, FactSet, Credit Suisse

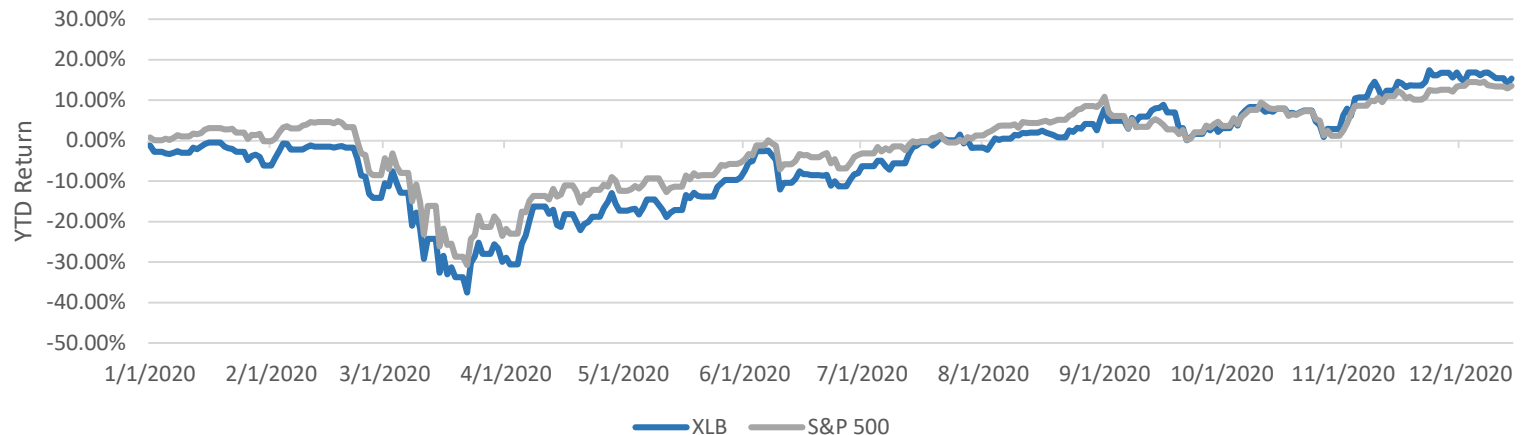
Sector Summary

The Building Blocks to Meeting Investors' Expectations

Recent rallies have driven slight YTD outperformance in Materials vs. the broader market (after tracking at or slightly below for much of the year) and conversations are naturally turning to potential downside risks due to rising COVID-19 cases (particularly in Europe and the US). Investors are eying a return to “normalcy” by 2H21 as a “base case” and appear willing to overlook winter lockdown measures. However, sentiment appears less bullish vs. early 4Q (distinct realization that even a successful vaccine rollout will still take several quarters). Key sector debates relate to demand cadence in 1H, with a growing focus on implications for margins (incremental margins on easy comps, pricing power vs. raw inflation). Ag conversations are more agnostic to COVID issues, with global trends suggesting a constructive macro set-up for the upcoming NA planting season, though there is a lingering debate re: biofuel headwinds. Macro factors should dictate relative industry performance in the interim (across commodity chemicals, ag, coatings, etc.), but we expect a return to “bottom-up” themes beginning in the latter part of the 1H. As willing as investors are to “overlook” '21 earnings outlooks and value the sector on a normalized basis for '22 / '23, we sense there is increasing skepticism on the margin front, which could lead to additional volatility.

XLB Materials Index vs. S&P 500 YTD Performance

Expect Sector Momentum to Build, But with More Distinct Leaders



Source: Factset, Credit Suisse

Chemicals & Agriculture

Setting the '21 Baseline for the '22 / '23 Recovery

Key Themes:

Recovery Timeline – Investors “looking” through 1H21, searching for companies with accelerating growth in '22 / '23

Cost Measures – Balancing the prospect of G&A costs “returning” vs. various structural cost programs (and raws)

Raw Materials – Expect extreme quarterly volatility and broad yr/yr inflation, driving the “price” discussion to accelerate

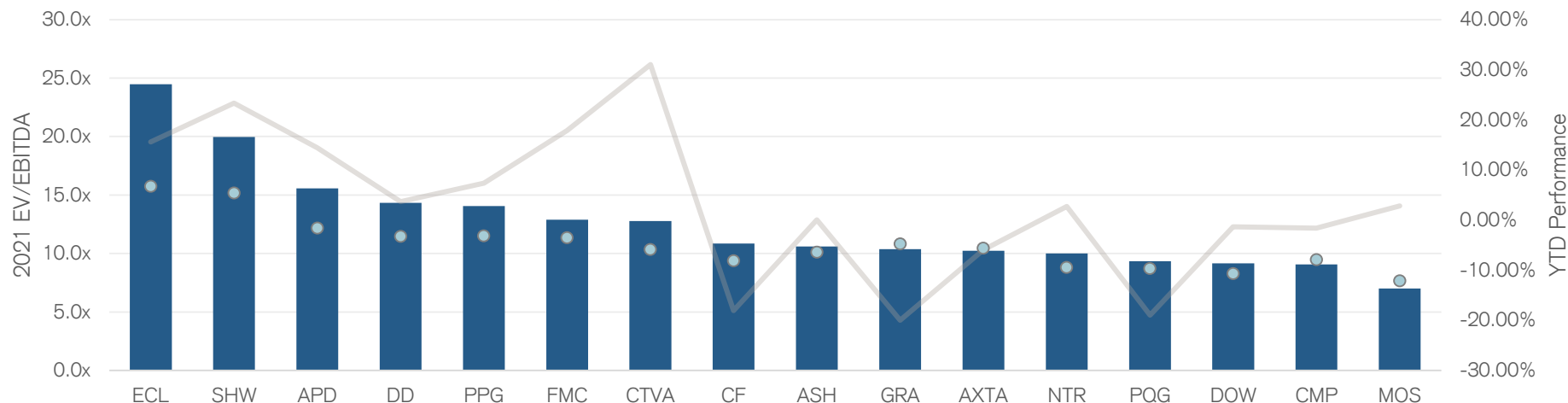
M&A – Coatings M&A still in the spotlight, with potential in Ag and Specialties – POG interesting “break-up” story

Other – Increasing focus on cap allocation optionality, B/S “dry-powder” and de-leveraging stories

Key Risks: Elevated sector expectations (buy-side > sell-side #s), raw material inflation, and increasing op rates (PE, etc.)

Key Catalysts: Price momentum, re-instating buy-back programs, M&A, evolving competitive environments, trade flows (ag)

2021 EV/EBITDA Multiple vs. Historical Average and YTD Share Performance



Source: Factset, CS Estimates

LTHM not pictured; currently trading at ~45x '21 EBITDA vs. historical average of 14.7x; DOW adj. for off-balance sheet debt; DOW, DD, CTVA, & LTHM only incl. post-spin data

Chemicals & Agriculture

Commodity Chemicals: 2H pricing strength and recovering end-market demand supports momentum into 2021, though uncertainty re: further demand momentum, increasing industry op rates (outages in 2020), inflating feedstock costs and potential for new capacity mutes enthusiasm.

Industrial Gases: Focus remains on backlog execution and future opportunities in carbon capture and blue/green H2. Valuations are “rich” vs. historicals, but “defensive” nature (w/EPS growth) and thematic benefits (ESG, merchant gas recoveries, etc.) warrant bullish stance into 2021.

Specialty Chemicals: We are generally bullish (as are investors) into 2021 due to strength in consumer and demand recovery in industrials / manufacturing, though we stress the space remains stock/story dependent. We prefer ASH (cost-cutting, FCF conversion) and GRA (value).

Coatings: Our constructive demand (recovery) outlook is partially offset by our belief the price/cost debate will be an impediment in 1H21, especially as we believe there is a necessity to push price to maintain margin expansion momentum. Key debates incl: (1) sustainability of DIY, (2) end market recovery timeline (Aero, Refinish, etc.), (3) '21 incremental/decremental margins, (4) magnitude of 2021 raw inflation, and (5) M&A.

Lithium: Investors are largely already modeling optimism for 2023 and beyond, but we believe it's not worth fully chasing the recent run-up. EV adoption themes are real, but we await concrete evidence of LiOH price improvement (monitoring agreements across the supply chain).

Crop Protection: Expect euphoria re: coarse grains (corn) to wane in mid/late 1H21, while oil seed (soy) momentum is poised to continue. We prefer “balanced” geographic/crop exposure w/the ability to “price out” increases in logistics costs (and past FX headwinds).

Fertilizers: Prefer P&N to K, but stress expectations are the lowest on the latter. The key to 2021 is sustainable demand momentum (Asia, not LatAm, is now the “key” region) and cost curve support. Expect trade flows to adj., but stress broad cost curve inflation to be supportive.

Rating	Name (Ticker)	Company Data	Investment Case
Outperform	Ashland Global Holdings Inc. (ASH)	Price: \$78.03 Target: \$94.00 Mkt Cap: \$4.7B	Platform realignment to drive mix improvement and improved sales momentum, w/ ample cost opportunities – we forecast a ~3-5% organic growth outlook and improving FCF conversion (CSe +/- 55% FY22 onwards); FCF is the “key” to '21.
Outperform	FMC Corporation (FMC)	Price: \$114.37 Target: \$135.00 Mkt Cap: \$14.8B	New product introductions / registrations, increasing market access, new formulations and cost execution (SAP) to drive above market CPC growth. Industry leading margins continue to expand, along with improving FCF conversion.
Outperform	Mosaic Co. (MOS)	Price: \$22.62 Target: \$24.00 Mkt Cap: \$8.6B	Sustainable momentum in global DAP / MAP prices (albeit off highs), mining cost improvements and modest increases to MOP prices drive upside vs. cons #s.
Underperform	Compass Minerals Int'l Inc. (CMP)	Price: \$61.78 Target: \$56.00 Mkt Cap: \$2.1B	Euphoric valuation of Salt assets, bullish sentiment re: eventual SA PN sale, and elevated cost execution expectations leave room for downside, while we await concrete evidence CMP can regain market share in US Salt.

Source: Company Data, Credit Suisse

Data as of 16-Dec-2020

Metals & Mining

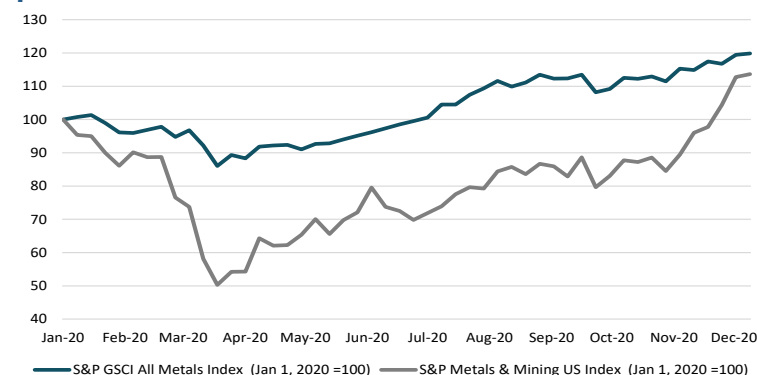
Continued Demand Recovery in 2021; Bullish on Base Metals/Met Coal Prices

Global Recovery in Industrial Demand Should Provide Pricing Support: While industrial demand in 2020 was hit by COVID-19-related lock-downs, commodity demand was supported by extraordinary China demand strength. We expect a further industrial recovery in 2021, but Europe and the US have slid into second waves of COVID-19. The pace of vaccination and controlling outbreaks may be a key to allowing full-scale industrial restarts outside China. In 2021, our commodity team expects stronger coking coal prices, elevated (but lower) iron ore as China steel production growth slows but Brazilian supply increases, ongoing strength in copper and aluminum—despite scrap imports—assisted by global electrification sentiment, a lift in auto production and thin stock balances. China demand has surprised us to the upside in almost every commodity in 2020 and we see the risk that this may again happen in 2021, although the property sector may be soft.

Bullish on Met Coal Price Outlook: We forecast seaborne metallurgical coal prices will undergo a sustained recovery in 2021 from current lows. While coking coal prices remain depressed in Q4 2020, we continue to believe markets should rebalance over the next several quarters as global steel production ex-China continues to recover, inventories are worked down, and China port access opens up. We assume prices average ~US\$150/t in 2021; however, we do not account for a prolonged period of Australian coal being targeted by China.

Copper Should Benefit from Decarbonization Efforts: Copper is essential for transition to a low carbon economy and should benefit from increasing global focus on climate control and lowering carbon footprint. Late in 2020, China, Japan and South Korea all pledged carbon-neutral targets, while in the US, the Democrats won the election with a platform of decarbonizing the US energy sector by 2035. We expect increasing interest from investors about metals that may benefit from electrification and batteries, especially copper and nickel. CS commodity team forecasts a supply deficit of 200kt of copper in 2021, and a price of \$3.25/lb across the year. In subsequent years we expect a balanced but tight market supporting elevated \$3+/lb prices.

Metals & Mining Equities Up ~125% since March



Source: Bloomberg, Credit Suisse

Revised Base Metals and Alumina Price Forecasts

			2020E	2021E	2022E	2023E	2024E
Copper	New	US\$/lb	2.80	3.25	3.20	3.00	3.10
	Old	US\$/lb	2.70	2.80	2.60	2.60	2.71
	Chg	%	4%	16%	23%	15%	14%
Aluminium	New	US\$/t	1,713	1,880	1,900	1,900	1,900
	Old	US\$/lb	1,650	1,700	1,800	1,800	1,800
	Chg	%	3%	11%	6%	6%	-4%
Alumina (spot)	New	US\$/t	268	290	320	330	330
	Old	US\$/t	272	290	320	330	346
	Chg	%	-1%	0%	0%	0%	-5%
Nickel	New	US\$/lb	6.27	6.85	6.80	6.80	7.00
	Old	US\$/lb	6.02	6.20	6.10	6.50	6.67
	Chg	%	4%	11%	12%	5%	5%

Metals & Mining

Aluminum - Improving Demand Outlook: The aluminum market has been strong in China, and given the contango structure / low rates, a significant amount of aluminum is tied up in cash and carry trades. Thus, with demand recovery, physical premiums are now rising in most key markets. Aluminum prospects continue to look upbeat in 2021 as ROW should see industrial production recovery, while China should support construction and manufacturing as it works to revive other facets of its economy. Further forward, the secular shift towards greater aluminum penetration in auto and accelerating moves towards decarbonization should benefit aluminum through necessary expansions of electricity grids, and frames for solar panels.

Steel – Maintain Cautious View for 2021: Steel prices continue to surprise on the upside driven by significantly better than expected post-COVID-19 demand recovery in 2H20, especially in the auto and construction end markets. While the recent squeeze has pushed the US sheet prices to \$850-900/st range, we expect US HRC prices to normalize to ~\$650/st in 2021 as production starts to recover and new capacity comes online.

Iron Ore - Prices to Remain Elevated: We expect modest growth in iron ore demand next year with lower China demand offset by an increase from ROW. Supply should increase, particularly from Brazil as Vale ramps up output; however, we expect the supply to roughly match demand, with no significant change to port stocks levels. Balancing these our commodity team expects iron ore to average US\$105/t in 2021, below the elevated spot price of ~US\$130/t, but still incredibly strong for the producers.

Rating	Name (Ticker)	Company Data	Investment Case
Outperform	Teck Resources Ltd (TECKb.TO)	Price: \$23.41 Target: \$26.00 Mkt Cap: \$12.3B	We believe Teck has all the critical factors to support revaluation in the medium term. Teck has a compelling, capital-efficient copper growth story that will pivot the earnings mix away from lower multiple coal. Teck also has an operational turnaround story in coal as strip ratios decline and transportation costs benefit.
Outperform	Constellium (CSTM)	Price: \$13.40 Target: \$19.00 Mkt Cap: \$1.5B	With the exception of Aerospace, CSTM is back to firing on all cylinders and we continue to believe €700mm is quite possible for 2022 as packaging upside and structural cost down more than offset lower aerospace. We continue to view CSTM as the best downstream ESG growth story in aluminum packaging sheet and maintain our O/P on compelling FCF trajectory and attractive valuation.
Outperform	Crown Holdings Inc. (CCK)	Price: \$97.29 Target: \$111.00 Mkt Cap: \$13.1B	We believe Crown has a strong case for valuation re-rating driven by high-margin growth in Americas beverage can market, improving FCF, deleveraging of the balance sheet and upside optionality from ongoing strategic portfolio review. The beverage growth story is compelling, and the other businesses have attractive thru-cycle FCF generation albeit without much growth. Thus, we see it likely CCK accelerates its mix shift to can by divesting lower growth / multiple businesses, which will allow for faster deleveraging and help fund further growth.
Underperform	United States Steel Corp. (X)	Price: \$18.37 Target: \$3.50 Mkt Cap: \$4.0B	The step-function rise in unit costs over the past several years coupled with loss of automotive share suggests X is in a weaker competitive position versus peers entering the "Sheet Tsunami" period in the US from 2021-2022.

Source: Company Data, Credit Suisse

Data as of 16-Dec-2020

Sector Summary

Strong Preference for Re-Opening Stocks

Strong preference for the re-opening stocks: Strong conviction for Gaming, Lodging, and Leisure stocks due to pent-up demand during the pandemic. Beverage and Restaurant names have meaningful tailwinds from stronger on-premise sales. Favorites include Vail, Hilton Grand Vacations, Coke, Darden, Advance Auto Parts, Sysco

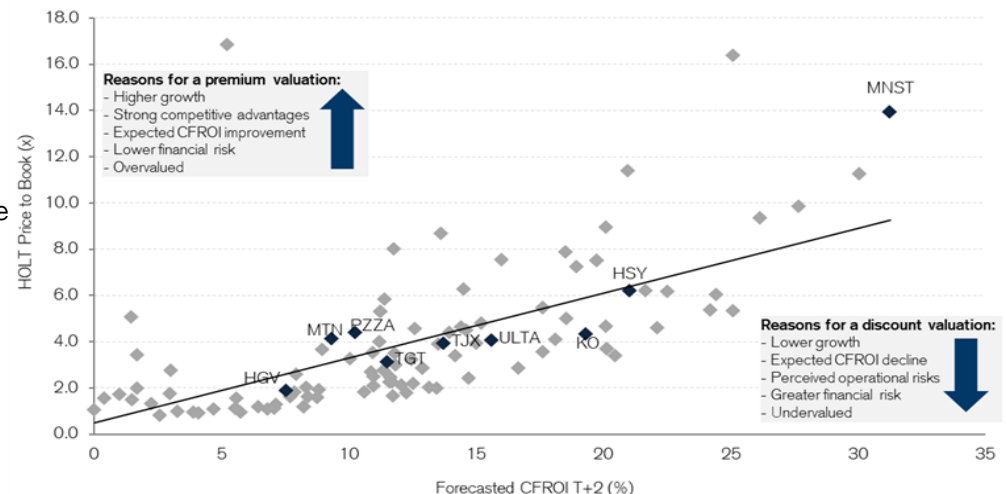
Several companies have widened their competitive moats during the pandemic: TJ Maxx and Ulta Beauty will benefit from department store closings. Hershey is leveraging investments in manufacturing and sales force to further expand market share over Mars. Monster is expanding into adjacent categories to broaden its addressable market. Target will leverage omni-channel investments to drive more market share gains. Papa John's will benefit from industry consolidation and scale advantages as technological ecosystems become increasingly important

Staying away from stay-at-home stocks: Kraft Heinz' food sales likely to decline sharply in 2021 as children go back to on-site learning and eat fewer lunches at home. We see structural demand gains for cleaning products companies like Clorox, but this is well-understood by the market already.

Valuation

There is a strong relationship between CFROI® of the Consumer companies under coverage by CS Research and HOLT's® Price to Book valuation metric.

Many of the recovery stocks (HGV, TGT, TJX, ULTA, and KO) have attractive valuations relative to their FY2 forecast CFROI. Additional upside could be warranted if CFROI levels improve further from those levels.



Source: HOLT

Beverages

Strong Momentum Sets up 2021 as Banner Year

Industry Overview: Beverage names enter 2021 with a better sense of consumer preferences as several meaningful tailwinds increase probability of breakout year.

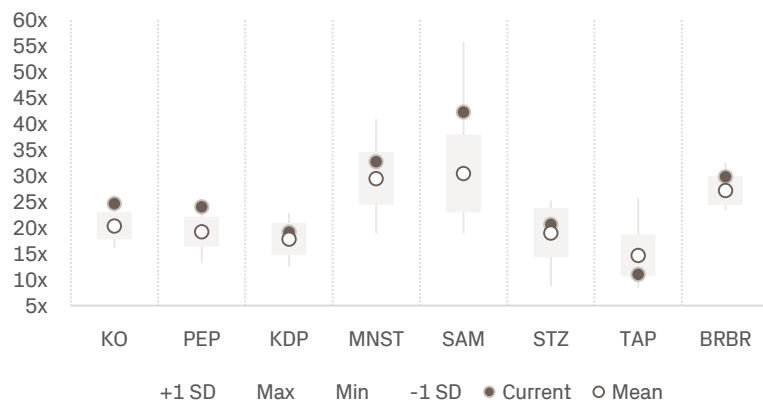
Return of On Premise: Increased population mobility a significant driver for all beverage companies as global consumption shifts away from home amidst larger scale bar/restaurant re-openings.

Robust Innovation Pipeline: Focus on new product launches supported by advertising step-up leads to top-line growth; RTD alcoholic beverages and health/fitness energy drinks likely to drive increases in market share.

Revamped Supply Chain: Efficiency and capacity investments begin to pay off delivering better-than-expected operating leverage.

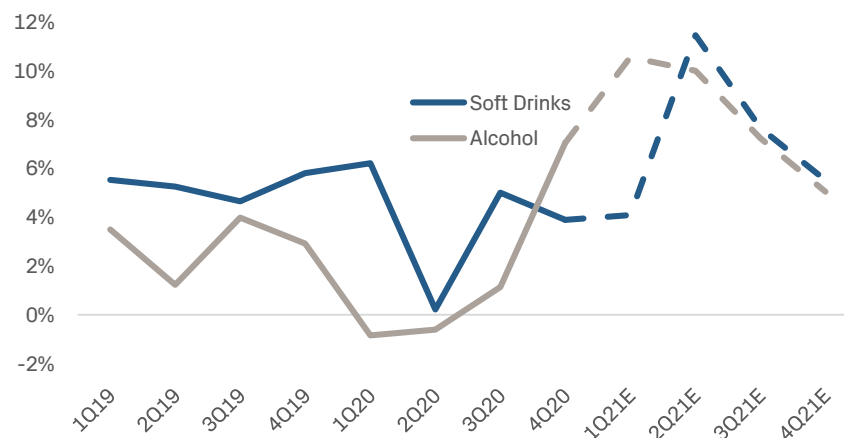
Valuation Outlook

10 Year History of NTM P/E



Organic Growth Outlook

'21 Growth Begins to Revert, Still Above Pre-Pandemic Levels



Source: Company data, Credit Suisse, BRBR data since 2019 IPO

Beverages

Monster Sets up for a Big 2021: Pure play in energy drinks, a category that is seeing accelerating growth. In 2021, we expect the company to launch fitness-energy drinks and ready-to-drink alcoholic beverages, further expanding its addressable market. Meanwhile, growth should increase as advertising and sponsorships return. This US acceleration along with \$2b net cash on its balance sheet and an robust international growth opportunity, we appoint MNST shares as our top pick.

Coca-Cola Co Top Recovery Play: With 50% of its revenue generated from consumers outside of the home, Coca-Cola struggled in 2020. As population mobility increases, we see KO shares as a top recovery play. Importantly, we think new cost saving and advertising efficiency initiatives support a fundamentally higher-margin business. The market is likely missing the operating leverage that will be delivered as topline improves.

Constellation Brands Unleashed: The beer industry was resilient through the pandemic, despite bar/restaurant closures. Constellation however was held back, as production stoppages lead to out-of-stocks. Into 2021, a restocked supply chain and revamped balance sheet following a partial divestiture of their wine business should support investment case for a company that is poised for faster growth at an attractive valuation compared to other names under our coverage.

Rating	Name (Ticker)	Company Data	Investment Case
Outperform	Monster Beverage Corporation (MNST)	Price: \$89.80 Target: \$105.00 Mkt Cap: \$47.4B	Benefits from category acceleration, increase population mobility and launch of two highly incremental new products in fitness-energy and alcohol.
Outperform	The Coca-Cola Company (KO)	Price: \$53.06 Target: \$57.00 Mkt Cap: \$228.0B	Tailwind from return to normalcy (50% away from home biz) as well as cost savings and higher marketing efficiency
Outperform	Constellation Brands (STZ)	Price: \$214.81 Target: \$234.00 Mkt Cap: \$36.4B	Accelerating topline as supply issues have been resolved, while the divestiture of wine assets improves the balance sheet, leading to a cash return to shareholders

Gaming, Lodging + Leisure

All the Way Up – Travel and Leisure in a Post-COVID-19 World

Industry Overview: Gaming, Lodging and Leisure was one of the hardest hit sectors by COVID-19. We expect 2021 will have two distinct phases: pre-widespread vaccination and post widespread vaccination. In the first phase, we expect to see continued focus on cost cutting and cash flow preservation. In the second, we expect many of our companies to emerge as leaner, more efficient organizations that can capture significant pent up demand.

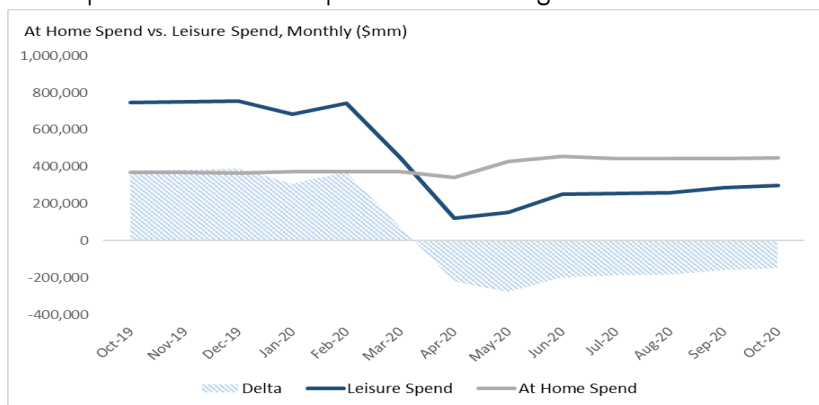
Pent Up Demand: Most consumers have been unable to meaningfully travel during the pandemic, and our checks suggest pent up demand exists once vaccines are disseminated. We think MTN, SEAS, HGV, and VAC have all seen an outsized negative impact to demand and thus are positioned for a robust recovery.

Leaner Operations: During the shutdown, we believe many companies in our coverage will be able to identify meaningful, permanent cost savings. We therefore expect higher margins and more efficient operations as demand returns, which is not being accurately captured in Street estimates.

Shift to Experiences vs. Goods: In the pandemic, wallet share has shifted towards at home spending, partially at the expense of leisure & experiences. As vaccines are distributed, we think this trend could reverse, creating an additional tailwind to revs.

Shift to Experiences vs. Goods

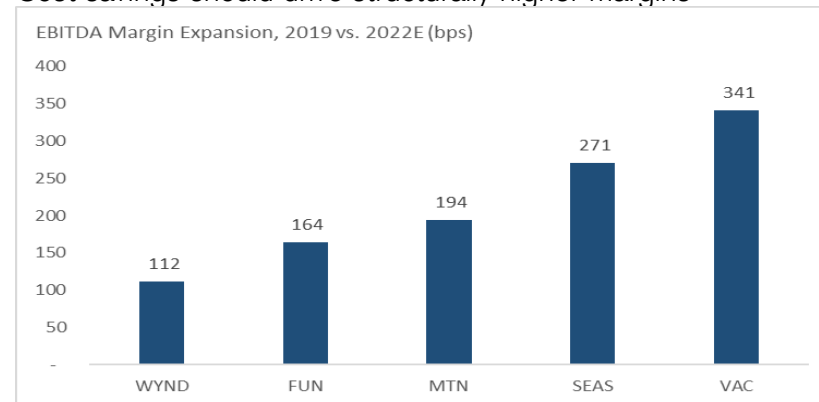
We expect shift back to experiences following COVID-19



Source: Company data, Credit Suisse, Bureau of Economic Analysis

Leaner Operations

Cost savings should drive structurally higher margins



Gaming, Lodging + Leisure

Theme Parks: We expect meaningful pent up demand going into 2H21. In particular, we believe SEAS is especially well suited to outperform the market given its customer positioning and margin opportunity. We see 3 key themes: (1) Orlando is improving, and will benefit from a return of international/destination travel, (2) we think SEAS has improved its pricing algorithm such that the topline story could improve (3) we think there could be ~\$40m of incremental cost savings vs. '19, on the back of the company's previous ~\$50m+ cost savings initiative.

Ski Resorts: Mid- pandemic, MTN has managed to grow pass units 20% versus pre-COVID, we believe this creates an unappreciated tailwind going into FY22 as the post-COVID-19 customer "funnel" is now larger than it was pre- downturn. Additionally, based on checks, we see an environment of pent of destination and International travel demand, which should provide an incremental benefit for MTN. Further, relative to pre-COVID-19 we believe FY 22 benefits from M&A costs rolling off, PEAK deal synergies, and potential cost efficiencies. At just < 2x net debt on our FY22 estimates we believe MTN could be acquisitive in the both the US, Canada, and Asia.

Timeshare: Timeshare has been one of the most resilient businesses in our space, with recurring revenue streams in financing, exchange and resort fees. In 2H21, we expect to see key markets like Hawaii and Orlando begin to normalize. HGV will benefit from an incredibly strong product cycle and robust pent-up demand in Hawaii (25% of VOI sales). We think VAC has removed more costs than is being reflected in street estimates, and see FY 22 EBITDA ~\$200m above the Street. As a result of pent up demand, structural cost savings, and better than expected resiliency shown during the shutdown, we believe the timeshare sector could see multiple expansion vs pre-pandemic.

Rating	Name (Ticker)	Company Data	Investment Case
Outperform	Vail Resorts (MTN)	Price: \$279.69 Target: \$339.00 Mkt Cap: \$11.3B	We think MTN is one of the best-managed companies in our coverage universe, owns a collection of irreplaceable mountain resorts, and operates an industry-leading season pass program. Link to most recent report.
Outperform	SeaWorld Entertainment (SEAS)	Price: \$29.11 Target: \$34.00 Mkt Cap: \$2.3B	We expect SEAS to perform well in 2021, with an improving situation in Orlando and ~\$30-40m of incremental cost savings. Link to most recent report.
Outperform	Hilton Grand Vacations Inc. (HGV)	Price: \$29.52 Target: \$32.00 Mkt Cap: \$2.5B	HGV faces an extremely strong product cycle in 2021 and is most likely to benefit from pent up demand for Hawaii; a shift to more owned sales will benefit margins. Link to most recent report.
Outperform	Marriott Vacation Worldwide Corporation (VAC)	Price: \$132.13 Target: \$145.00 Mkt Cap: \$5.4B	In 2021, we see improving dynamics in Orlando and Hawaii, as well as higher than expected cost savings. Link to most recent report.
Underperform	Scientific Games Corporation (SGMS)	Price: \$41.12 Target: \$9.00 Mkt Cap: \$3.9B	We think shrinking slot floors, smaller casino capex budgets, and an increasing number of pure-play sports betting alternatives will weigh on results.

Source: Company Data, Credit Suisse

Data as of 16-Dec-2020

Household, Personal Care

Return to Normal Brings Moderate Growth

Industry Overview: 2020 was a blockbuster year for HPC names as time spent at home drove outsized purchases. Into 2021, we are neutral on much of the space, with only a portion of the industry likely to over-earn, delivering moderate returns.

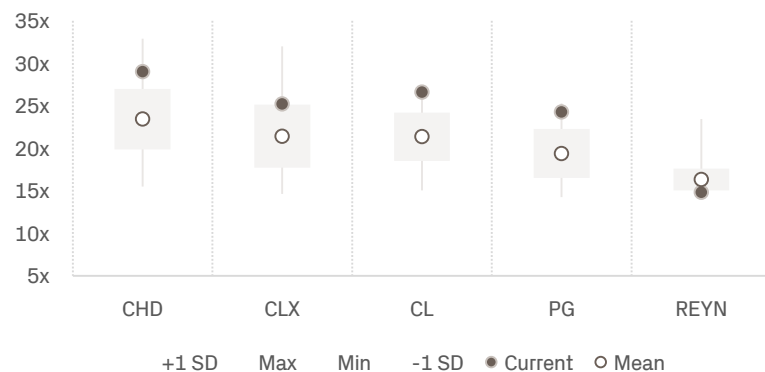
Balancing Structural & Temporary Shifts: HPC companies will continue to benefit from more structural market shifts, such as cleaning and disinfecting, while trying to offset the windfall from temporary 2020 upticks that are likely to normalize.

Big Brand Market Share Stable... For Now: Recent embrace of smaller, niche brands appears to have slowed with consumers favoring large, well-known players. While this reversal is likely to continue in the medium term, competitive pressure remains.

Prioritizing Productivity: New efficiency and reinvestment programs are expected to be unveiled in 2021 as HPC names reassess the market environment.

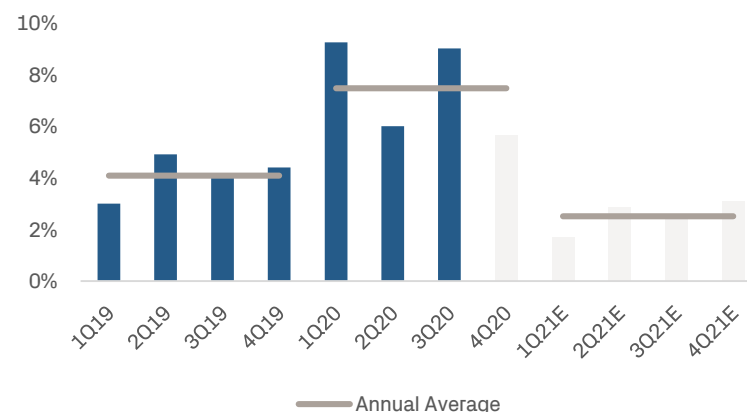
U.S. HPC Valuation Outlook

10 year History of NTM P/E



HPC Organic Growth Outlook

Reset after strong '20



Source: Company data, Credit Suisse, FactSet, Visible Alpha, REYN data since 2020 IPO

Household, Personal Care

Reynolds Aligned with Structural Changes, Attractive Valuation: While increases in population mobility and return to eating out are expected, “cooking at home” is likely to stay. Reynolds is the biggest beneficiary of meal prep at home given aluminum foil and food storage product portfolio. Supply issues which have now been addressed constrained the company in 2020 as new, more efficient capacity provides margin expansion opportunity. At 15x NTM P/E, REYN shares are among the cheapest in our coverage.

Church & Dwight Well Positioned for New Market Environment: As 2021 brings a new wave of uncertainties, Church is among the most reliable compounders in the space. 40% of its portfolio consists of value-priced brands, providing some recessionary protection, with its Vitamins, Minerals and Supplements (VMS) business experiencing accelerating growth. Lastly, given Church’s long history of creating value through acquisitions, we think this current environment favors buyers.

Rating	Name (Ticker)	Company Data	Investment Case
Outperform	Reynolds Consumer Products (REYN)	Price: \$30.33 Target: \$36.00 Mkt Cap: \$6.1B	Beneficiary of structural market changes while deploying capital to permanently shift margins higher.
Outperform	Church & Dwight Co, Inc. (CHD)	Price: \$86.67 Target: \$102.00 Mkt Cap: \$21.5B	Well-positioned portfolio for today’s environment in a market that is setting up nicely for identifying value-accretive acquisition targets.

Packaged Food and Food Retail

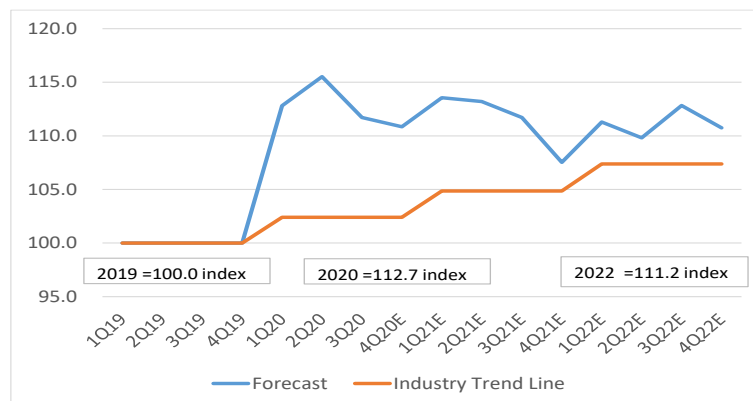
Shots in Arms Will Shoot Grocery Sales Trends in the Foot

Food vendors and retailers are overly-optimistic about the structural benefit to at-home food consumption from the pandemic. We estimate that the 11% run-rate in grocery spending growth this year has been fueled by a 30% increase in at-home eating occasions because self-prepared meals cost less money than when purchased at restaurants. That means that the long-term impact on spending (i.e., more work-from-home arrangements, more scratch cooking) is probably only 3% if consumers increase their at-home meals by 10% on a structural basis. If so, then industry sales will decline every quarter through 3Q22 compared to the unusually strong 2020.

Competitive intensity likely to return in 2021: Branded food producers cut back on price promotions in 2020 and boosted their gross margin because they needed to ensure retailers maintained sufficient inventory. They also gained market share over private label because (as noted by Albertsons and Walmart) the private label vendors did not have sufficient capacity to execute their programs. We expect competition to intensify and gross margins to come under pressure in 2021 as private label capacity ramps back up and vendors restore promotional discounts.

Packaged Food Consumption

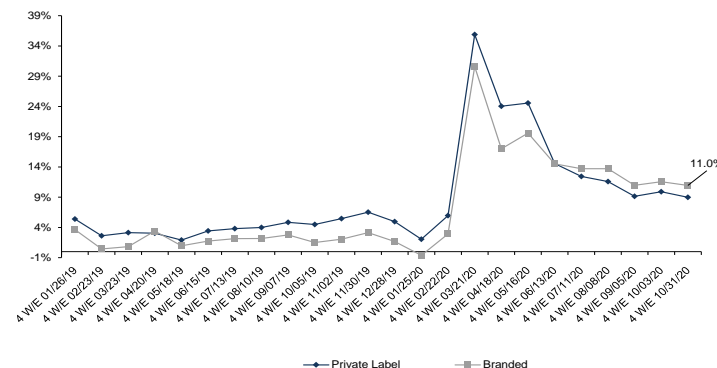
Will face tough comparisons every quarter until 3Q22



Source: Nielsen, xAOC, Credit Suisse

Brand Growth Temporarily Outpacing Private Label

Private Label regaining momentum as supply chain improves



Source: Nielsen xAOC, Credit Suisse

Packaged Food and Food Retail

E-commerce investments are likely to continue pressure margins. Kroger and other grocers say that it will take several years for the profit margins of their e-commerce business to match their brick-and-mortar. Our view is that they will lean more on their packaged foods vendors to help close the gap. This probably means charging the vendors bigger fees for appearing first in category searches, recommending their brands for e-commerce grocery lists, and targeted marketing programs.

“Re-opening” plays: Beyond Meat (BYND), Tyson Foods (TSN), and Sanderson Farms (SAFM) have 30% or more of their business in foodservice.

Who emerges stronger post-pandemic? Costco and BJ's Wholesale may emerge stronger post-pandemic because their memberships are up 8% and 11%, respectively, and they have invested heavily in e-commerce capabilities. Hershey's investments in sales force coverage and manufacturing flexibility have expanded its competitive moat versus Mars.

Rating	Name (Ticker)	Company Data	Investment Case
Outperform	Mondelez (MDLZ)	Price: \$57.20 Target: \$64.00 Mkt Cap: \$84.2B	Best long-term growth profile in food due to advantaged brands, high-growth snack categories, and strong positions in emerging markets (40% of sales). Sales likely to remain above peers at 3-4% in 2021 due to recovery in markets where distribution access was temporarily compromised (e.g., India, Mexico, the Philippines)
Outperform	The Hershey Company (HSY)	Price: \$150.28 Target: \$172.00 Mkt Cap: \$40.8B	Investments in sales force coverage, manufacturing flexibility, and category management widened Hershey's competitive advantage over the #2 confectionery company Mars. We expect a 2% tailwind from economic re-opening in Hershey's international markets and further market share gains to drive an above-algorithm growth year in 2021
Underperform	The Kraft Heinz Company (KHC)	Price: \$34.43 Target: \$32.00 Mkt Cap: \$42.1B	Most likely to face renewed pressure from private label in 2021 due to weak brands in commoditized categories (cheese, meats, nuts),

Restaurants

Stay Hungry as Restaurants Get Digitized

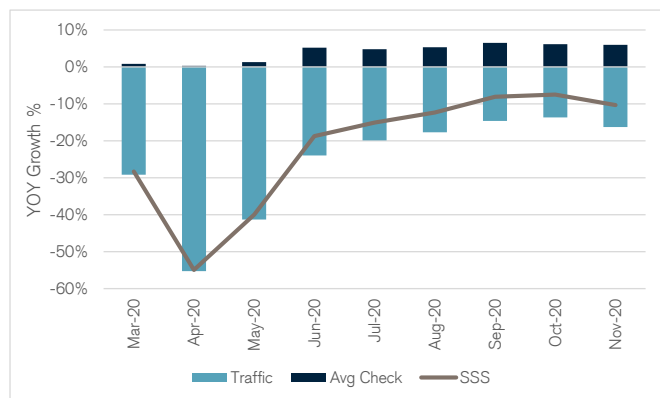
We are relatively bullish on the restaurant industry as we believe large chains are well positioned to gain market share given greater access to capital, larger share of voice, sophisticated digital infrastructures and advantageous competitive positioning to withstand headwinds facing the industry. While valuation is rich with stocks trading above historical levels, the decrease in industry supply and greater digital focus support an increase in addressable markets and the growth outlook.

Digital at scale: We view technology as a key driver in the elements of value creation, unlocking opportunities to leverage the box to increase SSS, expand the global footprint & improve margins. We expect companies to focus on the second derivative of digital by developing holistic infrastructures that permeate throughout the organization, including consumer initiatives to increase digital utilization & loyalty, and back of house opportunities to enhance margins & offset incremental costs.

Portfolio optimization: Restaurants are using challenges as an opportunity to reassess portfolios, closing stores that were likely unprofitable even before the pandemic. Restaurants are also reevaluating new prototypes & modifications to existing restaurants to enhance unit economics & capitalize on consumer trends (convenience, personalization & digital).

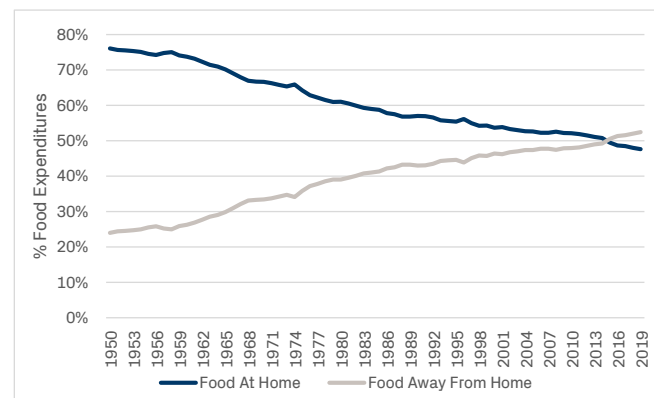
Restaurant Industry SSS

Recovery continues with an increasing shift to off-premise



Food at Home vs Food Away From Home

FAFH has gained stomach share over the last several decades



Source: Black Box, USDA, Company data, Credit Suisse

Restaurants

Restaurant recovery outlook: The trajectory of the sales recovery has been better than initially feared as restaurants have proven to be more resilient in an environment without dine-in as they've transitioned to off-premise. We expect a heightened level of closures over the next 12-24 months amidst unprecedented challenges, though remain optimistic that restaurants will fully recapture sales over time, driven by structural factors that have supported an increase in food away from home stomach share over the last several decades. Industry supply consolidation should be beneficial for the long-term health of the sector, and we expect new & repurposed capital to be allocated toward new restaurants that capitalize on growing consumer trends toward convenience, personalization and an omni-channel experience. We view large chains as fundamentally better positioned than independents given their access to resources & capital and more established off-premise & digital infrastructure, with a prolonged reopening potentially leading to an even more favorable backdrop long-term. We expect the focus in 2021 will be on reemergence and how companies can capitalize on the opportunities ahead with a reduction in industry supply and more favorable real estate environment to accelerate market share gains.

Rating	Name (Ticker)	Company Data	Investment Case
Outperform	Papa John's International, Inc. (PZZA)	Price: \$87.32 Target: \$110.00 Mkt Cap: \$2.9B	PZZA is one of the biggest beneficiaries of pandemic-related tailwinds, accelerating turnaround plans by years & improving the financial positions of franchisees, with its increased growth outlook supporting a valuation premium to history & peers. PZZA: New Coach, Proven Playbook; Upgrade to Outperform
Outperform	Chipotle Mexican Grill, Inc. (CMG)	Price: \$1400.62 Target: \$1500.00 Mkt Cap: \$39.2B	CMG's strong execution, attractive addressable market, relevant brand & among the best new unit returns in the industry support a compelling runway for growth. We see potential upside to numbers on better-than-expected SSS, margins & unit growth, with continued outperformance to support the premium valuation. CMG: Guac is Worth the Extra Charge and So Is Growth; Initiate Outperform
Underperform	Jack in the Box Inc. (JACK)	Price: \$89.06 Target: \$74.00 Mkt Cap: \$2.0B	While JACK has demonstrated impressive performance throughout the pandemic, greater conviction in the unit growth strategy is necessary to close the valuation gap to peers, increased investments are likely necessary to enhance the company's digital strategy and any signs of SSS deceleration will likely pressure shares. JACK: Waiting for JACK to Come Out of the Box; Initiate Underperform

Retail: Hardlines / Broadlines

Retail Reimagined: Focus on Delayed Demand and Earnings Defensiveness

Industry Overview: Stock gains in the Hardline/Broadline Retail sector may be more difficult to come by initially in FY21 owing to usual cyclical behavior and lapping the sales lift from the pandemic. That said, we see differences this cycle that keep us constructive: (1) Expect continued upside in 1H21 as pandemic-related demand remains elevated; (2) 2H is more of a risk with a normalization in out-of-home spend, but, focus on offsets in a recovery; e.g., categories with delayed demand, cost tailwinds vs. FY20, or company-specific drivers; (3) Valuation is supportive given recent underperformance. Positive stock highlights include: AAP, TGT, ASO, and HD. Cautious call outs include WSM and GME.

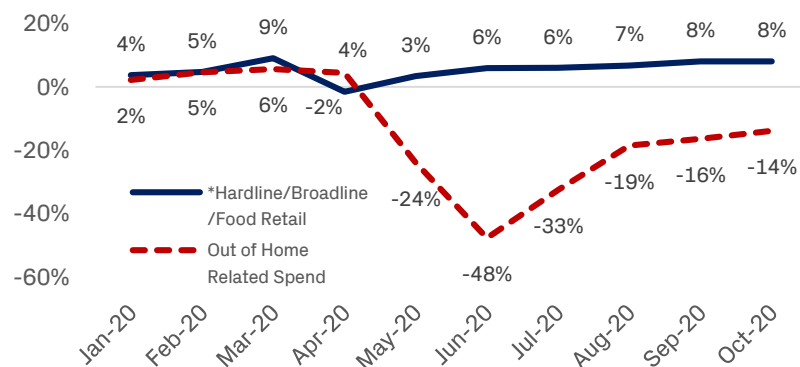
Theme 1: Delayed demand: While Hardline categories saw a lift during the pandemic and that may remain the key focus for now, plenty of sales were delayed, which will provide some support in a “normal” environment. Examples: Home Improvement “Pro” projects, Auto Parts do-it-for-me owing to lower miles driven, and Sporting Goods “Team Sports.”

Theme 2: EPS defense: Lapping higher COVID costs a tailwind: Lowe’s (LOW), AutoZone (AZO), Home Depot (HD), Target (TGT)

Theme 3: Reinvention : Acceleration in initiatives can extend gains for Academy (ASO), Michaels (MIK), Overstock (OSTK)

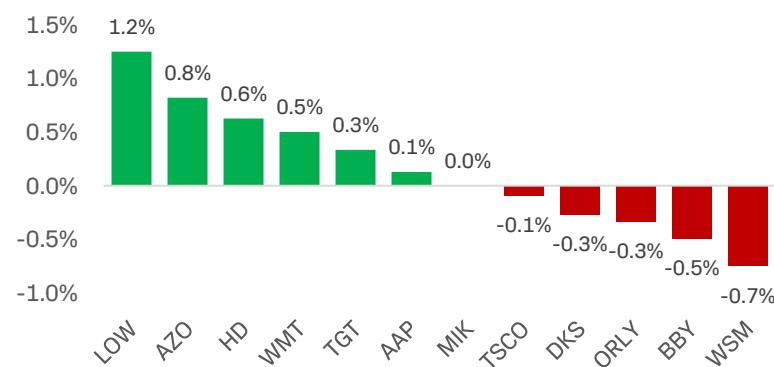
Wallet Share Shift to Hardlines to Continue in 1H, but Risk in a Recovery: Personal Consumption Expenditures (Y/Y)

Hardline/ Broadline/ Food Retail vs. Out of Home (CS Est.)



Focus on EPS Defensiveness, Including the Support from Lapping Higher Costs from FY20, or Other Drivers

Net EBIT Margin Impact in FY21E from normalizing costs



Source: Company data, Credit Suisse

Retail: Hardlines / Broadlines

Additional Comment 1: Retail reimagined: the pandemic accelerated digital adoption across nearly all of our categories, but the biggest surprise has been the role of brick & mortar. Stores have been used for fulfillment, incl. shipping from store, and pick up, which TGT first proved over the past one to two years. This has positioned many of our retailers to participate, but also improve the online economics.

Additional Comment 2: Bigger assortment, bigger market share: consumers continue to consolidate their purchases with fewer retailers. That trend accelerated in FY20. Larger multi-category, multi-channel retailers should continue to benefit from trip consolidation. Best positioned – TGT, WMT, HD and LOW, as they improve their omni-channel offering and expand their assortment.

Additional Comment 3: Beware of over-earners; Not only has the pandemic lifted sales for many of our retailers but it has created a more favorable margin environment, with tight supply, strong demand, and less promotional activity. Some companies spent into this favorable environment as noted earlier, leading to higher expenses this year. But others enjoyed significant margin upside. Home Furnishings (WSM) experienced the largest benefit from this, which will be an issue over the next 12-18 months.

Rating	Name (Ticker)	Company Data	Investment Case
Outperform	Advance Auto Parts, Inc. (AAP)	Price: \$161.32 Target: \$191.00 Mkt Cap: \$10.9B	Sales mix weighted to DIFM, should benefit from a recovery in Aftermarket Miles Driven and a clear line of sight into drivers of margin expansion in FY21.
Outperform	Target Corporation (TGT)	Price: \$171.69 Target: \$192.00 Mkt Cap: \$86.0B	Opportunity for incremental share gains, with exposure to categories that should benefit in a recovery. Lapping elevated costs should support EPS upside.
Outperform	Academy Sports & Outdoors (ASO)	Price: \$18.85 Target: \$24.00 Mkt Cap: \$1.7B	Self-help story, well positioned in the sporting goods space with significant upside to sales/ margins driven by efforts to improve core retail ops/ online.
Outperform	Home Depot (HD)	Price: \$269.59 Target: \$300.00 Mkt Cap: \$290.2B	Despite difficult comparisons, benefit from “delayed” home improvement demand shifting into FY21, lapping much higher costs, and TAM expansion through HDS
Underperform	Williams-Sonoma (WSM)	Price: \$112.35 Target: \$95.00 Mkt Cap: \$8.6B	Risk to category demand in recovery, and return to normalized costs of doing business; lapping elevated demand, unusually low promos and cost reductions.
Underperform	GameStop Corp. (GME)	Price: \$13.85 Target: \$3.50 Mkt Cap: \$1.0B	Less confident in ability to return to gross profit growth to support EBIT amid concerns of market share losses and digitization of this category.

Source: Company Data, Credit Suisse

Data as of 16-Dec-2020

Retail: Softlines

2020 Retail Disruption Creates Opportunity in 2021

Industry Overview: The Softlines Retail industry experienced significant COVID-related disruption from widespread store closures, supply chain inefficiencies, and excess inventories. While some companies lost share due to poor category exposure & unfavorable channel mix, others leaned into COVID-friendly categories and expanded digital penetration. The key for 2021 is determining which changes are transitory vs structural, how companies are positioning for a post-COVID-19 environment, and whether this early-cycle category will have the same stock outperformance as after past recessions.

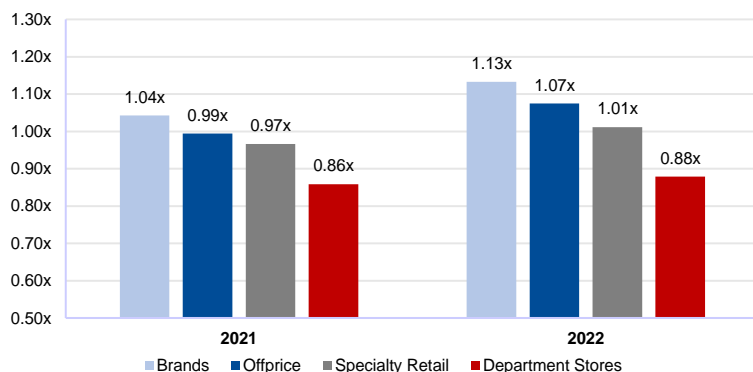
Theme 1: Easy compares create a positive backdrop for Softlines Retail (both absolute on negative 2020 sales, and relative to “essential retail” that should see sales & EPS growth underperformance post-COVID)

Theme 2: Separating Softlines stocks into COVID-19 categories: Stocks benefitting from transitory tailwinds during the lockdown period (e.g., 1-year over-earners), long-term structural beneficiaries, strong re-open trades (2021 winners, but with no improved moat for the long term)

Theme 3: COVID-19 will leave with Softlines with permanent scars from higher debt loads, department store bankruptcies, an accelerated shift to DTC distribution, and shopping center closures. Aggressive market share capture will be key.

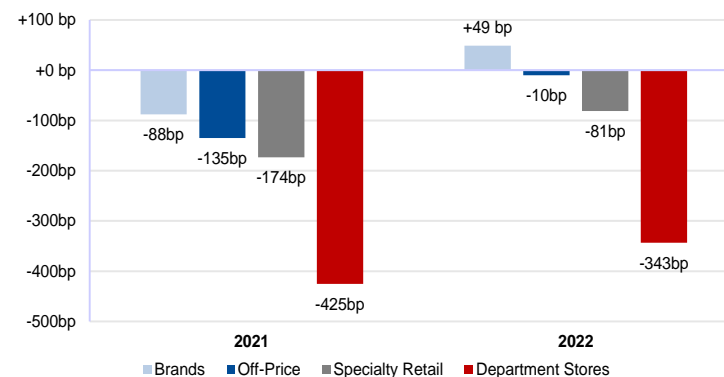
Softlines Coverage 2021 and 2022 Revenue

Indexed to 2019 Revenue



Softlines Consensus EBIT Margin Forecasts

Relative to 3-year Average EBIT Margin Pre-COVID



Source: Company data, Factset

Retail: Softlines

Wardrobe Loading: After a year of forced wallet-share shifting to adjust to COVID-19 lifestyles, 2021's "return to normal" will include above-average purchasing growth to refill apparel/footwear/beauty wardrobes as consumers return to work and social activities

Categorizing Softlines Stocks: We think the market will begin to evaluate stocks in the context of categories like structural beneficiaries (NKE, EL, LULU), accelerating market share gainers (TJX, ULTA), cyclical beneficiaries (LB), strong post-COVID-19 re-open trades (RL, PVH), and structural decliners with potential for a strong 2021 (M, JWN)

Permanent Industry Changes: Pulled forward digital investments, overdue cost cuts, accelerating market share declines in traditional retail channels, shipping inflation, Beauty category's center of gravity finally moving off-mall.

Rating	Name (Ticker)	Company Data	Investment Case
Outperform	The TJX Companies, Inc. (TJX)	Price: \$66.62 Target: \$72.00 Mkt Cap: \$79.9B	TJX is well positioned to capitalize on COVID-19-disruption in the broader retail industry as the company gains market share from department store bankruptcies/closures and is poised to leverage learnings from COVID-19 to improve the structural profitability of the business longer-term.
Outperform	ULTA Beauty, Inc. (ULTA)	Price: \$269.92 Target: \$308.00 Mkt Cap: \$15.2B	We expect ULTA to be a top beneficiary of unprecedented department store closures (we estimate that d-stores have a higher share of the US beauty category than their share of apparel in the US) and see runway for margin expansion from a reduced store labor format, e-com margins improving, and new low-cost initiatives (like the TGT partnership) coming online.
Outperform	Ralph Lauren Corporation (RL)	Price: \$99.50 Target: \$86.00 Mkt Cap: \$7.3B	RL has made significant efforts to clean up distribution both in the wholesale and digital channels, and as consumers begin to pivot back to more formal/fashion categories that have been hit hardest by COVID-19 (as RL says consumers are beginning to do in China) we think RL will be a strong reopen trade given we expect the company to realize profitability tailwinds from efforts to reduce discounting and cut costs throughout the company.

Sector Summary

Embracing Transition

Energy Transition: It's Complicated. The Energy Transition is the most prevalent theme heading into 2021, one that is multi-faceted and has different meanings and implications across sub-sectors. Increasingly favorable economics for solar, wind and storage and policy initiatives under the incoming Biden administration will further accelerate demand for **Renewables**, however some of the more aggressive policy goals still require legislative support. The **Oilfield Services** sector is leaning into the renewables transition effort as well as CO2-reduction technologies. De-carbonization efforts and grid upgrades are boosting earnings growth rates for **Utilities** and providing investors with some very attractive opportunities. **US Refiners** and global **Majors** are making investments in lower-carbon fuels of the future, as clean fuel standards open up new growth areas in green hydrogen and **Bio-fuels**. For **E&P** and **Midstream**, increased disclosure of ESG-related metrics has been a welcome development of late, and we expect the story in 2021 will evolve into more explicit target setting (particularly on GHG/methane emissions) as these companies define their role in the Energy Transition in a world still very reliant on oil and natural gas as part of the equation.

Oil Prices and the “Vaccine Trade.” Since November 7, Energy has outperformed the broader S&P 500 by ~37%, yet the sector has still underperformed by ~45% YTD. Moving into the distribution phase of the vaccine will provide further tailwind to sentiment and Energy equities in our view as the narrative shifts from “daily cases” to “daily vaccinations.” Recovering oil demand (close to pre-COVID-19 levels in 2H21) coupled with OPEC+ restraint should support the process to normalize crude inventories by year-end 2021/early 2022.

Energy M&A. The industry consolidation narrative was dominated by the **E&P** sector in the back half of 2020, but should become increasingly prevalent in 2021 for the **Alternative Energy** (particularly for the hydrogen space and in residential solar/batteries) and **Utilities** sectors. As shale plays continue to mature, we also see opportunity for further consolidation within the **Royalty Mineral** space. **Midstream** corporate M&A activity likely lags as companies seem more inclined to optimize with JVs and asset sales/swaps before moving towards broader consolidation post-2021.

Top Energy Stock Picks for 2021: BKR, CHX, CNP, CNQ, CVX, DAR, EOG, EPD, EQT, LNG, NEP, NOV, PNW, RUN, SU, TRGP, VNOM, VST, XEC.

Exploration and Production (E&P)

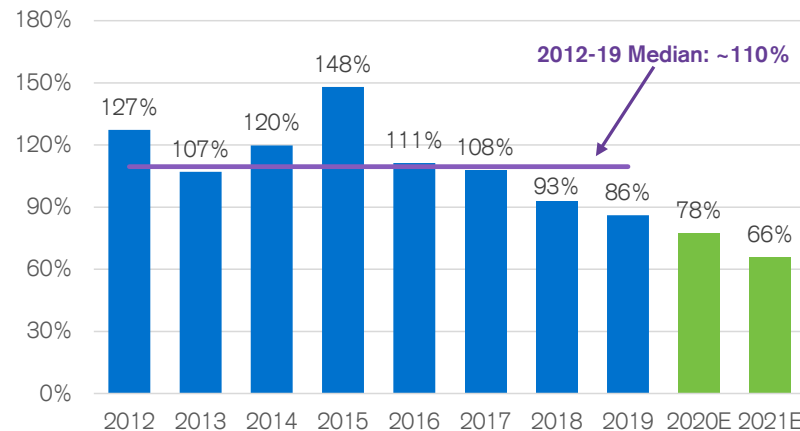
At the Crossroads

Industry Overview: The most recent oil price collapse – coupled with weak sentiment for the Energy sector – has raised the stakes considerably for E&Ps to reframe the value proposition in order to attract long-term capital back into the sector.

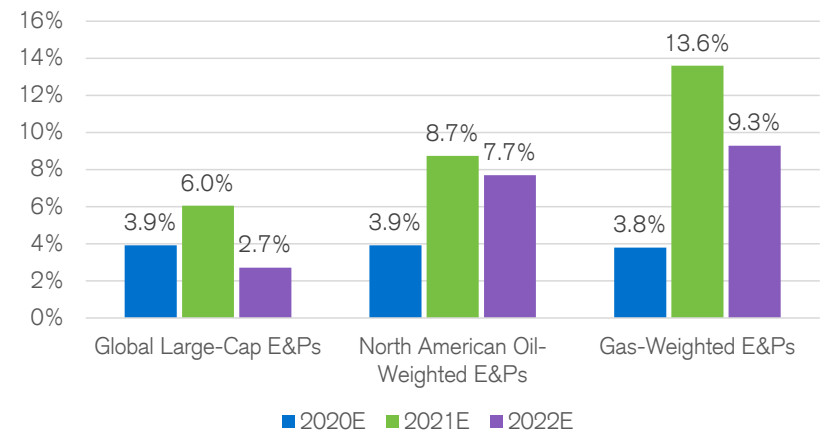
Framework for the “New” E&P Business Model: Under pressure from investors, E&Ps have begun to introduce longer-term outlooks, centered around more moderate oil growth rates (low to mid-single digits), ~70-80% re-investment rates, lower financial leverage targets (<1.0-1.5x), and accelerating return of excess cash to shareholders (ongoing debate over dividends vs. buybacks vs. special dividends). There is still some investor skepticism over whether or not E&Ps can adhere to the lower-growth model in a higher oil price environment.

Demonstrating Discipline in 2021: Upcoming budgeting season (Jan/Feb) will be a key gauge: most E&Ps have signaled a need to see WTI sustainably closer to \$50/Bbl before contemplating growth capex. In aggregate, we forecast 2021 E&P spending to be flat-to-down slightly YoY, leaving E&Ps with a ~65% capex/cash flow plowback rate at current strip prices.

Capex/Cash Flow Plowback (%)



Free Cash Flow Yield at Flat \$45/Bbl



Source: Company data, Credit Suisse

Exploration and Production (E&P)

More M&A, Likely at a Slower Pace: Following a flurry of corporate M&A transactions in 2H20, we see scope for further E&P sector consolidation into 2021 (although in our view, likely to play out at a slower clip vs. the recent wave of deals) as operators focus on the benefits of scale and look to further reduce oil price break-evens. In addition to scale/cost synergies, the Energy Transition theme is becoming a bigger rationale behind sector consolidation, both in terms of the ESG value proposition as well as a perceived market-cap “advantage” in a challenging investment environment for the Energy sector.

ESG Scrutiny: E&Ps have made significant progress on Sustainability reporting, particularly with respect to emissions-related metrics and (increasingly) GHG and methane intensity targets. We see a need for management teams to now articulate a clear path toward reaching these targets, which we see as critical in defining (and defending) how E&Ps fit into the equation as renewables continue to gain market share but global energy demand is still heavily reliant on oil and natural gas. We also expect to see more and more E&Ps add tangible ESG performance metrics to executive compensation programs in 2021.

Rating	Name (Ticker)	Company Data	Investment Case
Outperform	EOG Resources, Inc. (EOG)	Price: \$52.70 Target: \$58.00 Mkt Cap: \$30.7B	Bellwether large-cap E&P with one of the strongest balance sheets in the sector, ~3% dividend yield funded at ~\$38/Bbl WTI, discount to peers on EV/DACF (vs. historical premium), federal acreage exposure has been priced in.
Outperform	Cimarex Energy Co. (XEC)	Price: \$40.22 Target: \$40.00 Mkt Cap: \$4.1B	Above-average FCF yield, defensive balance sheet, attractive relative valuation.
Outperform	EQT Corporation (EQT)	Price: \$13.61 Target: \$20.00 Mkt Cap: \$3.8B	Top gas pick. Step-change improvements to leverage/liquidity over the past ~9 months, well-hedged in 2021, better FCF visibility, undervalued vs. oily peers.
Underperform	Occidental Petroleum Corporation (OXY)	Price: \$19.45 Target: \$8.00 Mkt Cap: \$18.1B	Recent relative outperformance leaves shares trading at an even steeper premium vs. peers, significant debt burden and liquidity constraints remain critical hurdle.
Underperform	Range Resources Corporation (RRC)	Price: \$6.88 Target: \$4.50 Mkt Cap: \$1.8B	Expensive relative valuation, net debt/EBITDX >4.5x at strip prices, still faces substantial 2021-23 debt maturity wall relative to projected FCF generation.

Integrated Oil and Bio-Fuels

Demand Normalization as Vaccine Trade Enters Phase 2

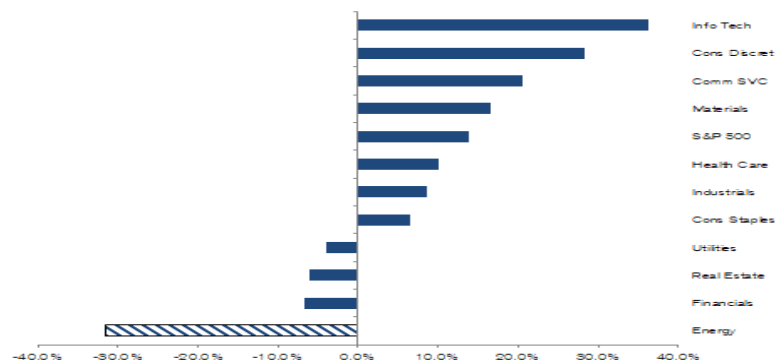
Vaccine Trade: Vaccine trade, which commenced on Nov 7, 2020, saw Energy outperform broader S&P by 37.3%. Yet YTD Energy has underperformed S&P by 45%. We expect vaccine trade will be major tailwind for refining margins and as refiners can raise runs demand for crude will go up. We expect in near-term refiners will lead Energy out of slump.

Dividend coverage: CNQ and IMO are already fully covering their dividend, and SU will get there by 4Q 2020. We expect at strip CVX will be able to just cover its dividend in 2021. We still have XOM falling \$1.5Bn short on discretionary cash flow, however a faster recovery in Jet Fuel / Refining margins could work in its favor. While vaccine trade has helped integrated Oil and refiners play catch up trade, investors would like to see full dividend coverage to lower risk of dividend cuts.

Investments in renewables: US refiners as well as global majors are making investments in lower carbon fuels of the future. VLO, MPC, PSX, CVI, and HFC are building renewable diesel capacity which is expected to come online in 6 to 48 months. Renewable diesel projects are expected to add to the diversified (non-refining) earnings stream of the independent refiners as well as lower the RIN exposure. CVX expects to spend \$300M in 2021 on for investments to advance the energy transition. We expect a high portion of it will be allocated to renewable natural gas, where CVX is leading the industry charge.

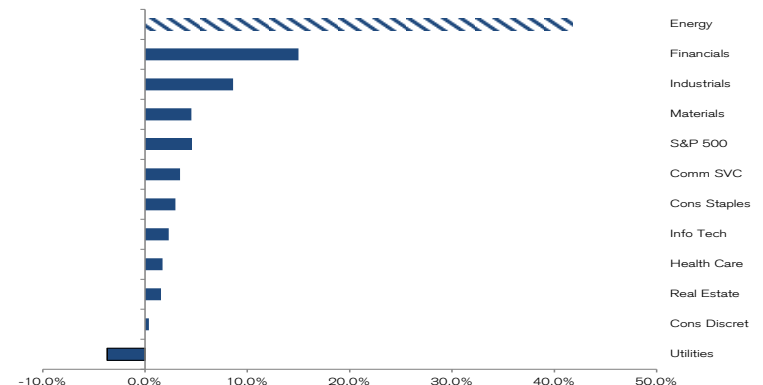
YTD Performance

Energy Has Lagged



Vaccine Trade Performance

Energy has Lead



Source: Company data, Credit Suisse

Integrated Oil and Bio-Fuels

Global Majors: Canadian majors have successfully lowered their breakeven and we believe they are setting up well for 2021 as refined product demand rebounds. CNQ has an all in breakeven of \$31/WTI, which is lowest amongst all global majors. SU has lowered its break even to \$35/bbl WTI and IMO is at \$36/WTI. With ENB Line 3 expected to come online in late 3Q 2021, we are very constructive on the Canadian Majors

US refiners: Gulf Coast jet fuel cracks that started 4Q 20 at \$2.0/bbl, post news of vaccine have moved to \$7.50/bbl. The Jet fuel cracks are rallying, as the market sees a strong demand recovery once mass distribution of the vaccine starts. While distillate and gasoline demand are ~95% normalized it's Jet demand that is still down 45%. This is weighing on refining margins, forcing refineries to operate at 80%, resulting in lower capture and higher opex/bbl. This is where the vaccine will be most effective, even if jet fuel demand normalizes to 80%, with refining capacity rationalization +2MMBp/d, refining as a sector can continue playing the catch up trade.

US Bio-fuels. Near term, Canada could implement a clean fuel standard, which opens a new market. We believe this will be positive for all renewable fuels: Renewable Diesel, Bio-Diesel, and Renewable Natural gas. After EPA has missed its Nov. 30 statutory deadline to set the 2021 renewable volume obligations, RINs are seeing an upward pressure, which is a margin tailwind for RNG, RD, BD, and ethanol. D3 RIN prices are up 19% QTD, D4 RIN prices are up 37% QTD, D5 RIN prices are up 38% QTD, D6 RIN prices are up 45% QTD.

Rating	Name (Ticker)	Company Data	Investment Case
Outperform	Suncor Energy (SU)	Price: \$22.31 Target: \$31.00 Mkt Cap: \$34.0B	With Alberta removing production curtailments, and SU wrapping up unplanned downtime, we believe the company is approaching an inflection point that will allow it to reverse relative near-term underperformance.
Outperform	Chevron Corporation (CVX)	Price: \$88.69 Target: \$97.00 Mkt Cap: \$170.7B	CVX offers one of the strongest balance sheet among the Majors, a reasonably low breakeven, and an attractive and low-risk growth outlook of short-cycle investment opportunities
Outperform	Darling (DAR)	Price: \$54.72 Target: \$67.00 Mkt Cap: \$8.9B	We expect Canada could implement a clean fuel standard which opens a new market. Rising RINS work in DARs favor.
Underperform	PBF Energy (PBF)	Price: \$6.74 Target: \$5.00 Mkt Cap: \$0.8B	Heavy West Coast exposure with a free cash flow burn, poor track record of execution. Over levered balance sheet
Underperform	Par Pacific (PARR)	Price: \$12.85 Target: \$9.50 Mkt Cap: \$0.7B	West Coast exposure, demand for non-business travel will take longer to recover. PARR has refineries in Hawaii.

Source: Company Data, Credit Suisse

Data as of 16-Dec-2020

Midstream

Embracing the Transition in More Ways Than One

Industry Overview: We expect 2021 to represent the first full year of the new midstream landscape. The sector has been evolving for years, but the global pandemic seems to have hastened that evolution.

Finally FCF Positive: After years of outspending cash flows, midstream companies are now generating positive free cash flow. We expect that trend to continue and accelerate in 2021+. Initially that cash flow will largely be allocated to de-leveraging; however, the rapid pace of de-leveraging sets up a meaningful capital return narrative beginning in 2022.

Embracing Energy Transition: We expect more companies to embrace the energy transition in 2021. Over the past year, a bevy of companies launched inaugural sustainability reports. We see this trend continuing and look for more substantive plans.

Optimization Before Consolidation: While M&A has been prevalent upstream, it remains absent in midstream. We expect companies to optimize with JVs and asset swaps before moving toward broader consolidation post 2021.

Exhibit 1 Alerian Midstream Index Performance

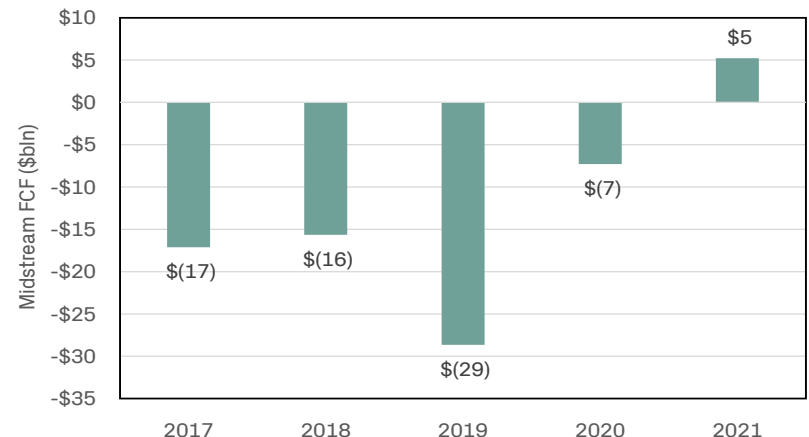
Midstream has been underperforming broader market



Source: Company data, Credit Suisse

Exhibit 2 Free Cash Flow After Dividends Inflection

Emerging free cash flow story could close the gap



Midstream

Battle Tested Balance Sheets Not Ready to Return Capital Yet: Midstream balance sheets have largely exited the 2020 pandemic and downturn unscathed. In fact, early action taken to cut costs, capex, and the distribution now has most of our coverage on track to boast better leverage levels. Encouragingly, several companies took steps to permanently reduce long-term leverage targets, recognizing the need to adjust to what is likely a slower growth period. While several companies have announced buyback programs, we don't believe buybacks will be heavily utilized until 2022 when leverage starts to achieve targets.

Energy Transition Likely a Long Road: While midstream acted somewhat quickly to embrace the energy transition, action here is likely to be measured and negligible initially. We don't expect midstream companies to aggressively step into the renewables or alternative energy space. Instead we see ongoing efforts to gain market share where companies have core competencies like hydrogen, bio-diesel, and renewable natural gas logistics. We expect more companies to announce Net Zero goals and formalize ESG strategies.

Just Not Ready to Combine Yet: While investors eagerly want industry consolidation; we suspect it may be a post-2021 event. Companies continue to focus inward on self-help measures. In many cases, M&A could be a leverage dilutive event for the acquirer who has no interest in inheriting a weaker balance sheet and making debtholders whole. The recent rebound in equity prices could actually be a catalyst for consolidation but thus far management teams continue to point to joint ventures, asset sales, or asset swaps as a way to optimize the market and fend off even more overcapacity and unnecessary capital spending.

Rating	Name (Ticker)	Company Data	Investment Case
Outperform	Cheniere Energy (LNG)	Price: \$59.05 Target: \$69.00 Mkt Cap: \$14.9B	We expect Cheniere LNG generate nearly 90% of its market cap over the next 5 years and potentially initiate a dividend in late 2021.
Outperform	Targa Resources Corp (TRGP)	Price: \$28.28 Target: \$34.00 Mkt Cap: \$6.5B	TRGP boasts a peer leading FCF yield and is one of the fastest de-levering stories under coverage with the right asset mix (Permian) for the next part of the cycle.
Outperform	Enterprise Products Partners LP (EPD)	Price: \$21.01 Target: \$27.00 Mkt Cap: \$45.9B	EPD is the stalwart pick of the group due to its blue chip balance sheet and strategically irreplaceable asset base – and still a double digit, safe yield.
Underperform	NGL Energy Partners LP (NGL)	Price: \$2.86 Target: \$2.50 Mkt Cap: \$0.4B	NGL trades in-line with peers despite a balance sheet at risk of breaching its covenant and a main customer undergoing bankruptcy.
Underperform	EnLink Midstream LLC (ENLC)	Price: \$3.80 Target: \$3.50 Mkt Cap: \$1.9B	ENLC has made considerable balance sheet progress but its asset mix and lack of scale keep us cautious about its ability to growth longer-term.

Source: Company Data, Credit Suisse

Data as of 16-Dec-2020

Oilfield Services & Equipment

Growth outlook to flip in favor of int'l in 1H21 as structural headwinds limit NAM

Industry overview: The US E&P playbook for 2021 is a headwind for NAM OFS, w/most spending at maintenance levels. We expect an inflection in int'l/offshore in 1H21 as projects paused (COVID-19) resume. NAM is near the end of its growth runway.

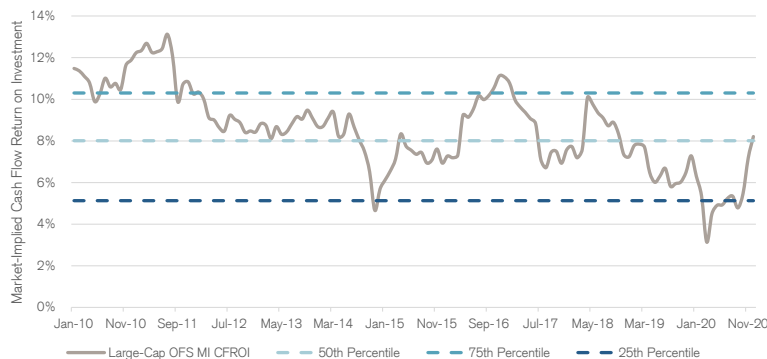
Structurally impaired NAM set for third year of declines: We expect '21 US operator capex to decline by a low- to mid-teens percentage. While we see q/q growth in 1Q/2Q, we expect service capacity oversupply to limit organic margin improvement.

International & offshore markets slipped in 2020, but are poised to move higher in '21: FID activity excluding the NFE expansion sits at roughly one-third of 2019 levels. However, we expect FID activity to pick up in 1H21 driven a combination of Brazil (deepwater) and Middle East (onshore & shallow water), which make up about one-half of potential 2021 FIDs.

Energy Transition in OFS is multi-faceted: There are direct transition efforts around renewables (hydrogen, wind, geothermal) & carbon-reduction (CCUS, e-frac). OFS companies have addressed this across the value chain from seeding renewable-focused startups (i.e., HAL labs) to equipment manufacturing (i.e., NOV's offshore wind vessel packages).

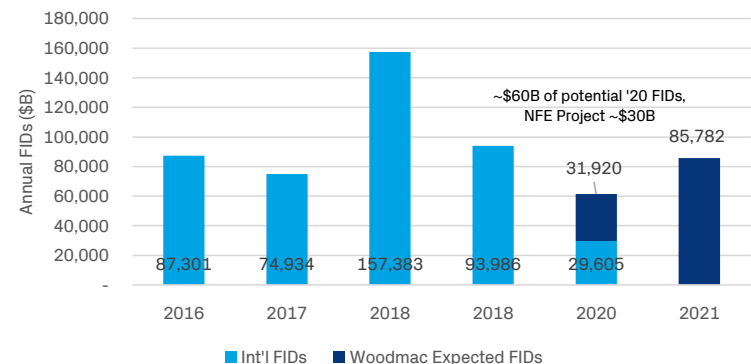
CS HOLT Implied CFROI – Large Cap OFS (2010 – Present)

OFS valuations reflect a ~100bps discount to historical median



WoodMac Annual FID Activity in (\$B) – 2016 – 2021E

FID activity weak in 2020 as expected, Potential for 2021 uptick



Source: Company data, Credit Suisse, Wood Mackenzie

Oilfield Services & Equipment

OFS playbook: We see NAM levered OFS equities as already reflecting a healthy recovery. But investors face a tricky tightrope act in light of (1) the rotation/reflation trade and (2) OFS equities recent tight correlation with value indices. If that macro trade holds, we'd expect OFS equities to benefit. However, we'd look to rotate to the int'l names where we see fundamental upside (BKR, CHX).

The 'value trade' in focus: OFS equities are typically tightly correlated to crude prices. Over the past ~10 years, the OIH has an r-squared of ~0.7 vs crude oil and ~0.8 vs value. However, on a trailing 12-month basis, that relationship has blown out. The r-squared vs crude sits at ~0.6 with the r-squared vs value at ~0.95. We think this is an important nuance in the context of the ongoing broad debate over the reflation trade.

Large-cap oilfield service equities look slightly expensive: From a valuation perspective, large-cap OFS valuations appear slightly stretched, in our view. We leverage our HOLT teams' Cash Flow Return on Investment (CFROI®, a measure of cash on cash returns in real terms) framework when making this judgement. The long-term CFROI® for large-cap oilfield services is ~8%. We estimate the stocks currently discount a ~8% CFROI while the consensus currently forecasts a next-12-months CFROI of 4.5%.

Rating	Name (Ticker)	Company Data	Investment Case
Outperform	ChampionX (CHX)	Price: \$14.75 Target: \$15.00 Mkt Cap: \$2.9B	CHX is our preferred defensive SMID OFS name, given its production orientation, high-quality portfolio, and idiosyncratic cost-out and revenue growth opportunities. (Recent Report)
Outperform	Baker Hughes Inc. (BKR)	Price: \$21.50 Target: \$20.00 Mkt Cap: \$22.3B	BKR has a higher-quality & more diversified portfolio and a more favorable two-year earnings outlook (2020-22 EBITDA CAGR of 12% vs HAL/SLB at 4%/6%) and trades at a slight discount relative to HAL/SLB. (Recent Report)
Outperform	National Oilwell Varco (NOV)	Price: \$13.94 Target: \$15.00 Mkt Cap: \$5.4B	NOV has one of the best through-cycle returns in the space with orders and results troughing near-term while the stock discounts terminal returns well below cost of capital, upside from emerging offshore wind market. (Recent Report)
Underperform	RPC, Inc. (RES)	Price: \$3.70 Target: \$1.80 Mkt Cap: \$0.8B	We see NAM frac improving but still loose in '21, meaningful FCF isn't likely until '23 (CSe); RES trades at \$42M/fleet vs. peers at ~\$16-18M. (Recent Report)
Underperform	Patterson-UTI Energy, Inc. (PTEN)	Price: \$5.58 Target: \$2.75 Mkt Cap: \$1.0B	We see PTEN's '21 outlook as challenged & a '22 activity ramp likely offset by incremental working capital requirements; normalized FCF generation and long-term returns outlook underwhelming (& impaired in our view). (Recent Report)

Renewables and Alternative Energy

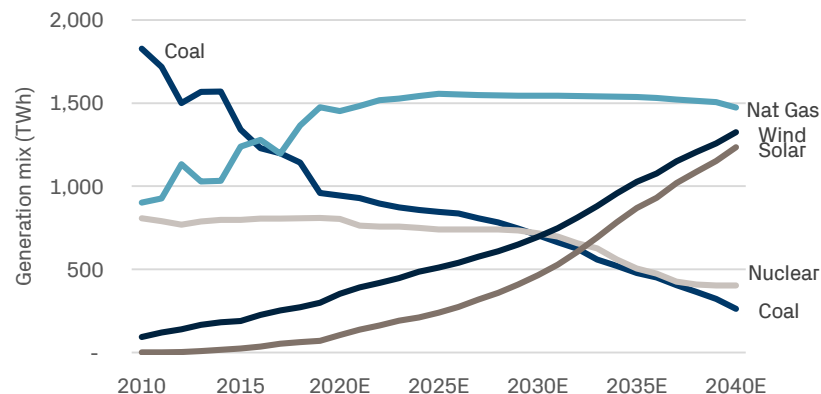
Beyond Energy Transition - More Tailwinds in Store

Industry Overview: 2020 emerged as the hockey stick moment for the sector mainly driven by resilient demand despite COVID-19 lockdowns, accelerated policy and consumer renewable demand, and as the terminal value rotates from traditional energy sectors to sustainable ESG compliant alternatives. Multiple expansion is driven by favorable policy, lower cost of capital, and push into new technologies (batteries and hydrogen) that expand TAM and accelerates secular demand growth for intermittent low cost renewables. In addition to these factors, we expect focus on growth and profitability in 2021, though any weak news could drive exaggerated weakness amid high multiples.

Biden policy push – greener old deal or green new deal: A Biden presidency is positive for our coverage as his policies and executive orders will accelerate renewable demand, by up to 2x current runrate, to meet his proposed zero carbon by 2035 target. However, the aggressive goals require legislative support (at House and Senate) to extend renewable tax credits, and judicial support for executive actions that support renewables at various agencies. We expect a demand rush in 2021, to safe harbor 2020/21 tax credits, if the Senate is unable to extend renewable tax credits

Exhibit 1 US electricity demand

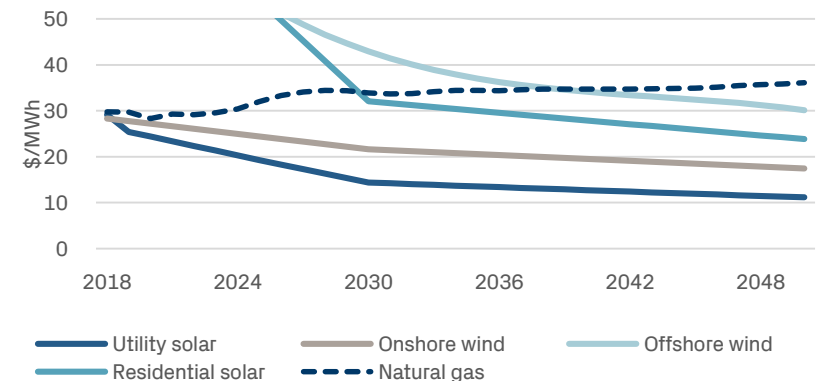
Secular renewable demand to replace coal/gas/nuke



Source: Credit Suisse, EIA, WoodMac, EIA

Exhibit 2 Declining LCOE for wind and solar

Lowest cost technologies



Renewables and Alternative Energy

Battery storage at the center of grid evolution: Battery storage adoption continues to grow driven by economics and reliability needs for all classes of solar customers, with penetration rates of ~10-15% on average for residential solar customers and up to 50% for new utility scale solar projects. Expect demand to accelerate if congress approves battery tax credit. FERC order 2222 and 845 also open up new monetization opportunities, and creating a path for distributed batteries to offer grid services as virtual distribution utilities or virtual power plants.

Hydrogen hydrogen every where...: Green hydrogen demand is supported favorable policy in Europe, Asia, California and other states to replace fossil fuels in transportation in the near term and stationary storage in the long term. We expect announcements around pilot tests and commercialization in 2021, and be competitive with diesel in three to five years and with energy storage in 5-10 years.

Interest rates could curb some enthusiasm: Rising interest rates are negative for the industry, especially given high upfront investment in a capital industry and higher leverage (>75% project debt on average). Though higher rates could be partially offset with lower spreads for renewables vs other technologies, continued cost reductions, and higher demand for green/ESG complaint sectors.

M&A and consolidation: Expect M&A in the hydrogen space as industrials, chemicals, and traditional fossil fuel based companies (production, turbines, distribution, etc..) seek expertise/partners in fuel cell/electrolyzers. Also expect M&A in residential solar/batteries as solar developers and inverter/battery manufacturers seek to ramp up grid services offerings.

Rating	Name (Ticker)	Company Data	Investment Case
Outperform	Sunrun (RUN)	Price: \$61.80 Target: \$68.00 Mkt Cap: \$12.2B	Market leader with ~20% share of residential solar market, lowest cost structure, differentiated in house sale. Tailwinds from grid services (as virtual power plant) not in our TP yet. 11/6 RUN: Sunny Outlook Prevails
Outperform	NextEra Energy Partners (NEP)	Price: \$63.97 Target: \$71.00 Mkt Cap: \$4.7B	Best in class renewable yieldco growing distributions at 12-15%/yr through 2024 supported by a strong sponsor (NEE), delayed capital needs, and a growing supply of third party projects.
Outperform	Bloom Energy (BE)	Price: \$25.88 Target: \$27.00 Mkt Cap: \$4.3B	Leader in fuel cells for stationary power generation. Solid oxide technology has a higher efficiency and is poised to take advantage of a large hydrogen fuel cell and electrolyzer opportunity.
Underperform	First Solar (FSLR)	Price: \$91.77 Target: \$64.00 Mkt Cap: \$9.7B	Thin film technology could likely benefit from under supply of crystalline silicon supply chain, but faces ASP cliff in 2022 as Biden is unlikely to extend protectionist Section 201 import tariffs.

Utilities (Electric and Gas)

Left Behind but Cleaning Up Well

Decarbonization and grid upgrades are providing investors with some very attractive opportunities. Utilities severely underperformed the S&P 500 in 2020, leaving the year nearly 20% below fair value based on regression to 10-Year bond yields of 1.0-1.3%. This is despite no significant financial harm to most utilities as a result of economic contraction during the COVID19 pandemic and increasing forecasted asset and earnings growth over the next decade from accelerating efforts to decarbonize and modernize both electric and gas transmission and distribution grids.

Nevertheless, utilities could struggle to rally into 2021 as large-cap technology stocks appear to be the newly preferred COVID19 safe haven and rising 10-Year bond yields are set to pressure the utilities sector as well. Furthermore, we see massive monetary and fiscal stimulus potentially causing regulated utilities to underperform their more integrated peers with non-regulated subsidiaries as funds rotate even further away from traditional defensive sectors into cyclical and value stocks.

Exhibit 1 Utilities Left Behind Again

Relative Forward P/E – UTY vs Equal-Weighted S&P 500 Index

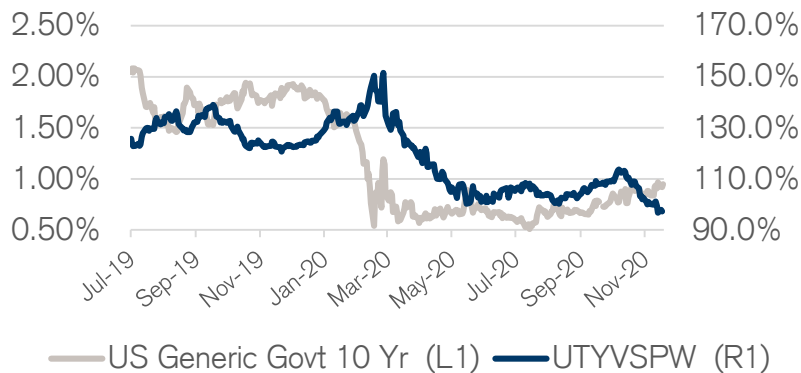
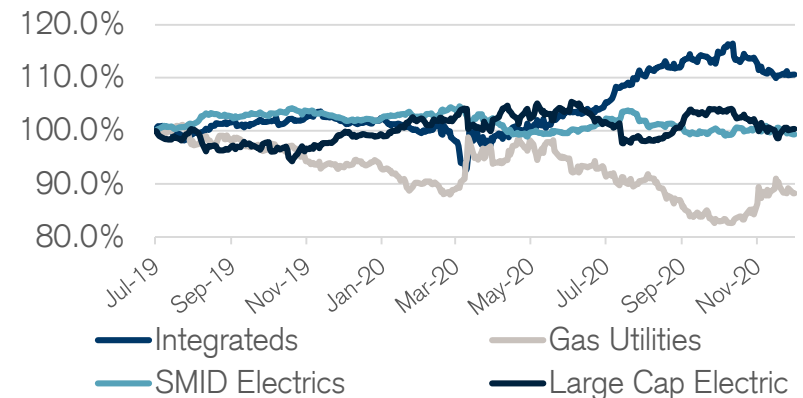


Exhibit 2 Utility Subsector Relative Performance

Gas Utilities on the Rebound and SMIDs Trading Better



Source: Credit Suisse, Bloomberg

Utilities (Electric and Gas)

Left Behind but Cleaning Up Well

More renewable power sustains earnings growth for at least another decade or two. We estimate annual net utility capex across the industry of ~\$26-28B/yr from 2019 to 2030 under nominal renewable growth rates (the 42% base case in the figure above that calls for 17 GW/yr solar/wind) assuming the replacement of retiring coal plants with a combination of renewables and natural-gas fired generation.

Environmentalist opposition to natural gas infrastructure worries some gas utility investors. Despite some mean reversion in 4Q20, gas utilities still trade at a meaningful 5% discount to electrics. However, we see concerns of possible slower gas distribution investment as premature, especially with a viable hydrogen economy likely 20 years away (see our [Hydrogen Huddle conference notes from 9/17](#)) and the focus of most gas utility capex on safety and main replacement. Outperform rated CNP and NI are also planning pilot blending projects with hydrogen and renewable natural gas.

Rating	Name (Ticker)	Company Data	Investment Case
Outperform	CenterPoint Energy Inc (CNP)	Price: \$21.87 Target: \$26.00 Mkt Cap: \$11.9B	A nearly 90% regulated electric and gas utility in Texas and Indiana with additional gas utility operations in Minnesota and Ohio. Recently announced an acceleration of ratebase and EPS growth to best-in-class 10% and 6-8%, respectively.
Outperform	Pinnacle West Capital Corp. (PNW)	Price: \$78.65 Target: \$92.00 Mkt Cap: \$8.9B	Regulated utility of Phoenix AZ, with plans to aggressively decarbonize over the next 15 years through a combination of coal plant retirements and replacement with renewables and batteries.
Outperform	Vistra Energy (VST)	Price: \$18.08 Target: \$32.00 Mkt Cap: \$8.8B	A fully unregulated power production and retail model centered in Texas with additional assets and operations in Illinois, the Mid-Atlantic, and California. VST generates \$2.3B FCF and trades at >20% cash yield.
Underperform	WEC Energy (WEC)	Price: \$92.27 Target: \$83.00 Mkt Cap: \$29.1B	Underperform on valuation. Upper Midwest regulated electric and gas utility with above-average EPS growth 5-7% and superb management team, but the stock trades well above our TP despite our assignment of a 3x premium to peer 2022 P/Es with our SoTP.

Sector Summary

Macro Backdrop Uncertain but the Critical Variable in 2021

Industry Overview: With success on the Covid-19 vaccine front, we estimate rapidly improving economic activity could steepen the yield curve and improve the outlook for both loan growth and credit quality. Specifically, positive macro developments could lift the profit trajectory for some of the more “value” segments including banks, specialty financial and life insurance. However, the 3Y+ core profit growth outlook remains more attractive in the alternative asset managers (GP consolidation), exchanges (datafication) and P&C insurance (hard pricing market).

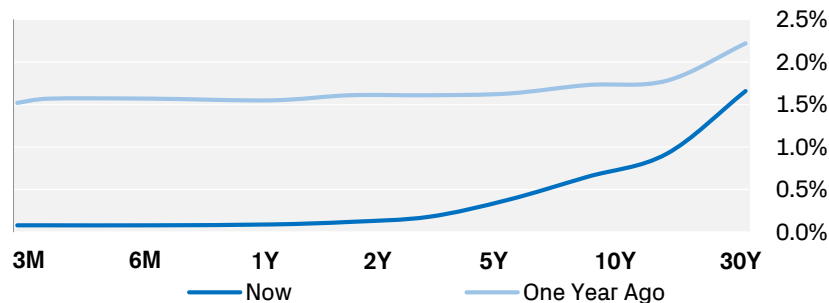
Cyclical recovery: Stronger economic growth in 2021 could translate to materially lower than forecast credit costs, a steeper yield curve and a net positive impact on loan growth, all of which would benefit the earnings, returns and valuations of both banks and specialty finance names. Within the banks, we consider JPM and BAC to be the best-positioned and SYF within specialty finance. Alternatively, if corporate T&E budgets remain depressed versus 2015-19 levels, we think AXP could lag in the recovery.

M&A: While M&A remains restrictive for mergers among too big to fail banks, we see continued elevated merger activity within asset management and insurance (where TBTF banks could participate). Low valuations in life insurance are causing the firms to unload blocks of fixed and variable annuities with the sponsored life cos of the US alternatives the main buyer (APO-ATH, KKR-GA, BAM-AEL); we expect this to continue. Additionally, cheap valuations among the US traditionals are causing an increase in M&A too (MS-EV, BEN-LM) and we think activism may encourage more (IVZ, JHG, BSIG).

Regulations: We expect the regulatory front to cool under the Biden administration. This includes with a less friendly CFPB which could provide some negative surprises in specialty finance. Among the banks, we believe the regulatory risk is manageable but the outcomes will be less positive than under the Trump administration.

Yields are Near Trough Levels

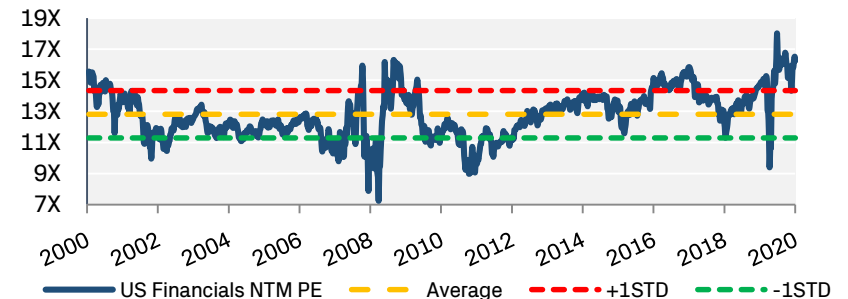
Improving Economic Activity could Steepen the Yield Curve



Source: Factset, Credit Suisse, US Financials based on IYF - iShares US Financials ETF

Financials NTM PEs are trading above historical levels

Multiples are Improving with Rebounding Economic Activity



Asset Managers & Brokers

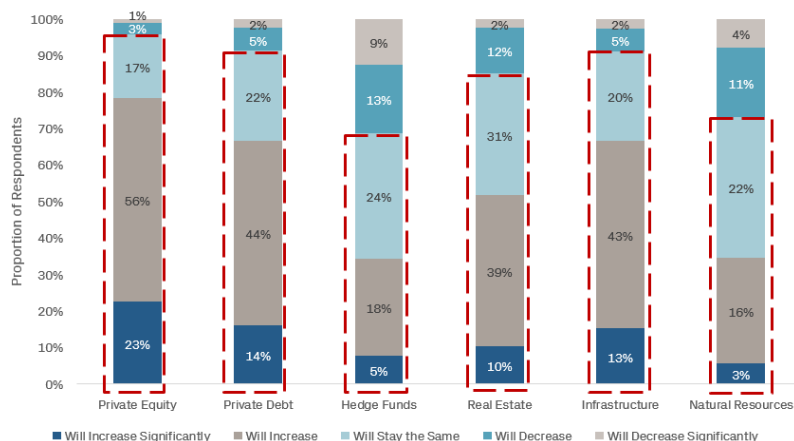
Still Favor the Alternative Asset Managers, with APO as our Top Outperform

Alternatives – best positioned: The secular growth trajectory will continue given the low rate backdrop and GP consolidations. We expect the strongest NT fundraising at KKR (US buyout, Infra, Euro buyout) and the largest fundraising re-acceleration at CG (into 2022 with next super-cycle). We forecast continued strong fundraising at BX but its large ~\$600B AuM base makes it more difficult to generate high growth rates.

Brokers – market-weight: We expect weaker net interest revenues due to the sharp decline in interest rates in 2020. We are concerned that the low interest rate backdrop will persist for a long time which drives our market-weight recommendation for the US Brokers, with many brokers exhibiting high rate sensitivity. FOCS, IBKR, and LPLA are rated Outperform and all three have below average interest rate sensitivity.

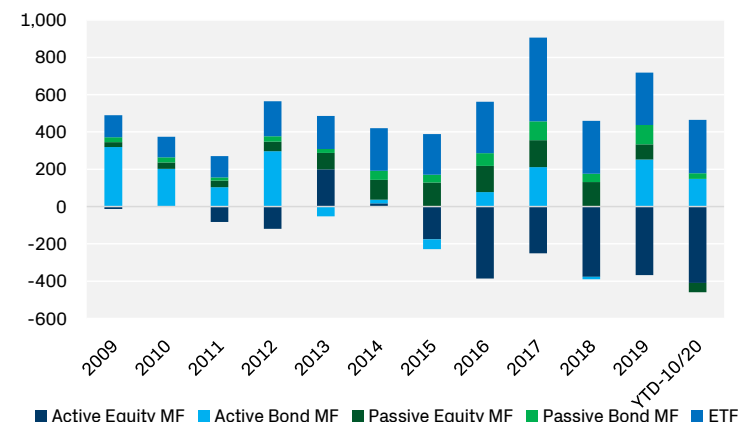
Traditionals - worst positioned: We remain cautious on the traditionals despite depressed valuations due to the continued pressures to organic growth in traditional product. While we remain Underperform on BEN, we upgraded JHG to Neutral owing to fears that activist shareholder Trian would encourage a sale, and we are cautious on IVZ after the stock's rebound / higher valuation (EV to EBITDA) and expectations that 4Q20 flows will deteriorate again. However, we reiterate our Outperform ratings on BLK (strongest organic story) and BSIG (takeout candidate + Landmark fundraising cycle starts in 1H21).

LP's Plans for Allocation to Alts by 2025



Source: Prequin, Credit Suisse

Net Flows: The active-to-passive migration



Source: Strategic Insights, Credit Suisse

Asset Managers & Brokers

Key Themes

Alternatives' secular growth trajectory to continue + GP consolidation theme: Expect strongest near-term fundraising at KKR (US buyout, Infra, Euro buyout) and the largest fundraising re-acceleration opportunity at CG (into 2022 with its next super-cycle). We forecast continued strong fundraising at BX but its large ~\$600B AuM base makes it more difficult to generate a high growth rate.

Continued robust inflows across fixed income (active & passive) as investors' thirst for yield continues: We believe BLK is by far the best-positioned given its scaled bond platform across active, institutional index and ETFs. PIMCO (Allianz) is also well positioned outside of our coverage.

Industry consolidation (M&A): We believe there is more alpha in owning the takeout targets (BSIG, WETF). We also look for LPLA to continue recruiting and acquiring financial advisors and for FOCS to keep buying stakes in RIAs, while competition for RIAs intensified in 2020 (CI Financial). We also think IVZ, with new motivations from activist shareholder Trian, could announce a large acquisition in 2021 which provides sizable NT expense synergies but longer-term revenue dis-synergy risks.

Rating	Name (Ticker)	Company Data	Investment Case
Outperform	Apollo Global Management LLC (APO)	Price: \$49.33 Target: \$55.00 Mkt Cap: \$21.8B	APO is our top long due to its attractive valuation (20-25x FRE with zero value for p-fees/book) and we expect i) p-fees to recover by mid-2021, ii) 1-3 large insurance transactions by 4Q21 (they aren't factored into current EPS estimates) and iii) the Fund X raise to benefit sentiment (2H21/2022).
Outperform	Focus Financial Partners (FOCS)	Price: \$44.51 Target: \$46.00 Mkt Cap: \$3.2B	FOCS is a pure RIA business which exists in the fastest growing segment of financial services. At 12x EPS and with zero interest rate exposure, we think FOCS is undervalued and fast EPS growth is the key driver of our Outperform thesis.
Outperform	BlackRock (BLK)	Price: \$698.37 Target: \$702.00 Mkt Cap: \$106.5B	BLK owns the largest ETF manager in the world, which has dominant share across all key product segments and in most geographies. We also continue to view Aladdin as an important competitive advantage for BLK, which should support future revenue growth.
Underperform	Franklin Resources (BEN)	Price: \$24.75 Target: \$22.00 Mkt Cap: \$12.5B	We believe BEN's weak investment performance (especially in several flagship strategies including global macro) will continue weighing on net flows. Moreover, similar to other mega-mergers, there are potential dissynergies (execution risk that could materialize from the LM merger).

Source: Company Data, Credit Suisse

Data as of 16-Dec-2020

Banks: Large Cap

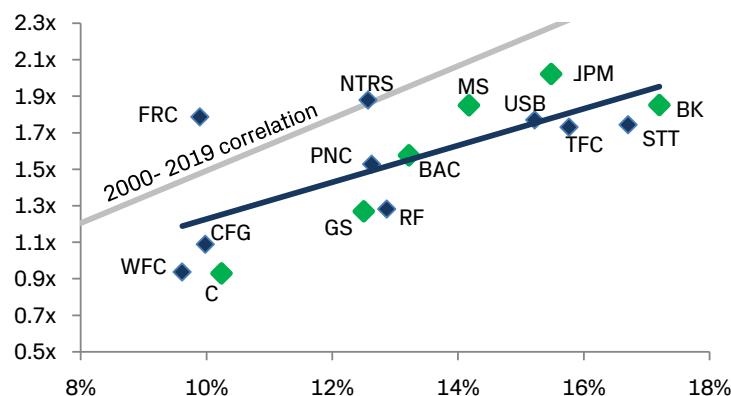
Cursed or Cured... Leaning in to the Cured (more bullish on the banks)

Leaning in to the Cured; Risk Management is the Ultimate Vaccine for the Banking Industry... for the better part of the last two decades, bank stock valuation multiples have compressed. We now stand at a cross roads. The banking industry has been tested by the pandemic-induced cyclical turn--tested and performing and recovery is now on the horizon. We're equally as cognizant of uninterrupted competitive intensity (more painful in a mature industry, with low interest rates) and the potential for a changing regulatory ethos. Near term, we expect macro recovery to be an overwhelming positive, benefiting most, if not all banks--this is step one. A greater appreciation for reduced cyclicalality, risk adjusted returns and yield should support a measure of revaluation for industry leaders--this is step two--resilience worthy of a multiple.

Key Themes in 2021: macro will always feature first (recovery in focus) with regulatory a close second (all eyes on changes at the Fed; changed leadership in DC) and continued focus on competitive dynamics and prospects for marked market share consolidation.

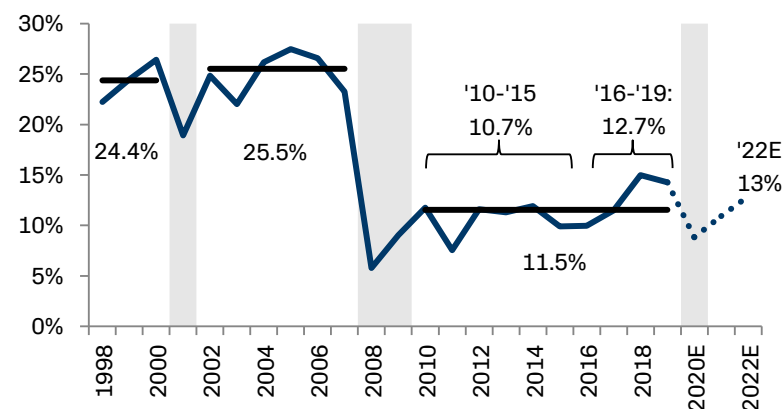
Large Cap Banks

TP to 2022E TBV vs. 2022E ROTCE



Large Cap Banks

ROTE History and Forecast



Source: Company data, Credit Suisse, SNL Financial

Banks: Large Cap – Five Key Themes for 2021

Macro First: The Road to Recovery. Given the historically tight correlation between GDP growth and banking industry fundamentals (loan growth, capital markets activity, credit quality migration), confidence in the macro path is critical, reliant on fiscal stimulus and a return to “normal”.

Regulatory Risk: Real, But Manageable in Light of Observed Resilience. 2020’s challenges evidenced the efficacy of the existing regulatory framework. Even so, we’re mindful of the risk related to a changing regulatory ethos (higher SCBs in harsher CCAR scenarios, use of the countercyclical capital buffer, the lack of GSIB surcharge recalibration), albeit within the context of proven resilience through this period of stress.

Cyclical Recovery Benefits Most Banks Near Term and Then What... Consolidation. We see an increasingly Great Divide between the haves and the have nots. The still quite significant degree of market share fragmentation across banking products and markets will be the fuel for growth, via accelerating organic market share shifts to the “haves”; this will further pressure the “have nots”. Simply put, catalysts are in place for consolidation.

Competitive Intensity Favors the Scaled, Complete, Tech-Embracing, Marketers. With the support of stimulus and the Fed, there was no diminution of competitive intensity; our recommendations favor the profitable market share takers—the scaled, tech-embracing marketers able to compete on price, but at least equally as willing and able to invest.

Prospects for Revaluation: Resilience Worthy of a Multiple.

Rating	Name (Ticker)	Company Data	Investment Case
Outperform	JPMorgan Chase & Co. (JPM)	Price: \$120.67 Target: \$142.00 Mkt Cap: \$367.6B	JPMorgan best represents the value inherent in the universal banking model leveraging its complete, scaled and well-integrated product set to drive profitable and sustainable revenue growth. Add to that operating leverage and capital efficiency. Together, this sustains above-average returns through the cycle.
Outperform	Bank of America Corp. (BAC)	Price: \$28.72 Target: \$36.00 Mkt Cap: \$248.5B	Bank of America is driving value through optimization of its complete, scaled, branded and well integrated universal banking model. Organic revenue growth, sustainable and visible operating leverage, manageable credit cost increases and capital efficiency will drive realization of franchise value—sooner rather than later as the consistency of Bank of America's performance is more appropriately appreciated.
Outperform	Goldman Sachs Group, Inc. (GS)	Price: \$243.77 Target: \$325.00 Mkt Cap: \$83.9B	Share price outperformance relies on earning power near term and ROTE prospects longer term. With each quarter and quarterly discussion, Goldman's three-year plan is becoming more credible with targets looking increasingly achievable, in a normalized environment.

Source: Company Data, Credit Suisse

Data as of 16-Dec-2020

Exchanges

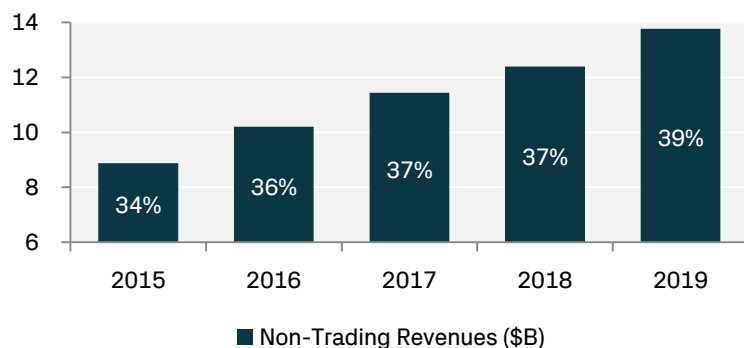
Evergreen & Evolving – Focus Shifts to Deal Integration & Growth Exiting Crisis

Industry Overview – positive with long-term growth opportunities intact exiting the crisis: The US Exchange sector navigated the global pandemic in a commendable manner, with market structure, technology and products performing as designed despite unprecedented volatility and workforce disruption. In addition, companies continued to invest for long-term growth through organic initiatives and new acquisitions. Accordingly, we view competitive moats and growth opportunities as intact and believe business models will emerge from the crisis relatively unscathed. That being said, we remain selective with our stock preference as we expect continued macro headwinds (ongoing pandemic, monetary policy...) to weigh disproportionately on certain names over the next 6-12 months.

Key Themes in 2021 and Our Stock Selection: We highlight and evaluate six industry drivers and themes that inform our stock selection over the next 12 months. Our Outperform-rated stocks are NDAQ, TW, and ICE.

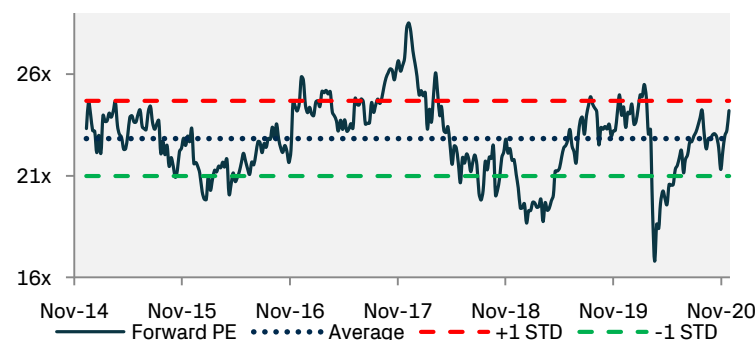
Global Exchange Recurring Revenue Contribution

Expect continued expansion of Data and Technology segments



Relative Group Valuation Modest Despite 2020 Performance

Group trades at ~25% discount relative to 6Y avg. versus S&P 500



Source: Company data, Credit Suisse

Exchanges: Six Industry Drivers and Themes in Focus

“Datafication” Tailwinds Intact and Accelerating: Data revenues were more resilient than expected and surprised to the upside in 2020 amid the crisis. We believe the pandemic may have accelerated some of these industry trends as we forecast mid to high single-digit revenue growth from core data & information solutions segments in 2021.

Challenging Volume & Volatility Setup: Given tough year-over-year comps and near-term cyclical headwinds (interest rates, oil, volatility...), we see a challenging backdrop for transactional volume and revenue growth in 1H/2021. We expect trading businesses with structural tailwinds to outperform peers on a relative basis.

M&A Activity to Decelerate Over Next 12-Months: Exchanges continued to invest in key growth initiatives, return cash to shareholders and acquire assets despite the crisis in 2020. Given several large transactions, we expect M&A to slow over the next 12-months (smaller bolt-ons more likely) as companies integrate recent acquisitions.

Regulatory Risks Manageable, But Headline Risks to Persist: Platform technology & products functioned as intended even during the height of the pandemic. That said, two items with headline risk include SEC equity market initiatives and proposals for a Financial Transaction Tax (which has potential to be more disruptive to the broader ecosystem in our opinion).

Reasonable Valuation Despite 2020 Outperformance: Sector valuation remains modest and currently trades at a 20-25% discount relative to its 6Y average versus the S&P 500. We see potential for multiple expansion versus long-term metrics as companies today are more diversified by product, business, and client type, with access to new high-growth revenue sources.

Investor Concerns & Risks... (1) Several new exchange entrants over the past 12 months (MEMX, The Small Exchange, MIAX PEARL, LTSE) adding to an already competitive landscape. (2) Limited EPS and margin y/y growth expectations following solid 2020. (3) Continued macro and pandemic related pressure impacting core trading & recurring products heading into 2021.

Rating	Name (Ticker)	Company Data	Investment Case
Outperform	Tradeweb Markets (TW)	Price: \$66.08 Target: \$68.00 Mkt Cap: \$15.0B	Diversified business with secular tailwinds positioned to gain market share and grow revenues & margins through cycles, with capital deployment event (M&A or special dividend) expected over next 6-12 months.
Outperform	Nasdaq (NDAQ)	Price: \$127.10 Target: \$147.00 Mkt Cap: \$20.8B	Continued strategic pivot towards high growth Solutions businesses (data, analytics, technology...) coupled with disciplined capital policy to drive upside to margins, share price and company multiple from current levels.
Outperform	Intercontinental Exchange (ICE)	Price: \$111.31 Target: \$114.00 Mkt Cap: \$62.5B	Attractive transactional versus recurring revenue product mix, with recent (Ellie Mae/Mortgage Tech) deal to improve long-term organic growth profile and company multiple (positive on SOTP analysis).

Source: Company Data, Credit Suisse

Data as of 16-Dec-2020

Insurance: Life

Compelling Valuation and Catalysts

Industry Overview: Life company valuations appear compelling as the sector has weathered COVID-related challenges in 2020, including elevated mortality, lower interest rates, credit impacts, and sales disruptions. Strong balance sheets have been key to the sector's solid performance, and have allowed nearly all companies to avoid raising equity. In 2021, we expect many companies to focus on accretive M&A and block transactions to free up capital. In our view, valuation for the life sector remains attractive, as the group continues to trade at or below historical averages versus the S&P 500 and other financials.

Potential for Block Transactions: We estimate ~\$500B of fixed annuity (FA)/fixed indexed annuity (FIA) and \$1.2T of variable annuity (VA) reserves among the largest holders. Several management teams have recently indicated interest in such transactions, and there appears to be numerous potential buyers. VA writers could free up capital by either divesting VAs or by packaging FA/FIA and VA blocks to mitigate risks.

Positives for 2021: Reduced COVID-19 pressures driving improved growth and returns, compelling valuation and catalysts including M&A, and continued balance sheet strength and sound risk management.

Challenges for 2021: Continued headwinds from lower interest rates, and potential uncertainty around the regulatory/tax landscape under a new administration (and depending on the outcome of the Georgia Senate runoff elections).

Compelling Valuation vs. the S&P 500 and Other Financials

	Relative 12-Month Forward P/E (5-Year)				
	Life Sector 12-Month Forward P/E	S&P 500	Broker Dealers	Asset Managers	Banks
High	12.1x	67%	71%	80%	82%
Low	3.7x	27%	39%	48%	45%
Average	8.9x	51%	57%	68%	72%
Current	7.6x	34%	43%	56%	56%

Potential for Block Transactions to Free Up Capital

<i>\$ in billions</i>	Reserves / AUM		
	FA + FIA	VA	Total
US Public Carriers	\$259.3	\$668.8	\$928.1
US Subs of Foreign Carriers	99.1	310.1	409.2
Private Carriers and Mutuals	139.0	204.3	343.3
Total	\$497.4	\$1.2T	\$1.7T

Source: Company data, FactSet, Credit Suisse estimates. See our "Connecting the M&A Dots" [presentation](#) for more detail on estimated FA/FIA/VA reserves.

Insurance: Life

We continue to favor companies with robust excess capital, capital-light businesses, and favorable risk profile: AMP, ATH, EQH, and VOYA each have estimated excess capital at 18% or more of adjusted book value, while GL and PRI feature stable underwriting results and less sensitivity to interest rates. We think that AMP, EQH, and LNC could divest blocks of business to free up capital, with ATH and RGA among a number of potential buyers.

Companies have adjusted products and pricing in response to interest rate headwinds: AMP recently put its FA/FIA block in run-off, LNC has de-emphasized sales of interest-sensitive annuity and life products, and PRU plans to discontinue sales of VAs with guaranteed living benefits. There has been a shift to capital-light product areas, including buffered annuities (RILAs), group benefits, and group retirement services.

Credit impacts could linger, but to-date losses/migration have been manageable: Numerous companies have cited lower credit impacts than initially expected, but uncertainty persists regarding the economic recovery in 2021. We think increasing credit and economic certainty should drive a greater willingness to deploy capital, likely via share repurchases given cheap valuations.

Rating	Name (Ticker)	Company Data	Investment Case
Outperform	Voya Financial (VOYA)	Price: \$57.42 Target: \$78.00 Mkt Cap: \$7.3B	Capital-light business mix (Retirement, Investment Management, Employee Benefits) positioned for d.d. EPS growth and re-rate, and upside via buybacks.
Outperform	Ameriprise Financial (AMP)	Price: \$189.74 Target: \$227.00 Mkt Cap: \$22.4B	Poised for d.d. long-term EPS growth, supported by leading Advice & Wealth Management franchise and robust buybacks (with potential for add'l capital release). See our recent management meeting note for more detail.
Outperform	Equitable Holdings (EQH)	Price: \$25.68 Target: \$32.00 Mkt Cap: \$11.4B	Compelling valuation, robust capital and best-in-class economic hedging, and potential to re-rate post recent legacy VA reinsurance transaction with Venerable.
Outperform	Athene (ATH)	Price: \$42.40 Target: \$55.00 Mkt Cap: \$8.1B	Substantial deal potential and flexibility to execute deals of all sizes and complexities, along with ability to achieve EPS growth via organic deployment. See our recent management meeting note for more detail.
Outperform	Globe Life (GL)	Price: \$93.53 Target: \$122.00 Mkt Cap: \$9.8B	Consistent high s.d. EPS growth and ~14% ROE profile supported by access to underserved middle-market via exclusive distribution, per our mgmt meeting note .

Source: Company Data, Credit Suisse

Data as of 16-Dec-2020

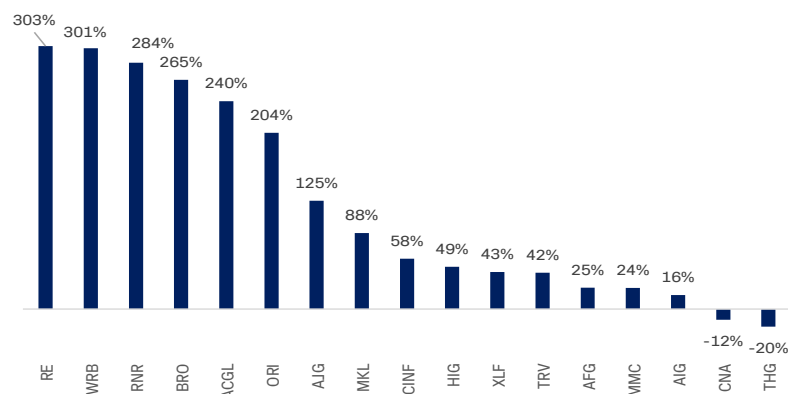
Insurance: Property & Casualty

A Look at the Past Indicates P&C Stocks Have EPS Momentum in 2021

Theme 1: Conditions for Commercial Insurance Pricing To Remain Above 5% Levels Are Likely To Persist Through 1H'21; A Look at the Past Indicates Stocks Should Have Momentum in 2021

Theme 2: Telematics and Direct-to-Consumer “D-2-C” Sales Penetration on The Rise; Progressive Remains Best Positioned To Capitalize Due To Its D2C Expertise and Telematics Data Lead

P&C Insurance and Brokers Stock Price Performance During '00-'03 Hard P&C Market When Pricing Was Last In Double Digit Territory



Source: FactSet, Company data, Credit Suisse

Telematics Penetration Rates by Insurance Carrier – Progressive Maintaining Its Lead

Insurer	% of Auto Customer Base	# of Customers
Progressive	>20%	>3 million
Allstate	Approx 9%	Approx 2 million
State Farm	3+%	1million+
GEICO	New Program launched in 2019	
Liberty Mutual	Offered but still immaterial	
Travelers	Offered but still immaterial	
The Hartford	Offered selectively but still immaterial	

Insurance: Property & Casualty

A confluence of events is causing insurance capacity constraints in commercial lines, allowing the more disciplined carriers (Outperformed Chubb, Selective, WR Berkley) who have balance sheet certainty to play offense as some peers retrench.

In personal auto & home insurance, the pandemic is accelerating consumers' willingness to shop for financial services online. This puts carriers and brokers with successful direct-to-consumer "D2C" platforms in an ideal position to capitalize in the years to come.

Rating	Name (Ticker)	Company Data	Investment Case
Outperform	American Fnl Grp (AFG)	Price: \$87.09 Target: \$98.00 Mkt Cap: \$7.6B	As reflected in our SOTP analysis, we believe AFG's current valuation does not fully reflect the potential for margin expansion in its specialty P&C segment and the lower-risk nature of its life business.
Outperform	Chubb Limited (CB)	Price: \$154.16 Target: \$152.00 Mkt Cap: \$69.6B	We view CB as positioned to capitalize on the retrenchment of many of its large employer commercial insurance peers by winning new accounts at increased rates, driving core margin expansion.
Outperform	W.R. Berkley Corporation (WRB)	Price: \$66.04 Target: \$68.00 Mkt Cap: \$11.8B	WR Berkley's exposure to excess & surplus and specialty businesses – where commercial rate acceleration has been the most pronounced – should enable it to generate significant top line growth, while delivering core loss and expense ratio improvement
Underperform	Cincinnati Financial (CINF)	Price: \$82.04 Target: \$65.00 Mkt Cap: \$13.2B	We view the overhang from CINF's commercial property insurance policies lacking virus exclusions to persist as cases are dragged out in the court system. While management teams throughout the industry view virus exclusions are not needed for protection from COVID-19 business interruption losses, the pure volume of cases in which CINF is a defendant will continue to serve as a risk for investors.
Underperform	Lemonade Inc (LMND)	Price: \$96.36 Target: \$56.00 Mkt Cap: \$5.5B	We view LMND will need to demonstrate meaningful improvement in multiple key metrics to support current valuation—in particular, customer retention and the acquisition cost ratio. We view these metrics as headwinds in LMND's path to profitability.

Mortgage Finance

Residential Housing To Remain Strong, CRE to Recover with Return to Normal

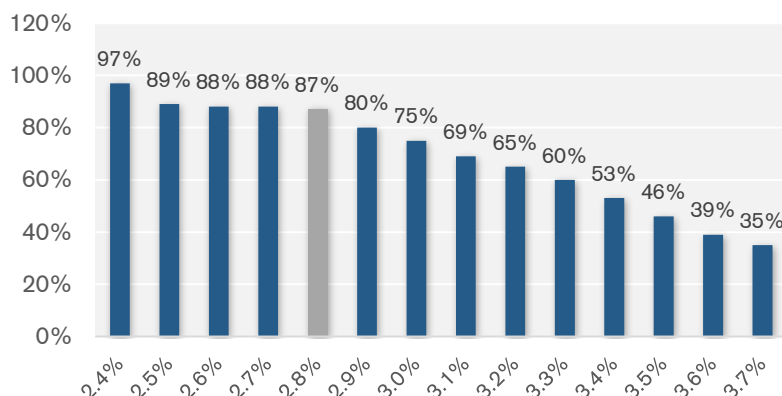
Industry Overview: The start of 2021 should see a continuation of trends (housing market strength, elevated origination volumes, low rates) that are favorable to the returns across residential mortgage finance. The continued strength in housing should support credit quality, combined with the benefits from a return to normalcy. For the commercial mortgage sector we expect the environment to improve in 2021, as a “return to normal” should lead to improvement to credit quality and transaction volumes.

Rates: The decline in rates (both short and long term) benefited our coverage in 2020; these benefits will continue into 2021 through continued elevated origination profitability (both volumes and GOS margins) and wider mREIT net interest spreads. Over the course of 2021 we expect both of these measures to normalize.

Credit: The residential housing market showed considerable strength in 2020 with stronger home price appreciation and lower levels of deferrals. This strength will allow residential credit quality to weather near-term pressures from a slowdown in the pace of employment growth, and should continue to improve over 2021.

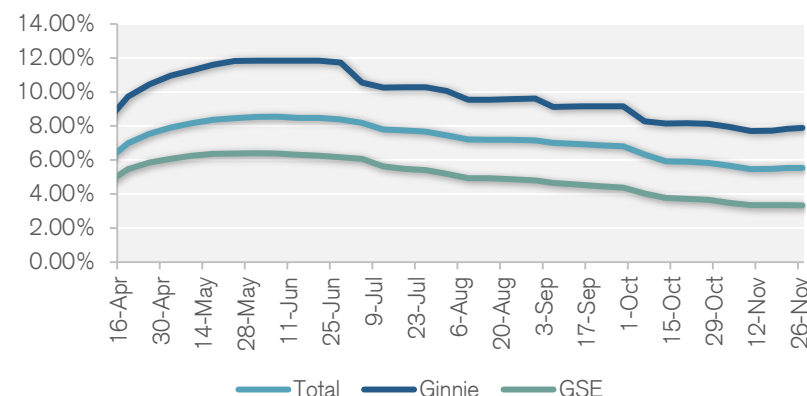
Refinance Exposure vs Mortgage Rate

% of 30Y mortgages with 50+ bps of incentive (current mtg rate ~2.8%)



Mortgage Forbearance Rates (MBA)

Total, GSE, and Ginnie forbearance rates since start of pandemic



Source: Company data, Credit Suisse Locus, MBA

Mortgage Finance

Residential Mortgage REITs: The fundamental environment for the residential mREITs (both Agency and non-Agency) is favorable as we enter 2021 which should allow for an attractive economic return. Following the shocks in March/April from the onset of COVID-19 the sector has improved its funding mix and is better positioned to handle volatility. Net interest spreads have likely peaked (especially for Agency) and will decline over the course of the year; non-Agency can continue to see funding cost improvement given health of securitization markets.

Commercial Mortgage REITs: The outlook (especially in the near-term) for both the economy and commercial real estate fundamentals remains uncertain, which will keep valuations on the commercial mREITs below historical levels in our view. The current levels of elevated liquidity put the sector in a strong position to weather the near-term uncertainty and be positioned to benefit from credit improvement as the economy continues to recover.

Mortgage Origination: 2021 should be a very strong year by all accounts given continued strength in the origination markets. Given this expected strength we are ahead of the consensus for 2021 by 25%. While we are using 2022 as our base year for valuation (as a normalized year) we prefer PFSI and COOP as the valuation is attractive on a price to book basis as well.

Mortgage Insurance: Mortgage Insurance returns should continue to improve in 2021 on the back off the strength of the housing market and an eventual improvement in the employment outlook as the economy continues to return to normal. As the economy improves/returns to normal we expect the MIs (MTG, RDN in particular) to be able to return capital to shareholders.

Single Family: The single family rentals industry has benefited from the pandemic-induced demand for space and work-from-home environment. The single-family REITs enter 2021 operating at a position of strength with record high occupancy levels.

Rating	Name (Ticker)	Company Data	Investment Case
Outperform	PennyMac Financial Services (PFSI)	Price: \$63.94 Target: \$80.00 Mkt Cap: \$4.6B	ROEs (32%) will remain well above normal in 2021 given contribution from both origination and servicing. This will allow PFSI to continue to grow book value and makes valuation attractive. LINK
Outperform	PennyMac Mortgage Investment Trust (PMT)	Price: \$17.66 Target: \$21.00 Mkt Cap: \$1.7B	PMT shares offer an attractive risk/reward given the combination of valuation, organic book value growth (6% by end of 2021), and management track record through volatility. LINK
Outperform	New Residential (NRZ)	Price: \$9.60 Target: \$11.00 Mkt Cap: \$4.0B	NRZ's valuation is attractive either through lens of price-to-book or sum-of-the parts given announced IPO of its operating businesses. Improvement in MSR returns is a longer-term catalyst. LINK
Underperform	AG Mortgage Investment Trust (MITT)	Price: \$3.25 Target: \$2.75 Mkt Cap: \$0.1B	MITT has recovered from its funding challenges, but returns remain below peers. At current valuation the risk/reward in shares is less attractive than peers.

Source: Company Data, Credit Suisse

Data as of 16-Dec-2020

Payments, Processors, & FinTech

Secular Shifts towards Digital & Consolidation accelerating in 2021

We expect the long-term secular shifts towards digital (eComm & Omni) and cash-to-card to continue driving four key trends:

eComm & Omni and Software-led Payments: We continue to believe eCommerce & omnichannel and software/platform-led payments are the two swimlanes that will drive the vast majority of the growth within our sector (with an even greater concentration post-COVID). Key beneficiaries in our coverage universe include PYPL, SQ, GPN, ADYEN-AM

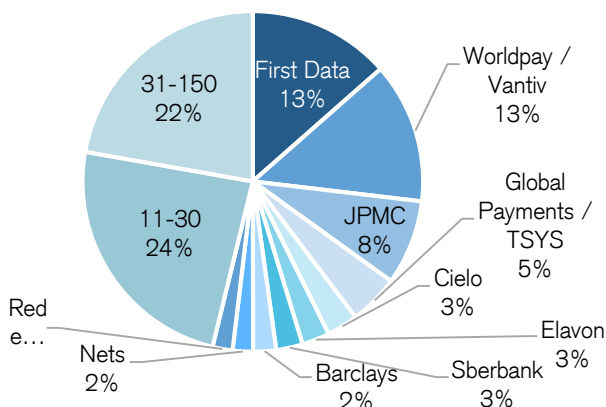
Embedded Finance & Baas: Continued expansion of software platforms beyond payments (e.g., Stripe enables platforms to embed financial services beyond payments such as issuing, loans, digital bank accounts, payouts, etc.)

Neobanks Gaining Share: We expect Neobanks to continue scaling (emphasis on payroll direct deposit), after impressive through with 8 of the top Neobanks in the US increasing their user bases by ~35mm up +32% YTD through Q3 2020 (CSe)

Continued Consolidation in Merchant Acquiring: Share loss of the ~150-200 sub-scale merchant acquirers that are more local/regional/bank-based due to increasing complexity (merchant demands, global local acquiring, regulation, etc.)

Global Merchant Acquiring Market Share by transactions

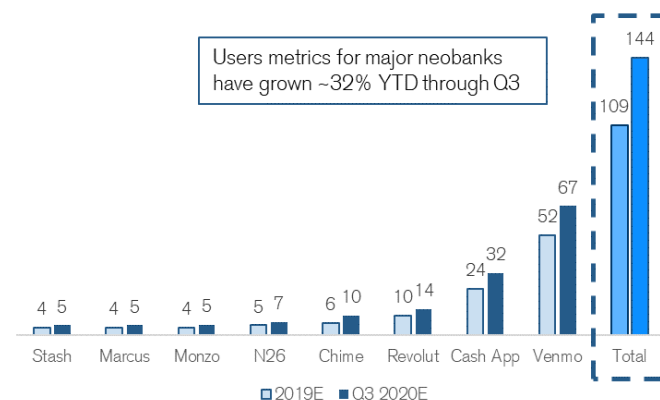
Top 5 at 43% share (2018), up 5% in last 5 years & expected to accelerate



Source: Nilson, Credit Suisse

Neobank User Growth YTD

Eight of the top Neobanks in the US added ~35mm users YTD in 2020



Source: Credit Suisse research

Payments, Processors, & FinTech

Global Payments #1 Top Pick: Our longer-term bullish stance remains rooted in the software-led approach, supplemented by consistent, strategic M&A. Further, in a normalized environment, we would expect Global Payments to regain an ~8-11%+ organic revenue growth. And while the acquiring business (SMB-focused) is impacted meaningfully in 2020 (and potentially into 2021 should SMB failure increase), we continue to expect Global Payments to return to M&A first amongst the three payments mega-mergers (i.e., lowest leverage and least complex deal), in addition to a best-in-class mgmt. team.

PayPal's next medium-term guide (February) expected to be higher than the prior ~17-18% revenue growth algorithm: PayPal demonstrated confidence in multiple tailwinds during Q3 2020 earnings (permanent shift toward digital) that should allow the company to provide an updated medium-term outlook at its February 2020 investor day above its prior ~17-18% revenue & ~20% EPS growth targets. We view PayPal as well positioned within a large TAM (~\$5tr online ex-bill-pay) with a long list of call options ahead (Pay with Venmo, Pay in 4, Paymentus, in-store QR codes & iZettle, China, MELI/UBER, Braintree international, omnichannel, & gaining local acquiring capabilities, etc.).

WU facing pricing pressure & increasing competition: Pricing pressure should persist despite dynamic pricing model (in contrast to the transparent pricing from many digital disrupters), given competition from both incumbent players and FinTechs. COVID-19 impacts compound these issues, and could force consumers to more quickly adopt online alternatives (where WU has fewer competitive advantages vs. in-store).

Rating	Name (Ticker)	Company Data	Investment Case
Outperform	Global Payments (GPN)	Price: \$194.67 Target: \$215.00 Mkt Cap: \$58.3B	GPN's platform (34 markets of local presence & support), high-growth mix at the intersection of software + payments (~37% of acquiring segment software-led), leading global omnichannel capabilities, and prospects for M&A ahead, give us conviction in GPN's organic growth leadership over the long term.
Outperform	PayPal (PYPL)	Price: \$230.20 Target: \$215.00 Mkt Cap: \$269.7B	We believe PayPal is best positioned within our coverage to capitalize on the accelerated shift to digital as a near pure-play eCommerce platform, with in-store representing a meaningful call option.
Outperform	Square (SQ)	Price: \$227.08 Target: \$210.00 Mkt Cap: \$102.4B	We believe that both of Square's segments are uniquely positioned for share gains, fueled by larger sellers, international and innovative new product launches
Underperform	Western Union (WU)	Price: \$22.67 Target: \$22.00 Mkt Cap: \$9.3B	WU had been losing share globally ahead of COVID-19 (i.e., years of growth below industry levels), and behavior changes stemming from the COVID-19 have the potential to accelerate online mix shift within the sector (a portion of the market where WU enjoys fewer advantages and goes up against FinTech platforms along with prospects for reduced barriers to entry due to Visa Direct + Earthport).

Source: Company Data, Credit Suisse

Data as of 16-Dec-2020

Specialty Finance

All Eyes On Balance Recovery

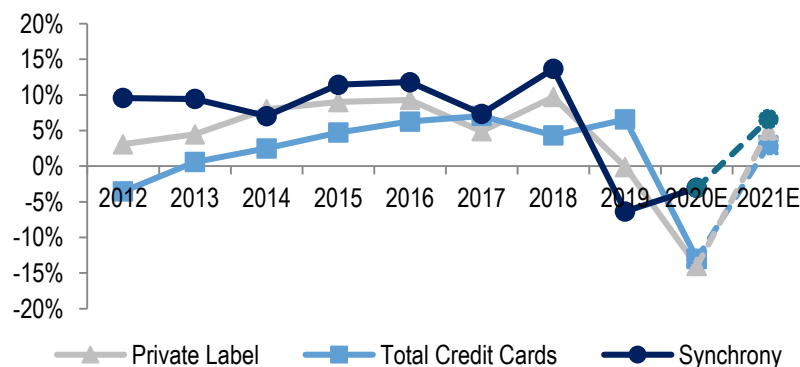
Loan balance recovery: As COVID-19 case surges, the prospect of loan balance recovery has become a bit less certain recently. That said, an early deployment of vaccine next year should be positive for growth. Those that are able to grow balance next year will likely be favored. Balance growth will be the most important to investor, as this will indicate which company can return to normal earnings power the fastest. Franchise with high exposure to T&E will continue to lag peers

Consumer behavior and impact on credit: Reserve issue will likely take a back seat, though investors will watch for how credit performs as we approach 2021. A number of lenders have noted that the pandemic has influenced borrowers to stay home which reduces consumer spending and increases funds available to repay loans. A Biden administration could also bring in a stricter CFPB, affecting thornier sub-segments such as subprime lending, auto lending.

Impact from the CFPB due to Biden's new regulatory regime: A less industry-friendly CFPB under Biden will likely be negative for consumer finance in general, with subprime lenders impacted the most.

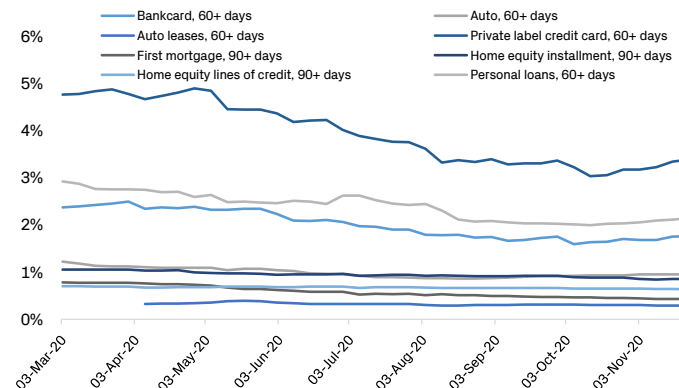
Credit card balance growth in 2021

SYF best positioned for growth



Loan Delinquencies

Strong for a recession



Source: Company data, Nilson, Credit Suisse

Specialty Finance

Among the card issuers, we are most positive on SYF given its potential to grow loans in 2021 and beyond, particularly with the launch of two major programs with Verizon and Venmo. We are least positive on AXP given less certain recovery path than peers, plus intense rewards competition.

Within auto Ally is our top pick as the lender will see improving NIM, EPS, and ROE. In student lending, Sallie Mae is our favorite, as we expect the lenders ~7.5x 2021 PE multiple to move toward the credit card names as the perception of regulatory risk diminishes. Last, in aircraft leasing, we remain positive on AerCap, as we expect improving lease rate factor and the resumption of share repurchases.

Rating	Name (Ticker)	Company Data	Investment Case
Outperform	Synchrony Financial (SYF)	Price: \$32.96 Target: \$32.00 Mkt Cap: \$19.2B	Synchrony epitomizes the lend-centric model with potential for strong receivables growth, built-in credit protection through RSA and high capital return. PL – Less Downside In Recession, Even Less This Time; SYF's RSA Reduces Volatility Synchrony Bull Thesis
Outperform	OneMain Holdings (OMF)	Price: \$45.19 Target: \$48.00 Mkt Cap: \$6.1B	Credit performance has been very strong and ahead of industry. In addition, OMF's ability to increase capital return in the face of the pandemic also speaks to the profitable profile of the business Non-Prime Personal Lending: Lower Supply to Drive Better Quality; Direct is Best – OMF Reiterated Outperform Recent Presentation Highlights Solid Credit Quality & Operating Leverage – Seeing A Path Towards 6.1% Loss Rate In 2020
Outperform	Ally Financial Inc. (ALLY)	Price: \$34.35 Target: \$34.00 Mkt Cap: \$12.8B	We expect ALLY's EPS and ROE to improve as they lower deposit rates and book strong origination yields due to growing loan applications and flattish retail balances.
Underperform	American Express Co. (AXP)	Price: \$119.00 Target: \$88.00 Mkt Cap: \$95.8B	AXP is likely to see a slower recovery than peers due to higher exposure to T&E and transactors, which will impact discount revenue. Continued intense rewards competition will also put pressure on engagement cost and thus profitability Cobrand/PL Economics Post Contract Changes – Tougher For AXP Than Peers
Underperform	Credit Acceptance Corp. (CACC)	Price: \$339.22 Target: \$240.00 Mkt Cap: \$6.0B	CACC continues to experience elevated levels of competition as evidenced by higher-risk purchase loans. Additionally, they face growing regulatory from the CFPB, Massachusetts AG, a syndicate of 40 state AGs, and other threats.

Source: Company Data, Credit Suisse

Data as of 16-Dec-2020

Sector Summary

2020 Year in Review

While the Covid-19 pandemic led to systemic market volatility in 1H, fiscal stimulus and optimism surrounding Covid-19 vaccines helped drive the market to all-time highs. Across the Healthcare Sector, returns were more varied. While biotech largely outperformed the market (IBB +25% vs. 13% for the S&P 500), we note that large cap biotech lagged relative to Smid caps (XBI +50%) and now trades at forward P/E multiples lower than that of the market. Medical supplies outperformed total Healthcare index by ~200 bps in 2020, but underperformed the S&P500 by about the same amount (200 bps). Companies in our Healthcare Services Providers coverage also performed well, up ~18.7% YTD. Our healthcare technology coverage, on average, is up 42% YTD, while our healthcare distribution coverage is up 74% YTD (largely driven by OMI's 455% return). Our broader Life Sciences Tools and Diagnostics universe, including Animal Health, Dental, CROs, and core Tools & Diagnostics companies, is up 41% YTD, highlighting their resiliency as well as their ability to quickly and strategically innovate/adapt to meet evolving customer needs.

2021 Outlook: Major Themes to Watch in Healthcare

Re-Opening Trade

Healthcare services provider volumes remain below pre-pandemic levels, and we anticipate provider volumes will re-accelerate over 2021 as COVID subsides and patients' willingness to enter healthcare facilities return. The recovery in elective surgical procedures has also been a significant theme, and expect it to play a key role in 2021.

Consolidation

M&A remains a constant backdrop in Biotech and Healthcare Supplies & Devices, even amidst the ongoing pandemic. We expect it to be a key driver for large cap biotech to grow revenues, while Smid cap biotech stands to benefit. We also expect further consolidation in the healthcare technology sector, as large scaled companies look to further expand their reach across the care continuum.

Disruption

The pandemic should continue to accelerate the adoption of newer technologies, including digital dentistry, the embrace of alternative channels in animal health, consumerism in diagnostics (such as wearable and implantable sensors), and decentralized trials across the drug development landscape. Disruption is also a key theme across our healthcare technology coverage, with Covid-induced acceleration of digital health adoption by consumers, employers, health plans, and health systems.

New Administration / Regulation Changes

Looking ahead, we expect the new administration to focus on building upon the Affordable Care Act (ACA), and also expect it to be more favorable toward Medicaid. We also view less conventional HC sectors such as Animal Health and Dental to offer a resilient play that is more sheltered from efforts to bend the HC cost curve via drug pricing. However, we also expect a potentially split Congress (Georgia run-off will be key) to mitigate the risk of extreme drug pricing reform (such as the MFN Rule put forth by President Trump)

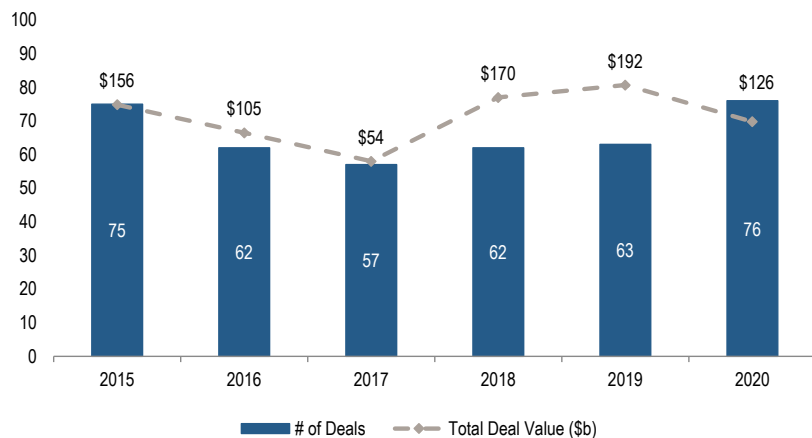
Biotechnology: Large Cap

Large Caps Need to Go Shopping in 2021

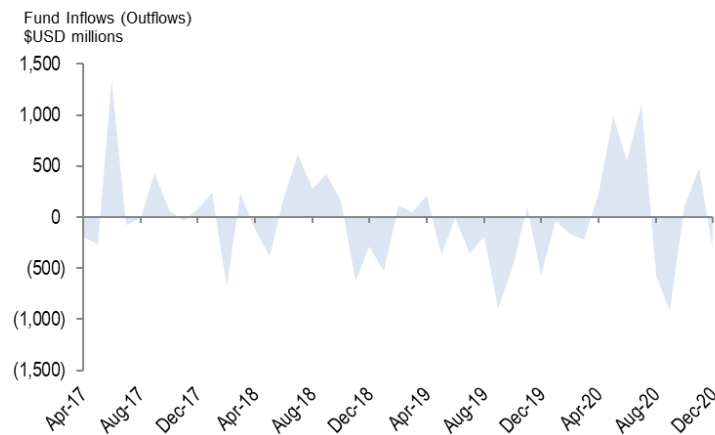
Industry Overview: While 2020 had its challenges for Large Cap Biotech, it cannot be understated that the sector and broader biopharma industry stepped up and was the ultimately the answer to getting out of the pandemic. Over the course of the year, the traditional Large Cap Biotech names lagged, with the exception of Regeneron and Moderna (AMGN -6.2%, GILD -7.2%, VRTX +2.1%, BIIB -17.9%, REGN +27.5% vs. XBI +49.7% & S&P500 +13%; Jan 1-Dec 11 performance). Looking ahead, we see business development as a consistent theme across our coverage—with the need to acquire to grow revenues front and center (as recently evidenced by the proposed acquisition of Alexion by Astra). While Gilead was quite active in BD in 2020, investors remain on the sidelines as Trodelvy/IMMU is a show-me story. We could see BD from Amgen, Vertex, Biogen, Gilead (likely to continue into 2021), and even Regeneron.

2020 – Strong Showing for M&A

M&A Deals



2020 – Biotech Fund Flows



Source: Company Data, Credit Suisse, FactSet

Biotechnology: Large Cap

Key Themes for 2021

We see three key themes heading into 2021 for the sector:

Re-opening trade & Covid-19 recovery: While Smid names outperformed during 2020, most large caps lagged; we see potential benefit for some our coverage (Amgen, Gilead, Neurocrine) that have been more impacted by the pandemic vs. others.

Alzheimer's & Aducanumab: Approval (or rejection of aducanumab) in 1Q21 is likely to have implications beyond Biogen; approval could not only improve the multiple for BIIB shares (currently at 9.6x vs. 10.8x large cap biotech average), but also foster continued investment and innovation in neuroscience. We also think that Biogen's next strategic move is dependent on this outcome.

M&A and IPOs likely to continue: We see a high need for larger names to buy pipelines, while we believe IPOs will likely continue, given high-quality science behind newly public companies.

Rating	Name (Ticker)	Company Data	Investment Case
Outperform	Regeneron Pharmaceuticals, Inc. (REGN)	Price: \$486.57 Target: \$736.00 Mkt Cap: \$51.9B	Our bullish view of the company's commercial business is based on the fact that Eylea is likely to beat consensus in 2021 and beyond, and we are increasingly constructive on Regeneron's emerging oncology portfolio.
Outperform	Biogen, Inc. (BIIB)	Price: \$248.19 Target: \$350.00 Mkt Cap: \$38.2B	We think approval of aducanumab is possible following the FDA Advisory Committee meeting, which represents significant potential upside as the main driver of future sales and future business development.
Outperform	Vertex Pharmaceuticals, Inc (VRTX)	Price: \$232.11 Target: \$285.00 Mkt Cap: \$60.4B	Vertex is the leader in treatments of cystic fibrosis (CF), and believe that cash flows from the franchise are undervalued by the street and market.
Outperform	Mirati Therapeutics Inc. (MRTX)	Price: \$237.67 Target: \$285.00 Mkt Cap: \$12.0B	Mirati holds several key assets, with MRTX849 likely to outperform based on de-risking of the KRAS platform via clinical data.
Outperform	MacroGenics, Inc (MGNX)	Price: \$24.72 Target: \$30.00 Mkt Cap: \$1.4B	MacroGenics possesses a large and diverse antibody engineering portfolio with at least nine clinical and five preclinical assets. Early success for these early-stage assets should drive investor confidence in the viability of their platform.

Source: Company Data, Credit Suisse

Data as of 16-Dec-2020

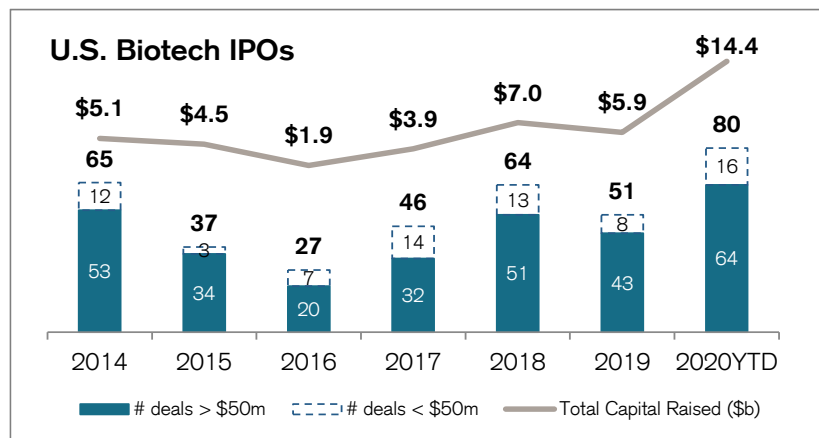
Biotechnology: SMID Cap

Will There Be a Shift to Value in 2021?

Industry Overview: 2020 was a standout year for Smid biotech (XBI +50% vs S&P500 +14%) with notable outperformance among earlier-stage and technology platforms. 80 IPOs have priced with \$14.4b in cash raised as of early December, making it the best fundraising year in recent memory. However, more mature companies and 'value' biotech generally lagged. While we don't have a great deal of insight in predicting whether or what might slow momentum, we know that, historically, spikes in IPO activity have preceded or coincided with periods of consolidation for the sector. In lieu of a more traditional "Best Ideas for 2021," we have been thinking about names we'd be looking to opportunistically buy in 2021 in the event there is a hangover in the New Year.

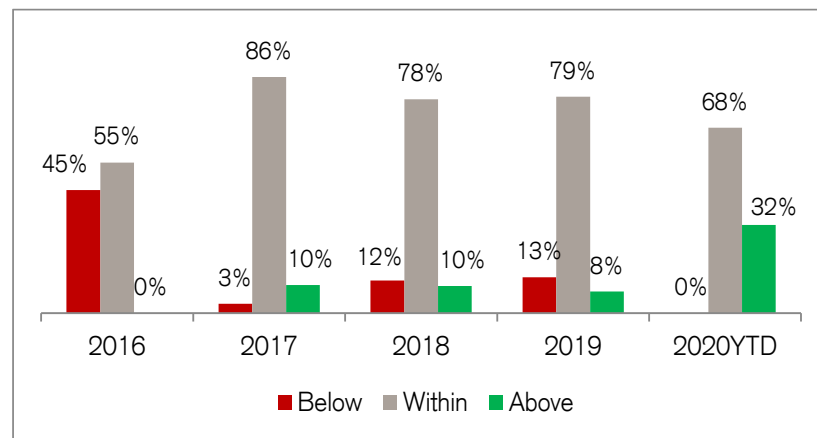
2020 – A Breakout IPO Environment

Deals Priced and Capital Raised



2020 – Deals in Pricing Range

0% of 2020 IPOs Below Range



Source: Company data, Credit Suisse, Factset

Biotechnology: SMID Cap

Some of Our Favorite Outperforms and Underperforms

We see several themes that were relatively overlooked in 2020 that we think could gain favor in the event momentum slows:

Outperform Ideas Theme 1: Underappreciated value with potential-for-growth stories – ALXN and UTHR

Outperform Ideas Theme 2: Companies with high conviction late stage assets – ARNA, INSM, and XLRN

Underperform Ideas: Companies with low-conviction lead assets or platform companies we regard as fully-valued – CRTX, CVAC

Rating	Name (Ticker)	Company Data	Investment Case
Outperform	Insmid Incorporated (INSM)	Price: \$36.47 Target: \$50.00 Mkt Cap: \$3.7B	Potential near-term Arikayce sales choppiness may create an attractive entry for a stock that offers among the highest 2-3yr upside built around its 3 pipeline programs. We have multiple primers – please reach out.
Outperform	United Therapeutics Corp. (UTHR)	Price: \$146.25 Target: \$169.00 Mkt Cap: \$6.5B	A 'cheap' name (~7.3x EV/EPS) that is modeled very conservatively LT, with potential to resume topline growth after a couple years of declines
Underperform	Cortexyme, Inc (CRTX)	Price: \$31.44 Target: \$14.00 Mkt Cap: \$0.9B	2021 is a make or break year for Cortexyme with Ph2/3 results expected late in the year. We think the program is going to fail. https://plus.credit-suisse.com/s/V7hijM4AF-Z8Zk
Underperform	CureVac (CVAC)	Price: \$116.22 Target: \$50.00 Mkt Cap: \$16.9B	We believe CVAC has an increasingly negative risk/reward skew into pivotal CVnCoV results. Note - https://plus.credit-suisse.com/s/V7pQTq4AF-Z8Zk

Healthcare Distribution

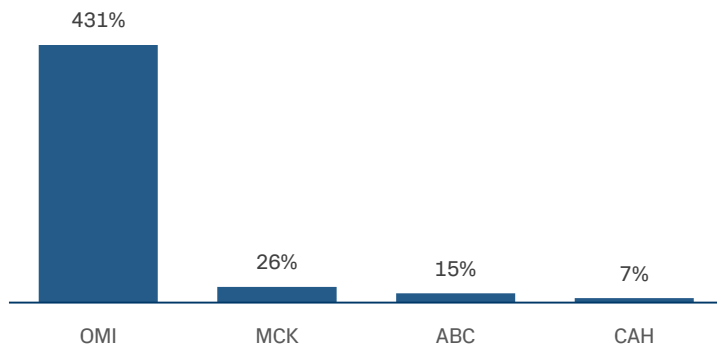
Resiliency to Continue – (Major Theme for 2021)

Continued Stabilization of Profit Models: For the drug distributors (ABC, CAH, MCK), the onset of COVID-19 and the focus of drug manufacturers' on vaccines has been another factor in the ongoing stabilization of generic drug deflation. We expect further stabilization in 2021 as distributors continue to leverage generic purchasing groups and manufacturers focus on vaccine rollouts. Distributors will continue to benefit from increased utilization of specialty in addition to wrap-around services (e.g., practice management, analytics, consulting, etc). With strong balance sheets, rebounding utilization, and visibility into Rx volume/utilization in downstream channels, we see the setup for distributors largely favorable for 2021.

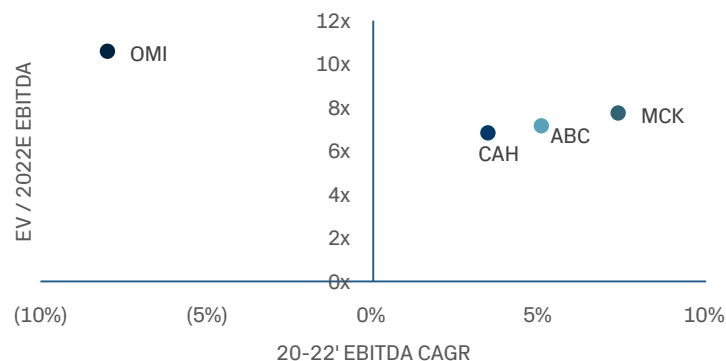
Distribution of COVID-19 Vaccines & Supplies: Each of the distributors will play critical components around the distribution, administration, and provision of ancillary supplies of COVID-19 vaccines. MCK's role as centralized distributor for refrigerated (2-8°C) or frozen (-20°C) vaccines (i.e., excluding Pfizer's ultra-frozen vaccine) in addition to ancillary supplies will benefit 2021 results. However, ABC, CAH, and OMI should all see positive contributions from vaccine efforts as well.

Opioid Settlement. While the timing still remains unclear, an opioid settlement (in a range of \$20-25 bln, 15-20% upfront cash) should remove a major overhang for the group & could result in incremental investor interest.

2020 YTD Stock Performance



Valuation Benchmarking



Source: Company data, Credit Suisse, Factset

Healthcare Distribution

We see positive implications of COVID-19 vaccine rollouts across our distribution coverage: Although the Pfizer/BioNTech vaccine will not fall within the scope of MCK's contract with the CDC as centralized distributor (the MCK/CDC contract includes vaccines that are refrigerated (2-8°C) or frozen (-20°C)), future vaccine rollouts from other manufacturers (e.g., Moderna, Oxford/AZN, JNJ, etc.) are expected to leverage the MCK logistics network as part of distribution efforts. ABC and CAH will also participate in COVID-19 vaccination efforts through their PSAOs, serving as network administrators and placing orders for vaccines on behalf of their pharmacy network members.

PPE demand should continue despite vaccine rollouts: OMI is poised to deliver on its double digit EPS growth expectations for 2021 with PPE demand still outstripping supply across the US and abroad. Even as COVID-19 vaccinations take place, the need for PPE as part of the administration of vaccines to the population will result in another end market for PPE use.

Further biosimilar adoption in 2021. Biosimilars have long been a promising, future contributor to drug distributor performance. 2020, however proved to be the year where the "promise" turned into reality. ABC, for instance, had a notable contribution from biosimilars via better-than-expected adoption, particularly in oncology. With biosimilars having margin profiles between specialty brands and generics, the mix shift from specialty brands to biosimilars should benefit drug distributor profitability for years to come.

Rating	Name (Ticker)	Company Data	Investment Case
Outperform	AmerisourceBergen (ABC)	Price: \$98.37 Target: \$123.00 Mkt Cap: \$20.1B	Strategically positioned from the company's leading market share in specialty pharmaceutical distribution with an extensive footprint in physician-administered products. We see ABC as a pure-play on the U.S. pharmaceutical industry with exposure to a fast-growing animal health market. Q&A Our Way: Ending FY20 on a High Note

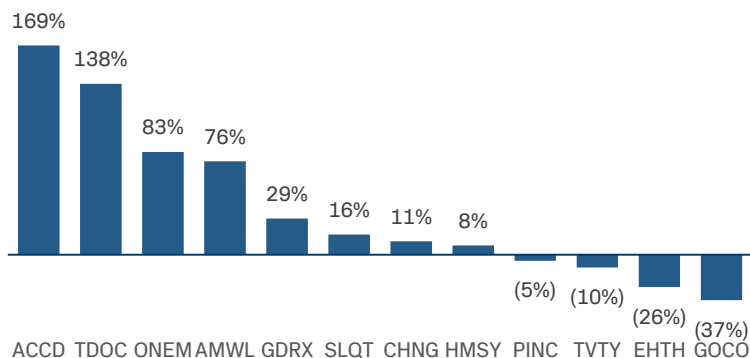
Healthcare Technology

Transition From Convenience to Necessity – (Major Theme for 2021)

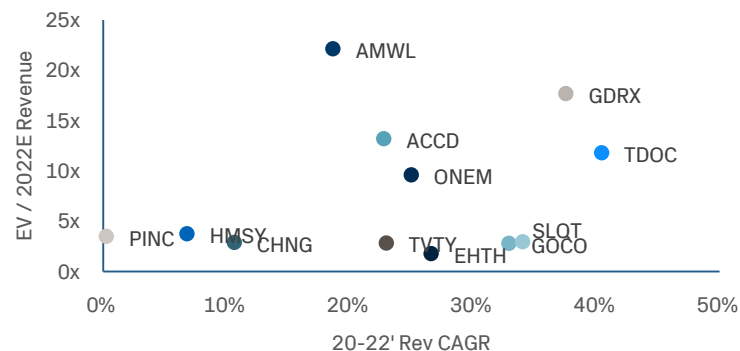
COVID-19 Has Sparked an Acceleration in Digital Health, & there Is No Going Back. One of the key reasons digital health adoption was not advancing as rapidly as expected was around disrupting the status quo from the perspective of consumers, employers, health systems, health plans, and other stakeholders. However, COVID-19 made some of those changes inevitable as several digital health tools and technologies were adopted and embraced at a remarkable pace. Data and analytics combined with artificial intelligence technologies have been paramount in the effort to predict, prepare and respond in a proactive and accelerated manner to the global crisis. In many respects, we are now in a new world where digital technologies and modalities have now become mainstream.

Key Themes to Drive Growth in 2021 in Our HCIT Space: (a) Acceleration in employer activists, with the increased focus on chronic care management and employee engagement; (b) Continuing adoption of virtual care; (c) Increased focus on addressing Mental Health care; (d) Continuing shift to home-based care; (e) Leverage of AI/ML applications; (f) Continuing Focus to addressing fraud, waste, and abuse; (g) Primary care reinvention; (h) Value-based Care; (i) Continuing shift to consumerism; and (j) Cybersecurity – as important as ever given the reliance on technology & data.

2020 YTD Stock Performance



Valuation Benchmarking



Source: Company data, Credit Suisse, Factset, TDOC 2020 revs included within 20-22' Rev CAGR is pro-forma for InTouch and Livongo

Healthcare Technology

CHNG Our Top Pick, a Rare Value Play in HCIT: We continue to view CHNG as the best value play in our coverage given the secular trends across the US healthcare system including a) increased focus on reducing unnecessary medical spend; b) growing population of chronically ill/high-risk patients; c) adoption of value-based care; d) accelerated consumerism of healthcare; and e) a proliferation of healthcare data. Despite uncertainty brought on by COVID-19 and a short-term impact on CHNG's utilization revenue, the company has diligently assessed its portfolio of assets having divested an underperforming business and making four strategic acquisitions to enhance its breadth of offerings.

TDOC Our Preferred High Growth Name: TDOC's acquisition of Livongo put the combined company as the clear-cut leader in digital health. We see a clear pathway to TDOC's estimated revenue synergies from the deal, which contemplates cross-selling Livongo's digitally-enabled solutions focused on chronic conditions. There has been a shift in the interest/adoption of virtual care brought on by the pandemic where we see Teladoc's acquisitions of InTouch Health (a leader in the provider market) and Livongo set up the company for future growth.

E-Brokers High Risk High Reward Play: e-brokers stand to benefit from the a strong growth in Medicare Advantage (MA) enrollment as well as market share gains from the traditional independent brokers, which have a narrow representation of MA plans but also are not able to keep pace with continuously changing MA plans. The recent noise around churn rate has dampened the investor sentiment recently. We believe the churn rate issue is EHTH-specific and an improving trends from the company in 1H21 (which we are cautiously optimistic) should help the sentiment for the group.

Rating	Name (Ticker)	Company Data	Investment Case
Outperform	Change Healthcare (CHNG)	Price: \$18.17 Target: \$23.00 Mkt Cap: \$5.5B	A HCIT conglomerate with LT EBITDA growth in HSD range and trading at a reasonable valuations. See our note: Q&A Our Way: A Rare GARP Play in HCIT
Outperform	Teladoc Health (TDOC)	Price: \$187.07 Target: \$263.00 Mkt Cap: \$27.1B	Combination with Livongo and InTouch Health creates a digital health giant, which is likely to be well ahead of the competition in virtual care/RPM/Chronic care management. See our recent note from the 2020 CS Tech conference.
Outperform	SelectQuote (SLQT)	Price: \$23.17 Target: \$31.00 Mkt Cap: \$3.8B	Favorable industry growth drivers. A group with high risk high reward characteristics. 3Q Earnings Recap

Source: Company Data, Credit Suisse

Data as of 16-Dec-2020

Life Science Tools & Diagnostics

Longer-Term Solutions Providers Even in a Post-COVID-19 Environment

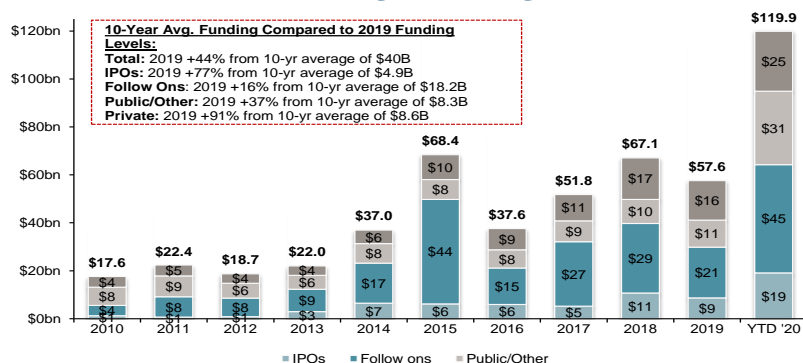
Industry Overview: Our universe spans multiple healthcare subsectors, including Animal Health, Dental, CROs, and Life Science Tools & Diagnostics, and while many have benefited over the past year as solutions providers with the acceleration of innovation and adoption of new technology, the longevity of these tailwinds is largely underappreciated, where we view there are relative winners across the group even following pandemic tailwinds into 2021.

Mission Critical Solutions for Biopharma: Heightened levels of strategic investments and enhanced learnings across biopharma R&D, bioprocessing, and vaccines should create durable long term value beyond the pandemic, particularly across key solutions providers in traditional life sciences, diagnostics, and contract services companies.

Accelerated Paradigm Shifts in a Post-COVID-19 World: The pandemic should continue to accelerate disruptive paradigm shifts across our universe driving the adoption of newer technologies, including digital dentistry, the embrace of alternative channels in animal health, consumerism in diagnostics, and decentralized trials across the drug development landscape.

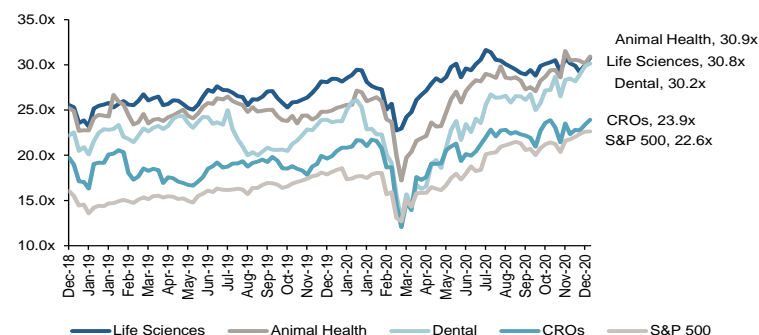
Alternative Healthcare Plays Still Attractive: With a new Administration as well as the ongoing pandemic variables, we view less conventional HC sectors such as Animal Health and Dental offer a more resilient, alternative play to traditional healthcare, where it is relatively more sheltered from enduring efforts to bend the healthcare cost curve (e.g., drug pricing) and the impact of binary drug development dynamics.

Robust Biotech Funding, A Driving Force in Life Sciences



Source: Company data, Credit Suisse

Life Sciences Subsector Forward P/E



Life Science Tools & Diagnostics

Life Science Tools & Diagnostics (TMO, DHR, DGX, LH, AVTR, CNTG, FLGT, LNTH): We favor companies with more diversified platforms, which should offer multiple growth levers, as well as those which have achieved durable LT value via pandemic responses by releasing relevant tests to support elevated instruments placements and/or investing to support high-growth modalities (cell/gene/RNA therapies), among others.

Contract Services/CROs (IQV, CRL, PPD, ICLR, SYNH, PRAH, MEDP): Biotech funding levels surged during early innings of the pandemic and have remained robust, with key players more broadly recognizing the value of biopharma, a trend that should support growth across larger, diversified CROs, offering attractive, alternative biopharma exposure, sheltered from binary outcomes inherent in drug development.

Animal Health (ZTS, ELAN, CHWY, IDXX, CVET, PAHC, PETS): A sector inherently more insulated from traditional human health dynamics, where underlying fundamentals remain robust on heightened pet ownership trends, greater medicalization of pets, and an increasing willingness to spend on pets, particularly given COVID dynamics, with also tailwinds from market-expanding innovation and the rise of alternative channels.

Dental (ALGN, XRAY, NVST, HSIC, PDCO, SDC): Focus remains on dental practice volume recovery trends and other pandemic-induced dynamics, including a seemingly accelerated adoption of digital dentistry driven by the desire to reduce patient touch points amidst COVID-19, as well as renewed innovation efforts, which should offer company-specific catalysts.

Rating	Name (Ticker)	Company Data	Investment Case
Outperform	Zoetis (ZTS)	Price: \$160.62 Target: \$197.00 Mkt Cap: \$76.3B	Highly levered to strengthening fundamentals, and earnings growth should accelerate on consistent revenue growth over an improving cost structure, with capital deployment and innovation catalysts supplementing growth longer term.
Outperform	Align Technology, Inc. (ALGN)	Price: \$516.34 Target: \$515.00 Mkt Cap: \$40.7B	Improving clinical awareness, technology enhancements, expanding geographic and teen focus, as well as the continuing digitization of practices, which has seemingly accelerated with the pandemic, should drive sustainable +DD growth.
Outperform	IQVIA Holdings, Inc. (IQV)	Price: \$174.69 Target: \$191.00 Mkt Cap: \$33.5B	Core Solutions bookings of \$9B merger-to-date should contribute to meaningful topline growth, ahead of industry, with medium-term guidance calling for +6-9% organic growth from 2019-2022 (ex. COVID), bolstering its market share position.
Outperform	Syneos Health (SYNH)	Price: \$66.32 Target: \$75.00 Mkt Cap: \$6.9B	Its differentiated end-to-end Syneos One offering, as well as heightened focus on high-growth emerging biotech, should support above-market topline growth.
Underperform	PetMed Express (PETS)	Price: \$31.84 Target: \$25.00 Mkt Cap: \$0.6B	LT structural headwinds are underscored by a deterioration in new customers and intensifying competitive dynamics amidst new online pharmacy concepts

Source: Company Data, Credit Suisse

Data as of 16-Dec-2020

Managed Care & Healthcare Facilities

Bullish on MCO Fundamentals; COVID-19 Will Continue to Drive Variability in 2021

Heading into 2021, we remain bullish on MCOs, expecting stock appreciation to mirror LT earnings growth in at least the mid- to high-teens range.

Medicare Advantage Will Continue to Drive Growth: In Sept, CMS estimated that MA enrollment in 2021 will increase 10.2% Y/Y, a modest acceleration relative to the 9.4% Y/Y growth seen as of Nov 2020. We expect MA enrollment growth of 8-10%, driven by the continued favorable demographics of aging baby-boomers. CI, HUM, and UNH have provided some early commentary on 2021 MA enrollment. CI expects to grow its MA enrollment within its LT target of 10-15%. HUM expects to be up 305-355K (up 6.7-7.8% Y/Y). Finally, UNH expects MA enrollment to grow by 750-800K or 13.1-13.9% Y/Y.

COVID-19 Will Drive Variability in Results Throughout Year: In 2021, MCOs have several tailwinds: (1) the HIF repeal, (2) 2020 M&A activity annualizing, (3) share repurchases, (4) individual company initiatives (e.g., ANTM's continued progress on its 5:1 to 3:1 strategy), (5) MA membership growth; offset by headwinds related to: (1) Medicaid reverifications/rate actions, and (2) less certainty than usual medical cost trend outlook – how much COVID-19 costs early in the year and how much, if any, pent-up demand for medical services we will see as vaccines are distributed on a widespread basis?

Getting Used to a New Presidential Administration and Congress Will Add to Volatility, but We Don't Foresee Major Changes

Long-Term Earnings Growth Targets for Major MCOs

	Composite	Operating Earnings	Capital Deployment	LT Revenue Growth
ANTM	12-15%	65% of growth	35% of growth	10-12%
CI	10-13%	6-8%	4-5%	6-8%
HUM	11-15%	10% +/-	Remainder	N.D.
UNH	13-16%	8-11%	5%	6-9%
CNC	Double Digit	N.D.	N.D.	Double Digit
CVS	N.D.	N.D.	N.D.	N.D.

Overall Medicare Advantage Enrollment

	Dec-17	Dec-18	Dec-19	Nov-20	2021 Outlook
CVS	8.0%	18.9%	31.1%	14.3%	Strong AEP
ANTM	11.9%	34.8%	20.3%	17.9%	Mid-Double Digit Growth
CI	-14.6%	0.0%	1.9%	18.8%	Growth of 10-15%
HUM	3.2%	7.6%	15.5%	11.5%	Growth of 305-355K (6.7-7.8%)
UNH	23.0%	14.6%	7.7%	8.7%	Growth of 750-800K (13.1-13.9%)
Rest of Industry	3.1%	0.7%	-0.9%	6.0%	N/A
Overall Industry	7.7%	7.8%	7.7%	9.4%	CM Outlook: 10.2%

Source: Company data, Credit Suisse

Managed Care & Healthcare Facilities

Selective on Healthcare Providers

The COVID-19 pandemic has had a significant impact on Healthcare Providers, some of which will persist and some of which may dissipate relatively quickly as a vaccine is put into widespread use.

The for-profit hospital management companies (HCA, THC, UHS, and CYH) were hit hard in the second quarter of 2020 when a national lockdown was put into effect, but saw volumes rebound quicker than expected in June and July and have been consistently running in third and fourth quarter at 90% of pre-COVID-19 levels. Hospitals have become more efficient and effective in treating COVID patients and with government add-ons are able to obtain adequate payment for these patients.

Looking ahead, HCA believes it will continue to treat COVID-19 patients throughout 2021, and believes it is reasonable to estimate that 4-5% of 2021 admissions could be related to COVID-19. HCA believes that demand for inpatient admissions in 2021 will be down approximately 2-3% as compared to 2019. To the extent that widespread dissemination of the COVID-19 vaccine brings back deferred procedure volume, it could create upside to this expectation. Meanwhile, the substantial cost-cutting implemented this year by the group should be a tailwind in 2021.

In post-acute care, home health and hospice should have a strong year in 2021, bolstered by favorable Medicare rate updates, accelerating consolidation in the industry, and organic volume growth of at least high single digits. The secular themes of an aging population driving demand and the push to deliver as much care as possible in non-institutional settings support the positive view on the space. AMED is the sector leader, with EHC also having some exposure (22%).

Hospital Management –Volume Trends

SS Admissions	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20
CYH	-0.1%	2.3%	2.4%	0.1%	-5.2%	-18.1%	-6.2%
HCA	0.9%	2.1%	3.2%	4.7%	0.6%	-12.8%	-3.8%
THC	-0.1%	3.3%	3.6%	2.6%	-4.5%	-20.3%	-11.4%
UHS (Acute)	5.2%	5.2%	6.6%	1.5%	-3.6%	-18.6%	-9.6%
Average	1.5%	3.2%	4.0%	2.2%	-3.2%	-17.5%	-7.8%

AMED & EHC

Home Health SS Admissions	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20
EHC (20% of Revs)	6.4%	8.3%	9.7%	6.6%	0.2%	-17.3%	-4.6%
AMED (60% of Revs)	6.0%	7.0%	9.0%	4.0%	3.0%	-9.0%	5.0%
Hospice SS Admissions							
EHC (5% of Revs)	13.7%	13.6%	5.8%	10.1%	-5.3%	6.7%	15.8%
AMED (36% of Revs)	5.0%	7.0%	4.0%	1.0%	1.0%	-1.0%	9.0%
IRF SS Discharges							
EHC (75% of Revs)	-0.2%	2.2%	3.1%	3.2%	2.4%	-12.8%	-2.8%

Source: Company data, Credit Suisse

Managed Care & Healthcare Facilities

Rating	Name (Ticker)	Company Data	Investment Case
Outperform	UnitedHealth Group Inc. (UNH)	Price: \$339.34 Target: \$395.00 Mkt Cap: \$322.0B	With revenues approaching \$280 bln, UNH is a DJIA component that represents a compelling core holding to play health care's secular growth. UNH targets attractive LT EPS growth of 13-16% which is the highest amongst peers. UNH is the leading player in the growing Medicare Advantage market, and operates leading franchises in pharmacy management, health services, and HC IT.
Outperform	Anthem, Inc. (ANTM)	Price: \$310.24 Target: \$389.00 Mkt Cap: \$77.2B	ANTM's Blue Cross Blue Shield affiliation drives strong local market brand recognition and roughly 40% average commercial share in the 14 states in which it operates under a Blue license. ANTM is one of the market leaders in Medicaid and has taken its Medicaid offerings beyond its 14 legacy Blue states via acquisitions. ANTM is enjoying rapid growth off a small base in Medicare.
Outperform	HCA Healthcare (HCA)	Price: \$161.56 Target: \$164.00 Mkt Cap: \$54.7B	HCA is the largest healthcare provider in the US, operating some 187 hospitals across 21 states. The company's hospital portfolio generally has 25-35% share in fast-growing Sun Belt markets. HCA owns 25% of the hospitals in Florida and is the leading provider in Texas, as well. The company's experienced management team has a history of positively leveraging its vast scale to generate industry leading margins, while also deploying capital for the benefit of shareholders.

Medical Supplies and Devices

Expect Disruptive Names to Outperform Peers in 2021 Elective Recovery

Industry Overview: We are bullish on sector performance heading into 2021 as MedTech recovers from COVID-19 and we expect MS&D to outperform the S&P 500 next year driven by our expectation of improving organic growth trends.

Above-Market Reacceleration of Disruptive End Markets: We expect comp-adjusted growth of disruptive end markets to be differentiated from core elective markets during 2021 as capacity returns to levels approaching 95-100%.

Recovery in Elective Surgeries: Strong growth in electives throughout 2021 will likely remain an important driver for our universe in early 2021, with names having higher exposure to elective surgeries generally outperforming the group.

Transition Periods to Remain Key in 2021: We expect recent volatility in performance for our universe to continue in 2021, with periods of transition to risk assets driving broad-based outperformance of elective-exposed names and SMID-Caps. However, as the group approaches peak multiples, we see stock performance of disruptive names as more durable given their superior intermediate and long-term growth prospects.

Exhibit 1 Disruptive Large Caps Outperforming Group

We Project Strong Growth for SYK and EW in 2021-2022

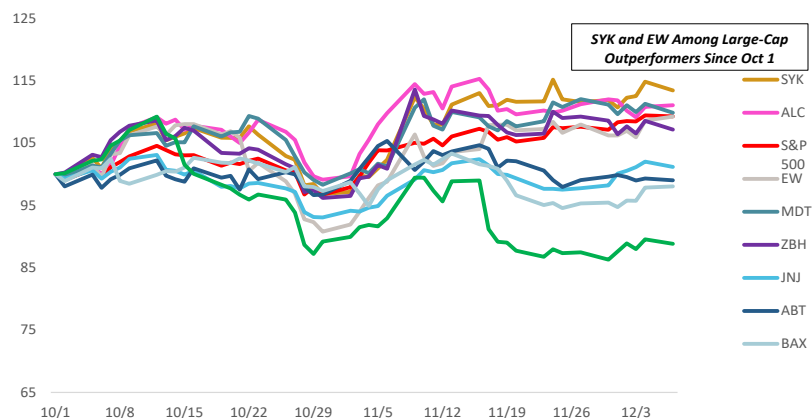
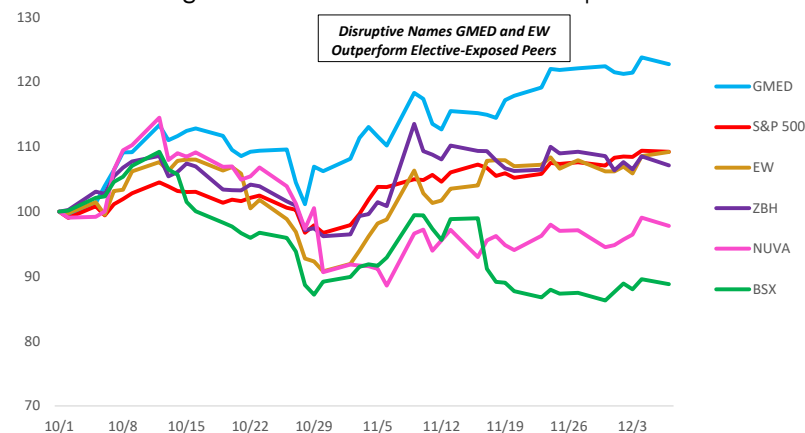


Exhibit 2 Disruptive Elective Names Outperform Peers

Market favoring elective names focused on disruptive markets



Source: Company data, Credit Suisse

Medical Supplies and Devices

Continued Innovation in Emerging Digital Health Med Tech Markets: We expect key emerging segments in digital health for medical devices to accelerate in 2021, including Artificial Intelligence and Machine Learning (AI/ML), Digital Surgery, Implantable/Wearable Monitors and Digital Brain/Body Interface technologies. We view segments like AI/ML and implantable/wearable monitors as supporting increased utilization and expanding the reach of innovative healthcare, and technologies in digital and less invasive surgery as continuing to disrupt more traditional surgical approaches and med device end markets.

Structural Heart Remains Key Driver for Sector: Debate over durability and sustainability of TAVR growth to continue, although we expect the fundamental outperformance of EW and MDT to drive long-term market expectations higher throughout the year, fueling outperformance of EW. Key clinical updates throughout the year should also raise confidence in longer term potential for new markets and indications in mitral, tricuspid and expanded indications for TAVR.

M&A Activity to Continue Supporting Group Multiples, Particularly in SMID-Caps: Med Tech M&A is expected to be a key growth driver and we see it as an essential component of the group's growth model in 2021 and beyond. We expect a preference for durable platform acquisitions and innovative tuck-ins over larger mega-mergers. We expect large-cap Med Tech names to continue to supplement its pipeline with an increasing cadence of tuck-in M&A and minority investments to drive long-term growth strategies.

Rating	Name (Ticker)	Company Data	Investment Case
Outperform	Edwards Lifesciences Corp. (EW)	Price: \$85.09 Target: \$111.00 Mkt Cap: \$53.0B	With 2021 outlook set, the focus will be on mgmt. execution and what can drive growth towards the top-end of guidance and we see sustainability of mid-teens or better underlying TAVR growth as the primary driver for the stock.
Outperform	Stryker Corp. (SYK)	Price: \$235.13 Target: \$253.00 Mkt Cap: \$88.1B	We expect strong momentum into 2021 driven by ongoing strength in MAKO placements and expect the WMGI deal to accelerate SYK's path to category leadership in upper and lower extremities.
Outperform	Globus Medical, Inc. (GMED)	Price: \$64.05 Target: \$64.00 Mkt Cap: \$6.3B	We see 2021 performance driven by ongoing ExcelsiusGPS placements, implant pull-through as well as strong U.S. Spine growth and share gains and expect a return to mid-30s EBITDA margins.
Underperform	Zimmer Biomet Holdings, Inc. (ZBH)	Price: \$148.85 Target: \$106.00 Mkt Cap: \$30.9B	We see additional risks to ZBH's growth as SYK moves forward with its MAKO Robotic Shoulder application, and JNJ joins enters the market for robotic orthopedic surgery with its Velys Robotic Knee System in early 2021.

Source: Company Data, Credit Suisse

Data as of 16-Dec-2020

Sector Summary

Sector Poised to Grow into Multiple Expansion

Since the end of October, Energy, Financials, and Industrials have led the S&P Sector performance. However, on a YTD basis, Industrials still trail the broader S&P 500 index by 440bps and the S&P Technology sector by 2700bps.

Cyclical Recovery to Drive Positive Earnings Revisions. Broadly, the U.S. Industrial research team is positive into 2021, as industrial production and short cycle momentum (e.g., general industrial, transportation, air travel, residential) drives positive earnings revisions.

Inflation Expected: Commodity prices are rallying as the global economy reopens following COVID-19 shutdowns and a “pause” in capital spending plans. Our Metals & Mining team has positively revised their commodity forecasts across the board. Companies that consume raw materials are beginning to talk about price/cost neutrality/ pressure in 2021. While there could be near-term margin impacts, inflation is broadly good for the sector. Investors are focused on markets with strong (e.g., HVAC) and weak pricing (e.g., appliance).

Capital Deployment to Push Earnings Higher: Absent a few sectors (e.g., Airlines) balance sheets are relatively healthy in the Industrial sector. Industrial M&A has picked up both in the U.S. and Europe, and companies are starting to “unfreeze” share repurchase plans. The preference remains for bolt-ons. We expect capital deployment to be weighted to supply chain consolidation and digital transformation.

Construction Markets Remain a Battle Ground: The U.S. Industrial research team expects positive growth in new single family construction, though there are discussions of “peak” or “elevated” valuation. Commercial building markets remain under pressure, but there are pockets of growth such as around data center, automated warehouse, and institutional (e.g., healthcare). Stimulus is still a watch item for broader non-resi markets.

Aerospace, Universally, Viewed Positive: Several analysts are positive on the commercial aerospace recovery into 2021 and beyond, largely driven by pent up demand (potential for summer capacity to reach 80% of 2019 levels), inventory dynamics, and post COVID-19 vaccine “normalization.” Potential is seen for both positive earnings revisions and multiple expansion.

Sustainability/ ESG: The Industrial sector is not only focused on its own sustainability efforts, but those of its customers. The broader industrial sector touches key themes such as greenhouse gas (GHG) reduction, the clean energy transition (e.g., electrification, hydrogen), and decarbonization. Companies are also focusing on employment, business model shifts, and board actions.

Inventory: Many industrial companies sell through an indirect channel, and thus inventory destocking and restocking are key topics. While channel inventories have been broadly characterized as approaching normal, there are still pockets of dislocation (e.g., commercial aero engines, oil & gas, and automotive components).

Some New Behaviors Here to Stay: Supply chain investments, enhanced plant management, and digital transformation, especially around remote monitoring, appear here to stay. We expect trends accelerated by COVID-19 to remain key growth drivers. Work from home is hotly debated. For staffing firms, the pace of vaccine deployment will impact temporary vs. full time employment metrics.

Profitability: Most companies are expecting headwinds from temporary cost avoidance in 2020, rolling into 2021. However, restructuring and volume provide key offsets. For companies that have guided, the lower end of typical incremental ranges is the starting point.

Aerospace & Defense

Recovery Year Supports Bullish View on Comm'l Aero, Bearish on Defense

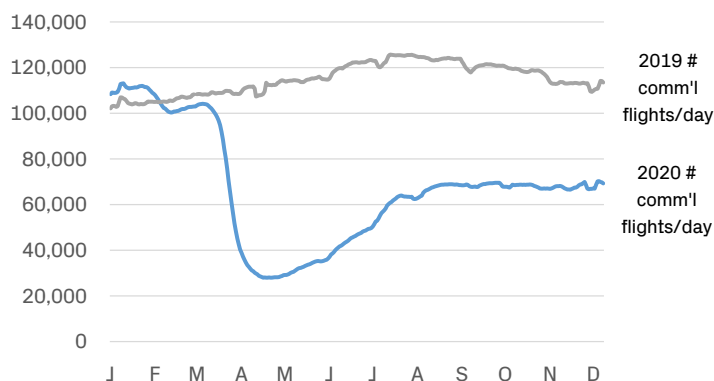
Industry Overview: With multiple highly efficacious vaccines poised for regulatory approval, we expect 2021 to be the first year of recovery for commercial aerospace. While an assumption of recovery was already embedded in Street estimates, an overarching narrative of improvement and the onset of a new cycle should support rising multiples, if not rising estimates as well. We are bearish on Defense given the group's decelerating growth story relative to cyclicals and the market broadly.

Comm'l aero recovery to be fueled by pent up leisure demand: Domestic leisure travel is poised to recover most rapidly as high savings rates and a desire for new experiences drives renewed demand. The recovery should then spread to select int'l regions, with a more fulsome int'l travel recovery in 2022. This should support rapidly rising comm'l aftermarket sales (focused on narrowbody), with OE likely benefiting more narrowly in the N-T. While biz travel is likely permanently impaired to some extent, we believe it will still recover meaningfully N-T as companies seek to reinvigorate business relationships.

Defense trajectory at odds with other cyclicals: Defense growth is decelerating while other cyclicals are inflecting. The group also faces a more challenged macro (budgets) going forward. Given this, we think the group may underperform in 2021.

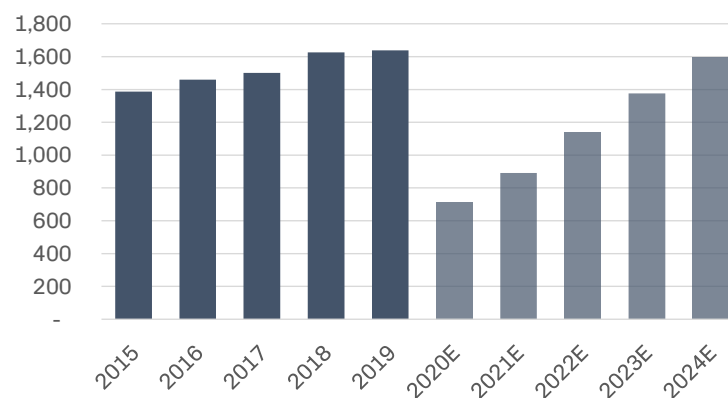
Commercial aero flight activity

Number of commercial flights tracked per day



OE Production Rates

Airbus & Boeing combined # of aircraft produced/yr



Source: Flightradar24, Company data, Credit Suisse

Aerospace & Defense

Aerospace Catalysts: We see a wide variety of positive catalysts for commercial aerospace, including (in chronological order of when we expect these catalysts to occur/begin occurring): (1) Additional vaccine approvals. (2) Vaccine distribution (including near real-time data tracking shots administered). (3) EASA ungrounding of MAX. (4) CAAC ungrounding of MAX. (5) Rising air traffic metrics. In terms of potential negative catalysts, we could see (1) Continued U.S./China tension driving a weaker APAC backlog for Boeing. (2) Survey data highlighting permanent demand destruction in business travel.

Defense Catalysts: Catalysts here could swing either positive or negative and include: (1) The Georgia runoffs (Jan 5). (2) 2022 presidential budget drop (typically Feb/March, but could be pushed). (3) Indications of foreign policy priorities (including either escalation or de-escalation of U.S./China tensions). (4) Any change to the National Defense Strategy or nuclear posture.

Aerospace Debates: The key debate remains the timing and extent of the comm'l aero travel recovery, as well as the timeline by which this translates into improved aftermarket and OE sales. Extent of inventory destocking and retirements, and whether this drives a much more robust recovery than expected is also a topic of debate. **Defense Debates:** Here the key debate is what happens to budgets under Biden, and whether fiscal pressure will result in any budget pain. The stability of U.S. support for arms sales to the Middle East (particularly Saudi Arabia) is also a key focus area.

Rating	Name (Ticker)	Company Data	Investment Case
Outperform	Woodward Inc (WWD)	Price: \$116.16 Target: \$121.00 Mkt Cap: \$7.3B	WWD is exceptionally well positioned for aftermarket recovery with enduring above-market growth prospects throughout the next decade.
Outperform	Howmet Aerospace (HWM)	Price: \$26.83 Target: \$26.00 Mkt Cap: \$11.6B	HWM is one of the few value stocks remaining in comm'l aero, with good prospects for revenue and margin recovery as OE production rates rebound over the coming years.
Outperform	CACI International, Inc. (CACI)	Price: \$244.94 Target: \$315.00 Mkt Cap: \$6.2B	CACI is an inexpensive defense stock (~8.5% FCF yield) with a strong near and medium-term growth and margin expansion story.
Underperform	Embraer S.A. (ERJ)	Price: \$7.29 Target: \$4.80 Mkt Cap: \$1.3B	ERJ is an increasingly marginalized commercial aviation player with a levered balance sheet and lackluster product lineup.

Source: Company Data, Credit Suisse

Data as of 16-Dec-2020

Airlines

A Clearer Path to a Fairly Robust Travel Recovery Throughout 2021

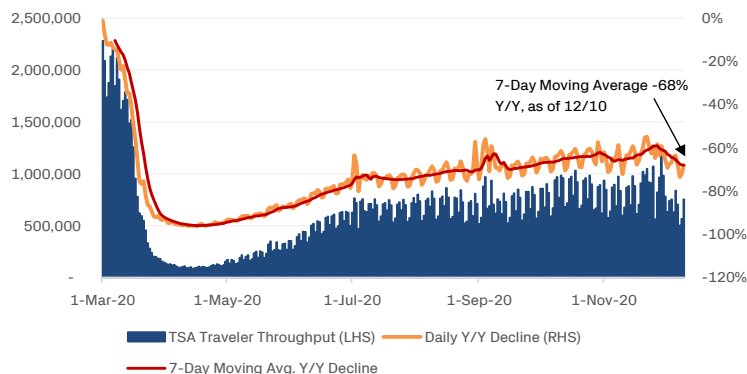
Industry Overview: Constructive into 2021. These stocks have already enjoyed a significant rally in recent months (+37% for the S5AIRL Index QTD vs. S&P +10%), fueled by the expectation that the wide distribution of newly-approved Covid vaccines in 2021 will drive the recovery of a still-dormant travel sector. While these are not deep value plays, we do believe that both travel demand and airline share prices are in the incipient stages of a (non-linear) recovery, and we see a continued bid for airline stocks into 2021, with a new cycle supporting rising multiples, and potentially earnings estimates as well.

Pent-up leisure demand to drive medium-term recovery: While the near-term (Q4/Q1) remains challenged, with surging Covid cases prompting renewed lockdowns & travel restrictions, airlines' large liquidity balances support them through 2021. Meanwhile, the ramp in vaccine distribution in H1 should support the peak summer booking window in April/May and lead to a strong, pent-up leisure traffic recovery for Summer '21, resulting in industry cash flow break-even within that timeframe. We believe domestic capacity can reach 80%+ of 2019 levels by Summer, with the leisure market 'back to normal' by YE '21.

Debt balances are an overhang, but peaking; significant de-leveraging cycle to follow: Airlines have strained balance sheets by adding >\$60B in debt this year, but with a clearer path to cash flow positive, the industry is now on the verge of a significant deleveraging cycle as the focus in 2021 shifts to balance sheet repair.

TSA Traveler Throughput

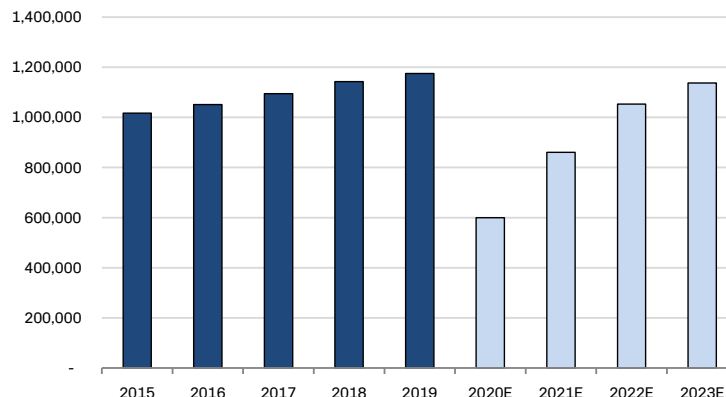
Daily TSA Passenger Throughput, Mar. 1 – Dec. 10, 2020



Source: Company data, Credit Suisse

U.S. Airline Industry Capacity

Available Seat Miles (ASMs). Note 'Industry' is AAL, ALK DAL, JBLU, LUV & SAVE



Airlines

International recovery harder to forecast, but with long-term structural upside: The corporate travel recovery will take a bit longer (late 2021), and long-haul international travel is generally less certain medium term because different countries will continue to have different rules and requirements for entry. That said, we are bullish on the long-term structural landscape in international markets, given the significant global widebody retirements (especially 4-engine jumbos) and the pullback/shutdown of long-haul discounters (e.g., Norwegian). This should result in a much better supply-demand balance in long-haul markets (positive for yields & margins), even before/without returning to 2019 levels.

Key debate – Magnitude of structural impairment to corporate travel demand: It remains to be seen to what extent business travel is permanently impaired as a result of newfound efficiencies from the forced widespread adoption of remote working tools. Some airlines see a ~10-20% permanent impairment (DAL), while others believe it can fully rebound to 2019 levels, albeit with slightly different 'mix' (UAL).

Key debate – 2021 unit cost pressures and an eventual return to pre-crisis CASM levels: While the domestic leisure carriers could approach their 2019 capacity levels by year-end 2021 / early 2022, a return to pre-crisis unit cost levels could take a few years longer. Not only will airlines be running below full utilization through 2021, but other major buckets of cost pressure in the coming years include rising airport costs, higher amortization (non-cash), and a greater mix of aircraft leasing, all partially offset by some fixed cost reductions in the business.

Beyond the pandemic – potentially more profitable? We generally believe the outlook for the industry is bright on the other side of the pandemic. While it has not resulted in consolidation and mergers as prior crises did (industry was already fairly consolidated coming into this crisis), airlines have cut structural costs, simplified and modernized their fleets by retiring older airplanes, and permanently slimmed down management and administrative ranks. If air traffic can return to (or near) pre-pandemic levels, whenever that may be, the industry could see upside to pre-crisis margin levels. Indeed, we see no long-term impairment to the demand drivers for leisure travel, which we expect to quickly get back on trend once the pandemic subsides. One key caveat to this is the extent to which corporate travel demand is permanently impaired on the other side, which remains an unknown today but of course is a key driver of airline profitability, particularly for network carriers.

Rating	Name (Ticker)	Company Data	Investment Case
Outperform	Southwest Airlines Co. (LUV)	Price: \$45.73 Target: \$51.00 Mkt Cap: \$27.0B	With an IG balance sheet & net debt position that allows the airline to play 'offense', Southwest is our favorite way to invest in a recovering travel market.
Outperform	Delta Air Lines, Inc. (DAL)	Price: \$41.08 Target: \$47.00 Mkt Cap: \$26.2B	Best positioned among legacy network carriers with a (relatively) good balance sheet, strong domestic network, upside from an eventual international/corporate recovery, and strong desire to not dilute equity owners.
Underperform	American Airlines Group Inc. (AAL)	Price: \$16.86 Target: \$4.00 Mkt Cap: \$10.2B	One of the higher risk profiles in the sector, with industry-high leverage to remain an overhang and likely beget further equity raises, limiting valuation upside.

Source: Company Data, Credit Suisse

Data as of 16-Dec-2020

Autos

2021 – A year of cycle recovery, unfolding EV narratives

Positive on autos into 2021: Despite solid performance by US auto stocks in recent months, we believe further upside exists for our stocks into 2021 amid further cycle recovery and unfolding EV narratives.

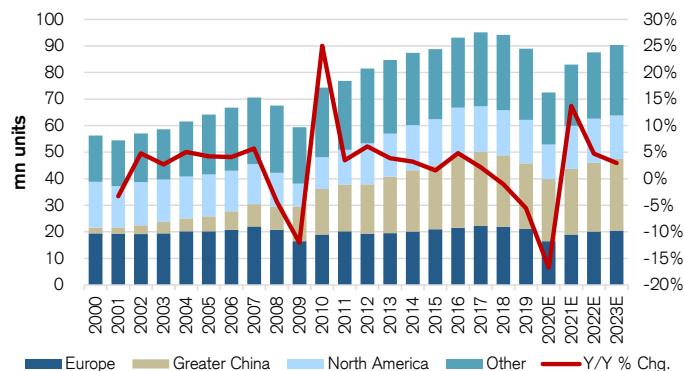
A recovering cycle: With global light vehicle demand more resilient than expected post the depths of COVID, auto volumes are set to recover solidly in 2021. We forecast auto production up 14% in 2021, with solid recovery across all three key regions globally (North America +24%, Europe +12%, China +10%). And with 2021 auto production still expected to be ~5% below 2019 levels, and more significantly below peak 2017 levels, it reminds us there is further runway in recovery of global auto volumes.

Positive estimate revisions ahead: Supporting our positive outlook on auto stocks is the expectation for further positive earnings revisions, driven not only by volume recovery, but also by upside on operating margins. Earnings revisions are important for auto stocks, as they have historically been a key driver of auto stock performance.

Unfolding EV narratives: We believe investors may be increasingly more receptive to the EV narratives of legacy auto companies as they continue to unfold, driving further support of the industry.

Global Auto Production

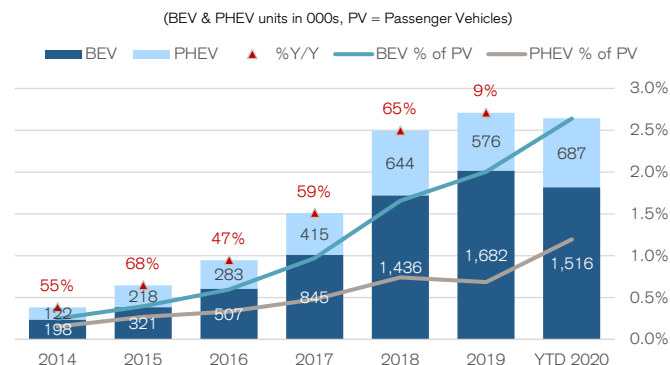
Global Light Vehicle Production - Annual



Source: IHS Markit

Electric Vehicles

Global Light Vehicle BEV & PHEV Sales Penetration - Annual



Source: EV-Volumes

Note: BEV = Battery Electric Vehicles; PHEV = Plug-in Hybrid Electric Vehicle; YTD through Oct'20

Autos

Be mindful of COVID-19-related supply chain disruption: A key risk ahead is COVID-19 disruption of the auto cycle recovery. We have seen multiple accounts of COVID-19-related supply chain inefficiencies affecting auto production globally, and while end markets have trended positively, it's important to be mindful of COVID-19 supply issues, which may limit near-term upside of auto build schedules. Demand has largely held in well (albeit we take a more conservative approach on Europe), yet to the extent demand weakness re-emerges amid further COVID resurgence, that too would be a risk.

Global EV uptake to remain a central theme: Year to date, EVs (electric vehicles) have accounted for 3.8% of global new light vehicle sales, an increase of 110bp vs. 2019. While still in the early innings of EV penetration, we have seen positive inflection of late, with EVs representing 5.0% of new vehicle sales in Oct'20. Regionally, the EV story has seen Europe positioning itself as the global leader in EV uptake, taking the lead over China. US remains a laggard in EV uptake, though will see increased focus under the Biden administration.

Valuation: While trading multiples are elevated vs. historical levels, we'd argue for upside ahead in stocks given potential for positive earnings revisions + case for multiple re-rating as auto co's proved resiliency through the peak of the COVID-19 production disruption.

Rating	Name (Ticker)	Company Data	Investment Case
Outperform	Aptiv PLC (APT)	Price: \$122.84 Target: \$137.00 Mkt Cap: \$33.2B	Best-of-breed growth profile + attractive secular narrative (positioned in EV, active safety, autonomous driving) reinforces APTV as our Top Pick
Outperform	Lear Corporation (LEA)	Price: \$161.90 Target: \$180.00 Mkt Cap: \$9.7B	Positive earnings revisions, improving growth outlook, and hidden EV exposure at an attractive valuation multiple
Outperform	Magna International Inc. (MGA)	Price: \$64.47 Target: \$74.00 Mkt Cap: \$19.3B	Positive earnings revisions, potentially accelerating narrative under new CEO, hidden EV exposure at an attractive valuation multiple
Outperform	Adient PLC (ADNT)	Price: \$35.87 Target: \$44.00 Mkt Cap: \$3.4B	Robust set of multi-year self-help initiatives supports 50% upside over time from current profit level. Profit recovery can help continue path of deleveraging, with potential dividend reinstatement in future. Auto tech neutral.
Outperform	Dana, Inc. (DAN)	Price: \$20.09 Target: \$25.00 Mkt Cap: \$2.9B	All underlying end markets trending positively + margin upside supports positive EPS revisions. Underappreciated EV narrative continues to unfold

Electrical Equipment & Multi-Industry

Cyclical Recovery Under Way; Anticipating Cycle Rotation During 2021

Industry Overview: We expect an early focus on positive earnings revisions, driven by shorter cycle momentum, before investors' begin to focus on later cycle industries, which we expect to exit the year with momentum.

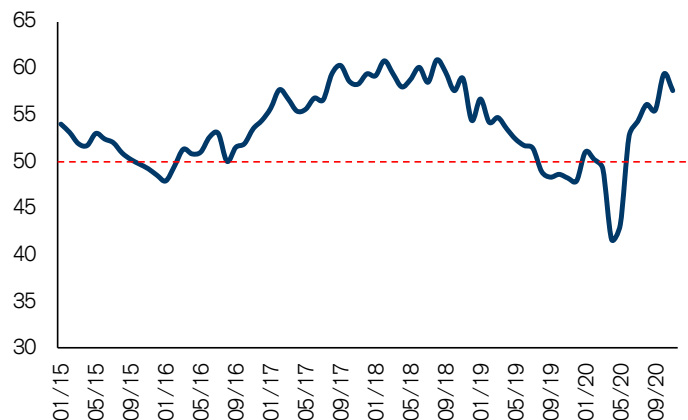
Short Cycle Recovery: We expect to see short cycle industrial momentum reaccelerate (e.g., US manufacturing PMI), in the first half of the year, as a vaccine is deployed across the U.S and the globe. This favors industrial MRO, inventory replenishment, aerospace aftermarket, automotive production, and residential markets.

Focus on Software: Digital remains a key strategic pillar as corporations look to Info Tech to accelerate sales (new offerings), improve margins (value added services), and streamline supply chains (inventory). We anticipate increased activity around partnerships (e.g., Big Tech) and capital deployment (capex and M&A).

Themes to Remain: We expect continued focus on energy efficiency/IAQ, the clean energy transition (electrification and green hydrogen), and water efficiency/ regulation. Several of these themes fit ESG criteria.

U.S. Manufacturing Headline PMI

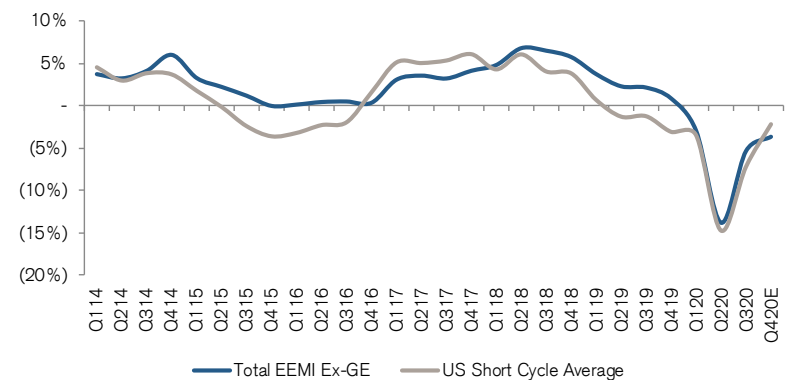
Vaccine to drive reacceleration



Source: Company data, Credit Suisse, FactSet

Short Cycle vs. Long Cycle Organic Sales Growth

Long Cycle Momentum to Exit the Year



CS Short cycle: MMM, ITW, PH, ROK

Electrical Equipment & Multi-Industry

Increase in Mobility: We expect better mobility data, for on-road vehicles and commercial aircraft, to drive increased demand for commercial aerospace aftermarket (esp. for non-engines), downstream refinery (pent-up MRO demand), and general industrial products. We see pent up demand for aerospace travel, and would expect a multi-year recovery until the industry reaches and ultimately exceeds 2019 activity. Improved mobility will also drive demand for ICE and EV commercial and passenger vehicles, including both repair and production.

Focus on Buildings: We anticipate commercial building momentum in the second half of calendar 2021. We largely view the current slowdown in construction markets as a “health and safety” matter and not an end of cycle event. This is supported by long-lead time elevator orders and relatively supportive vacancy data heading into the COVID-19 slowdown, though we expect some work-from-home pressure to persist. Our preference remains commercial HVAC (energy efficiency, IAQ, green stimulus driven by environmental policy), electrical products (growth to be led by high energy intensity verticals such as data center, automated warehousing, and life sciences), and controls (building intelligence).

Guidance Frameworks: We see upside potential to Q4/2021 guidance/frameworks absent an increase in COVID-19 restrictions. We anticipate, and corporates are broadly messaging, incremental margin performance towards the lower end of the long-term framework driven by the return of temporary cost avoidance partially offset by structural restructuring, pressured-to-neutral price/cost, productivity partially offset by freight, and FX (lower incremental margin). Capital deployment, both share repurchase and M&A, are upside.

Rating	Name (Ticker)	Company Data	Investment Case
Outperform	Emerson Electric (EMR)	Price: \$81.28 Target: \$79.00 Mkt Cap: \$48.6B	Operating discipline (e.g., accelerated restructuring), capital deployment, and software investments drive earnings growth in a recovering macro environment.
Outperform	Fortive (FTV)	Price: \$68.92 Target: \$78.00 Mkt Cap: \$23.2B	We expect a cyclical industrial recovery in 2021 and favor quality cyclicals over deep cyclicals. We see positive earnings revisions and capital deployment
Outperform	Johnson Controls Inc (JCI)	Price: \$45.77 Target: \$49.00 Mkt Cap: \$33.1B	We maintain our favorable view of HVAC markets (e.g., energy efficiency, IAQ, green stimulus, service), and JCI is our preferred value play. We see digital investments driving top line growth and higher incremental margin this upcycle.
Underperform	Xylem (XYL)	Price: \$99.02 Target: \$75.00 Mkt Cap: \$17.8B	Carries premium valuation, largely driven by thematic backdrop, following several quarters of negative earnings revisions. We are watching for a revision trough.

Engineering & Construction

Winning the Re-rate Story

Industry Overview: Demand trends remain healthy, which is expected into 2021 supported by strong secular tailwinds, in particular Electric T&D and wireline and wireless spend. Defense plays corporates expect to be able to grow organically on the top line. Companies expect to be able to grow through what will remain depressed oil and gas cap ex for at least 2021 and will pivot to clean energy offerings. With regard to capital allocation, we believe M&A in 2021 is on the backburner as companies digest deals and will remain opportunistic on share repurchase. Companies that can provide higher value add services and with exposure to secular growth end markets can drive a re-rate story in our view with J, ACM and PWR leading the pack and KBR and MTZ following suit. The group currently trades at 17x NTM P/E and 10x NTM EV/EBITDA and is up 22% year to date vs. S&P, which is up 13%.

Embracing Secular Tailwinds: Players like PWR and MTZ see solid growth opportunities in 2021 with cyclical tailwinds balanced by secular growth including Wireline/5G, T&D spend and Clean Energy. Jacobs is embarking on its next phase of transformation via the investment in PA Consulting, increasing expertise as an innovation solutions provider. For KBR the Tech/ES business is in a transition to higher-end service and a greener portfolio while optimizing the mix between cap ex and op ex sales and improving margins. ACM continues to focus on becoming a professional services firm.

Telecom Capex

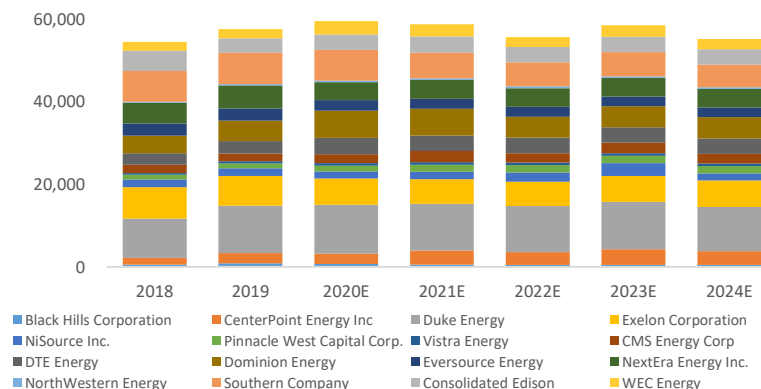
Set to grow strongly through 2022 and remain steady LT

\$MMs ex per sub	2019	2020E	2021E	2022E	2023E	2024E	2025E
Total CapEx							
Comcast	12,428	11,284	12,088	12,608	12,350	11,654	10,923
Charter	7,195	7,437	7,300	7,123	6,833	6,569	6,189
Altice US	1,355	1,099	1,342	1,365	1,009	975	966
Cox							
WideOpenWest	248	224	219	221	231	-	-
DISH	581	384	1,990	4,126	3,112	1,099	1,086
AT&T	19,635	16,920	18,677	19,149	19,443	19,569	19,584
Verizon	17,939	18,483	18,033	17,840	17,944	18,180	18,283
T-Mobile	6,391	10,870	13,597	12,978	12,330	11,625	10,828
Total Capex	70,521	71,585	78,108	80,207	77,973	74,329	72,454
y/y change	0%	2%	9%	3%	-3%	-5%	-3%

Source: Company data, Credit Suisse

Utility Capex

Forecast to remain steady



Engineering & Construction

Top Pick: MTZ is one of the largest contractors in wireline and wireless spend and gas pipeline with a growing presence in Clean Energy & Infrastructure trading at a more than 2x multiple discount to the group. We believe MTZ can successfully manage through the gas pipeline downturn driven by growth in the remaining segments, resulting in expanded margins, EPS growth and oil & gas a smaller piece of the pie. We believe this in turn can result in an improved valuation as segments outside of gas pipeline garner a higher multiple given secular growth tailwinds. MTZ aims for \$10B in revenues in the next few years with double-digit EBITDA margins, driven by secular growth in Communications and significant growth on the top-line and margins in Clean Energy & Infrastructure and Electrical Transmission as investments pay off. MTZ also sees opportunity to structurally improve free cash flow as gas pipeline becomes smaller. We believe the change in business mix to more secular growth end markets away from oil and gas will drive a re-rate story for MTZ similar to peers.

Rating	Name (Ticker)	Company Data	Investment Case
Outperform	MasTec, Inc. (MTZ)	Price: \$67.02 Target: \$62.00 Mkt Cap: \$5.0B	We favor MTZ given its exposure secular growth end markets including communications, clean energy and transmission which have the opportunity to grow significantly and offset the oil and gas downturn, potentially driving a re-rate story.

Homebuilders & Building Products

Residential Strength to Continue in 2021

Homebuilders and Building Products companies should benefit from a renewed focus on the home, brought on by the COVID-19 pandemic.

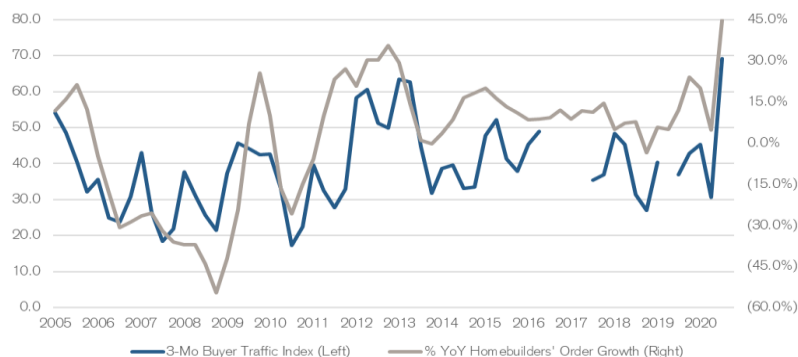
Robust growth in Single-Family Residential Construction should continue through 2021. We remain positive on the US homebuilding sector entering 2021 as low mortgage rates, record low existing home inventory, meaningful existing home price appreciation, and accelerated millennial household formations should continue to drive robust demand across all buyer segments. Our top pick is D.R. Horton (DHI) due to its scale and operational expertise, high entry level and spec exposure, industry-leading land position, high ROE, and reasonable valuation.

Repair & Remodeling should grow at more modest rates, though still remain healthy: Lockdowns and working from home drove meaningful growth in Repair and Remodel this year, as homeowners have spent more time around their home and engaged in DIY projects. With widespread vaccination unlikely until 2H21, we estimate that R&R will continue to grow next year as homeowners find more projects to do around the home and as consumption of other activities (travel, going to restaurants, concerts, etc.) remain subdued.

Capital deployment to push earnings higher: Given the economic uncertainty, all companies under our coverage have paused share repurchases though the downturn. Since some companies have felt a minimal impact from COVID-19, or have even thrived in this environment, we expect that some companies, such as Masco (MAS) and D.R. Horton (DHI) will start to deploy capital for share repurchases more aggressively, driving meaningful upside to earnings next year.

CS Buyer Traffic Index vs Builder Orders

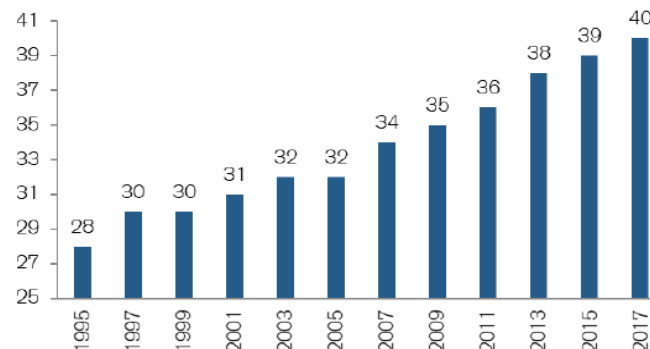
Strong F2H20 order growth momentum to continue in 2021



Source: Company data, Credit Suisse

Median Age of US Housing Stock

Aging Housing Stock should continue to drive remodel spending

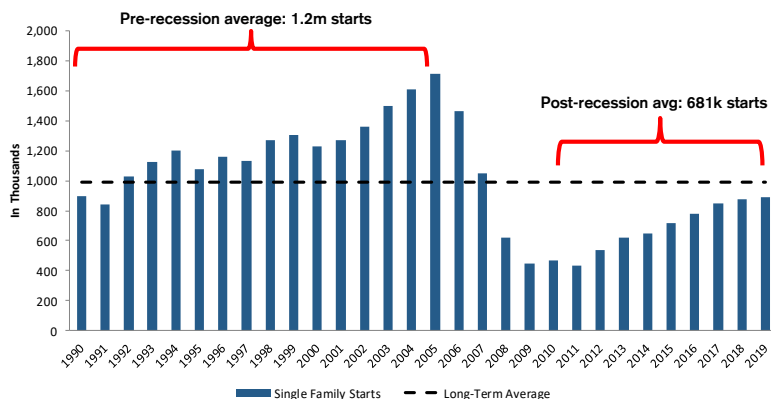


Homebuilders & Building Products

Rating	Name (Ticker)	Company Data	Investment Case
Outperform	D.R. Horton (DHI)	Price: \$71.18 Target: \$88.00 Mkt Cap: \$25.9B	<ul style="list-style-type: none"> High entry level and spec exposure will drive meaningful order growth in FY21 DHI's scale and optimized production model should allow them to overcome labor and materials constraints and meet closings targets
Outperform	Masco (MAS)	Price: \$54.51 Target: \$70.00 Mkt Cap: \$14.3B	<ul style="list-style-type: none"> Plumbing will drive growth, especially as the spa business recovers Paint will stabilize in 2021 from DD growth in 2020 Share buybacks could drive meaningful EPS upside
Outperform	TopBuild (BLD)	Price: \$178.03 Target: \$200.00 Mkt Cap: \$5.9B	<ul style="list-style-type: none"> Strong builder orders will drive growth in the residential business Commercial should start to recover in 2H21 Construction labor tightness creates pricing power for BLD
Underperform	Whirlpool (WHR)	Price: \$187.09 Target: \$162.00 Mkt Cap: \$11.7B	<ul style="list-style-type: none"> Margins will peak in FY21 as promotional spending returns to normal Competition from Asia-based players will intensify, limiting pricing power and share gains

Single-Family Housing Starts

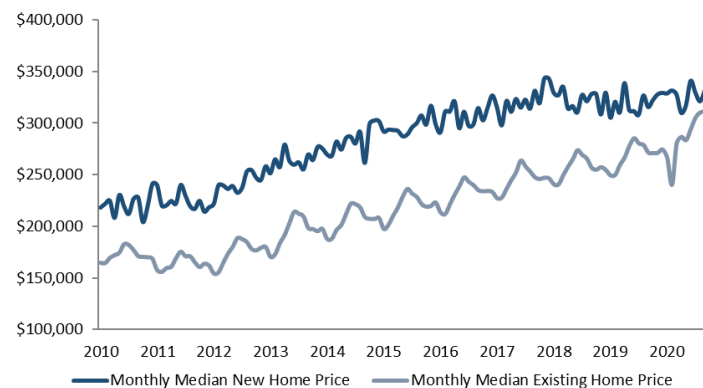
Underbuilding has driven a worsening supply/demand imbalance



Source: Company Data, Credit Suisse

Median Home Prices

Home Price Appreciation should drive remodeling spending



Data as of 16-Dec-2020

Machinery

All Eyes on the Recovery

Industry Overview: Nearly all machinery end markets are expected to recover in 2021, supported by economies reopening, rising commodity prices, and channel inventory has cleared, which positions the group well for 2021.

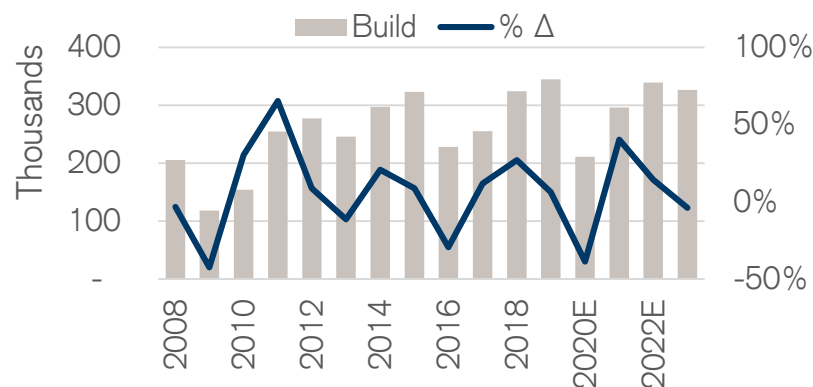
Truck: NA HD Truck is expected to grow ~40% in 2021. This cycle will be unique, in our view, because customer profitability is already at all-time highs but demand should improve further as the broader economy recovers and used values increase.

Ag: Large Ag should also grow in 2021 as farmer sentiment has improved recently, supported by stronger commodity prices, extended fleet age, and low dealer/used inventory levels. A Large Ag replacement cycle has been expected since 2018, but trade and other issues put replacement demand on hold at the time.

Construction Equipment: Construction is a more debated end market. Access equipment utilization has returned to pre-COVID-19 levels on aged fleets that will likely need to be replaced over a multi-year period, though the timing is uncertain as rental customers act cautiously.

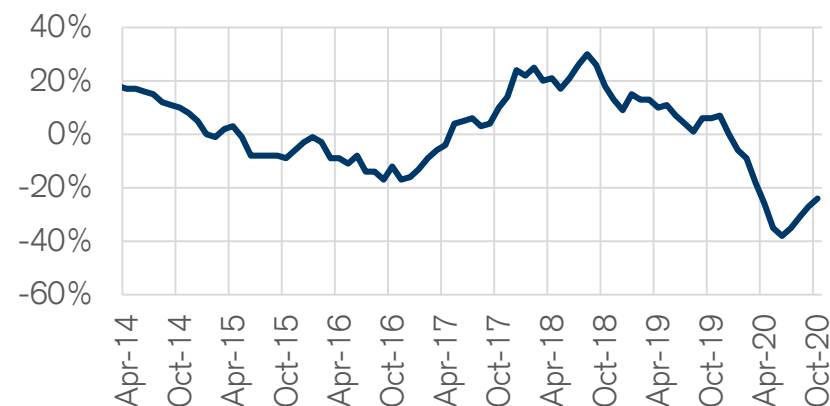
NA HD Truck Production

ACT Research expects production to increase 40% in 2021



CAT NA Construction Retail Sales

CAT construction sales were under pressure in 2020



Source: Company data, Credit Suisse, ACT Research

Machinery

Other End Market Recoveries: We also expect a significant recovery in automotive production in 2021. Mining demand should recover as miners deferred rebuilds and some maintenance from 2020 into 2021, the fleet is old, and commodity prices (copper, iron ore, coal) have recovered. The commercial aerospace market will still face headwinds in 2021 but should improve relative to 2020. Last, while we view the oil & gas market as structurally impaired and do not have line of sight for a recovery, we do expect to see some bounce in activity, given WTI crude prices have recovered to ~\$47/bbl from sub \$20 levels in March and April.

Incrementals: Several machinery companies took temporary cost cutting measures in 2020 such as salary reductions, headcount reductions, and other discretionary measures to manage for the downturn. The extent of these actions vary by company, with CMI and PH the most aggressive in cutting costs, whereas ALSN and ITW were less aggressive. In 2021, these costs will come back into the business and act as a headwind to incremental margins. The debate is on whether volumes can recover enough to offset these headwinds to earn outsized incrementals. Many companies also took action in 2019 and 2020 to underproduce retail demand which has cleared channel inventory and will help incrementals. Price/cost is largely expected to be neutral, although pricing on Large Ag coupled with continued adoption of Precision Ag features bode well for margins, in our view.

Supply Chain: Supply chain disruption was not as significant concern in Q2'20, because although COVID-19 caused significant production disruption, companies were managing for significant volume declines. However, COVID-19 cases are now spiking as volumes are improving, which has led to concerns on potential supply chain disruption. In our view, OEMs and tier 1 suppliers have been successful in putting protective measures in place, but tier 2 and 3 suppliers still pose a risk to the supply chain.

Top Picks: DE is our top pick for 2021. Large Ag in NA is still expected to be below mid-cycle in 2021, though the market is supported by high corn and soybean prices. Fleet age is extended in NA and Brazil, where DE has ~60% and low 30s market share, respectively. DE is also a market leader in Precision Ag technology, which we view as additive to market share, margins, and aftermarket over time. DE also stands to benefit from a simultaneous recovery in both divisions given their exposure to NA construction. We see an opportunity for DE to leverage technology and lessons learned from the Ag division to its C&F business.

Rating	Name (Ticker)	Company Data	Investment Case
Outperform	Deere & Co. (DE)	Price: \$261.12 Target: \$305.00 Mkt Cap: \$81.8B	We favor DE as Large Ag markets should recover strongly in NA and Brazil in 2021 and beyond and DE can grow market share, margins, and aftermarket over time via its market-leading Precision Ag technology (DE Primer)

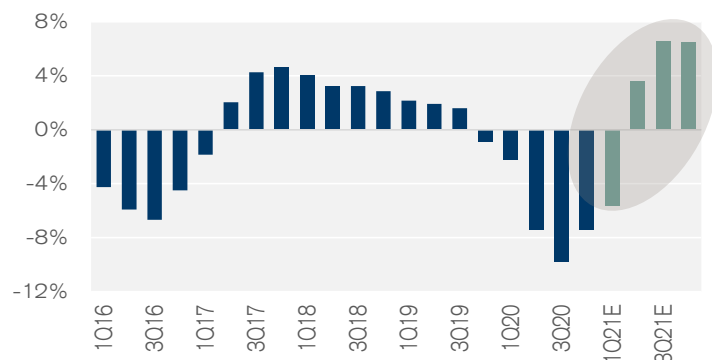
Transportation

Cyclical Recovery Underway; Favorable Fundamentals Leading into 2021

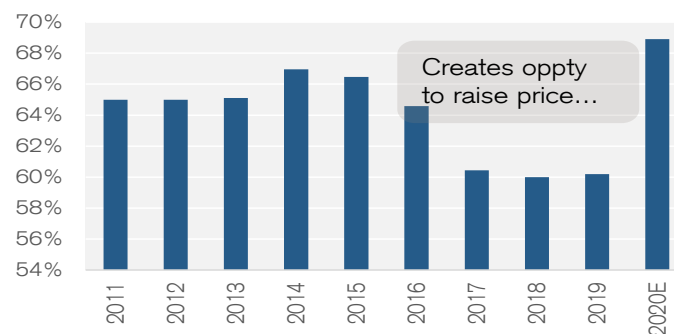
Freight Fundamentals Favorable in 2021, but Visibility Cloudy: We are positive on freight market fundamentals heading into 2021, given relative strength in the consumer economy, and a slowly recovering industrial backdrop; with the risk being the recent spike in COVID-19 cases and the potential for further shutdowns. That said, inventory restocking appears to have plenty of room for runway in the near term; and to the extent that inventory management strategies shift to “just in case” vs “just in time”, this could lead to stronger freight demand for longer. At the same time, TL capacity is tight, with carriers expecting contract rate increase in the low-double digit range in 2021. The tight truck market should help rail intermodal, and also contribute to an acceleration in rail pricing. From a valuation standpoint, many of the stocks in our universe are trading at or near peak valuation levels, which is largely consistent with what we have seen in prior cyclical upswings.

Bullish on N. American Rails as Cyclical Recovery Underway: Our outlook for the N.A. rails is bullish for 2021. Volumes inflected positive in Q4 for the first time in several quarters, and we expect the recovery to persist throughout 2021. While the industrial economy is expanding (albeit at a sluggish pace), and energy related commodities remain under heavy pressure, a strong grain carryover crop and healthy growth in intermodal are relative bright spots. The latter is particularly true given very tight truck capacity and continued inventory restocking. Pricing gains – which remained solid throughout the freight recession – are likely to accelerate through '21, in part boosted by what are expected to be TL contract rate hikes in the LDD range. From an operating perspective, each of the rails generated significant improvement in productivity metrics throughout 2020. This sets up for strong op leverage and margin expansion as volumes return to the network. On average, we see high-teens to low 20% EPS growth across the group in 2021. And while valuations are elevated on a P/E basis, we note that the group is trading in line with the S&P – and more importantly, trade at a significant discount to the broader industrials complex despite a faster earnings growth profile.

North American Rail Volumes (y/y % chg)



UPS Capacity Utilization Analysis (CS Estimate)



Source: Company data, Credit Suisse

Transportation

Parcel Stocks Investable for the First Time in Several Years: COVID-19 has pulled forward multiple years of eCommerce demand into just a few months. Parcel volumes have been at peak levels since May, and FDX/UPS are expecting the U.S. small package market to double over the next four to five years. Consequently, domestic capacity has become tight, and pricing power now rests solidly in the hands of the carriers. UPS and FDX are intent on being paid for the efficiency and value that the networks provide, and capitalizing on the substantial investments in capacity that were made in recent years. In our view, both the pull forward of volume and increased pricing leverage will result in an inflection in Domestic/Ground margins.

Trucking...Peak Trade Looks Over: The TL stocks were largely in favor during the latter part of 2019 and the first half of 2020, as spot rates soared to levels not seen since late '17/early '18 - a signal of capacity tightness and a leading indicator for contract rate hikes. To this end, the TL carriers are expecting '21 contract rate increase in the LDD range, but also argue that this cycle could last longer than we have seen historically, given exacerbated constraints on the pre-existing driver shortage (e.g., the Drug & Alcohol Clearing database, and the severely reduced enrollment in driver training schools resulting from COVID). At the same time, new truck orders have risen above replacement levels for the last couple of months, which normally signals that capacity will eventually enter the market (ultimately subduing rates). We also point out that the view from some large brokers is that this cycle is no different than what we've seen in the past; sentiment that seems to be shared by the market, as evidenced by the recent de-rating of the TL stocks (which implies that the view is that 2021 will be the peak for TL earnings).

Rating	Name (Ticker)	Company Data	Investment Case
Outperform	United Parcel Service Inc. (UPS)	Price: \$170.13 Target: \$202.00 Mkt Cap: \$147.1B	Rev quality improving given pricing leverage and focus on SMB growth. Domestic margins set to inflect positive in '21, and oppty to structurally reduce costs is substantial. Capex coming down significantly, driving FCF conversion of 100%+ and improving ROIC. Market not fully appreciating these factors.
Outperform	CSX Corporation (CSX)	Price: \$89.10 Target: \$102.00 Mkt Cap: \$68.1B	Growth narrative emerging as CSX capitalizes on PSR. Strategic marketing focus on entrenching itself in customer supply chains - much like we've seen at the Cdn rails. Recent PAR acquisition supports this. Company should increasingly be able to take share from the highway. Relative outsized volume growth combined with productivity gains sets the stock up for outperformance in 2021. Stock relatively cheap on price/FCF basis. Top Rail Pick.
Outperform	FedEx Corporation (FDX)	Price: \$288.81 Target: \$365.00 Mkt Cap: \$75.8B	Domestic pricing leverage, the SmartPost integration and the lapping of 7-day delivery supports Ground margin expansion. Capex in FY21 of \$5.1B is declining from \$5.9B in FY20, and co expected to be more disciplined as LT incentive comp now tied to capex. This gives us clear line of sight to double-digit EPS growth and improved FCF conversion over the next few years.
Underperform	CH Robinson (CHRW)	Price: \$91.44 Target: \$77.00 Mkt Cap: \$12.4B	Although freight brokers should benefit cyclically as freight demand rises and contracts get renegotiated, we continue to have longer term structural concerns. We see erosion to NRMs over the LT as a result of increased competition, pricing transparency, and the implications of digital freight platforms.

Source: Company Data, Credit Suisse

Data as of 16-Dec-2020

Business, Commercial & Information Services

Selective in Services as we focus on MCO, TRI, and EFX

Industry Overview: Business Services spans three sub-sectors: Information, Commercial, and HR / staffing. Information Services models are characterized by recurring revenue, high incremental margins, barriers to entry, + strong FCF given scarcity of data assets. Information Services is a preferred way to invest in secular growth in our coverage universe—especially during COVID-19—uncertainty. HR/staffing include temporary help, executive search, payroll, + professional employment organizations [PEOs]. In terms of commercial, multiple disparate end markets span route-based food-service + uniform, smart home + home security, specialty rental, + others.

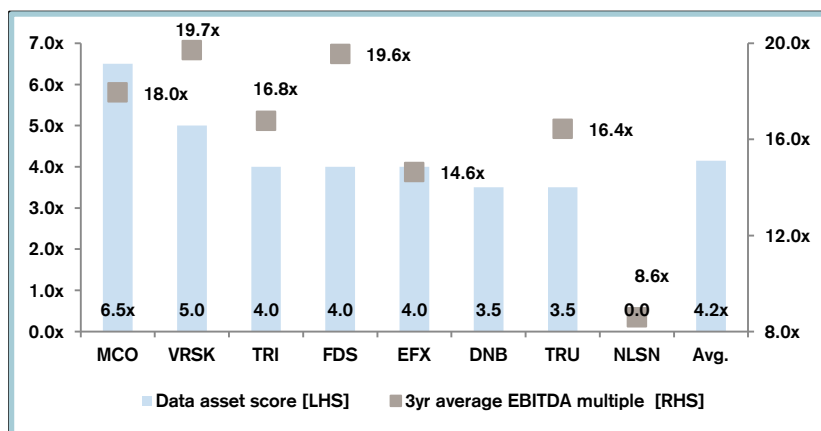
Information Services: continued M&A, especially among market data providers as buy typically makes more sense over build—large installed bases + high switching costs with attractive financial profiles—given unique data assets are difficult to build organically. Bolt-on M&A could focus on private market data, ESG, + alternatives while larger M&A likely focuses on larger platforms to enhance scale.

HR: the COVID-19 induced downturn is different from prior cycles especially as temporary help discounts too much COVID-19 vaccine optimism in our view. We see temporary help lagging full-time employment in the recovery, a key differentiator from prior cycles.

Commercial: prefer idiosyncratic drivers in disparate end markets including activists [ARMK] + transformational M&A [WSC].

Exhibit 1: Credit Suisse proprietary data asset scorecard

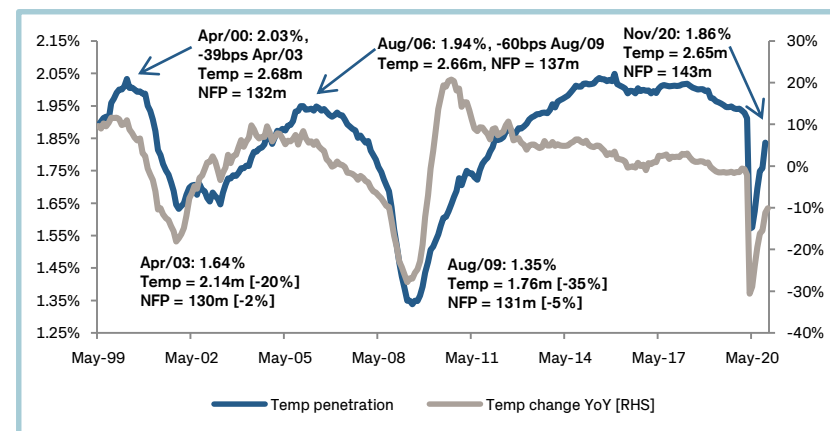
Data scarcity + uniqueness is reflected in premium multiples



Source: Company data, Credit Suisse, FactSet

Exhibit 2: COVID drove steepest + fastest decline in jobs data

Staffers underperform in recession, outperform early-cycle



Business, Commercial & Information Services

Information Services: positive secular drivers and highly cash generative business models support premium multiples. Stock selection is based on deep end-market analysis. Our top picks within Information Services include Moody's [MCO], Thomson Reuters [TRI], and Equifax [EFX]. For Moody's, our long-term positive view is predicated on expanding TAMs + highly FCF generative business model. At Thomson, we see a more nimble, higher growth business amid improving fundamentals in its core legal and accounting + tax [collectively ~85% of revenue] coupled with LSE + Refinitiv [likely closes early 2021] optionality. For Equifax, we are positive as its ~\$1.5b technology transformation implementation [TTI] and Workforce Solutions, mitigated core credit declines + position the company best post COVID-19 relative to its peers.

HR Services: lower temporary help + permanent placement demand in the pandemic. Temporary help lags in recovery as furloughed workers return before temporary help. Prefer payroll [ADP / PAYX] over temp for durable, cash generative models [dividend aristocrats]. We are cautious on Robert Half [RHI] given limited catalysts with initial claims down significantly, vaccine optimism high + less attractive valuation.

Commercial Services: disparate end markets + business models drive company-specific views. We are positive of Aramark [ARMK] as activist + new CEO/CFO likely unlock value via strategic actions post-COVID. We are also bullish on WillScot [WSC] as we see the recent ~\$6.6b MINI deal fueling de-leveraging + FCF independent of macro as value-added products + services and synergies fuel multiple EBITDA levers, creating value for years to come. We are cautious on Iron Mountain [IRM] as rising data center capital needs + leverage [~6.0x] press shares.

Rating	Name (Ticker)	Company Data	Investment Case
Outperform	Moody's (MCO)	Price: \$280.55 Target: \$335.00 Mkt Cap: \$52.5B	We are positive on the MCO stock long-term as we see a best-in-class franchise amid sustainable LDD EPS growth. We recognize MCO has an impressive ratings franchise amid moated data assets—MIS, BvD, RDC, Reis, ERS, etc.—with margin upside, especially within MA [click here] for relevant report].
Outperform	Thomson Reuters (TRI)	Price: \$80.22 Target: \$105.00 Mkt Cap: \$39.9B	We see the core Thomson Reuters story improving on accelerating organic growth through new products, pricing, and strategic M+A amid margin expansion on stranded cost runoff. Additionally, we see value from LSE + Refinitiv .
Outperform	Equifax (EFX)	Price: \$193.25 Target: \$200.00 Mkt Cap: \$23.5B	We see a differentiated + durable business model in areas such as Equifax Workforce Solutions [EWS (~30% revenue)] amid ~\$1.5b technology transformation initiative [TTI]—key driver— positioning for post COVID-19 .
Underperform	Iron Mountain Inc. (IRM)	Price: \$29.05 Target: \$16.00 Mkt Cap: \$8.4B	We continue to be negative on the IRM stock given ongoing capital-intensive pivot towards highly competitive data centers, away from core document storage that continues to be impacted by organic growth headwinds amid underwhelming FCF + execution risk from the Project Summit restructuring [click here] for report].

Source: Company Data, Credit Suisse

Data as of 16-Dec-2020

Sector Summary

Let the Good Times Roll

TMT Overview: The fundamental case for TMT remains compelling with faster sales growth, superior margins, robust FCF, and low leverage. Notably, the broader sector generates well over 50% of the economic value in the U.S. (per Credit Suisse HOLT), supporting the fact that TMT is creating a disproportionate amount of value in today's market. As we head into 2021, sustaining on-going secular trends is critical to justify valuations.

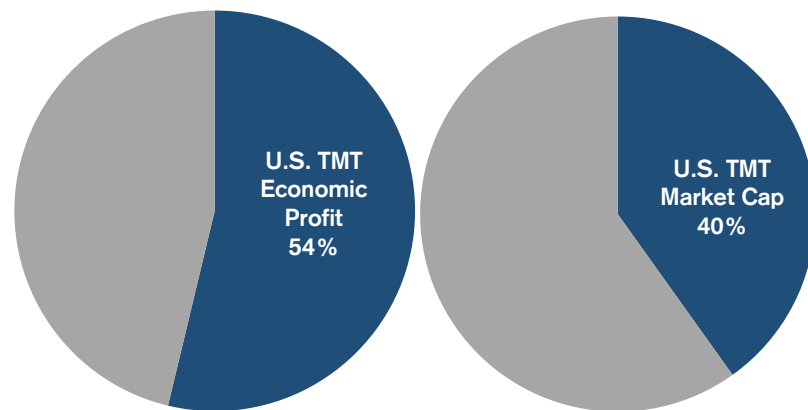
Semiconductors: While Semis are up significantly in CY20, we see a post-COVID environment supportive of a cyclical recovery and a structural recapture of value across all end markets. Early innings of the 5G cycle, meaningful cyclical recovery in CY21 and a more stable political outlook may drive further upside.

Hardware: Digital Transformation remains a critical Enterprise initiative. Public cloud adoption should continue, though we believe hybrid cloud architectures represent the LT steady-state for Enterprise IT. We expect rebounding IT budgets in CY21, though the rising tide supports a meaningful snap-back in on-premise Enterprise HW with the shift toward public cloud.

Internet: The increase in engagement/purchasing as a result of pandemic and the change in both consumer and enterprise behavior will persist going forward. Durability of revenue growth is driven by rising engagement and accelerating online shift.

TMT Economic Profit versus TMT Market Cap

Wealth Creation (% Total) outpacing Market Cap (% Total)



HOLT Economic PE Multiple Over Time

Decade peak multiple for U.S. Tech, albeit well below the Tech bubble



Source: Company data, Credit Suisse HOLT. TMT includes U.S. Technology, Communication Services & AMZN (Economic Profit for FY20). Economic PE multiple is U.S. Tech & All Sectors, asset base weighted aggregates.

Sector Summary

Let the Good Times Roll

Software: Digital transformation, cloud migration, ecommerce & hybrid work shall prove durable beyond the pandemic. While secular trends have accelerated, valuations in the group are at peaks and software is not immune to IT budget fluctuations.

Communication Infrastructure: The group is well positioned to continue strong revenue growth in CY21, following strong business, broadband and cloud traffic in CY20. The recent group pull-back should serve as an attractive entry point in an increasingly digital world.

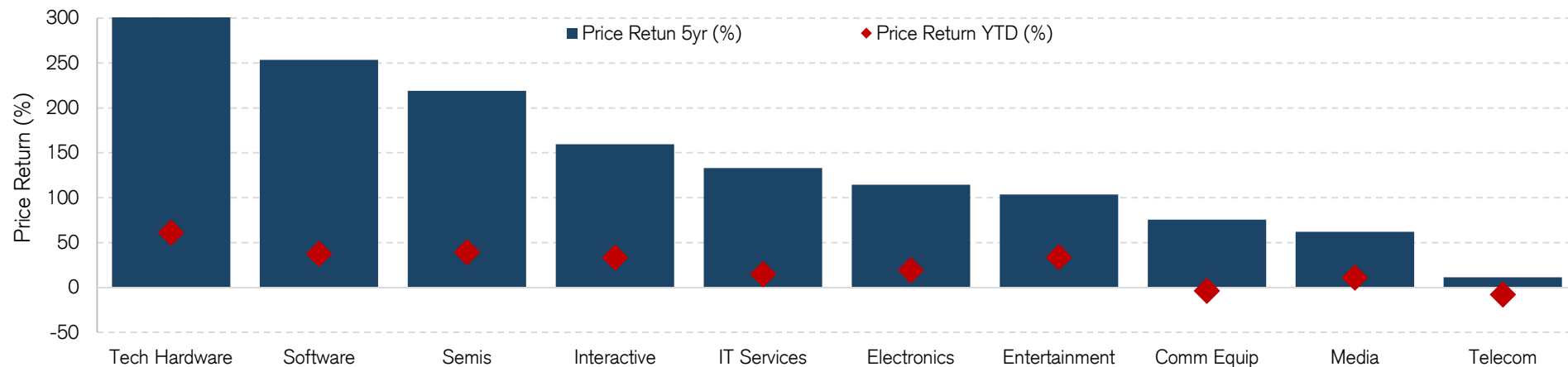
Telecom & Networking Equipment: The pandemic introduced many challenges for telecom & networking supply chains. In CY21, we expect data center networking equipment strength to continue, campus switching & WLAN market stabilization and a pickup in 5G investments.

Media: Streaming competition is accelerating and there is increasing uncertainty around high margin legacy businesses. Streaming wars have stepped-up (Disney+ aggressively ramping original content), Pay TV outlook remains murky and content windows continue to evolve.

Telecom: Cable operators have shifted to a higher margin broadband strategy and are experiencing efficiencies in shifting to digital customer care. Wireless is entering 5G, which expands network capacity though consumer application is unclear.

TMT Industry Price Performance – YTD & 5yr

Strongest performance in 2020 for Tech Hardware, Software & Semis



Source: Company data, FactSet. Price performance is respective S&P 500 Industry indices.

Communications Infrastructure

Building the Bedrock of the Digital World; Recent Pullback Solid Entry Oppy.

- **Industry Overview:** Communications Infrastructure, including multi-tenant data centers (MTDCs), towers, and fiber assets are well positioned to continue their strong revenue growth into 2021, following strong business, broadband and cloud traffic strength in 2020. The recent group stock pull-back should serve as an attractive entry opportunity going into an increasingly digital world in 2021.
- **Hybrid Cloud Enterprise Deployments Likely to Accelerate MTDC Growth in 2021:** Following a year with elevated uncertainty, we believe the trend of digital transformation for enterprise IT networks to Hybrid Clouds should show momentum in 2021, with strong growth from enterprise deployments in MTDCs. Hybrid cloud IT architectures are gaining relevance and MTDCs should see the upside.
- **Hyperscale Capex Spend to Remain Robust, but MTDC Backlogs Only to Build Modestly:** Hyperscale Capex Spend is a leading indicator for the MTDC industry, and we expect it to accelerate to 14.7% growth y/y from 9.8% y/y in 2020. However, MTDC construction intensity peaked in 1H20, so we expect modest backlog improvement, despite accelerating end market dynamics.
- **Tower Companies Present Attractive Entry Point Given Upcoming Tailwinds:** In 2021, TowerCos will be bolstered by tailwinds, including a ramping 5G network buildout cycle, international ramps, M&A visibility, and more spectrum band deployments (CBRS, C-Band).

Hyperscale Capex Spend Growth Accelerating in 2021

End market growth acceleration is solid support for Data Centers.

Hyperscale CapEx (\$ millions)										CAGR (%)	
	2014	2015	2016	2017	2018	2019	2020E	2021E	2022E	14-'18	18-'22
FB	\$1,831	\$2,523	\$4,491	\$6,732	\$13,980	\$15,102	\$16,100	\$21,261	\$22,457	66.2%	12.6%
AMZN (AWS)	\$4,295	\$4,681	\$5,193	\$9,190	\$9,783	\$13,058	\$14,906	\$15,219	\$15,676	22.9%	12.5%
GOOGL	\$10,959	\$9,915	\$10,183	\$13,184	\$25,139	\$23,548	\$22,436	\$25,594	\$26,868	23.1%	1.7%
MSFT	\$5,294	\$6,696	\$10,208	\$11,400	\$15,800	\$18,000	\$20,663	\$23,985	\$24,552	31.4%	11.6%
ORCL	\$801	\$1,606	\$1,628	\$1,986	\$1,736	\$1,520	\$1,968	\$2,661	\$2,144	21.3%	5.4%
IBM	\$3,740	\$3,579	\$3,567	\$3,229	\$3,395	\$2,286	\$2,589	\$2,521	\$2,570	-2.4%	-6.7%
Total U.S. CapEx	\$26,920	\$29,000	\$35,270	\$45,721	\$69,833	\$73,514	\$78,662	\$91,241	\$94,267	26.9%	7.8%
Y/Y Change	7.7%	21.6%	29.6%	52.7%	5.3%	7.0%	16.0%	3.3%			

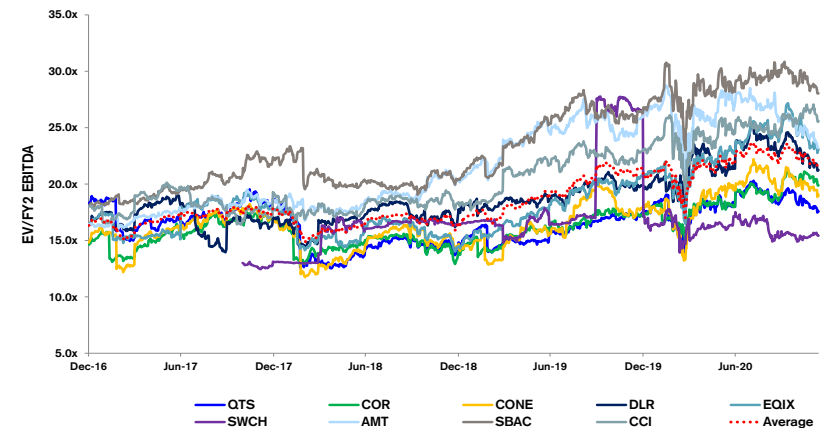
BABA	\$1,244	\$1,705	\$2,608	\$4,502	\$7,397	\$5,253	\$7,457	\$8,995	\$10,483	56.2%	9.1%
Tencent	\$1,077	\$1,601	\$2,823	\$4,736	\$8,170	\$6,816	\$7,808	\$7,808	\$8,982	66.0%	2.4%
BIDU	\$1,036	\$1,237	\$1,582	\$2,064	\$3,380	\$1,789	\$2,004	\$2,004	\$2,219	34.4%	-10.0%
Total Chinese CapEx	\$3,357	\$4,543	\$7,013	\$11,302	\$18,947	\$13,858	\$17,269	\$18,807	\$21,684	54.1%	3.4%
Y/Y Change	35.3%	54.4%	61.2%	67.6%	-26.9%	24.6%	8.9%	15.3%			

Total Hyperscale CapEx	\$30,277	\$33,543	\$42,283	\$57,023	\$88,780	\$87,372	\$95,931	\$110,048	\$115,951	30.9%	6.9%
Y/Y Change	10.8%	26.1%	34.9%	55.7%	-1.6%	9.8%	14.7%	5.4%			
% of Revenue	6.8%	6.6%	7.7%	8.3%	9.8%	8.5%	7.7%	7.9%	7.4%		

Source: Company data, Credit Suisse

Data Centers and Tower REIT Valuations Have Receded

We believe this presents an attractive entry point.



Communications Infrastructure

- **Cloud Growth Remains a Major MTDC Growth Driver:** MTDC backlogs have grown materially as of 3Q20 and backlog intensity has elevated to 7.2% vs. 4.9% in 3Q19, above the historical highs seen in 2018. We expect intensity to stay above ~6% through 2021 as capacity is built and then leases are commenced over the following quarters, driving continued revenue growth momentum for MTDCs. 2019 was a year of pronounced outperformance with strong commenced leases, revenue growth, and further follow-on leasing activity. We expect 2021 to see similar characteristics as 2019, a year that several publicly traded data centers outperformed market indices and comparable asset classes.
- **Solid 5G Capex Cycle:** We expect the 5G cycle to be bigger than the prior network standard upgrade cycle given the magnitude of bandwidth growth expectations and overall volume of new users consuming broadband intense applications wirelessly. Given the significant step-up in expected traffic, we expect carriers to absorb the majority of data traffic increases through existing further cell site densification. While the 5G cycle may not have as steep of a ramp compared to 4G, we believe that the overall 5G ramp will be longer, meaning we are still in early innings.
- **Valuation – Following a Cooling Period, Data Centers Are on Sale:** Data Center shares are trading at 18x P/2022E EBITDA versus their July-August peaks of 20x. This presents an attractive entry point given the aforementioned dynamics and the fundamental strength yet to come in a lease commencement year of major builds. It is possible that DC REITs could see further weakness due to high investor expectations of leasing dynamics following record levels in 3Q20, but we believe the majority of the weakness indexed to this dynamic has already played out.

Rating	Name (Ticker)	Company Data	Investment Case
Outperform	Switch, Inc. (SWCH)	Price: \$15.83 Target: \$21.00 Mkt Cap: \$3.8B	SWCH continues to grow ahead of data center peers, with an industry leading churn rate, and dense ecosystem only matched by EQIX. See SWCH: Top Pick .
Outperform	Equinix, Inc. (EQIX)	Price: \$690.19 Target: \$818.00 Mkt Cap: \$61.5B	EQIX interconnection (IX) revs. should grow 2x the colocation market through '24 & it remains the dominant IX vendor globally. EQIX: IX Leader = Premium Valuation .
Outperform	Digital Realty Trust, Inc. (DLR)	Price: \$129.58 Target: \$179.00 Mkt Cap: \$36.3B	Positive on strong hyperscale demand, improving renewal spreads, and better European positioning (InterXion assets). DLR: Indexed to Global Cloud Trends .
Outperform	American Tower (AMT)	Price: \$219.62 Target: \$301.00 Mkt Cap: \$97.6B	The U.S. 5G buildout cycle will provide solid visibility and international expansion should boost growth and yields long-term. AMT: Best Positioned TowerCo .
Outperform	SBA Commns (SBAC)	Price: \$275.76 Target: \$357.00 Mkt Cap: \$30.6B	Impressive execution and will benefit from ramping 5G buildout, like AMT, but indexed more to North America macro towers. SBAC: Dividend Grower .

Source: Company Data, Credit Suisse

Data as of 16-Dec-2020

Internet

2020 User Cohorts are Power Users

Industry Overview: The step-function increase in users/engagement/purchasing that followed the onset of the pandemic and the resulting change in consumer and enterprise behavior will persist going forward.

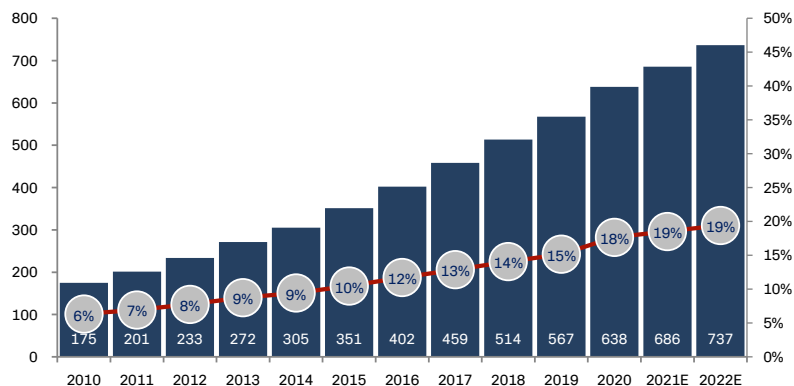
New and reactivated user is a power user: Newly onboarded and returning users are showing lower ASP and faster purchase velocity. This signals ordering online is becoming more habitual and 'every day' versus episodic and 'every now and then'.

Consumers will unlikely return to pre-pandemic levels: Deceleration is inevitable into 2021, but step-up in activity is too meaningful to revert completely post-vaccine.

New users have higher LTV: Rising lifetime value will translate into higher CAC/marketing spend flowing through to advertising auctions in the form of higher CPCs/revenue.

Elevated demand drives profitability unlock, but also willingness to invest: E-commerce operators will be looking to protect user/activity gains with superior service.

E-commerce as a % of Total Retail Sales



Digital Ad Revenue as a % of Global Ad Spend



Source: Group M, Census Bureau, Euromonitor, Credit Suisse

Internet

It takes 66 days for a change in behavior to turn into a habit: According to a Google Cloud Next session published in July discussing potential changes brought on by the health crisis, the company highlighted that we are now well into the time frame for consumer behaviors learned during quarantine to become lasting habits. As one of the biggest questions facing investors is “will it stick” in terms of app engagement as well as online purchasing behavior, this is a clear signal that the acceleration in queries, time spent, and e-commerce purchasing should be growing and hopefully accelerating from a higher baseline.

Revenue growth durability due to rising engagement and accelerating online shift stills stands. Higher engagement/time spent raises the ad load ceiling, and ad impression growth over the longer term becomes more sustainable. Accelerated merchant movement to drive online traffic means a more contested auction, and likely faster ad price inflation. Where this theme is most apparent is on Facebook, where business profiles and advertisers as of 3Q20 rose to 200mm and 10mm, respectively (up from 180mm and 9mm as of 2Q20).

As our thoughts turn from 2H20 to 2021, we favor Alphabet. Versus its megacap Internet peers, Google labored under the double-barreled cyclical headwinds against both commercial query volume as well as ad pricing during 1Q20 and for most of 2Q20. However, as consumer activity around COVID-19 information retrieval wanes in favor of commercial queries, and marketers return to the ad auction to more aggressively contest for inventory, we believe the recovery is poised to be sharper.

Rating	Name (Ticker)	Company Data	Investment Case
Outperform	Alphabet (GOOGL)	Price: \$1757.19 Target: \$1950.00 Mkt Cap: \$1190.5B	Ongoing monetization improvements in Search advertising through product/AI-driven updates. (3Q20 Internet Preview). Our DCF-derived price target, which uses a 10.5% weighted average cost of capital and 3% terminal growth rate, is now \$1950.
Outperform	Amazon com Inc. (AMZN)	Price: \$3240.96 Target: \$3750.00 Mkt Cap: \$1626.2B	Continued ecommerce segment operating margin expansion as Amazon grows into its larger infrastructure (3Q20 Review). Our DCF-based price target which is based on a 10.5% WACC and 3% terminal growth increases to \$3750.
Outperform	MercadoLibre Inc. (MELI)	Price: \$1669.54 Target: \$1555.00 Mkt Cap: \$83.1B	Take rate to rise from current ~18% to ~30% over the next 5 years (ex-shipping subsidy contra) (2020 CS Tech Conference Takeaways). Our end of 2020 DCF-derived target which uses an 11% WACC and 3% terminal growth rate is \$1555.
Underperform	Zynga Inc (ZNGA)	Price: \$9.52 Target: \$8.00 Mkt Cap: \$10.3B	We believe overall growth will decelerate towards its current low-single-digit organic rate as incremental acquisitions become progressively more contested. (3Q20 Review). Our DCF-based target price that uses a 14% WACC and 3% terminal growth stands at \$8

Source: Company Data, Credit Suisse

Data as of 16-Dec-2020

IT Hardware

Navigating Structural Shifts as We Transition to a Post-COVID-19 World

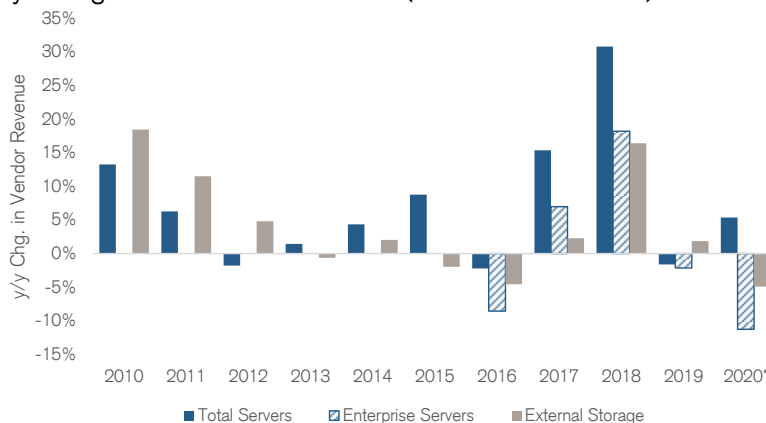
Digital Transformation top-of-mind into 2021; hybrid cloud the LT steady-state: In 2020, COVID-19 forced businesses to adapt and change quickly to compete, which highlighted the stark disparity between the digital haves and have nots; heading into 2021, Digital Transformation remains a critical Enterprise initiative. Public cloud adoption goes hand-in-hand with that push and we think the trend continues, though we remain firm in our view that hybrid cloud architectures represent the LT steady-state for Enterprise IT as customers seek consistency across their environment. Within our coverage, we see opportunity in hybrid platforms (IBM, DELL/VMW), cloud data services (NTAP, PSTG), and migration + managed cloud services (IBM, RXT).

Improving IT budgets, though risk Enterprise HW lags: Following a difficult CY20, we're confident in rebounding IT budgets in '21; however, we're less comfortable that rising tide supports a meaningful snap-back in on-premise Enterprise HW (i.e., Servers/Storage) amid the accelerating shift toward public cloud. We remain more cautious on NT demand, esp. through 1H.

Enduring effects from WFH: COVID-19 has catalyzed structural change in the way we work, with lingering WFH (at least part time) even once the health crisis is behind us. That backdrop favors Notebooks > Desktop PCs and is a -'ve for Office Print LT.

Tough Enterprise HW demand environment to continue

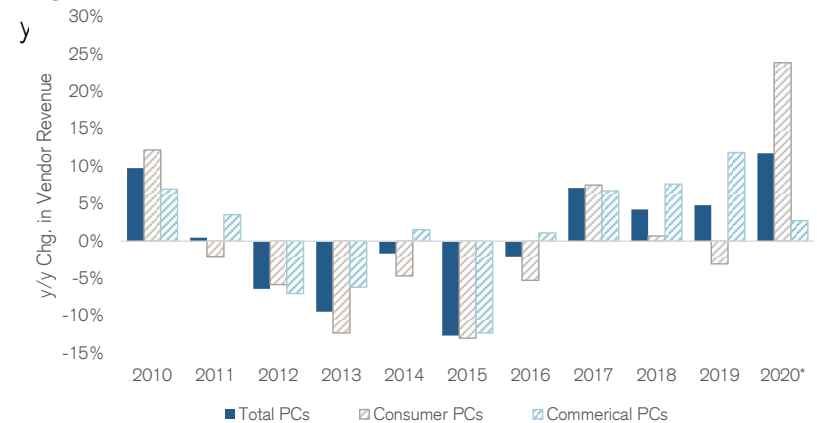
y/y change in total vendor revenue (*2020 YTD thru 3Q)



Source: Company data, IDC, Credit Suisse

Sustainability of PCs a key debate after an above-trend '20

y



IT Hardware

Our view by end market

PCs: Near-term demand remains strong led by Consumer/Education, with supply the gating factor thru at least 1Q21 (and possibly beyond). Sustainability remains the key debate, with the secular shift to one PC per person vs. risk of a pull-forward weighing; we're in the latter camp.

iPhone: We're bullish on 5G LT, but remain more guarded on consumer uptake out of the gate given limited coverage/capacity and lack of a "killer app." Initial iPhone 12 data points have been mixed; longer 12 Pro / Pro Max waits are a + for ASPs vs softer 12 / 12 mini unit demand.

Storage: All-Flash remains the focus, particularly in the mid-range where improving Flash economics offer the largest opportunity for share gains from Hybrid/Disk arrays. We see long-term upside for vendors that embrace a hybrid-first approach and like NetApp's positioning best.

Servers: Rapid public cloud adoption is likely here to stay post-COVID, driving ongoing share loss for traditional on-prem markets where we expect a more gradual recovery from trough levels vs. a sharp snap-back, and with less scope for vendor specific SW-based differentiation.

Printing: We see the recovery in Office Print slowly building momentum in 2021 as more workers return to the office, though lingering WFH (even post-COVID) weighs on the LT secular outlook for the industry. Home remains a key offset, but near-term strength is unsustainable.

Rating	Name (Ticker)	Company Data	Investment Case
Outperform	International Business Machines (IBM)	Price: \$125.55 Target: \$160.00 Mkt Cap: \$111.9B	OpenShift + GBS' expertise positions IBM to help clients modernize / migrate the large installed base of legacy apps / middleware amid the shift to hybrid cloud, and offers potential for a return to sustained revenue growth post a MIS spin-off.
Outperform	NetApp (NTAP)	Price: \$64.07 Target: \$65.00 Mkt Cap: \$14.3B	We like NetApp's All-Flash positioning (>60% of Product) to drive share gains, bolstered by the ramp of 200 QBH's vs. low expectations (both NT and over next 2-3 yrs). PCS is an added kicker, as NTAP is well positioned in a hybrid-first world.
Outperform	CDW Corp (CDW)	Price: \$132.26 Target: \$135.00 Mkt Cap: \$18.9B	CDW is our preferred way to play a CY21 recovery in IT spending, with their broad portfolio and scale key differentiators vs. smaller peers. We also see significant B/S capacity (~\$1.7bn, per CSe) for M&A and/or accelerated buybacks as a boost.
Outperform	Rackspace Technology Inc. (RXT)	Price: \$20.04 Target: \$27.00 Mkt Cap: \$4.0B	Ramping cloud adoption provides a long runway for growth (CSe 14% CAGR in Managed Cloud Services TAM to \$110bn by CY25) & strong Bookings supports the near-term trajectory. Mix impact on GM is a sticking point and will be key ahead.
Underperform	Hewlett Packard Enterprise (HPE)	Price: \$12.16 Target: \$10.00 Mkt Cap: \$15.7B	Sustained on-prem pressure likely weighs on HPE's core Compute and Storage biz (~60% of rev), more than offsetting HPC/MCS, Edge and as-a-Service momentum.

Source: Company Data, Credit Suisse

Data as of 16-Dec-2020

Media

Streaming Competition Heats Up, Increasing Uncertainty Around Legacy Models

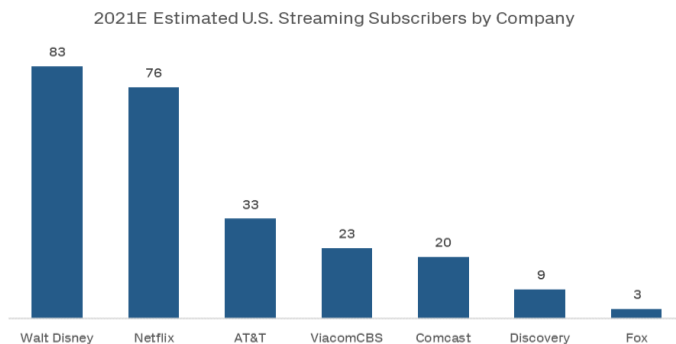
Industry Overview: Media managements are pivoting more aggressively towards streaming business models to meet consumer demand. As this transition intensifies, high margin legacy business models are under even greater duress. New organizational structures are being implemented to facilitate streaming platform expansion and preserve legacy margins.

Streaming Wars Escalate: Disney+ is aggressively ramping original content while finishing its global rollout; AT&T is putting blockbuster films day & date on HBO Max and expanding to int'l markets; Discovery+ is launching, with 25 markets by year end; ViacomCBS is launching Paramount+; Comcast's Peacock will use the 2021 Summer Olympics and exclusive content (The Office) to drive subscriber awareness. All while Netflix continues to ramp investment in content. Which platforms can gain a scaled position before streaming fatigue sets in?

Unclear Pay TV Outlook: Cord cutting stabilized at ~5% in 2020 owing to COVID-19 impacts, but cable companies continue to de-emphasize video, top V-MVPDs are raising price, and slimmer bundles are growing.

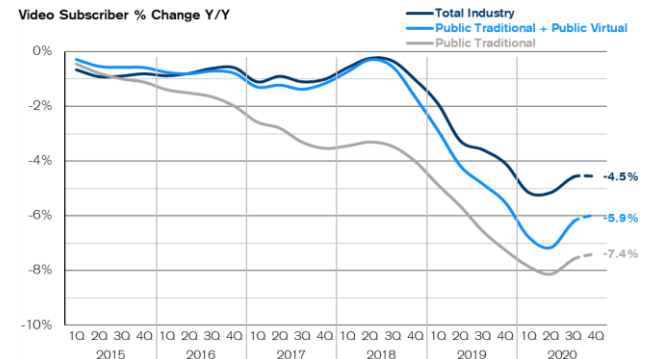
Content Windows Evolve: Feature films will arrive in home faster than ever in 2021, giving consumers choice over where and when to watch a piece of content. How will the economics of content evolve as a result?

2021E U.S. Streaming Subscribers in Millions



Source: Company data, Credit Suisse

Pay TV Subscriber Growth



Media

Streaming Future: Disney has successfully transitioned to a streaming company, and investors will be hyper focused on streaming subscriber counts (Disney+ should benefit from ongoing market launches in 2021), and ARPU's (modest price increases beginning in early 2021 on the back of originals and Star general entertainment content). Disney's Sum of the Parts valuation is enhanced by this aggressive pivot, as investors look past the digital losses and ignore the ongoing challenges at its media networks businesses while management builds a global direct-to-consumer platform.

Recovery Play: As the vaccine gets distributed throughout CY21, Disney's Studio Entertainment and Global Theme Parks businesses will begin to recover from their distressed levels, benefitting from the pent up demand for out-of-home entertainment and experiences.

Windows Evolving: Consumers will be able to choose when and where to watch some of the biggest films in 2021 as studios deliver films to streaming platforms on the same day as movie theaters. This suggests the recovery will be elongated for theaters as windows compress. For theaters, liquidity remains a concern coming out of the crisis, particularly for the #1 chain, AMC in 1H21.

Rating	Name (Ticker)	Company Data	Investment Case
Outperform	The Walt Disney Company (DIS)	Price: \$173.12 Target: \$192.00 Mkt Cap: \$313.4B	Streaming growth ahead , and distressed film and theme parks businesses set to benefit from pent up consumer demand post COVID
Outperform	Discovery Inc. (DISCA)	Price: \$28.79 Target: \$33.00 Mkt Cap: \$4.6B	Cord cutting has stabilized, ad revenue is improving, and its stock buyback restarted, while the Discovery+ streaming launch provides upside optionality.
Underperform	AMC Entertainment (AMC)	Price: \$2.78 Target: \$1.55 Mkt Cap: \$0.4B	Issuing equity to get through the crisis; Debt load remains unsustainable , and cash needs intensify in 2021.

Semiconductors & SemiCap Equipment

Silicon Value Capture Thesis Still Mid-Stream

Industry Overview: While Semis are up >50% in CY20 and >140% since beginning of CY19, and valuations look more full/fair than cheap on 3-10 yr. basis – We see a post-COVID-19 Semi environment supportive of a cyclical recovery and a structural recapture of value across ALL end markets/supply chains. With the GLOBAL Semi Ecosystem (<4x Rev) only being valued INLINE with AAPL (~10x Rev) at ~\$2tn, we still see meaningful upside to Semis stocks as our “Value Capture” thesis become more apparent to investors.

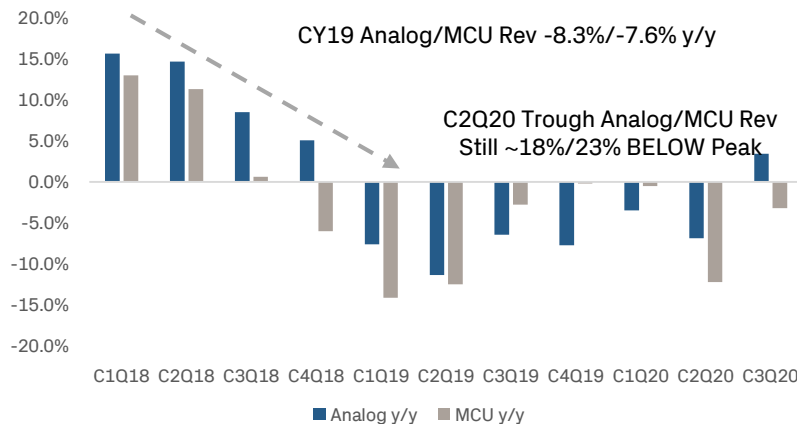
Meaningful Cyclical Recovery: Auto/Industrial cyclical recovery clearly sustainable in CY21 with current environment characterized by supply constraints

5G Cycle in Early Innings: Handsets continue to benefit from iPhone12 launch and China OEMs jockeying for share – while CNY inventory is a risk – 5G adoption will accelerate in CY21 (~20% of handsets exiting CY20); Comms Infra showing indications of a re-acceleration in 1HCY21

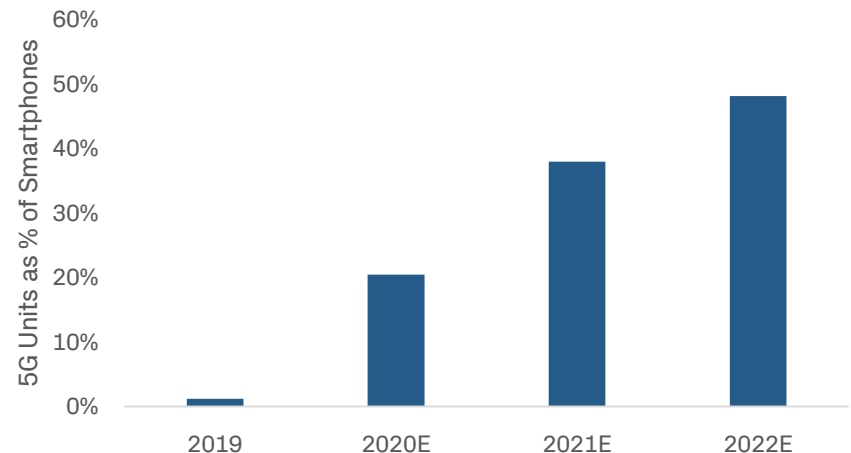
Tailwinds for SCE, Favoring DRAM Exposure: WFE trends in 1H21 trending flat/up vrs 2H20 with investor 2H21 deceleration concerns likely offset by continued rise in cost of capacity – DRAM better than Logic/Foundry, better than NAND for CY21

More Stable Political Outlook: No expected directional change from President-Elect Biden, newly found predictability of policy along with continued emphasis on US Semi incentives (CHIPS Act) underpins a neutral/positive geopolitical outlook

Analog/MCU Cyclical Recovery



5G Cycle Should Accelerate in CY21



Source: Company data, Credit Suisse estimates, SIA data

Semiconductors & SemiCap Equipment

GPU/Gaming Consoles: Current trends supports ABOVE seasonal for AMD/NVDA 1H21 – high demand for products along with supply constraints having curtailed some 2H20 growth

PC trends (WFH, SFH, On-Line Everything): Following strong 1H20, we see continued growth modestly above expectations into 1H21 – helped by INTC's Tiger Lake launch (C4Q) and new AMD Ryzen product launches

Memory trends positive: Following MU pos-pre and its DRAM Fab power outage, we see upside to DRAM pricing improving in 1H21, with NAND pricing potentially abating – given worries of NAND industry oversupply in CY21

WFE Sustained Foundry, Recovering Memory: NT outlook for WFE has been positive for all SCE companies – CY21 WFE should grow y/y from sustained Foundry/Logic and Memory recovery for NAND/DRAM in 1H21/2H21 – our view is still that 1H21 WFE is tracking up h/h benefitting KLAC, AMAT, followed by LRCX. Longer term all companies highlighted rising capital intensity and increasing digitization driving secular and diversified demand drivers (Cloud, AI/ML, 5G).

Rating	Name (Ticker)	Company Data	Investment Case
Outperform	Micron Technology Inc. (MU)	Price: \$72.99 Target: \$90.00 Mkt Cap: \$81.5B	Industry CapEx down ~35% P-T. Memory content moving structurally higher. MU's competitive and liquidity position never better (Cyclical Bottoms Usually A Little Less Messy)
Outperform	Microchip Technology Inc. (MCHP)	Price: \$138.82 Target: \$145.00 Mkt Cap: \$36.1B	Liquidity concerns SIGNIFICANTLY overblown – ~25% upside to stock even if EV remains constant. Solid management likely to drive OpM targets at least 500 bps higher (One of the Industry's Top Execs Calls The Bottom One Last Time)
Outperform	Analog Devices Inc. (ADI)	Price: \$142.80 Target: \$165.00 Mkt Cap: \$52.8B	Best levered to Industry 4.0 with exposure to 5G Comms. Long duration, highest B2B exposure in Semis. MXIM deal provides credible roadmap to ~\$100bn mkt cap and ~40% FCFM (Beat/Raise – Broad Based Growth with Comms Optionality)
Outperform	KLA Corporation (KLAC)	Price: \$260.55 Target: \$240.00 Mkt Cap: \$40.2B	Positioned to benefit from Increasing CapEx/Rev for Logic/Foundry. Gen 5 product cycle a tailwind. Industry leading 61%+ GMs (Secular Rise in Cost of Capacity, Not a Cyclical Pull-Forward)
Underperform	ON Semiconductor Corp. (ON)	Price: \$31.11 Target: \$17.00 Mkt Cap: \$12.8B	New CEO appointment a positive but Company specific headwinds include: (1) Substitution risk for ON greater than most peers, (2) Integration risks, and (3) Outsized profits from CMOS image sensors (You Can't Spell Succession Without Success)

Source: Company Data, Credit Suisse

Data as of 16-Dec-2020

Software

Positive Outlook, Durable Trend Acceleration to Outweigh “Pull Forward” Fears

As we approach 2021, we lean positively on Software and believe the global pandemic has accelerated many of the durable secular trends in the sector, versus a more simple “pull forward” of demand. We believe many of the trends/habits formed by businesses and consumers, such as digital transformation, cloud migration, ecommerce, remote/hybrid work, shall prove fundamentally durable beyond the pandemic.

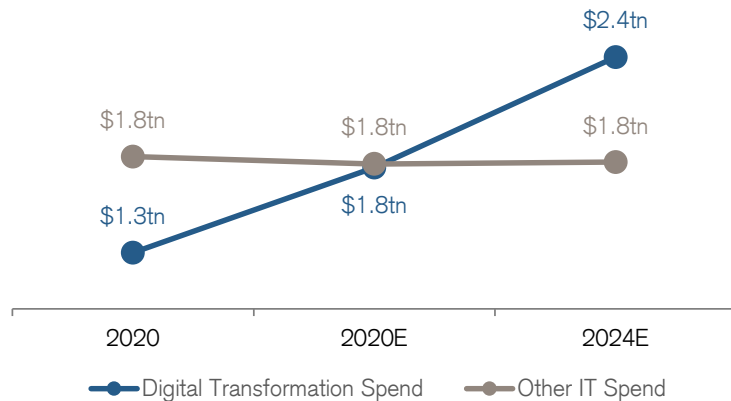
Digital Transformation a Key Priority: Digital transformation has become even more of an IT imperative, as a result of the pandemic. We expect spend to remain durable, as organizations will continue to digitize, regardless of the environment.

Improving Demand Trends: Optimism around enterprise and SMB demand trends returning to pre-COVID-19 norms is apparent. However, not all boats are rising equally, as we note several Q3 disappointments, largely stemming from macro pressure.

Green Light on Cloud: Cloud related investments are being prioritized by customers given smaller initial deal sizes, easier onboarding, faster time to value and general association with a more digital future. Enterprises are pursuing projects with tangible, near-term ROI at a time of heightened overall scrutiny of IT spending.

Digital transformation spend to accelerate

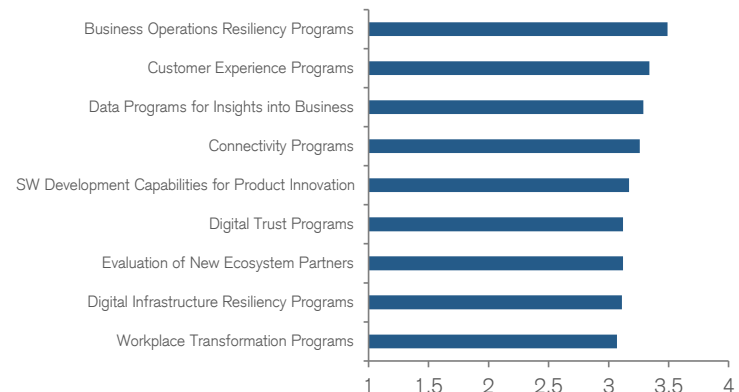
Worldwide digital transformation spend vs. other IT spend (\$tn)



Source: Company data, Credit Suisse, IDC

C-Suite priorities have shifted

As a result of COVID-19, how much will your organization prioritize the following in 2020/2021?



Software

Cautious of Valuations: While secular trends have accelerated, valuations in the category are at all-time highs. IGV +46% YTD compares to XLK +36% and S&P 500 +13%. IGV EV/Revenue NTM of 9.1x compares to XLK 6.1x and S&P 500 3.0x.

Not Immune to Near-Term Headwinds: We note Software, similar to all other categories of enterprise technology, is not immune to fluctuations within IT budgets. We remain cautiously optimistic on Q4 2020 pipeline close rates but highlight the risk of more scrutinized purchasing behavior, noting recent disappointing results from Splunk, VMware and SAP as examples.

M&A Gates are Open: Consensus view of expensive valuations but offsetting factors of relative currency & size of acquirers has driven up M&A interest and activity. We believe this supports a hypothetical floor on the valuations of strategic assets.

IGV current valuation more than +2 std dev above the mean
IGV EV/Revenue NTM relative to 3Y average and standard deviation



Rating	Name (Ticker)	Company Data	Investment Case
Outperform	ZoomInfo Technologies (ZI)	Price: \$40.81 Target: \$60.00 Mkt Cap: \$15.9B	The need for GTM intelligence solutions as B2B sales go more digital will drive sustainable growth. Opportunities with enterprise expansion and intent data can accelerate growth (see our initiation).
Outperform	Intuit Inc. (INTU)	Price: \$369.26 Target: \$405.00 Mkt Cap: \$97.0B	The migration from product to platform along with the uptake of full service Tax and QuickBooks offerings will drive mid-teens growth with margin expansion.
Outperform	Ping Identity (PING)	Price: \$27.21 Target: \$34.00 Mkt Cap: \$2.2B	Ping benefits from tailwinds in identity & access management, with a leading position as the solution of choice for enterprises with hybrid cloud (see our note).
Outperform	Zscaler (ZS)	Price: \$184.03 Target: \$175.00 Mkt Cap: \$27.3B	We believe COVID-19 disruption has acted as a long term catalyst for cloud security adoption, demand for which Zscaler is well positioned to capture given its unique edge architecture (see our note).
Underperform	Zoom Video Communications (ZM)	Price: \$404.00 Target: \$340.00 Mkt Cap: \$115.5B	We see downside to CY21 estimates as 1-10 segment churns post-pandemic & estimates imply material adoption of Phone within enterprise base (see our note).

Source: Company Data, Credit Suisse

Data as of 16-Dec-2020

Telecom

Streaming, Social Distancing Fuel Cable Broadband Stronger for Longer

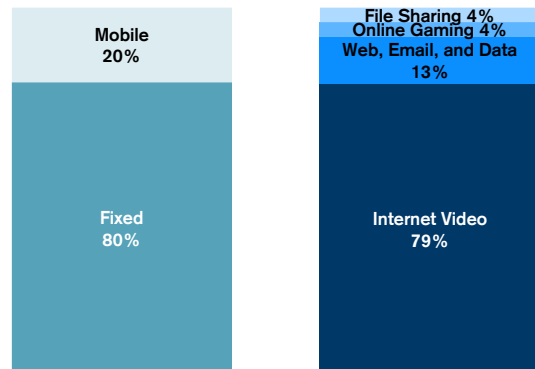
Industry Overview: Cable operators have pivoted to a higher margin broadband-first strategy, deemphasizing Pay TV subscriber volumes while trying to hold Pay TV gross \$ margins steady, and are benefitting from increased operating efficiencies shifting customer care to digital solutions. Wireless operators are entering the 5G era, which greatly expands network capacity but answers no clear unmet consumer need at this point.

Cable Broadband Stronger for Longer: COVID-19 social distancing edicts have given rise to [shop-, work-, and school-from-home behaviors](#) that underscore the centrality of home broadband. Also supporting broadband, media companies have [accelerated their streaming transitions](#), with news and major sports some of the last must-have content on Pay TV (which is nonetheless seeing a [cord-cutting reprieve](#) – but will it last?).

The 5G Era Dawns: 5G networks have gone live in the US but with [no 5G killer app apparent](#); now, carriers are bidding in the [\\$46B C-Band Auction](#) to set up their spectrum position for the next decade. [Competitive intensity looks to increase modestly](#) as [DISH enters the wireless business](#), Cable continues to expand and [Sprint fuels the next leg of T-Mobile subscriber growth](#).

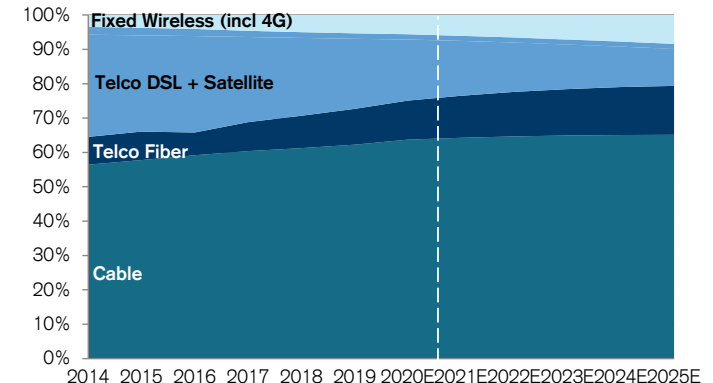
Streaming video and COVID drive home broadband utility

Forecasted share of 2020 Global Consumer Internet Traffic



Cable broadband has a long growth runway

U.S. Broadband Subscriber Market Share



Source: Company data, Credit Suisse, Cisco VNI 2017-2022.

Telecom

The Cable Growth Formula: Cable operators have years of secular market share gains ahead for high-margin connectivity revenues (both home broadband and business services, traditionally the province of the telcos), while lower-margin Pay TV contracts modestly. The Altice US and Charter levered equity returns model uses this EBITDA growth to maintain net leverage and return capital to investors through share repurchases; we look for Comcast to return to buybacks in late 2021 / early 2022 as its cable growth is enhanced by NBC/Sky recoveries.

Hard to Read Wireless Tea Leaves: Much is in flux for wireless: social distancing has meant less mobility and more reliance on fixed networks, operators are pursuing different technical approaches to 5G, DISH is attempting to disrupt the industry with a greenfield cloud-based ORAN network build, and T-Mobile will clarify the outlook for its post-merger steady state at an early 2021 investor day. We like T-Mobile's top- and bottom-line growth; for AT&T and Verizon much depends on the ultimate purse for the ongoing C-Band spectrum auction as well as near-term competitive intensity.

Rating	Name (Ticker)	Company Data	Investment Case
Outperform	Comcast Corp. (CMCSA)	Price: \$51.43 Target: \$60.00 Mkt Cap: \$235.3B	High-quality cable operations, plus '21 Parks/Advertising recovery play and return to stock buyback story. See note .
Outperform	Charter Communications (CHTR)	Price: \$642.43 Target: \$724.00 Mkt Cap: \$150.5B	Only scaled pure-play US cable operator, and with accelerating & leading growth, enhanced by a levered equity return strategy. See note .
Outperform	T-Mobile US (TMUS)	Price: \$129.81 Target: \$146.00 Mkt Cap: \$161.1B	Secular wireless share gainer with improving network and embedded pricing advantage, with significant margin upside due to merger synergies. See note .

Telecom & Networking Equipment

Data Center Demand Strength to Continue, 5G Network Builds to Ramp

Industry Overview: The telecom & networking equipment sector is driven by a variety of factors including cloud capex spend, increasing broadband/bandwidth demand, and cycles of next generation network equipment technologies (WiFi 6 / 5G). In 2020, the COVID-19 pandemic introduced a number of challenges for telecom & networking supply chains, data center networking spend appeared to be relatively resilient compared to campus-related spend and telecom 5G spend (in 2021 we expect this dynamic to change).

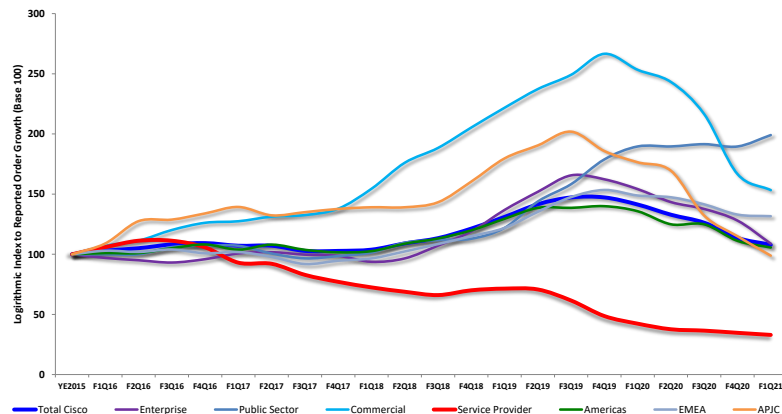
Data Center Networking Equipment Strength Expected to Extend into 2021: The overall data center networking equipment market declined 13.7% q/q in 1Q20 and rebounded in 2Q20 growing 12.2% q/q (still down 1.1% y/y). We expect the recovery and strength to continue as more network resources are deployed and hyperscale capex spend accelerates.

Campus Switching & WLAN Market Expected to Stabilize Following a Choppy 2020: Based on the evolving dynamics surrounding enterprise campuses, we expect campus switching & WLAN demand to stabilize in tandem with vaccine deliveries.

5G Network Investments Expected to Pick-Up in 2021: Based on end market dynamics, seen through major telecom operators, and bandwidth growth expected with 5G network builds, we expect 2021 to be a strong 5G network build year following a subdued 2020.

Networking Equipment Demand Was Mixed in 2020

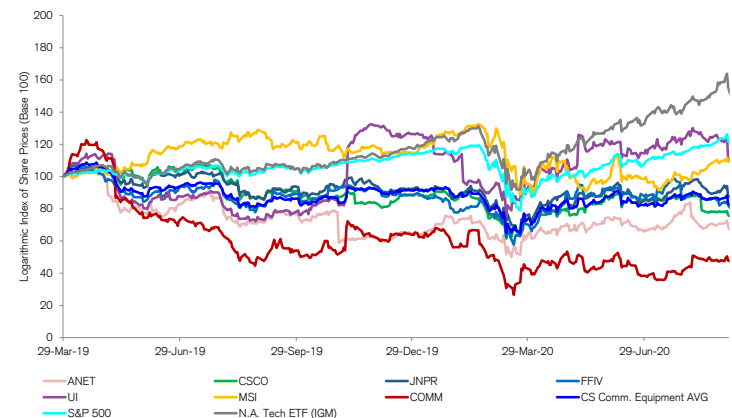
We expect better product order dynamics in 2021 versus 2020.



Source: Company data, Credit Suisse

Stock Market Returns

Equipment returns have lagged, presenting an entry opportunity.



Telecom & Networking Equipment

Data Center Cycle to Ramp Through 2021: Based on conversations with industry constituents and C-suite executives, we expect the data center switching cycle to extend its ramp gradually through 2021 following an already strong 2020 with elevated 100G demand for an elongated period (whereas we are less positive on significant 400G uptake until 2022). The cadence and timing of early 400G orders continues to be at the discretion of customers, contingent upon supply chain considerations and network architectures. U.S Cloud titan capex spend is forecasted to grow ~15% y/y from an expected \$95.9B in 2020 to \$110B in 2021, with data center switching well positioned to benefit from the positive dynamic. We believe multiple equipment providers with data center interconnect capabilities should see benefits in 2020.

Proliferation of Cloud Based Applications and WFH Model Has Created a Renewed Focus on IT Security: 2020 has completely shifted the work paradigm, obscuring the home and workplace security IT perimeters. This shift has triggered a renewed focus on security as the potential hack attack space has grown. We expect networking companies will continue to look to invest in the security space as there is a clear synergy between the two areas (i.e., ANET & Awake Security, FFIV & Shape Security).

White-Box Threat Subsiding: Following relatively more outspoken remarks from ANET's management team and subsequent channel checks, we believe the white-box threat is subsiding as interest remains confined to deeply entrenched, large cloud & service providers that can handle the complexities and costs. We expect to see white-box growth initially in 400G cycle, then tapering off as enterprises deploy 400G at scale.

Rating	Name (Ticker)	Company Data	Investment Case
Outperform	Motorola Solutions (MSI)	Price: \$166.92 Target: \$202.00 Mkt Cap: \$28.3B	MSI is one of very few providers that can offer a true end-to-end solution for customers from first responder radios to full command center (software) communications in one aggregated and auditable system. See MSI: HQ Meetings .
Outperform	F5 Networks, Inc. (FFIV)	Price: \$173.26 Target: \$205.00 Mkt Cap: \$10.7B	Partial or full hybrid cloud adoption, heightened by COVID-19, highlights the importance of FFIV's technology, increasing its relevance in a highly virtual and secure network. See FFIV: Driven, De-risked, and Underappreciated .
Outperform	CommScope Inc. (COMM)	Price: \$13.05 Target: \$19.00 Mkt Cap: \$2.6B	Despite recent pressures on COMM's end markets, we continue to view the company's relevance to overall telecom network densification and data center build-outs as positive over the next few years. See COMM: 3Q20 Results Strong .
Underperform	Juniper Networks (JNPR)	Price: \$22.17 Target: \$20.00 Mkt Cap: \$7.3B	JNPR faces multiple pressures that we believe will lead the stock to Underperform. These include intensifying technological pressures on their routing products from CSCO and other competitors. See JNPR: JNPR Acquires 128T .

Source: Company Data, Credit Suisse

Data as of 16-Dec-2020

Disclosures

Companies Mentioned (Price as of 16-Dec-2020)

AG Mortgage Investment Trust (MITT.N, \$3.25)
AMC Entertainment (AMC.N, \$2.78)
Academy Sports & Outdoors (ASO.OQ, \$18.85)
Adient PLC (ADNT.N, \$35.87)
Advance Auto Parts, Inc. (AAP.N, \$161.32)
Align Technology, Inc. (ALGN.OQ, \$516.34)
Ally Financial Inc. (ALLY.N, \$34.35)
Alphabet (GOOGL.OQ, \$1757.19)
Amazon.com Inc. (AMZN.OQ, \$3240.96)
American Airlines Group Inc. (AAL.OQ, \$16.86)
American Express Co. (AXP.N, \$119.0)
American Fnl Grp (AFG.N, \$87.09)
American Tower (AMT.N, \$219.62)
Ameriprise Financial (AMP.N, \$189.74)
AmerisourceBergen (ABC.N, \$98.37)
Analog Devices Inc. (ADI.OQ, \$142.8)
Anthem, Inc. (ANTM.N, \$310.24)
Apollo Global Management LLC (APO.N, \$49.33)
Aptiv PLC (APT.V.N, \$122.84)
Ashland Global Holdings Inc. (ASH.N, \$78.03)
Athena (ATH.N, \$42.4)
Baker Hughes Inc. (BKR.N, \$21.5)
Bank of America Corp. (BAC.N, \$28.72)
Biogen, Inc. (BIIB.OQ, \$248.19)
BlackRock (BLK.N, \$698.37)
Bloom Energy (BE.N, \$25.88)
CACI International, Inc. (CACI.N, \$244.94)
CDW Corp (CDW.OQ, \$152.26)
CH Robinson (CHRW.OQ, \$91.44)
CSX Corporation (CSX.OQ, \$89.1)
CenterPoint Energy Inc (CNP.N, \$21.87)
ChampionX (CX.N, \$14.75)
Change Healthcare (CHNG.OQ, \$18.17)
Charter Communications (CHTR.OQ, \$642.43)
Cheniere Energy (LNG.A, \$59.05)
Chevron Corporation (CVX.N, \$89.69)
Chipotle Mexican Grill, Inc. (CMG.N, \$1400.62)
Chubb Limited (CB.N, \$154.16)
Church & Dwight Co, Inc. (CHD.N, \$86.67)
Cinara Energy Co. (CEC.N, \$40.22)
Cincinnati Financial (CINF.OQ, \$82.04)
Comcast Corp. (CMCSA.OQ, \$51.43)
CommScope Inc. (COMM.OQ, \$13.05)
Compass Minerals Int'l Inc. (CMP.N, \$61.78)
Constellation Brands (STZ.N, \$214.81)
Constellium (CSTM.N, \$13.4)
Corteva, Inc. (CTRX.OQ, \$31.44)
Credit Acceptance Corp. (CAAC.OQ, \$339.22)
Crown Holdings Inc. (CKN.N, \$97.29)
CureVac (CVAC.OQ, \$116.22)
D.R. Horton (DHI.N, \$71.18)
Dana, Inc. (DAN.N, \$20.09)
Darling (DAR.N, \$54.72)
Deere & Co. (DE.N, \$261.12)
Delta Air Lines, Inc. (DAL.N, \$41.08)
Digital Realty Trust, Inc. (DLR.N, \$129.58)
Discovery Inc. (DISCA.OQ, \$28.79)
EOG Resources, Inc. (EOG.N, \$52.7)
EQT Corporation (EQT.N, \$13.61)
Edwards Lifesciences Corp. (EW.N, \$85.09)
Embraer S.A. (ERJ.N, \$7.29)
Emerson Electric (EMR.N, \$91.28)
EnLink Midstream LLC (ENL.N, \$3.8)
Enterprise Products Partners LP (EPD.N, \$21.01)
Equifax (EFX.N, \$193.25)
Equinix, Inc. (EQX.OQ, \$690.19)
Equitable Holdings (EQH.N, \$25.68)
F5 Networks, Inc. (FFIV.OQ, \$173.26)
FMC Corporation (FMC.N, \$114.37)
FedEx Corporation (FDX.N, \$288.81)
First Solar (FSLR.OQ, \$91.77)
Focus Financial Partners (FOCS.OQ, \$44.51)
Fortive (FTV.N, \$68.92)
Franklin Resources (BEN.N, \$24.75)
GameStop Corp. (GME.N, \$13.85)
Global Payments (GPN.N, \$194.67)
Globe Life (GL.N, \$93.53)
Globus Medical, Inc. (GME.D.N, \$64.05)
Goldman Sachs Group, Inc. (GS.N, \$243.77)
HCA Healthcare (HCA.N, \$161.56)
Hewlett Packard Enterprise (HPE.N, \$12.16)
Hilton Grand Vacations Inc. (HGV.N, \$29.52)
Home Depot (HD.N, \$269.59)
Howmet Aerospace (HWM.N, \$26.83)
IQVIA Holdings, Inc. (IQV.N, \$174.69)
Inamed Incorporated (INSM.OQ, \$36.47)
Intercontinental Exchange (ICE.N, \$111.31)
International Business Machines (IBM.N, \$125.55)
Intuit Inc. (INTU.OQ, \$369.26)
Iron Mountain Inc. (IRM.N, \$23.05)
JPMorgan Chase & Co. (JPM.N, \$120.67)
Jack in the Box Inc. (JACK.OQ, \$89.06)
Johnson Controls Inc (JCI.N, \$45.77)
Juniper Networks (JNPR.N, \$22.17)
KLA Corporation (KLAC.OQ, \$260.55)
Lear Corporation (LEA.N, \$161.9)
Lemonade Inc. (LND.N, \$96.36)
MacroGenics, Inc (MGNX.OQ, \$24.72)

Magna International Inc. (MGAN, \$64.47)
Marriott Vacation Worldwide Corporation (VAC.N, \$132.13)
MasTec, Inc. (MTZ.N, \$67.02)
Masco (MAS.N, \$64.51)
MercadoLibre Inc. (MELI.OQ, \$1669.54)
Microchip Technology Inc. (MCHP.OQ, \$138.82)
Micron Technology Inc. (MU.OQ, \$72.99)
Mirati Therapeutics Inc. (MRTX.OQ, \$237.67)
Mondelez (MDLZ.OQ, \$57.2)
Monster Beverage Corporation (MNST.OQ, \$89.8)
Moody's (MCO.N, \$280.55)
Mosaic Co. (MOS.N, \$22.62)
Motorola Solutions (MSI.N, \$166.92)
NGL Energy Partners LP (NGL.N, \$2.86)
Nasdaq (NDQ.OQ, \$127.1)
National Oilwell Varco (NOV.N, \$13.94)
NetApp (NTAP.OQ, \$64.07)
New Residential (NRZ.N, \$9.6)
NextEra Energy Partners (NEP.N, \$63.97)
ON Semiconductor Corp. (ON.OQ, \$31.11)
Occidental Petroleum Corporation (OXY.N, \$19.45)
OneMain Holdings (OMF.N, \$45.19)
PBF Energy (PBF.N, \$6.74)
Papa John's International, Inc. (PZZA.OQ, \$87.32)
Par Pacific (PARR.N, \$12.85)
Patterson-UTI Energy, Inc. (PTEN.OQ, \$5.58)
PayPal (PYPL.OQ, \$59.2)
PennyMac Financial Services (PFSI.N, \$63.94)
PennyMac Mortgage Investment Trust (PMT.N, \$17.66)
PetMed Express (PETS.OQ, \$31.84)
Ping Identity (PING.N, \$27.21)
Pinnacle West Capital Corp. (PNW.N, \$78.65)
RPC, Inc. (RES.N, \$3.7)
Rackspace Technology Inc. (RXT.N, \$20.04)
Ralph Lauren Corporation (RL.N, \$99.5)
Range Resources Corporation (RRC.N, \$6.88)
Regeneron Pharmaceuticals, Inc. (REGN.OQ, \$486.57)
Reynolds Consumer Products (REYN.OQ, \$30.33)
SBA Commis (SBAC.OQ, \$275.76)
Scientific Games Corporation (SGMS.OQ, \$41.12)
SeaWorld Entertainment (SEAS.N, \$29.11)
SelectQuote (SLQT.N, \$23.17)
Southwest Airlines Co. (LUV.N, \$45.73)
Square (SQ.N, \$227.08)
Stryker Corp. (SYK.N, \$235.13)
Suncor Energy (SU.TO, C\$22.31)
Sunrun (RUN.OQ, \$91.8)
Switch, Inc. (SWCH.N, \$15.83)
Synchro Financial (SYFN, \$32.96)
Syneco Health (SYNH.OQ, \$66.34)
T-Mobile US (TMUS.OQ, \$129.81)
Targa Resources Corp (TRGP.N, \$28.28)
Target Corporation (TGT.N, \$171.69)
Tect Resources Ltd (TECK.TO, C\$23.41)
Teladoc Health (TDOC.N, \$187.07)
The Coca-Cola Company (KO.N, \$53.06)
The Hershey Company (HSY.N, \$150.28)
The Kraft Heinz Company (KHC.OQ, \$34.43)
The TJX Companies, Inc. (TJX.N, \$66.62)
The Walt Disney Company (DIS.N, \$173.12)
Thomson Reuters (TRI.N, \$80.22)
TopBuild (BLD.N, \$178.03)
Tradeweb Markets (TW.OQ, \$66.08)
ULTA Beauty, Inc. (ULTA.OQ, \$269.92)
United Parcel Service Inc. (UPS.N, \$170.13)
United States Steel Corp. (X.N, \$18.37)
United Therapeutics Corp. (UTHR.OQ, \$146.25)
UnitedHealth Group Inc. (UNH.N, \$339.34)
Vail Resorts (MTN.N, \$279.69)
Vertex Pharmaceuticals, Inc (VRTX.OQ, \$232.11)
Vistra Energy (VST.N, \$18.08)
Voya Financial (VOYA.N, \$57.42)
W.R. Berkley Corporation (WRB.N, \$66.04)
WEC Energy (WEC.N, \$32.27)
Western Union (WU.N, \$22.67)
Whirlpool (WHR.N, \$187.09)
Williams-Sonoma (WSM.N, \$112.35)
Woodward Inc (WWD.OQ, \$116.16)
Xylem (XYLN, \$99.02)
Zimmer Biomet Holdings, Inc (ZBH.N, \$148.85)
Zoetis (ZTS.N, \$160.62)
Zoom Video Communications (ZM.OQ, \$404.0)
ZoomInfo Technologies (ZI.OQ, \$40.81)
Zscaler (ZS.OQ, \$184.03)
Zynga Inc (ZNGA.OQ, \$9.52)

Disclosure Appendix

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Underperform/Sell*	11%	(21% banking clients)
Restricted	2%	

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