

THE MONTHLY RESEARCH CONFERENCE CALL

ARGUS ANALYSTS' TOP STOCK IDEAS FOR 2018



MODERATOR
Jim Kelleher, CFA
Director of Research

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Wednesday, December 6, 2017
11:00 a.m. ET

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ARGUS RESEARCH COMPANY



WHAT'S NEW AT ARGUS

DECEMBER 2017

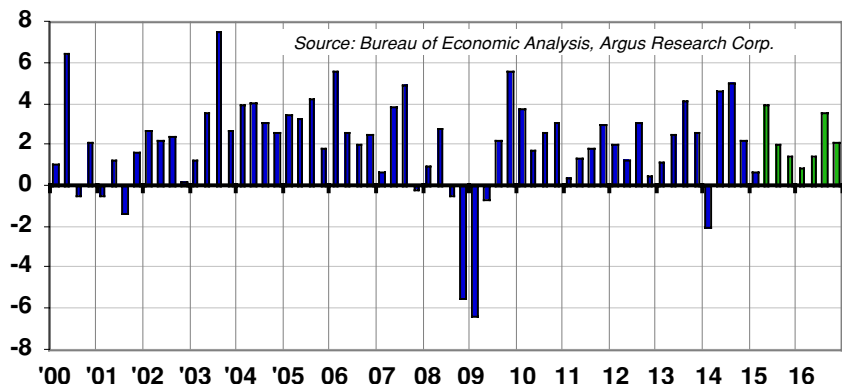
- **Argus in 2017: it was a very good year**
 - Argus has much to celebrate: new clients, enhanced services
 - Weekly Market Podcast; Quick Notes
 - 30 new stocks in analyst coverage; A6 quant universe
 - ETF model ports, Options Wrap, etc.
 - Looking forward to 2018

- **Latest Quick Notes**
 - Black Friday: strong start to holiday shopping
 - Momentum stocks steamrolling thru 4Q
 - Recent: Higher guidance, Insiders, millennial stocks, etc.
 - On the website, look under Equity Research
 - Then Choose Quick Notes, to start your week with a theme

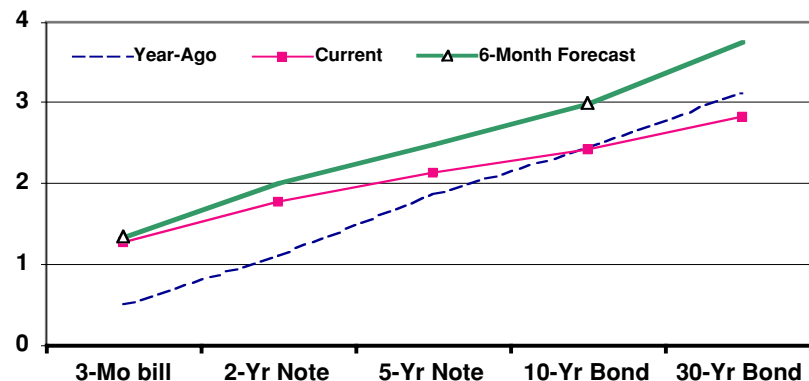
- **Latest Weekly Market Podcast**
 - On 11/17/17, John Eade discussed Black Friday-Cyber Monday
 - Argus Analysts also participate in Podcasts
 - In the News & Media section, on Argus home page

MACRO FORECASTS

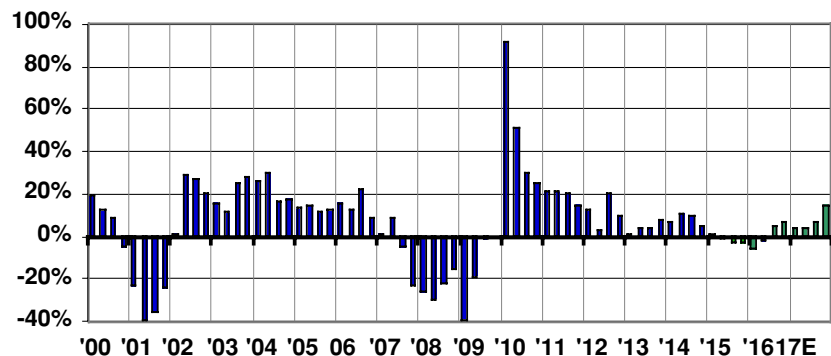
REAL GDP W/FORECASTS (%)



TREASURY YIELD CURVE (%)

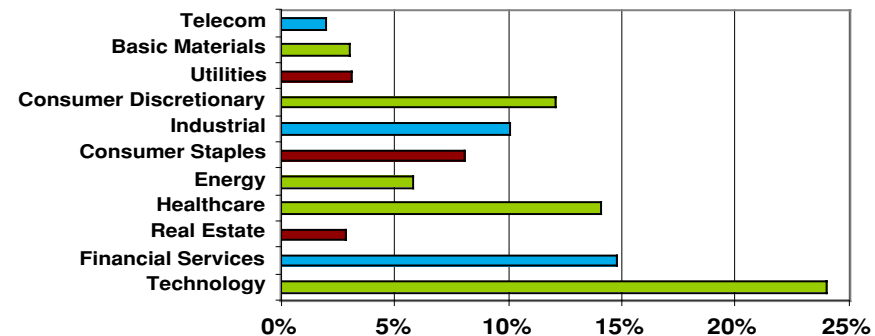


S&P 500 QUARTERLY EARNINGS GROWTH



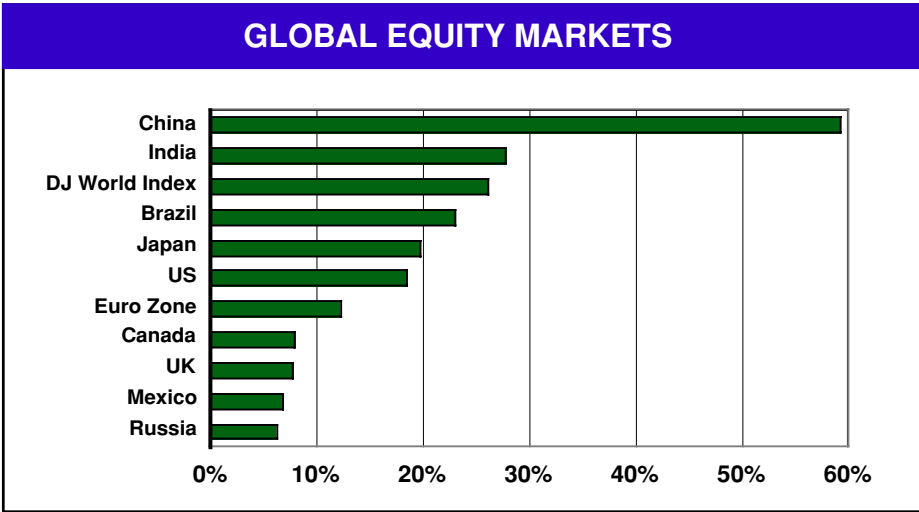
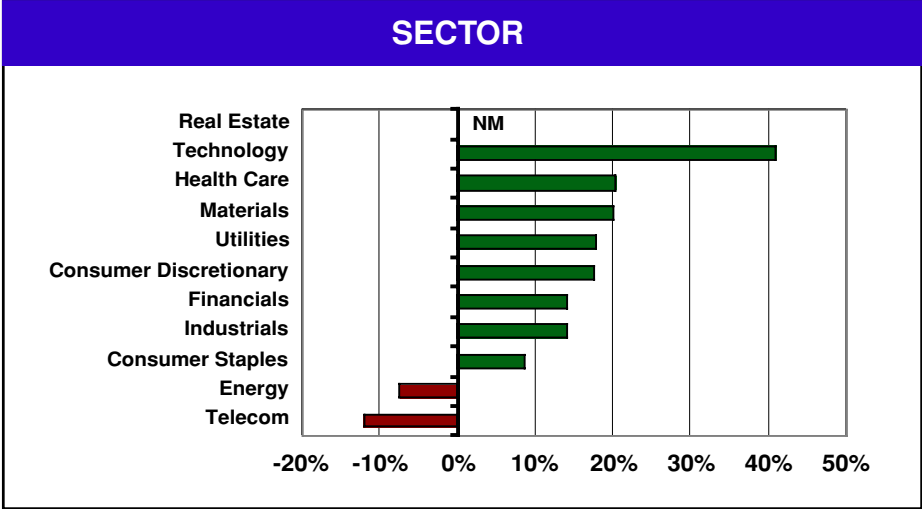
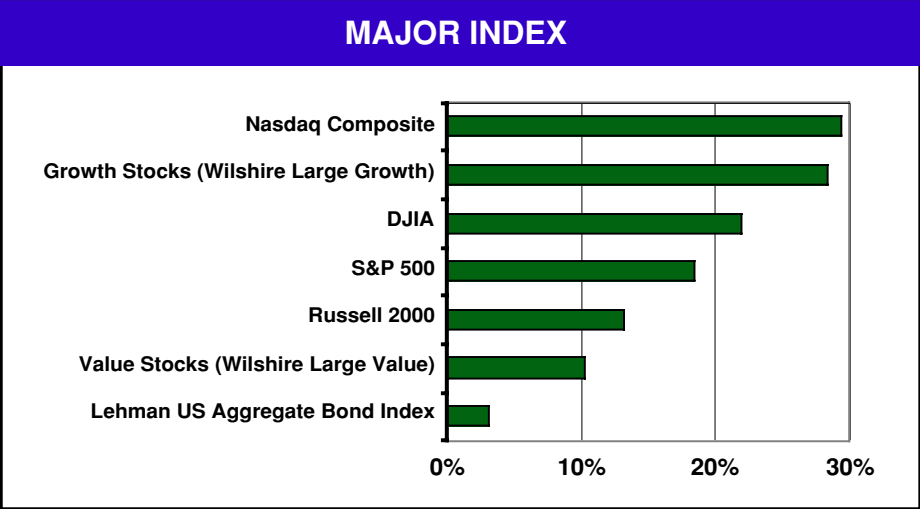
MARKET SECTOR DISTRIBUTION - PERCENT OF S&P 500

Sectors in Green are Recommended Overweight; Blue are Marketweight; Red are Underweight



MARKET PERFORMANCE

DATA AS NOVEMBER 30, 2017



ARGUS ANALYSTS' TOP PICKS 2018

■ **BASIC MATERIALS**

Chemours Co. (CC)
Praxair Inc. (PX)

■ **CONSUMER DISCRETIONARY**

Lowe's Cos. Inc. (LOW)
Wynn Resorts Ltd. (WYNN)

■ **CONSUMER STAPLES**

Constellation Brands Inc. (STZ)
Kroger Co. (KR)

■ **ENERGY**

ConocoPhillips (COP)

■ **FINANCIAL SERVICES**

Moody's Corp. (MCO)
Morgan Stanley (MS)
Prudential Financial Inc. (PRU)

■ **HEALTHCARE**

Humana Inc. (HUM)
Integra LifeSciences Holdings Corp. (IART)
Tesaro Inc. (TSRO)

■ **INDUSTRIALS**

Ecolab Inc. (ECL)
Honeywell International Inc. (HON)

■ **REAL ESTATE**

American Tower Corp. (AMT)

■ **TECHNOLOGY**

Arista Networks Inc. (ANET)
NVidia Corp. (NVDA)
ServiceNow Inc. (NOW)
Visa Inc. (V)

■ **UTILITIES**

American Electric Power Co. Inc. (AEP)
Eversource Energy (ES)

BASIC MATERIALS

CHEMOURS CO. (CC)

12-month target price: \$60 (David E. Coleman)

- **GLOBAL LEADER IN TITANIUM, FLUORO-PRODUCTS, AND CHEMICAL SOLUTIONS**
Spun off from DuPont in 2015
Industries served include plastics, coatings, refrigeration, energy
- **FAVORABLE COMPETITIVE ADVANTAGES**
Global manufacturing base, top-tier customers
Vertically integrated structure lends purchasing, operating efficiencies
Broad geographic reach and unmatched scale
- **LEVERED TO STRONG GLOBAL MANUFACTURING TRENDS**
Markets for coatings, specialty chemicals accelerating as emerging economies revive growth, invest for future.
In recent quarters, Chemours has cut costs and raised prices
Better working capital management and stronger balance sheet
- **FOCUS ON SHAREHOLDER RETURNS AND ATTRACTIVE VALUATION**
CC trading at 14-times F17, at bottom of historical range
Peers trading at 23-times
CC an unrecognized value in market place

BASIC MATERIALS

PRAXAIR INC. (PX)

12-month target price: \$171 (Bill Selesky)

- GLOBAL SUPPLIER OF INDUSTRIAL GASES TO DIVERSE USERS IN ENERGY, ELECTRONICS, MEDICAL, FOOD & BEVERAGE AND MANUFACTURING

Fiscal 2016 revenue totaled \$10.5 billion

- CURRENT ENVIRONMENT FAVORABLE BASED ON STRONG GLOBAL MANUFACTURING TRENDS

Global industrial production rising at 2.8% across 2020

Mature markets: higher volumes in electronics, metals & manufacturing

Asia: new plant start-ups, Chinese project wins, strong end-markets

- SIZE AND SCALE: PX OPERATES IN 50 COUNTRIES SERVICING 30+ INDUSTRIES

PX expected to grow EPS by 5%-12% in FY17

Operating margin of 22.2% (FY16) is best among peers

- LINDE MERGER ON TRACK; NEW COMPANY WILL PRIORITIZE SHAREHOLDER RETURNS

24 straight years of dividend growth

P/Es for FY17-FY18 toward high end of range

Relative P/Es still signal attractive opportunity

Based on 27-times FY18, we look for price in \$170s

CONSUMER DISCRETIONARY

LOWE'S COS. INC. (LOW)

12-month target price: \$95 (Chris Graja, CFA)

- **HOUSING MARKET IN MIDDLE INNINGS OF A LONG UPCYCLE**
Strong consumer sentiment a positive indicator of home-improvement spending
- **LIKE HD, LOW WELL-INSULATED FROM INTERNET COMPETITION**
LOW e-commerce sales grew 33% in 3Q
ROIC in a rising trend from cost discipline, better merchandising
- **NAHB REMODELING INDEX: IMPROVING CONDITIONS, POSITIVE OUTLOOK FOR NEW PROJECTS**
- **LOW TRADING AT 20% DISCOUNT TO MARKET P/E MULTIPLE, VS. 5-YEAR AVERAGE 25%**
Prioritizing shareholder return (5-yr 20% annual dividend growth)

CONSUMER DISCRETIONARY

WYNN RESORTS LTD. (WYNN)

12-month target price: \$165 (John Staszak, CFA)

- **RECOVERY IN MACAU TO CONTINUE THROUGHOUT 2018**
Among U.S. players, Wynn stands to benefit most from Macau growth
- **WYNN PALACE OPENED IN SLACK PERIOD (AUGUST 2016); RESULTS NOW IMPROVING**
Construction disruptions behind
Emerging as popular tourist destination
- **IN LAS VEGAS, WYNN TO BENEFIT FROM**
Strong tourist demand; and
Heavy convention schedule.

CONSUMER STAPLES

CONSTELLATION BRANDS INC. (STZ)

12-month target price: \$240 (John Staszak, CFA)

- WE HAVE A FAVORABLE VIEW OF RECENT ADDITIONS TO BRAND PORTFOLIO
Emerging as a leader in Craft Beer
- CONSTELLATION'S BRANDS ARE POSITIONED TO GROW MORE RAPIDLY THAN THOSE OF OTHER ALCOHOLIC BEVERAGE COMPANIES
- MORE FAVORABLE PRODUCT MIX AND STRONG CONSUMER DEMAND FOR CORONA AND CRAFT BEERS ARE DRIVING GROWTH IN FREE CASH FLOW AND MARGIN EXPANSION
Recently raised FY18 & FY19 EPS estimates
- CAPACITY ADDITIONS EXPECTED TO TEMPER GROWTH JUST SLIGHTLY.

CONSUMER STAPLES

KROGER CO. (KR)

12-month target price: \$28 (Chris Graja, CFA)

- **KR DOWN AS MUCH AS 40% YTD AS OF SEPTEMBER**
 - Amazon buys Whole Foods and lowered prices**
 - Wal-Mart working aggressively to compete with Amazon**
- **KR UP 20% IN PAST THREE MONTHS**
 - Market share gains on positive public perception**
 - Using big data to drive promotions & merchandising decisions**
 - More internet-friendly with curbside P/U**
 - 1,000 internet-enabled stores is twice as many as Whole Foods**
- **KROGER A HIGHLY INNOVATIVE RETAILER**
 - Simple Truth natural and organic brand has \$1.7 billion total sales — equivalent to Whole Foods' total**
- **KROGER ATTRACTIVE AT 11.8-TIMES TRAILING EV/EBIT**
 - Discount to peer group & WFM (17-times pre-acquisition)**

ENERGY

CONOCOPHILLIPS (COP)

12-month target price: \$65 (Bill Selesky)

- **LEADING GLOBAL E&P COMPANY**
Explores, produces, transports, and markets crude oil, natural gas, LNG, and natural gas liquids
Active in North America, Europe, Asia, and Australia
- **FAVORABLE ENVIRONMENT: STRONG DEMAND, FALLING INVENTORIES**
OPEC price discipline a plus, we believe it holds
WTI at \$58-\$59/barrel; expect to hold \$50-\$60
At that level, E&Ps maintain/increase capex budgets
- **COMPETITIVE ADVANTAGE**
Shale plays benefiting from falling supply costs
COP has low sustaining price of < \$40/barrel
Strong balance sheet, capital flexibility
- **MODELING SHARP EPS ACCELERATION FROM FY17 TO FY18**
P/E of 35-times on FY18 within historical range
We see strong double-digit upside from here

FINANCIAL SERVICES

MOODY'S CORP. (MCO)

12-month target price: \$165 (John Eade)

- **MOODY'S PROVIDES CREDIT RATINGS ON 11,000 CORPORATE ISSUERS AND 18,000 PUBLIC FINANCE ISSUERS IN 120 COUNTRIES**

Analytics division provides financial analysis and risk management services

- **BENEFITING FROM THE SECULAR TRENDS OF GLOBAL GDP GROWTH AND DEBT MARKET DISINTERMEDIATION**

Opportunities to develop new products, expand through targeted acquisitions

Successfully navigated legal issues related to the financial crisis

- **WE EXPECT CONTINUED EPS GROWTH & MODEST MULTIPLE EXPANSION INTO 2018**

Record of consistent dividend hikes (5-year CAGR 19%)

High financial strength, focus on shareholder returns, positive growth outlook over intermediate term

FINANCIAL SERVICES

MORGAN STANLEY (MS)

12-month target price: \$56 (Stephen Biggar)

- WEALTH MANAGEMENT FRANCHISE SHOULD CONTINUE TO BENEFIT FROM IMPROVEMENT IN THE VALUE OF FINANCIAL ASSETS
- GROWTH IN COMPLIANCE COSTS FOR DODD-FRANK, OTHER MEASURES HAS SUBSIDED, ALLOWING FOR MARGIN IMPROVEMENT

Lighter regulatory environment allows for focus on business-line expansion

- IMPROVING REGULATORY CAPITAL LEVELS HAVE ALLOWED FOR STRONG INCREASES IN THE SHARE BUYBACK PROGRAM AND DIVIDENDS

Revised \$56 target implies 14-times 2018 EPS; in line with long-term average

FINANCIAL SERVICES

PRUDENTIAL FINANCIAL INC. (PRU)

12-month target price: \$125 (Jacob Kilstein, CFA)

- **FINANCIAL SERVICES INDUSTRY TO BENEFIT FROM REDUCED REGULATIONS**
Administration's pro-business agenda
Capital restrictions (Dodd-Frank) could be lifted in coming quarters
- **BOND PORTFOLIO MATCHED AGAINST ITS LIFE INSURANCE POLICIES**
Higher rates create better match to long-tailed liabilities
- **CORE BUSINESS DOING WELL, WITH ROE STRONG IN MID-TEENS**
Exposure to faster-growing international markets a plus
- **SHAREHOLDER FRIENDLY CAPITAL ALLOCATION**
Clean balance sheet
Consistent dividend hikes and share buybacks
- **TRADING BELOW HISTORICAL AND PEER AVERAGE VALUATIONS**
Attractive on above-peer- dividend yield and ROE

HEALTHCARE

HUMANA INC. (HUM)

12-month target price: \$270 (David Toung)

- **COORDINATED HEALTH-INSURANCE COVERAGE**
Retirees, employer groups, government-sponsored
Serving more than 14 million members
- **EVEN BEFORE ANNOUNCED AETNA-CVS TIE-UP, HUM POSSIBLE TAKEOVER CANDIDATE**
Attractive niche serving a population group with favorable demographics
- **SUCCESSFULLY PROMOTING PREVENTIVE & DRIVING DOWN MEDICAL UTILIZATION AMONG MEMBERS**
Results in higher premium yields and higher profitability
- **BASED ON RECENT UPWARDLY REVISED GUIDANCE, HUM LOOKS ATTRACTIVE AT CURRENT LEVELS**
Despite premium P/E valuation, HUM's strong growth prospects justify its valuation

HEALTHCARE

INTEGRA LIFE SCIENCES HOLDINGS CORP. (IART)

12-month target price: \$64 (David Toung)

- LEADER IN MEDICAL IMPLANTS AND INSTRUMENTS FOR NEUROSURGERY, TISSUE REGENERATION AND WOUND CARE
- INTEGRA POSITIONED TO BENEFIT FROM BOUNCE-BACK FROM IN PROCEDURAL VOLUMES IN 2018
Hurricane-related outages impacted 2017
- POSITIVE VIEW OF CODMAN ACQUISITION (OCTOBER '17)
Adds neurosurgery products and expands overseas sales
Projected to be \$0.25 accretive in 2018
- MODEST P/E PREMIUM TO PEERS WARRANTED, IN OUR VIEW, GIVEN:
Strong sales growth
Steady new products flow
Success in integrating acquisitions

HEALTHCARE

TESARO INC. (TSRO)

12-month target price: \$154 (Jaspar Hellweg)

- **ONCOLOGY-FOCUSED BIOPHARMACEUTICAL COMPANY TESARO ACQUIRES, DEVELOPS AND COMMERCIALIZES CANCER THERAPEUTICS AND ONCOLOGY SUPPORTIVE CARE**

Retains significant rights to its clinical programs, expanding future revenue potential

- **WE EXPECT TESARO TO CONTINUE TO ADVANCE ITS DIVERSE PIPELINE, BECOME A FULLY INTEGRATED COMMERCIAL COMPANY**

Zejula, first PARP inhibitor approved in U.S. and Europe, has 60% U.S. market share; expanding to new indications

Varubi receives U.S. approval of intravenous version

Management estimates potential market for IV Varubi of 3-4 million doses & annual sales of nearly \$1 billion

- **LEAD IMMUNO-ONCOLOGY CANDIDATE (TSR-042) IN MULTIPLE CLINICAL TRIALS**

Positive data from these tests could be a catalyst to the stock.

INDUSTRIALS

ECOLAB INC. (ECL)

12-month target price of \$138 (John Eade)

- **ECOLAB PROVIDES WATER, HYGIENE, AND ENERGY TECHNOLOGIES FOR CUSTOMERS IN THE CHEMICAL, MINING, POWER GENERATION AND PETROLEUM INDUSTRIES**
Positioned for infrastructure re-build
- **ECL EARNINGS HAVE BEEN SUPPRESSED BY WEAKNESS IN ENERGY**
Oil prices higher on OPEC production trim, demand recovery
Operating results should strengthen as the business cycle matures
- **ECOLAB HAS PAID CASH DIVIDENDS FOR 79 STRAIGHT YEARS**
Current yield is 1.2%.
- **ECOLAB: HISTORICALLY A STRONG LATE-CYCLE PERFORMER**
Near-term underperformance a rarity and value signal
ECL trading at historically low P/E multiples
Dividend discount model renders fair value near \$140

INDUSTRIALS

HONEYWELL INTERNATIONAL INC. (HON)

12-month target price of \$160 (John Eade)

- **LARGE-CAP DIVERSIFIED TECHNOLOGY AND MANUFACTURING COMPANY**
Target markets include A/D and home & building technologies
- **ACTIVIST INVESTOR THIRD POINT CAPITAL APPLYING PRESSURE TO STREAMLINE PORTFOLIO**
HON plans to spin off two lower-margin businesses
Positions the company for stronger growth in 2019
- **RECORD OF DOUBLE-DIGIT DIVIDEND HIKES, INCLUDING 12% IN SEPTEMBER '17**
Double-digit hike expresses high degree of financial strength, strong focus on shareholder return, positive growth outlook
- **THE HON SHARES OFFER VALUE COMPARED TO THE PEER GROUP**
Above-industry-average yield of 2.0%
Below-industry-average P/E ratio

REAL ESTATE

AMERICAN TOWER CORP. (AMT)

12-month target price: \$170 (Jacob Kilstein, CFA)

- **AMERICAN TOWER OPERATES WIRELESS TOWERS, WHICH BENEFIT FROM ANNUAL LEASE RATE INCREASES PAID BY THEIR MEDIA AND TELECOM TENANTS**

Stands out among the publicly traded tower operators based on its size, margins, FFO growth rate, and high-quality assets

Technology updates are responsibility of carriers, not AMT

- **MOBILE DATA USAGE: FIVE-YEAR FORWARD CAGR OF 50%**
- **SOLID RECORD OF GROWTH AND PROFITABILITY, BASED ON KEY TRENDS**

Mobile data usage: five-year forward CAGR of 50%

International expansion efforts a major positive

- **POSITIVE CATALYSTS INCLUDE LESS CLIENT CONSOLIDATION**

Fewer telecom companies increases bargaining power of customers

AMT jumped 6% after Sprint and T-Mobile ended merger talks

- **TRADING AT SLIGHT P/FFO PREMIUM TO PEERS**

Premium justified on higher revenue and cash flow growth prospects

Price target and 1.8% dividend yield imply 16% total return.

TECHNOLOGY

ARISTA NETWORKS INC. (ANET)

12-month target price: \$230 (Jim Kelleher, CFA)

- **BRINGING NETWORKING INTO THE AGE OF CLOUD**

Cloud networking can bring huge efficiency and scale benefits to legacy networking environments

While ANET currently mainly works with enterprise customers, huge barely tapped potential with service providers, ISPs, and cloud titans

- **BATTLING CISCO ON MULTIPLE PATENT INFRINGEMENT ALLEGATIONS**

Navigating the Cisco challenge with a combination of workarounds, on-shore manufacturing and legal wins

Arista introduced its workaround features in September

- **REVENUE AND EPS GROWING FASTER THAN SHARE PRICE**

4Q17 revenue guided up 40% annually

Line-item guidance points to DD EPS growth in 4Q17

- **VALUATIONS ATTRACTIVE**

EPS estimates rising faster than stock, preventing valuations from becoming too stretched

Trading at a two-year forward PEG of 1.94, below the 2.0 average for peers

Year-end weakness in ANET creates attractive entry point

TECHNOLOGY

NVIDIA CORP. (NVDA)

12-month target price of \$250 (Jim Kelleher, CFA)

- **WELCOME TO THE AGE OF GPU COMPUTE**

Graphics processing a great fit for inference, machine learning – essential skills for AI, robotics, autonomous driving

Supplying all the “Super Seven” cloud titans

- **MULTIPLE PATHS TO GROWTH**

Gaming (53% revenue) a cash cow and a growth center (51% YTD)

Funding growth in AI data center (20% of revenue, but growing 180%)

Auto mid-teens growth; about to explode with Pascal DRIVE Level 5

Lean infrastructure and fast growth equate to explosive growth in cash flow

- **DESPITE APPEARANCES, NVDA IS NOT SUPER-EXPENSIVE**

DFCF valuations support prices in the \$230s, in rising trend

PEG is 3.0, barely above peer average of 2.5

Our blended valuation analysis – historical comparables, peer group, DFCF – supports values much higher than current levels

Recent end-of-year selling creates attractive entry point

TECHNOLOGY

SERVICENOW INC. (NOW)

12-month target price: \$150 (Joseph Bonner, CFA)

- **PROVIDES SCALABLE IT SERVICES MANAGEMENT TO ENTERPRISES THROUGH A SUBSCRIPTION-BASED, SOFTWARE-AS-A-SERVICE MODEL**

Lowers client's total cost of ownership through increased efficiency

- **BENEFITING FROM AN EXPANDING ADDRESSABLE MARKET**

Enterprises increasingly rely on SaaS IT management

NOW expanding into adjacent services: IT security and analytics

International expansion a plus

- **REVENUE GROWING IN HIGH-30% RANGE**

Revenue expected to quadruple by 2020

Expanding margin amid rising average contract value

Even after strong recent run, NOW shares trade at discount to historical comparable valuations

TECHNOLOGY

VISA INC. (V)

12-month target price: \$122 (Stephen Biggar)

- **LEADING GLOBAL PAYMENT PROCESSOR BENEFITING FROM STRONG CONSUMER SPENDING TRENDS**
Rising consumer sentiment and jobs growth both expected to remain favorable
- **SECULAR GROWTH TRENDS POSITIVE; MERCHANT ACCEPTANCE CONTINUES TO INCREASE**
Rising volume of smaller-value transactions
Plastic displacing cash for safety, convenience, rewards programs
- **INCREASING MOBILE AND ON-LINE PURCHASES HAVE ALSO ENABLED RAPID PAYMENT VOLUME GROWTH**
- **TRADING AT SLIGHT DISCOUNT TO MASTERCARD**
V merits premium based on stronger global positioning

UTILITIES

AMERICAN ELECTRIC POWER CO. INC. (AEP)

12-month target price: \$84 (Jacob Kilstein, CFA)

- **AEP RANKS AMONG THE NATION'S LARGEST GENERATORS OF ELECTRICITY**
Well positioned to drive future earnings growth through investments in its regulated businesses
Planned transmission investments funded through the sale of competitive assets
- **AEP LEVERED TO THE INDUSTRIAL SECTOR OF THE U.S. ECONOMY**
Politically favorable infrastructure investment phase
AEP owns nation's largest electricity transmission system
- **AEP BENEFITING FROM RECENTLY IMPLEMENTED COST-REDUCTION PROGRAMS AND FAVORABLE RATE CASE DECISIONS**
Basis for stable earnings growth over the next few years
Dividend growth CAGR of 4.2% for past five years and current above-market yield of 3.1%
Total return potential (including dividend yield) of 12% in 2018

UTILITIES

EVERSOURCE ENERGY (ES)

12-month target price: \$72 (Gary Hovis)

- **EVERSOURCE (FORMERLY NORTHEAST UTILITIES) OPERATES IN MATURE BUT STABLE NEW ENGLAND MARKETS**
Largest utility in New England, serving approximately 3.1 million electric and gas customers
Benefiting from customer conversions to gas heating from oil heating
- **POSITIONED TO OUTPERFORM MOST PEERS IN A RISING RATE ENVIRONMENT**
Strong finances and solid management execution
Exit of non-regulated operations favorable to long-term outlook
- **PROSPECTS FOR SUPERIOR TOP-LINE GROWTH**
Investments in transmission system provides opportunities to expand rate base
Management expects transmission to generate 40%-45% of profits by year-end 2017
Investing \$1.7 billion in transmission projects over next three years
- **GROWING CASH FLOW AND IMPROVING FINANCIAL POSITION SUPPORT 4%-5% ANNUAL DIVIDEND GROWTH OVER NEXT SEVERAL YEARS**
Current dividend yields 3.0%

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