

August 3, 2026
Vol. 93, No. 107**Middle East Uncertainty, Chinese AI Holding Back Stocks**

In the trading week ended July 24, 2026, calendar 2Q26 earnings season kicked into a higher gear. The earnings news was positive pretty much across the board, but the overall stock market declined. Even oversold sectors that have rallied of late, including Healthcare and REITs, mainly paused if not backslid.

The conspicuous culprit, of course, is the on-again, off-again war with Iran. A little more than a month after the war began, oil prices and bond yields came down and stocks rallied early in April at the first ceasefire. The memorandum of understanding signed in June sent crude oil and gasoline prices lower and stocks higher. Escalating missile and drone attacks in the middle weeks of July threatened to undo any fragile progress in the peace process.

With both Iran and U.S. ceasing hostilities over the weekend of July 25 and 26, stocks perked up to open the final trading week of July but could not hold gains. The artificial intelligence (AI) standard-bearers that carried the market since fall 2022 remain mostly absent from any rally attempts. Inexpensive AI models from China threaten to wreck the economic foundations of AI infrastructure spending, including the eye-watering capital spending planned for this year and next by the hyperscalers.

Investors still learning the difference between generative AI and agentic AI are finding they need to further add to their vocabulary, as they try to knowledgeably discuss open-weight models and distillation. The AI trade, like other major technology transitions such as cloud and the Internet, has been predictably bumpy. That is unlikely to change anytime soon.

Back and Forth in the War with Iran

As the war with Iran moved into a hot phase during the middle weeks of July, it showed dangerous signs of broadening out. Iran's proxies in Yemen, Ansar Allah (commonly referred to as the Houthis), pledged to shut down the Bab-el-Mandeb Strait. Much as the Strait of Hormuz hugs the shore of Iran, the Bab-el-Mandeb is bordered by Yemen, and the Houthis control the corner of Yemen adjoining both Bab-el-Mandeb and the Red Sea.

This strait, which connects the Red Sea to the Indian Ocean, has emerged as an alternative route for Saudi oil that has been rerouted from the Strait of Hormuz. The Houthis on July 22 fired on two Saudi tankers, causing them to turn back. The Saudi-backed government of Yemen and Saudi Arabia itself responded by attacking the Houthi-controlled port city of Hodeidah. In an escalating tit for tat, Houthi drones and missiles were then directed at Saudi oil production and refining facilities.

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ECONOMIC & MARKET COMMENTARY (CONT.)

Before the war with Iran began, military experts knew of Iran's expertise in drones. That's because Iran has been providing Russia with drones throughout its war with Ukraine. In an unexpected but ultimately not surprising link between the two wars, Ukraine attacked an Iranian vessel in the Caspian Sea. Ukrainian President Volodymyr Zelenskyy stated that Ukraine had carried out long-range strikes "against vessels carrying military cargo." Iran threatened retaliation, and neither side is backing down.

The U.S. is simultaneously adding new military assets in the region, according to reports, and engaging in ongoing negotiations to end the war. The military and geopolitical permutations are proving to be difficult to predict, causing volatility in the U.S. financial markets.

Bonds have weakened in July 2026, causing U.S. Treasury yields to spike to levels last seen in January 2025. That reflects war uncertainty, along with growing sentiment that the Federal Reserve may need to raise rates to combat resurgent inflation. Heading into the late-July meeting of the Federal Open Market Committee (FOMC), the CME FedWatch tool indicated a 34% probability that the Fed would raise rates. While two-thirds of investors continue to anticipate no change in rates at the July meeting, the probability of rate hike rises to 56% by the September 2026 FOMC meeting. And by year-end 2026, the CME FedWatch tool shows just an 8% probability that the Fed Funds rate will be at the current 3.50%-3.75% tendency and a more than 90% probability that the Fed Funds rate will be higher.

The S&P 500 hit its all-time high in the beginning of June, days before the memorandum of understanding was signed. Since then, the index has declined about 2% in an uneven pattern, with spikes and dips mainly dictated by breaking war news. The S&P 500 is also down about 1% since the beginning of 3Q26. So far, 3Q trading at the sector level is less like 2Q26, when growth stocks were in charge, and more like 1Q26, when rotation beneficiaries in defensive, cyclical, and rate-sensitive categories were in the lead.

For the quarter-to-date, Energy is in front, with a low-double-digit gain. Financial and REITs are both up in mid-single-digit percentages for the quarter, and single-digit gainers include Healthcare, Utilities, and Consumer Staples. The worst sectors have been Information Technology and Consumer Discretionary, both down more than 6% in 3Q26 to date. Other declining sectors for this quarter include Industrials, Materials, and Communication Services.

Chinese AI Models: Attractively Cheap

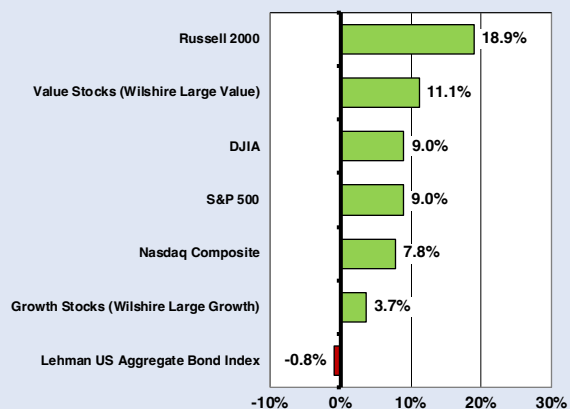
We have always regarded sector rotation as a positive and affirming signal of underlying bull market health. That's particularly true when economic cycle factors favor non-

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MAJOR INDEX

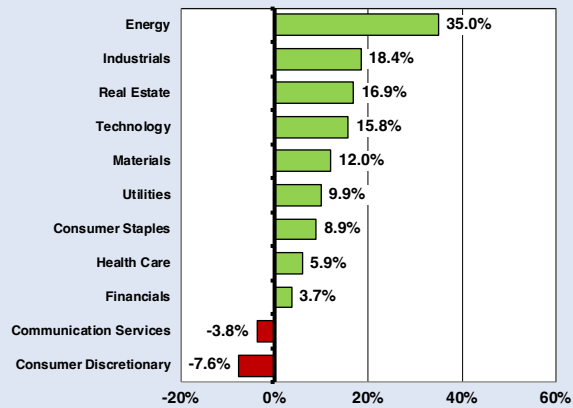
DATA AS OF JULY 24, 2026

Year-To-Date Return



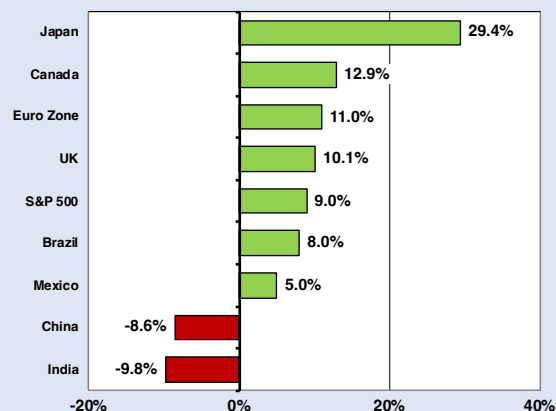
SECTOR PERFORMANCE

Year-To-Date Performance



INTERNATIONAL EQUITY MARKET PERFORMANCE

Year-To-Date Return



Source: Dow Jones, Argus Research

ECONOMIC & MARKET COMMENTARY (CONT.)

traditional sectors over the usual growth leaders. In this case, however, it is hard to argue that traditional growth leaders are flailing. Calendar 2Q26 earnings results for the Information Technology companies that have reported to date have been spectacular, driven by AI momentum. So why is the IT sector down 6%-plus in July?

The simple answer is that investors are not responding to the near-term trend in AI but to the perceived long-term trend. They appear to be fearful that the entire domestic AI edifice may be overbuilt. The market, in a word, is having its second DeepSeek moment.

Late in January 2025, stocks sold off (and, as noted above, bonds tanked) when the DeepSeek-R1 reasoning model was released. By the end of January 2025, DeepSeek-R1 was one of the most downloaded apps on the Apple App Store and Google Play. U.S. AI and information technology stocks regained their footing after Nvidia Corp. CEO Jensen Huang and other industry leaders welcomed the release of DeepSeek, indicating that technology advancement was good for the market overall and that there was plenty of room for more AI players in the pool.

The release of DeepSeek was the most significant of several events to call into question the primacy and multigeneration lead of U.S.-developed AI models over those from China and elsewhere. The second major wake-up moment for U.S. AI investors is unfolding now. A Chinese company called Moonshot AI recently released an AI model called Kimi K3. It is regarded as the most capable of several inexpensive models to recently come out of China.

AI output is expressed in token volume, and Chinese models such as Kimi K3 are generating tokens at less than half and sometimes up to 90% less than the cost of models from Open AI, Anthropic PBC, and other developers. U.S. companies are taking note. OpenRouter is a platform that enables developers to access a range of models. According to OpenRouter data, the share of tokens used by U.S. companies on Chinese AI models has averaged above 30% and been as high as the mid-40% range since 2Q26. That share was less than 5% in the first half of 2025.

Technology investors are needing to learn new terms and concepts to fully appreciate the investing implications of competition in the AI space. Many of the Chinese frontier

(i.e., reasoning) models are open weight in nature. These open weights are numerical values that enable developers to use or fine-tune a model without needing to retrain it all over again. These Chinese models may also have been born of distillation, wherein a large language model (LLM) with frontier characteristics, the “teacher,” trains a smaller model. The resultant “student” model may be less generally able, with a smaller set of capabilities and weaker latency, but it also offers lower computational costs and token usage.

Hyperscalers making huge investments in AI have had a mixed response to development of open-weight models and distillation techniques. OpenAI offers distillation of its own most advanced models, although the output is into smaller OpenAI models. Another frequent claim is that Chinese model makers are pirating technologies and content from leading U.S. frontier models. But the U.S. giants are themselves subject to these claims. The Bartz v. Anthropic lawsuit successfully argued that Anthropic used pirated copies of published books to train its LLM, Claude.

Argus has long predicted that the AI investment cycle would be turbulent, much as the Cloud and early Internet investment cycles were turbulent. We also believe the AI potential pool is vast, encompassing nearly all companies and enterprises, and that the AI investment cycle will be long. We also believe AI investing requires keeping up with fast-evolving trends in this dynamic space.

Conclusion

The calendar 2Q26 earnings season, with mid-20% growth so far, is providing a positive backdrop for stocks even as most investors remain in cautious profit-taking mode. Although investors are not showing their usual tendency to buy the dip in the formerly favored sectors of the market, they have been redeploying AI winnings into sectors (most notably Healthcare) that have long been out of favor.

Nongrowth sectors, which led the market for much of 2H25 and all of 1Q26, appear to be back in vogue. We recommend that stock investors pay attention to this trend and look for value outside the headline leaders of recent years. We would also look for inflection points in areas where long-time winners turned recent losers, such as software, appear to represent attractive value.

Jim Kelleher, CFA,
Director of Research

TECHNICAL TRENDS COMMENTARY

Earnings season, raging geopolitics, and active rotation have all led to a volatile stock market of late. On July 27, oil tumbled and Treasury yields fell for a second consecutive day -- but that wasn't enough to lift the major indices. Large- and mega-cap semiconductors dragged on the big-cap indices, with NVDA and AMD falling 5%, ASML dropping 6%, and SNDK plummeting 11%. The beaten-up software stocks benefited from the semi weakness, with MSFT adding 2%, ORCL popping 4%, PLTR jumping 7%, SHOP soaring 12%, and CRM, APP, and NOW all rising 5%-7%.

The fascinating part of stock-market analysis is that even though everyone has the same information, interpretations and opinions run from A to Z. An old joke suggests that if put 10 economists in a room, you'll end up with 10 different opinions. Interpretations of a chart can run the gamut from super bearish to super bullish, analysis is full of biases, and subjectivity is a very common fault among analysts. That's why, at times, it may be the safest choice to simply follow trends, price, volume, and market reaction to news.

The QQQ is a great current example. On the daily chart, one could make the argument that price has broken down from a triangle as well as a rare diamond top. But one could also claim a normal consolidation is working off some overheated momentum and cooling some of the semi names. On the weekly chart, a perfectly fine conclusion is that the ETF is tracing out a bullish flag back to its 21-week exponential and that we are close to embarking on the next upleg. One undeniable fact is that volume during this decline is much lighter than during the decline just a few months, a bullish sign.

There was some more wild price action on July 28, especially when it comes to individual stocks. Healthcare (XLV +2.4%) was the big winner, gapping to all-time highs on a large increase in volume. Over the past three months, the XLV is the top performing sector, ripping higher by 17%. The gains were broad, with the suddenly hot medical supplies names popping over 4%. The Dow Jones Biotech as well as the Healthcare Providers Indexes both surged almost 3%, medical equipment rose 2.6%, and pharmaceuticals tacked on 1.3%. The two largest gainers in the S&P 500 were IQVIA Holdings (IQV +14%) and Incyte (INCY +9%).

Once again, money flowed out of many of the semiconductor names, with SNDK the biggest S&P 500 loser, falling another 14%. The stock has now plummeted 53% over the past month. The shares are still up an amazing 2,573% since August of last year and are still holding on to a 362% gain this year. The VanEck Semiconductor ETF (SMH) declined 3.5% to a new corrective low and is off 21% in just 25 days. The SMH did close well off its intraday lows after falling to a 50% retracement of the rally since the end of March, as well as to the rising 100-day simple average and the key 21-week exponential average. Distribution, which started in the beginning of June before the ETF peaked, remains clear.

The S&P 500 continues to hang in there and bounced off the bottom of its triangle for a fourth day in a row. The index actually saw its first accumulation day in about a month. Rotation re-mains the key driver for stocks, and that is limiting losses in the S&P 500.

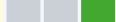
Mark Arbeter, CMT

Focus List

Focus List Stocks		
	TICKER	PRICE as of 7/29/26
Communication Services		
Alphabet Inc	GOOGL	\$ 333.71
Maplebear Inc	CART	45.62
Walt Disney Co/The	DIS	98.89
Consumer Discretionary		
General Motors Co	GM	90.30
Lyft Inc	LYFT	15.45
TJX Cos Inc/The	TJX	160.80
Ulta Beauty Inc	ULTA	501.52
Consumer Staples		
Costco Wholesale Corp	COST	966.58
Walmart Inc	WMT	113.10
Energy		
Targa Resources Corp	TRGP	261.65
Financial		
Apollo Global Management Inc	APO	124.69
Charles Schwab Corp/The	SCHW	105.97
Morgan Stanley	MS	211.58
Zions Bancorp NA	ZION	69.52
Healthcare		
AbbVie Inc	ABBV	263.20
Eli Lilly & Co	LLY	1,220.66
Industrial		
Delta Air Lines Inc	DAL	89.37
Eaton Corp PLC	ETN	386.26
Rockwell Automation Inc	ROK	471.17
Information Technology		
Applied Materials Inc	AMAT	476.46
Applovin Corp	APP	418.22
Cloudflare Inc	NET	264.10
Jabil Inc	JBL	302.95
Microchip Technology Inc	MCHP	75.71
Microsoft Corp	MSFT	393.35
Nokia Oyj	NOK	8.93
NVIDIA Corp	NVDA	197.01
Materials		
Nucor Corp	NUE	265.62
Real Estate		
Equinix Inc	EQIX	1,034.86
Utilities		
Southern Co/The	SO	96.78

Focus List in this Report		
	TICKER	PRICE as of 7/29/2026
Alphabet Inc	GOOGL	\$ 333.71
Charles Schwab Corp/The	SCHW	105.97
General Motors Co	GM	90.30
Nokia Oyj	NOK	8.93
Zions Bancorp NA	ZION	69.52

Alphabet Inc (GOOGL)

Rating: **BUY** 
 Market Cap: **LARGE**
 Sector: Communication Services

Big 2Q beat

- ▶ Second-quarter operating income rose 30% on 24% revenue growth.
- ▶ Alphabet executed a large equity raise in June as the company pursues its AI infrastructure buildout to meet burgeoning demand for generative AI cloud services.
- ▶ Alphabet continues to see generative AI as a key technology shift, warranting massive investment as it pushes its Gemini advanced AI model forward through a variety of enhancements and across its tech and product stacks.
- ▶ The company is also making deals with allies like Blackstone and 'frenemies' like SpaceX, Meta, and Anthropic to cash in on GenAI demand.
- ▶ We are raising our 2026 GAAP EPS estimate to \$20.50 from \$14.11 and our 2027 forecast to \$14.13 from \$13.83.

INVESTMENT THESIS

We are maintaining our BUY rating on Focus List selection Alphabet Inc. (NGS: GOOGL) to a target price of \$440. The company has reported strong results, with evidence that its investments in compute infrastructure and generative AI are paying off in improved ad targeting, user engagement, and stellar cloud growth. Meanwhile, the company also is doubling down on huge capital expenditures in 2026 and 2027. While the risks around generative AI have risen with the company's large investments, we think Alphabet looks at GenAI competitiveness as a must-have and perhaps even existential.

We see Alphabet as an IT leader, along with Meta Platforms, Apple, Amazon, and Microsoft. These companies have come to dominate new developments in mobile, public cloud, and

Focus List

big data analytics, as well as emerging areas such as artificial intelligence, virtual/augmented reality, and even quantum computing. While Alphabet has been criticized as a Johnny-one-note for its dependence on digital advertising, the rapid growth of Google Cloud and YouTube have started to diversify the company's revenue. Its proprietary Tensor Processing Unit microprocessor technology could emerge as another revenue stream over the next year. Even the much-maligned Waymo autonomous vehicle business is expanding commercial services, well ahead of competitors. Alphabet remains at a minimum competitive, if not a leader, in the development of generative AI, the rapidly developing and perhaps disruptive new computing paradigm.

We continue to like Alphabet's underlying businesses and believe that GOOGL shares are attractively valued given the company's growth runway.

RECENT DEVELOPMENTS

Alphabet reported 2Q26 results on July 22 after the market close. Alphabet beat the 2Q consensus estimate by \$786 million on revenue and the consensus EPS estimate by \$6.24. Alphabet provides virtually no guidance, so large variances from consensus are typical. Alphabet reiterated that it remains in a constrained supply environment with regard to its AI cloud infrastructure services. Alphabet will continue to invest heavily in this environment as well as rent 'bridge' capacity from other third party AI infrastructure service companies (see SpaceX deal below) in the short term in order to meet the burgeoning demand. Management also warned that in 3Q26, Alphabet will begin lapping the acceleration in its Search business that began in 3Q25, leaving us to draw the conclusion that the year over year comparison may create a revenue growth headwind. The GOOGL shares fell about 6% intraday on July 23.

Alphabet again raised its already huge 2026 capital expenditure guidance, this time by another \$15 billion at the midpoint of the new range, \$195-\$205 billion. As is the case with other GenAI frontier model developers, the market remains focused on the risk around Alphabet's capital spend. The new capex guidance more than doubles the \$91.4 billion it spent in 2025 (which itself was a 74% increase over 2024). Management further expects 'capex to increase significantly in 2027' though is not yet providing any details. With its new capex guidance, Alphabet is giving just about the clearest signal it can that it means to continue to compete at the highest level of GenAI model development. While the risks of Alphabet's capex spend are salient, including risks around return on investment and potential competition from cheaper Chinese open weight models, the ability of Alphabet to afford these levels of spend versus its competitors (here's looking at you OpenAI and Anthropic) might also be considered a competitive advantage.

Consolidated 2Q26 revenue rose 24% from the prior year to \$119.8 billion, driven by an acceleration in Search and Cloud revenues. Positive foreign exchange movements added one

percentage point to revenue growth. Google's advertising revenue, the company's primary revenue stream, rose a strong 14.4% to \$81.6 billion, accelerating from 10.4% growth in 2Q25. Indeed, Google Services revenue, driven by both advertising and subscription revenue, increased 14.5%, accelerating from 11.7% in 2Q25.

Google Cloud revenue had another stellar quarter, accelerating to 82% growth to \$24.8 billion, from 32% growth in 2Q25, adding an incremental \$11.1 billion. As with its revenue growth, the Google Cloud segment turned in a stellar operating profit of \$8.8 billion in 2Q26, up from \$2.8 billion in 2Q25 as the segment operating margin ballooned to 35.5% from 21% in 2Q25.

Total cost and expenses rose 21% from the prior year, accelerating from 14% in 2Q25.

Other cost of revenue, excluding TAC (traffic acquisition cost), rose 22%, primarily driven by technical infrastructure depreciation, inventory costs related to sales of Tensor Processing Unit (TPU) microprocessor systems to customers and YouTube content acquisition costs. Second-quarter operating income rose 30% to \$40.8 billion, accelerating from 14% in 2Q25, and the operating margin expanded by 160 basis points to 34%. GAAP diluted EPS rose from \$2.31 in 2Q25 to \$9.11 in 2Q26 primarily due to a \$95 billion positive swing in Other Income from unrealized gains on investments. Management was typically closed mouthed on the reason for the swing though we think it is likely due to Alphabet's recognition of the value of its investment the SpaceX, which made its IPO in the quarter.

The much-maligned Other Bets segment (Google Fiber and Waymo, along with other smaller start-ups), reported a 2Q operating loss of \$1.8 billion, up from a loss of \$1.25 billion in 2Q25. We note that Other Bets as the repository of start-up businesses is more-or-less designed to run at a loss.

On July 23, the European Commission fined Google 890 million euros (\$1.02 billion) for non-compliance under the EU's Digital Markets Act (DMA). The fine related to two separate decisions: one for 'self-preferencing' Google's own services in Google Search results (460 million euro fine) and another for restricting application developers that wished to direct consumers to 'alternative, often cheaper' third party app stores other than the Google Play store (430 million euro fine). Essentially, the Commission found that the fees that Google charged an application developer for new customer acquisition and the length of time for charging those fees was non-compliant under the DMA. Apart from the fines, the Commission ordered Google to stop the practices. Google has been in dialogue with the Commission for quite some time, the investigation began in March 2024, and had already begun testing changes to changes to Google Search though had also noted that the changes could degrade the user experience in the EU. While Google has the right of appeal, it must also pay the fines and comply with the decisions

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within 60 days or risk a confiscatory penalty of 5% of total worldwide revenue. These most recent fines are of a piece with the long-running war between European Commission regulators and American big Tech companies, specifically, Alphabet, Meta Platforms, and Microsoft that has resulted in a string of extraordinarily large fines, litigation, and even government-level international trade tensions between the U.S. and EU. For Alphabet, it just means one more regulatory risk.

In another surprising move, SpaceX revealed in a regulatory filing that it has made a deal to supply \$920 million per month of compute, essentially, the rental of 110,000 Nvidia graphical processing unit (GPU) chips, the key component of GenAI compute, and related hardware to Google from October 2026 through June 2029, an aggregate \$30 billion over the term of the contract. We call this move unusual as one would think SpaceX's own GenAI lab, xAI, would have first call on that compute rather than Google, though perhaps SpaceX simply has more compute capacity than it can use at the moment. Google may terminate the contract if SpaceX fails supply access to the Nvidia chips by September and both Google or SpaceX may terminate the contract on 90 days' notice. We see the SpaceX deal as another stopgap measure for Alphabet to capture the current demand for GenAI compute as Google Cloud's backlog continues to pile up and as the race for the newest, most performant GenAI model shows no sign of slackening, meaning that Google needs all the compute it can get its hands on. SpaceX signed a similar deal with Anthropic.

We should note that according to regulatory filings, Alphabet, an early investor in SpaceX, owns 6.1% of its stock. Perhaps we should not have been surprised at the rental compute deal. While we expect that Alphabet accounted for increases in SpaceX's valuation during funding rounds prior to its IPO on June 12, we suspect that Alphabet's sizable non-operating investment gain in 2Q26 may be the result of SpaceX's IPO. According to press reports, Google and SpaceX have also been in discussion around a deal for orbital satellite data centers, one of SpaceX's many ballyhooed projects. The Tech industry 'frenemy' concept appears live and well.

EARNINGS & GROWTH ANALYSIS

We are raising our 2026 GAAP EPS estimate to \$20.50 from \$14.11 and our 2027 forecast to \$14.13 from \$13.83. Alphabet only issues guidance in general, non-quantitative terms. Our estimates imply 29% EPS growth on average over the next two years. Our long-term earnings growth rate forecast is 14%. The company is investing heavily in compute infrastructure, both to support its Cloud business and drive generative AI expansion. That could dampen margins, while at the same time its GenAI investments are making a demonstrable positive impact of Google's core businesses and the Cloud business is expanding margin at a rapid rate.

Search advertising remains the company's crucial revenue driver, even as its other businesses, such as YouTube, Google Play, and Google Cloud, have become multibillion-dollar businesses in their own right (and as Cloud has become a significant revenue growth and profit driver). From inception, innovation has been the centerpiece for driving company results forward and generative AI has, if anything, provided rocket fuel to the company's innovation engine.

As Google has delayed the release of its newest Gemini frontier model, market concerns over its GenAI competitiveness have returned though we've seen this movie before. Almost every time a new model is released, it leapfrogs the last models and becomes the new media darling. Suffice it to say, we think Alphabet remains competitive with the most performant GenAI models as its ability to integrate GenAI into its Google Cloud business as well as real world functions like Search and YouTube are key differentiators. The company's TPU microchip line, initially designed for internal compute use are also beginning to emerge as a new business revenue stream as GenAI demand has crimped supply across the microchip market. Management has been laser-focused on infusing GenAI across its tech stack and product stack. GenAI applications in the Google Cloud Platform (GCP) are obvious, though these continue to entail significant capital expenditure. Gemini 3 tools are already working on the YouTube creator side (following last year's release of the Nano Banana GenAI image creation tools) and likely will boost YouTube's content discovery engine. GenAI also has been incorporated into Android and the Pixel hardware line. It seems likely to us that management sees GenAI as a 'winner take all' (or most) competition with Anthropic, OpenAI/Microsoft, Meta Platforms, and some smaller competitors like xAI and Perplexity.

With GCP, Google has provided a steady stream of improvements, as it does with most of its products, and is working to differentiate its services through AI. It also has moved to provide discounts (competing on price against Amazon) and has made investments and formed partnerships to secure long-term cloud computing deals with major clients -- most amazingly, a 'frenemy' deal with GenAI competitor OpenAI. GCP may also have a differentiated advantage since it uses Google's own TPU microchips, which may provide a cost advantage to third-party sources. While the rapid revenue and backlog growth metrics for GCP speak for themselves, management can also brag about GCP becoming a more-strategic partner. CEO Sundar Pichai believes that GCP provides a number of differentiators relative to competitors, including AI-based real-time data and analytics, an open infrastructure that runs client workloads anywhere, and a superior level of cybersecurity. Industry tracker Gartner places Google Cloud Platform a distant third in the market. Google is also partnering with multinational giants (as in its deals with SAP, Salesforce, and Cisco) to integrate business software systems into GCP. Management

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clearly views GCP as critical to the company's future.

Google's YouTube is all about short-form video and, as Netflix has admitted, the most-popular streaming-video service in the world -- with the largest share (over 10%) of the U.S. television market. YouTube launched its Shorts service to compete with TikTok, and is currently working to monetize the new service. Management has introduced revenue sharing with content creators. YouTube also has a growing streaming television channel service called 'YouTubeTV.' The service, technically a virtual multichannel video program distribution service (vMVPD), has become another formidable competitor in the over-the-top (OTT) streaming video market. We say 'formidable' because YouTube users already spend over a billion hours a day watching its short-form content; it thus has a huge potential customer base. YouTube advertising alone generates annual run rate revenue of \$44 billion, about 11% of Alphabet total net revenue. While management does not break out YouTube subscriptions in its reporting, including subscription revenue could push YouTube's percentage of total revenue to 20% or more.

We consider Waymo, Alphabet's autonomous driving business, to be the leader in the nascent autonomous vehicle market and another emerging growth vector for Alphabet. It continues to scale in cities across the U.S. and abroad. Waymo operates in 11 major U.S. cities including two cities in partnership with Uber. Waymo announced a \$16 billion investment round in February, valuing Waymo at \$126 billion post-money, primarily funded by Alphabet. Waymo launched in Miami in January and Nashville in April, and plans to expand its own branded service to more cities in 2026 (probably including Washington, DC, London, and Tokyo). It is also testing in New York City. In September of 2024, Waymo expanded its partnership with ride-hailing service Uber Technologies for commercial autonomous ride hailing to Austin and Atlanta, and in Miami in 2026 (whereby Uber will manage a Waymo fleet of vehicles). While investors have criticized Waymo as an expensive boondoggle over the last decade and a half, the technology has moved from science project to operations, claiming first-mover advantage over competitors, namely Tesla. The company is also looking to apply its deep GenAI knowledge to improve on Waymo's safety and reliability, and to lower hardware costs as the business continues scaling. As the largest component of the Other Bets segment, Waymo's investments in scaling its commercial service also drive the continued segment losses.

On January 12, Google and Apple announced that they had entered into a multi-year agreement to collaborate on the next generation of 'Apple Foundation' models based on Google's large language model (LLM) Gemini and its cloud technology. Gemini is expected to make Apple's very much under-used and criticized digital assistant Siri more personalized in 2026 and support future Apple Intelligence features. Apple will reportedly pay Google \$1 billion per year for its services, though this compares to the \$20 billion-plus

that Google pays Apple for placement on its devices. We think the Apple Google tie-up is a big deal. Apple could have gone with any of the players in the generative AI space. The fact that it chose Google is not just a big vote of confidence in the Gemini model, but also puts Google in league with the premiere consumer brand in technology. Perhaps Apple's longstanding relationship with Google also gave Google a leg-up on the competition.

Two recent deals illustrate Alphabet's move to build its Tensor Processing Unit microprocessor technology into a viable new revenue stream, capitalizing on the currently strong demand environment for compute infrastructure driven by GenAI. On May 18, Blackstone announced a new joint venture (JV) with Google to create a new cloud computing company using Google's proprietary TPU's, essentially a compute-as-a-service offering. Google also has multi-year deals to supply compute to GenAI competitors Meta Platforms and Anthropic. One more time, the Tech industry 'frenemy' relationships are going strong.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on Alphabet is High, our top rating. On June 1, Alphabet announced that it would raise \$80 billion in new equity capital primarily to expand its AI compute infrastructure, i.e. data centers, and the chips and other infrastructure that go inside DC's. The company split the equity raise into multiple separate offerings. \$15 billion of preferred stock and \$15 billion in Class A and Class C common stock were floated in June. The company also made a private placement of \$10 billion to holding company Berkshire Hathaway comprised of \$5 billion in Class A and \$5 billion in Class C common shares. A \$40 billion offering of at-the-market Class A and Class C common stock is to take place over time, beginning in July 2026. Alphabet intends to use \$30 billion of the new equity raise to meet 2026 tax obligations related to the vesting of employee stock awards. Bloomberg reported that the capital raise was subsequently expanded to \$84.75 billion. Alphabet's capital raise included a so-called greenshoe option, allowing underwriters to expand the size of the raise.

Alphabet's massive capital raise is certainly unusual though the current generative AI competitive environment is often surprising. The burgeoning demand for GenAI/agent AI compute, however, is not surprising as is the race to meet that demand as we have seen capital expenditures balloon at all the GenAI competitors, including the GenAI labs themselves and their hyperscaler partners. Why Alphabet chose the equity raise strategy versus debt financing or monetizing one of its very valuable non-core assets, here's looking at you Waymo, remains a question. Perhaps management is just keeping its powder dry for the next step up in capital expenditures in 2027, the total of which might push past \$250 billion given management's recent increase in its capex outlooks for 2026 and 2027. While \$53 billion in trailing free cash flow and \$242 billion in cash and near cash on the balance sheet, as of the end of 2Q26 are plentiful

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sources of capital, it is logical to conclude that the company may look to tap the debt markets to cover any capital shortfall in 2027. For now, Alphabet is not so subtly flexing its powerful financial muscle to give it a leg up in the GenAI race to capture demand. The company had \$98.2 billion in debt at the end of 2Q26, all of it long term and debt-to-total capital was a still quite low 13%, which indicates plenty of capacity to take on further debt. However, we also note that Alphabet took on an incremental \$52 billion in debt in 1H26.

Alphabet did not repurchase stock in 1H26. Not a surprise given its decision to raise equity capital. The company repurchased \$45.7 billion of its stock in 2025 after buying back \$62.2 billion in 2024 and \$61.5 billion of its stock in 2023. The share count rose by less than 1% in the last 12 months.

On April 29, Alphabet raised its quarterly cash dividend by 5% to \$0.22 or \$0.88 on an annual basis. The indicated yield is 0.26%. Our 2026 dividend estimate is \$0.87 and our 2027 forecast is \$0.91.

MANAGEMENT & RISKS

Generative AI, exemplified by the success of Anthropic's Claude model and OpenAI's ChatGPT model, among a host of other competitors, poses an existential threat to internet search, Alphabet's core revenue engine. OpenAI launched its SearchGPT search engine in beta mode in July 2024 and it became generally available to all users in February 2025. Other models have followed. The release of Google's Gemini 3 model in November 2025 and its integration with its search engine and other products put Alphabet back in the driver's seat temporarily but now other models have leapfrogged it. Alphabet will have to prove itself an AI competitor all over again when it releases of its newest frontier model. The GenAI competitive threat to Google's internet search business bears close monitoring.

Alphabet's own massive investments in GenAI have become a risk in themselves. In 2Q26, Alphabet showed a \$13.5 billion decline in trailing twelve-month free cash flow to \$53 billion after posting \$73 billion in each of 2024 and 2025. Further, the company's massive infrastructure investments will begin to show up in higher depreciation charges over the next few years, which could crimp profitability. Low-cost Chinese open-weight model releases continue to alarm the GenAI industry. As Microsoft contemplates hosting lower cost models, the risk of GenAI commoditization slashing the ROI on Alphabet's investments has become a salient issue. The market view of these risks has only sharpened in 2026 dragging down the shares for prominent GenAI competitors including Alphabet.

On March 25, a California jury found Alphabet/Google's YouTube (along with Meta Platforms) liable for personal injury caused to an individual due to addictive product-design features. While Meta Platforms captured most of the headlines and the majority of the \$6 million judgement,

YouTube also was found liable, although its exposure was just \$1.8 million versus Meta's \$4.2 million. The judgement amount is essentially irrelevant. What is important is that the liability verdict in this lawsuit was a landmark as it establishes the principal that social media companies may be held liable for the design of their platforms. That circumvents Section 230 of the 1996 Communications Decency Act that social media companies have typically used as a shield in lawsuits in the past. The private tort liability bar, state attorneys general, local school districts, and municipalities have lined up thousands of cases across the U.S. to prosecute YouTube on the basis of product liability. If the Los Angeles jury verdict holds up on appeal, these cases could have a material negative impact on Alphabet. Alphabet expects to appeal the Los Angeles verdict and we would not be surprised if it continues to fight all the way to the U.S. Supreme Court. An argument that we think would be in YouTube's favor is that it is simply an entertainment service, not a social media platform.

Like Microsoft and Intel before it, Alphabet has run into serious antitrust issues. Google has lost both the federal, U.S. Department of Justice cases against it at the trial court level. Though the remedies decided in the first case turned out to be manageable for Alphabet, the second case, related to Google's ad-tech business, is now in the remedies phase. The judge might decide on remedies that could run from a possible break-up to more-benign sanctions. We think these cases will be headed for appellate review, perhaps up to the U.S. Supreme Court. The European Commission has issued adverse rulings and levied record-breaking fines, with perhaps more to come. Many U.S. states have filed complaints against Alphabet's Google division. Much of this antitrust litigation targets Google's dominance in the search and digital advertising markets. Google continues to face antitrust litigation from all sides.

Google continues to face regulatory issues in Europe. In late 2022, the European Union passed new legislation (the Digital Services Act (DSA) and the Digital Markets Act (DMA) aimed at strictly regulating large online businesses. On April 25, 2023, Google Search, Google Play, Google Maps, and Google Shopping, were designated as a 'very large online platform' or a 'very large online search engine' by the European Commission. That made them subject to the DSA and DMA. The DSA and DMA are aimed at regulating Google's practices around content moderation/disinformation and user privacy, among other issues, and the company is required to undergo outside audits of its practices and share algorithmic data with EU regulators.

The penalties for noncompliance with the DSA and DMA are severe. The obvious risk to Alphabet is the imposition of a severe financial penalty for alleged noncompliance, though regulations could also have the perverse effect of locking in the existing competitive structure of an industry. Some critics claim that this occurred when the EU enacted its General Data Protection Regulation in 2018, as large companies with

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more resources are better able to comply with these laws than smaller competitors. EU regulators have tried to skirt this issue by making the new laws applicable only to services that aggregate very large numbers of users. While regulatory litigation and actions in the U.S. and Europe may take years to play out, we see them as material risks to Alphabet. They could, one day, result in onerous regulation, additional large fines, or perhaps even a forced breakup.

In an echo of the U.S. ad-tech case against Google, the U.K. Competition and Markets Authority made a provisional finding that Google has engaged in anti-competitive conduct that favors its own ad-tech. In January 2025, the CMA began an investigation of Google's search services.

Alphabet's internet advertising-based businesses are highly competitive and subject to rapid and disruptive technological change. The rapid development of generative AI is a new and material risk to Google's dominance in internet search and to Alphabet as a whole. To remain relevant, Alphabet must keep up with, if not lead, such technological changes. Management recognizes that cultural norms around user privacy are evolving. Such norms could develop in a direction that limits Google's use of user data to make advertising more targeted, more relevant to the user, and thus more valuable to advertisers. The rapid adoption of mobile connectivity is a strong secular trend, and Google competitor Facebook has developed a mobile advertising platform that may soon surpass Google in digital advertising. Another deep-pocketed tech competitor, Amazon, also has moved into the advertising business, which threatens Alphabet/Google's industry position. Mobile search, particularly important to Alphabet/Google, remains a vibrant business, though it typically carries a lower rate. Alphabet must find ways to capitalize profitably on emerging platforms to sustain its growth.

Management does not provide specific forecasts and instead discusses the business only in general terms. This leads to large variances between consensus estimates and actual results. In addition, while the first and fourth quarters are seasonally strong, the second and third quarters are seasonally slower, and the investment community may underestimate or overestimate these seasonal effects. Large negative variances to consensus may hurt the GOOGL shares.

Finally, management may not be able to manage the company's rapid growth efficiently. Competitive pressures are also likely to increase as Alphabet's rivals -- Apple, Facebook, Amazon, Yahoo, and Microsoft -- continue their attempts to capture market share in the online advertising space, enterprise cloud computing, streaming internet video, generative artificial intelligence, and other competitive markets. While Alphabet's search engine, its core business, essentially outpaced all its peers, and its Android mobile operating system is the dominant global system, Alphabet competes at subscale in both cloud computing, well behind

Amazon Web Services and Microsoft Azure, and in hardware, with a small fraction of competitor Apple's business.

Sundar Pichai, a long-time Google veteran, has been Alphabet CEO since August 2015. Anat Ashkenazi became CFO on July 31, 2024, replacing Ruth Porat, who was promoted to president and chief investment officer. Ms. Ashkenazi had been CFO of pharma company Eli Lilly since 2021 and worked for Lilly in various financial executive positions since joining that company in 2001. Philip Schindler, another long-time Google veteran, has been chief business officer and a SVP since 2015. He leads the Google Services division, the company's core revenue driver.

COMPANY DESCRIPTION

Alphabet maintains the largest online index of websites accessible through automated search technology. It generates revenue through online advertising, cloud services, and consumer devices. Google is an operating segment of Alphabet. The company was founded in 1998 by Sergey Brin and Larry Page and went public in 2004.

Google's AdWords is an auction-based program that lets businesses display ads along with particular search results. Google's AdSense program enables websites in the company's network to serve targeted ads, based on search terms or web content, from AdWords advertisers. Most of the revenue generated through AdSense is shared with network partners. In addition, Alphabet owns YouTube.com, the web-based video site. It has expanded into mobile telephony with its Android smartphone operating system, into cloud services with Google Cloud, and into autonomous driving with its Waymo subsidiary. About 52% of Alphabet's revenue is generated outside the U.S.

INDUSTRY

Our rating on the Information Technology sector is Over-Weight. The Information Technology sector accounted for a substantial 38.0% of the S&P 500 market cap as of the end of June. We think diversified investors should have meaningful exposure to the sector, at least in line with the current sector weight.

The sector receives above-average marks on our six-part 'blind' sector rating criteria, which includes growth momentum, valuation, financial strength, and analyst conviction, among other factors.

The sector has outperformed the market year to date with a gain of 19.4% as of the end of June. The sector outperformed in 2025, with a gain of 23.3%, compared to a gain of 16.4% for the S&P 500. The beta for the sector is 1.4.

Over the past five years, the sector's weighting has ranged from 16% to 39%. The sector's P/E ratio on projected 2027 EPS was 20-times on a GAAP basis, above the market multiple. The yield of 0.1% was below the market average.

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The sector's smoothed earnings growth rate of 16% was above the market average.

The Information Technology sector is primarily a secular growth sector. The macroeconomic factors that may affect the performance of stocks in the Information Technology sector include Global and Domestic GDP Growth, Global and Domestic Wage Growth, and Employment Trends, among others. Trends in the dollar can affect factors such as Cost of Goods Sold.

Potential sell signals for stocks in the Information Technology sector can be a change in the direction or rate of a company's sales or earnings growth, a pronounced slowdown in new product announcements, or changes in the regulatory environment.

At this stage of the market and economic cycle, our favored industries within the Information Technology sector include Semiconductors and Application Software.

VALUATION

Alphabet shares are up 1% year to date, compared to an 8% advance for each of the S&P 500, and a 5% decline for the Roundhill Magnificent Seven ETF. Alphabet's trailing EV/EBITDA of 19.2 is above the peer median of 14.8. We are maintaining our BUY rating on GOOGL to a 12-month target price of \$440.

ByLine

On July 23, BUY-rated GOOGL closed at \$317.69, down \$24.40. (Joseph Bonner, CFA, 7/23/26)

Charles Schwab Corp/The (SCHW)

Rating:	BUY
Market Cap:	LARGE
Sector:	Financial

Raising target price after 2Q results amid increased revenue guidance

- ▶ On July 21, Schwab reported adjusted 2Q26 EPS of \$1.62, up from \$1.14 a year earlier and above the \$1.55 consensus.
- ▶ Along with 2Q results and given a first half above Investor Day targets provided in May, management raised financial guidance, now calling for revenues to be up 17.5%-18.5% (from a prior 14%-15%) in 2026.
- ▶ The company's May Investor Day offered wide-ranging plans to grow its client base, expand product/service offerings, and take advantage of AI efficiencies.
- ▶ We are raising our target price to \$114 (from \$108), or 15-times our 2027 EPS estimate, amid better-than-expected first half results and improved guidance.

INVESTMENT THESIS

We are maintaining our BUY rating on Charles Schwab Corp. (NGS: SCHW) following 2Q results, which were highlighted by 22% growth in client assets, record trading volumes and \$120 billion of core net new assets. Management also raised guidance, now calling for revenues to be up 17.5%-18.5% (from a prior 14%-15%) in 2026.

At the company's mid-May Investor Day, key takeaways for us included plans to win new clients across the retail, advisor and workplace channels; expand its product/service offerings in wealth & advice, trading, digital assets, asset management, and alternative/private investments; attract the next generation of investors (including through the recently launched Schwab Teen Investor Account program); and launch several AI initiatives designed to help investors (with research and insights), advisors (via a relationship assistant), and customer service representatives (through chat assistance).

With respect to financial goals, management offered through-the-cycle goals of high single to low double-digit annual revenue growth (while growing revenue per account) and positive operating leverage, translating to mid-teens EPS growth. Overall, the Investor Day gave us confidence that Schwab is well positioned competitively to maintain and grow its brokerage leadership position and has flexibility in expense drivers to meet financial targets.

In general, we expect Schwab's long-term revenue drivers to remain asset management fees and net interest income, which together account for about 75% of revenues. Other drivers include strong account growth in most quarters, innovative low-cost products that are taking market share, and operating expense leverage. While industry competition remains heated, Schwab now has the largest number of active brokerage accounts in the industry, and we believe that it has managed competition well. The development of innovative and scalable digital tools has aided the company in acquiring and engaging clients. The company is actively developing and implementing AI use cases, with 40 different AI applications in various stages.

We believe that Schwab remains at the forefront of many important industry trends, including business consolidation, reduced fees, and the increasing focus on lower-cost investment vehicles (with passive index funds and its own line of ETFs). When asked about competition from newer digital brokers like Robinhood and Webull in a recent earnings call, Schwab management emphasized their differentiated value proposition through broader trading platforms and a physical presence of over 400 locations.

Schwab has continued to engage in active product development. In 2Q26, the company launched Schwab Crypto providing direct access to Bitcoin and Ethereum trading for retail investors, and introduced Portfolio Insights, a generative AI-powered tool that helps investors understand portfolio performance. In 1Q26, the company acquired Forge

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Global, which will allow clients direct and indirect access to shares of pre-IPO companies.

We expect Schwab to post above-peer-average growth in the medium term, thanks to its innovative products and continued market-share gains. Schwab has grown core net assets rapidly and continues to take cost-conscious clients from other financial service providers.

RECENT DEVELOPMENTS

In the past year, SCHW shares have risen about 4%, compared to a 19% increase for the broader market.

On July 21, Schwab reported adjusted 2Q26 EPS of \$1.62, up from \$1.14 a year earlier and above the \$1.55 consensus. Net revenues for the quarter increased 21% to \$7.1 billion, led by higher asset management fees (powered by client inflows and higher equity markets), net interest income (aided by greater lending balances and lower wholesale bank borrowing levels) and trading revenue (driven by robust volumes).

Core net new assets in 2Q totaled \$120 billion. Adjusted expenses were up 11% from the previous year, leading to an adjusted net income gain of 32% to \$2.9 billion.

The company reported record total client assets of \$13.1 trillion as of June 30, 2026, up 22% from the prior year and up 11% sequentially.

EARNINGS & GROWTH ANALYSIS

The company handled an average of 11.9 million daily trades in 2Q26, up 57% from the prior year and 20% sequentially. This remains well above trend as customers continue to trade heavily amid volatile markets. Schwab now has 39.8 million active brokerage accounts, up 6% year over year. The company also saw the number of banking accounts increase 12% to 2.4 million.

Schwab's proprietary ETFs have remained a strong source of asset growth (up 33% in 2Q), along with other third-party ETFs (up 36%). ETF assets totaled \$3.5 trillion at the end of 2Q26, up 35% from the prior year. Mutual fund assets totaled \$3.2 trillion at the end of 2Q, up 13% from 2Q25.

Along with 2Q results, management offered updated financial guidance for 2026 calling for revenues to be up 17.5%-18.5% (up from a prior 14%-15% given at its May 2026 Investor Day), and adjusted expense growth of 9.5%-10.5% (up from a prior 8.5%-9.5%). The company sees its net interest margin improving to 3.00%-3.10% in 2026 (ending 4Q in the 3.25% -3.30% range), up from 2.74% achieved in 2025.

We look for revenues to be up 18% in 2026, with a similar rise in net interest income. We expect long-term market-share gains through innovative and competitively priced products, with asset growth continuing well above the industry average. The company has sought 5%-8% annual

asset growth over time.

We are raising our 2026 EPS estimate to \$6.50 from \$6.16, reflecting the better-than-expected 2Q results and raised revenue guidance, and our 2027 forecast to \$7.60 from \$7.20.

FINANCIAL STRENGTH & DIVIDEND

The company had \$22.7 billion in long-term debt as of June 30, 2026, compared to \$50.1 billion in shareholders' equity. It had an estimated adjusted Tier 1 leverage ratio of 6.8%, compared to the company's 6.75%-7.00% long-term target. The company achieved a 44% return on tangible equity in 2Q26 (up from 35% the prior year), helped by its strong balance sheet and efficient capital management.

Following the Federal Reserve's June 2026 CCAR stress test results, the company said its stress capital buffer (SCB) requirement would remain at 2.5%, effective through 2027. The Tier 1 (CET1) ratio minimum is 4.5%.

Schwab increased its quarterly dividend by 19% to \$0.32 per share in 1Q26. The annualized payout of \$1.28 per share yields about 1.3%. The company continues to target a payout ratio of 20%-30% of earnings. Our dividend estimates are \$1.28 in 2026 and \$1.40 for 2027. In 2Q26, SCHW repurchased 11.2 million shares of common stock for \$1.0 billion.

MANAGEMENT & RISKS

Charles R. Schwab has been chairman of the company since its inception in 1986. Mr. Schwab remains the largest shareholder, with a 12% stake. He owns 141 million shares of stock recently valued at about \$14 billion. Walter W. Bettinger II, who served as chief executive officer since 2008, retired at the end of 2024 and was replaced by Rick Wurster. Mike Verdeschi is the chief financial officer.

The company is subject to risks from changing interest rates and trends in the global equity and fixed-income markets. It is also subject to significant regulatory oversight, which has become more burdensome in recent years. The Dodd-Frank Act, for example, has raised the company's requirements for capital and liquidity levels. This may prove less challenging in the near-term as regulatory requirements become looser for big banks under new Fed leadership and the current presidential administration.

In the near-term, Schwab faces risks from continued deposit outflows and funding costs (wholesale funding specifically) that compress net interest margins. Longer-term, Schwab faces risks from low equity risk premiums, persistent inflation or economic downturns, private creditor competition, reputational risk, and technology or cybersecurity disruptions.

COMPANY DESCRIPTION

Charles Schwab is a leading provider of financial services, with about 40 million active brokerage accounts and \$13

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trillion in client assets. The company offers wealth management, securities brokerage, banking, money management, and financial advisory services to individual investors and independent investment advisors.

INDUSTRY

Our rating on the Financial sector is Over-Weight. The Financial sector accounted for 11.8% of the S&P 500 as of the end of June. We think diversified investors should have meaningful exposure to the sector, at about 125-150% of the current sector weight.

The sector receives above-average marks on our six-part 'blind' sector rating criteria, which includes growth momentum, valuation, financial strength, and analyst conviction, among other factors.

The sector has underperformed the market year to date with a loss of 2.1% as of the end of June. The sector underperformed in 2025, with a gain of 13.3%, compared to a gain of 16.4% for the S&P 500. The beta for the sector is 0.9.

Over the past five years, the sector's weighting has ranged from 10% to 15%. The sector's P/E ratio on projected 2027 EPS was 14, below the market multiple. The yield of 1.6% was above the market average. The sector's smoothed earnings growth rate of 9% was below the market average.

The Financial sector is a cyclical and often value-oriented sector. The macroeconomic factors that may affect the performance of stocks in the Financial sector include the Unemployment Rate (which can influence the debt repaying capability of consumers and therefore credit costs), Interest Rates (which can determine lending profitability), and GDP or growth in the economy (which influence loan growth). The industry is also highly regulated, so changes in the regulatory environment can influence capital set-aside requirements and thus profitability.

At this stage of the market and economic cycle, our favored industries within the Financial sector include Diversified Banks, Financial Exchanges & Data, and Investment Banking & Brokerage.

VALUATION

SCHW shares have traded between \$84 and \$108 over the past 52 weeks and are currently at the lower end of that range.

SCHW shares currently trade at 13.2-times our 2027 EPS estimate. We believe that SCHW merits a higher multiple based on the company's strong EPS growth prospects relative to peers, supported by market-share gains and a long history of product innovation. Our target price of \$114 (raised from \$108) implies a multiple of 15-times our 2026 EPS estimate.

ByLine

On July 22, BUY-rated SCHW closed at \$100.80, up \$0.84. (Stephen Biggar, 7/22/26)

General Motors Co (GM)

Rating: **BUY** 
Market Cap: **LARGE**
Sector: Consumer Discretionary

Guidance raised following 2Q26 results

- ▶ GM reported 2Q26 adjusted net income of \$3.247 billion or \$3.57 per share, compared to \$2.464 billion or \$2.53 per share in 2Q25. EPS beat our quarterly estimate of \$3.23 and the StreetAccount Consensus estimate of \$3.19.
- ▶ Second-quarter earnings benefited from share repurchases made during the quarter, as the company lowered its outstanding diluted share count by 1.7% from the prior quarter and 6.8% year over year.
- ▶ General Motors has raised guidance for 2026 and now anticipates adjusted EPS earnings of \$12.00-\$14.00 and adjusted EBIT of \$14.0 billion-\$16.0 billion.
- ▶ We are increasing our 2026 EPS estimate to \$13.00 from \$12.50 per share to reflect 2Q26 results and the upwardly revised GM guidance for the remainder of the year.

INVESTMENT THESIS

Our rating on General Motors Co. (NYSE: GM), one of the world's largest automakers, is BUY. Our price target is \$102 per share, implying a total return potential of more than 29% from current prices, including the dividend.

General Motors currently holds the largest share of the U.S. auto market, at 17.2% in 2025 (up from 16.5% in 2024) and has dominated the U.S. industry at various points in time since its founding in 1908. However, hit by the financial crisis of 2008-09, GM filed for bankruptcy on June 1, 2009. Within 40 days, the firm emerged from bankruptcy. In 2010, the company launched its IPO, the biggest in U.S. history (at that time) and has been steadily profitable ever since. From going bankrupt in 2009 to becoming one of the world's best-run car companies, General Motors has engineered one of the greatest rebounds of all time.

Following second-quarter 2026 results, General Motors again raised its guidance, posting a performance that was significantly above expectations and, we believe, justifying our BUY rating. The company's outlook speaks volumes for how well-managed and nimble GM is, especially when considering tariff challenges, ever-changing trade policy legislation, and economic uncertainties. We believe GM will continue to manage its way through challenges in the current environment and emerge as an even-stronger company.

We also believe GM's product lineup, especially in

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high-margin trucks and SUVs, and its strategic investments in electric vehicles (EVs) and software services, will contribute to a strong long-term outlook. We expect that GM will be able to overcome the negative effects of tariffs by reshoring production plants, renegotiating contracts with suppliers to lower costs, and lobbying for policy adjustments (as automakers have historically lobbied against tariffs), among other actions. We believe that investors continue to undervalue (and underestimate) the company's strength in traditional internal combustion engine (ICE) vehicles (particularly in light trucks) and its financial services businesses. We expect earnings growth will further strengthen in 2026 and see 2027.

RECENT DEVELOPMENTS

GM reported 2Q26 adjusted net income of \$3.247 billion or \$3.57 per share, compared to \$2.464 billion or \$2.53 per share in 2Q25. EPS beat our quarterly estimate of \$3.23 and the StreetAccount Consensus estimate of \$3.19.

Second-quarter earnings benefited from share repurchases made during the quarter, as the company lowered its outstanding diluted share count by 1.7% from the prior quarter and 6.8% year over year.

The higher 2Q26 earnings were largely attributable to higher vehicle pricing, lower warranty costs, regulatory savings (emissions-related), and lower vehicle-incentive spending, all of which helped offset higher commodity and manufacturing costs.

Revenue (consolidated) for the second quarter of 2026 increased 2% to \$48.026 billion from \$47.122 billion in the year-ago quarter. Sales exceeded the StreetAccount Consensus estimate of \$47.001 billion and \$43.624 billion reported in the first quarter of 2026.

General Motors North America posted 2Q26 adjusted EBIT of \$3.4 billion, up from \$2.4 billion in 2Q25. The increase was attributable to higher vehicle pricing and lower incentive spending. The adjusted EBIT margin was 8.6%, up from 6.1% a year earlier, as revenues increased to \$39.9 billion from \$39.5 billion in 2Q25. Wholesale vehicle sales declined modestly to \$848 million from \$849 million in 2Q25.

General Motors International reported adjusted EBIT at \$0.1 billion in the second quarter of 2026, comparable to the prior-year period. The year-over-year result largely reflected lower Middle East wholesale volumes (due to shipping disruptions), partially offset by strong sales in South America. Net sales of \$3.7 billion were up from \$3.3 million posted in the second quarter of 2025. Wholesale vehicle sales increased to \$142 million from \$125 million in the year-ago quarter.

The GM Financial segment reported 2Q26 adjusted EBIT of \$600 million, down from \$700 million in the year-ago quarter. Second-quarter 2026 results reflected higher net financing

revenue and higher insurance premiums, mostly offset by increases in lease depreciation expenses, costs related to insurance businesses, and provisions for loan losses. GM believes that it has sufficient capital and ample liquidity to support asset growth and to navigate economic cycles.

General Motors no longer reports Cruise as a separate division. This reflects the closure of the unit as a standalone line of business (moving it into core operations), halting funding for Cruise's robotaxi business, and shifting talent and technology toward the (renamed) SuperCruise driver-assist platform.

GM also recently ended the production of its commercial electric-van business under the BrightDrop name. BrightDrop was launched by the company in 2021 as a business unit aimed at electric commercial delivery solutions (vans and software and services).

Tariff costs during the second quarter of 2026 reached approximately \$700 million, down from \$750 million reported in 1Q26. The company reaffirmed that it expects tariffs to reduce 2026 earnings by \$2.5-\$3.5 billion for the full year, flat compared to 2025.

EARNINGS & GROWTH ANALYSIS

General Motors raised guidance for 2026 following second-quarter 2026 results. For all of 2026, General Motors now anticipates adjusted EPS of \$12.00-\$14.00 (previously \$11.50-\$13.50) and adjusted EBIT of \$14.0 billion-\$16.0 billion (previously \$13.5-\$15.5 billion).

We are increasing our 2026 EPS estimate to \$13.00 from \$12.50 per share to reflect 2Q26 results and the upwardly revised GM guidance for the remainder of the year.

We also are increasing our 2027 EPS estimate to \$14.30 from \$13.75 to reflect our forecast for both North America EBIT margin improvement and lower overall operating costs.

For 2026, we forecast a U.S. seasonally adjusted annual rate of 15.9 million vehicles (units) sold, down 1.2% from 16.1 million in 2025. Our forecast is modestly bearish despite better auto tariff clarity (as original equipment manufacturers do not appear to be passing through tariff costs to consumers on 2026 vehicles). We believe the auto consumer continues to face affordability issues, with both the expiration of EV tax credits and average selling prices trending higher (we expect a low-single-digit increase in 2026). There is also a tightening of credit standards (especially in subprime) and some tariff-related inflation. Our forecast includes 14.9 million ICE vehicles (up 1% year over year) and 1.0 million EVs (down 20% year over year).

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on GM is Medium, the middle ranking on our five-point scale. GM scores average ratings on our key financial strength criteria of debt/capitalization

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levels, fixed-cost coverage, earnings growth, cash flow generation, and dividend coverage.

Credit ratings for General Motors are currently ranked at Baa2/stable by Moody's, BBB/stable by S&P, and BBB/stable by Fitch Ratings. All ratings are considered investment-grade, meaning the credit agencies believe GM has capacity to meet its financial obligations.

Debt (total company) was \$127.7 billion at the end of 2Q26, consisting of \$37.0 billion of short-term debt and \$90.7 billion of long-term obligations. This compares with total debt of \$135.7 billion at the end of 2Q25.

The debt-to-capitalization ratio at the end of 2Q26 was 66.0%, down from 66.5% a year earlier. The debt/cap ratio is moderately above the peer group average. Over the past five years, the debt/cap ratio has averaged 63.6%.

Cash and equivalents totaled \$20.134 billion at the end of the second quarter of 2026, compared with \$22.401 billion reported at the end of the second quarter of 2025 and \$19.800 billion generated in 1Q26.

Automotive operating cash flow was \$5.071 billion in 2Q26, compared to \$4.653 billion in the second quarter of 2025 and \$533 million in the first quarter of 2026.

Dividends are part of GM's capital allocation strategy. On January 27, 2026, the company increased its quarterly dividend by 20% to \$0.18 per share, or \$0.72 annually, which is the current rate. The yield is approximately 0.91%. Our full year dividend estimates are \$0.72 per share in 2026 and \$0.76 per share in 2027.

Share repurchases are also part of GM's strategy to return cash to shareholders. On January 27, 2026, GM authorized a new \$6 billion repurchase program (with no expiration date), replacing the earlier \$6 billion program, completed at the end of 2025. GM repurchased \$2.0 billion worth of shares in 2Q26 and has \$3.5 billion left on the current authorization.

MANAGEMENT & RISKS

Mary Barra has been the chief executive officer of General Motors since January 15, 2014. She began her career with General Motors in 1980. The CFO is Paul A. Jacobson, who has served in the position since 2020. Before GM, he was the CFO of Delta Airlines.

General Motors (and its subsidiaries) face risks from both general economic weakness as well as from changes in consumer preferences and spending patterns. The company is also at risk from higher costs for components and raw materials and from supply-chain disruptions. GM also operates in a highly competitive industry that continues to show signs of excess manufacturing capacity.

COMPANY DESCRIPTION

General Motors, one of the world's largest automakers, traces its roots back to 1908. GM and its strategic partners produce cars and trucks in 31 countries and sell and service vehicles through the following brands: Buick, Cadillac, Chevrolet, FAW, GMC, Daewoo, Holden, Jiefang, Opel, Vauxhall, and Wuling. GM's largest national market is China, followed by the United States, Brazil, Germany, the United Kingdom, Canada, and Italy. The company emerged from bankruptcy in July 2009 and went public through a new share offering in November 2010. General Motors is a component of the S&P 500 and employs approximately 156,000 people.

VALUATION

GM shares have traded between \$48.87 and \$87.62 over the past 52 weeks and are currently trading near the top of this range. To value the stock on a fundamental basis, we use peer group and historical multiple comparisons, as well as a dividend discount model.

On a price/earnings basis, the common shares are currently trading at 6.4-times our 2026 EPS estimate and at 5.8-times our 2027 forecast, compared to an 11-year annual average range of 5.0-7.0.

On other valuation metrics, the shares are trading at a price/book multiple of 1.0, versus an average annual range of 0.9-1.3; a price/sales multiple of 0.4, versus a range of 0.3-0.5; and a price/cash flow ratio of 3.1, versus a range of 2.6-3.9. They are also trading at a price/EBITDA multiple of 4.0, above the high end of the range of 2.4-3.5.

The valuation metrics look attractive to us on both an historical and absolute level. We believe that GM is managing quite well in the current environment and will be able to work through the current trade policy and tariff ramifications and continue to grow earnings at an above-average rate, with opportunities for meaningful profit growth in 2026 and beyond. We are reaffirming our BUY rating.

ByLine

On July 22 at midday, BUY-rated GM traded at \$82.71, up \$3.19. (Bill Selesky, 7/22/26)

Nokia Oyj (NOK)

Rating: **BUY**
Market Cap: **LARGE**
Sector: Information Technology

Reiterating BUY on AI networking momentum

- ▶ Nokia posted 2Q26 non-IFRS EPS that exceeded consensus estimates. Revenue in local currency and non-IFRS EPS grew year over year, amid AI-driven investments sweeping the networking space.

Focus List

- ▶ Nokia is seeing AI-related demand growth primarily in Network Infrastructure and has reiterated/raised its 2026 revenue growth guidance for this business. The Mobile Networks environment has been stable but could begin to grow to support AI data center traffic.
- ▶ The acquisition of Infinera Corp. is reducing reliance on the Mobile Networks business. The company is tracking above the midpoint of its non-IFRS operating profit forecast for 2026.
- ▶ Our target price on BUY-rated NOK is \$15.

INVESTMENT THESIS

BUY-rated Nokia Corp. (NYSE: NOK) was off 5% in a down market on 7/23/26 after the company posted above-consensus revenue and non-IFRS EPS for 2Q26. Revenue in local currency and non-IFRS EPS grew year over year, amid AI-driven investments sweeping the networking space.

Revenue of 4.82 billion euros for 2Q26 rose 8% year over year in IFRS and was up 9% in constant currency and with prior periods restated to exclude the submarine business. Non-IFRS EPS of 0.07 euros improved over 60% from 0.04 euros in 2Q25. Nokia reiterated its topline growth guidance as the network demand environment continues to improve.

We raised the NOK ADRs to intermediate-term BUY from HOLD in April 2026 on growing momentum particularly in Nokia's Network Infrastructure business. Nokia is seeing AI-related demand growth in Network Infrastructure and could begin to see better growth in Mobile Networks amid AI-driven investments sweeping the networking space.

In 2025, Nokia acquired U.S.-based Infinera, a provider of optical communications technology, and completed the sale of its submarine networks business to France. Management believes the Infinera deal and submarine business disposition is strengthening the network infrastructure business, leading to faster innovation and a growing position with both webscale and North American customers. Infinera should further reduce reliance on the Mobile Networks business, which could set for slow to moderate growth for an extended period.

Nokia delivered non-IFRS operating profit of 1.95 billion euros for 2025, within its 1.7 billion-2.2 billion euros guidance range. The company raised its non-IFRS operating profit forecast to 2.1-2.6 billion euros for 2026, up from 2.0-2.5 billion euros after reclassifying some businesses as discontinued. Nokia is tracking above the midpoint of its non-IFRS operating profit forecast after earlier skewing guidance to the downside. Non-IFRS profit growth is being driven by strong demand trends in Network Infrastructure and now signs of recovery in Mobile Networks.

After a difficult 2024, pressure on Nokia's growth and

margins persisted across 2025 but is now easing early as mid-year 2026. Nokia has an extensive global presence, strong legacy customer relationships, leading technology and intellectual property (IP), and financial strength. With AI driving network traffic growth, we are reiterating our intermediate-term BUY rating on the NOK ADRs. Our long-term rating remains BUY.

RECENT DEVELOPMENTS

NOK is up 59% in 2026 year-to-date, while the peer group is up 51%. NOK rose 46% in 2025 while the Argus Communications Equipment peer group advanced 52%. NOK rose 35% in 2024, while the peer group advanced 42%; declined 26% in 2023, while the peer group declined 9%; declined 25% in 2022, while peers were also down 25%; and advanced 59% in 2021, while peers were up 37%.

For 2Q26, Nokia reported revenue of 4.82 billion euros, which was up 8% year over year in IFRS and up 9% in local currency. All periods and year-over-year comparisons have been adjusted to exclude the submarine business. Revenue roughly matched the consensus forecast of 4.83 billion euros. The non-IFRS operating margin was 9.0% for 2Q26, compared to 8.3% a year earlier. Nokia posted a non-IFRS profit of 0.07 euro per diluted share, up 67% from 0.04 euro in 2Q25. Adjusted EPS for 2Q26 topped the consensus estimate of 0.06 euro.

Translated into U.S. dollars, and assuming a blended exchange rate of US\$1.15/euro, Nokia posted dollar-equivalent revenue of \$5.54 billion, up 9% from \$5.18 billion a year earlier; the prior-year blended exchange rate was US\$1.14/euro. On a non-IFRS basis, Nokia earned \$0.08 per ADR in 2Q26, compared with \$0.05 per ADR in 2Q25. The adjusted U.S. dollar consensus non-IFRS EPS forecast for 2Q26 was \$0.07 per diluted ADR.

Early in 2025, Argus noted that the AI revolution had primarily been focused within hyperscalers (major cloud service providers) and was concentrated in GPU compute at massive cloud data centers. Argus forecast that in coming years, the AI revolution would spread out from this initial concentration at hyperscalers to include customers in other categories including major enterprises, sovereigns, and neoclouds. We further forecast that the need to accommodate AI-generated data would trigger massive business growth at data storage and memory companies. And we forecast that the need to disseminate AI data to these new classes of customers would trigger massive business growth at data networking companies.

Those forecasts began to play out in 2025 as data storage and memory companies had huge business growth and were among the best stocks in the S&P 500. Now it is the turn of data networking companies, which in less than four months in 2026 have appreciated at strong double-digit rates and are leading the technology sector and broad market. The first phase of generative AI, dominated by the training of large

Focus List

language models, is giving way to the age of agentic and physical AI, which requires much more compute-intensive inference in multi-modal and frontier models. This is further contributing to AI-related data growth.

CEO Justin Hotard, who became chief executive in April 2025, stated that 2Q26 'demonstrates that Nokia's strategy is delivering results.' Team Nokia, according to the CEO, set out its plan last year to maximize its opportunity in the AI super-cycle. The company has translated plan into execution in a short period of time, the CEO elaborated, and Nokia enters the second half with momentum while remaining on track to deliver results above the midpoint of its (upwardly revised) comparable operating profit guidance.

Gross profit in 2Q26 expanded 70 bps year over year, as improvement in Network Infrastructure offset slight erosion in Mobile Networks. The company's Network Infrastructure segment has begun to experience synergy benefits from the Infinera acquisition.

In the AI and cloud space, net sales grew more than doubled annually. Nokia booked 2.8 billion euros in new orders in 2Q26, nearly three-times the 1.0 billion euros in new AI and cloud orders in 1Q26. The company expects half of 2Q26 orders to convert to revenue over the coming 12 months. Total company book to bill exceeded 1.0. Demand has accelerated within the 'super cycle' which Nokia outlined at its Capital Markets day in fall 2025. Hyperscaler capital spending for 2026, which Nokia modeled at \$540 billion at the end of 2025, now appears likely to reach or exceed \$750 billion. AI-driven traffic is estimated at 20% of total network traffic and is still primarily human to human or human to machine.

As agentic AI adoption accelerates and is complemented by physical AI adoption, machine-to-machine (M2M) traffic will become the primary driver of total network traffic. Traffic emanating from AI factories, both inside and outside data centers, has now begun to drive demand in carrier transport networks across long haul and metro. CEO Hotard expects Nokia's AI and Cloud addressable market to grow at a 27% CAGR between 2025 and 2028. This growth will result in a 14% CAGR for Nokia's Network Infrastructure business, raised from 9% as recently as November.

Looking out across 2026, Nokia is focused on capturing growth in AI and cloud and increasing efficiency while executing and building a high-performance culture. The company is targeting 2.1-2.6 billion euros in non-IFRS operating income for 2026, raised from 2.0-2.5 billion euros mainly due to a technical change (reclassification of two small businesses into discontinued operations). Operating profit growth is being driven by strong demand trends in Network Infrastructure and now by signs of recovery in Mobile Networks. Company guidance continues to reflect minimal growth from Mobile Networks, given a stable market environment as carriers invest minimally in their wireless

networks amid tepid smartphone demand. That business declined 4% for all of 2025, after declining 17% in 2024. While Mobile Network faces continued topline challenges, it could swing to growth in 2026 depending on second-half demand patterns.

For 2Q26, Network Infrastructure revenue of 2.04 billion euros (42% of total) rose 12% year over year in IFRS and 12% in constant currency. Revenue growth was led by the 25% constant-currency growth in the Americas and 4% growth in the EMEA market; Asia-Pacific declined in mid-single-digit percentages. IFRS Segment profit was up 42% year-over-year, as volume leverage offset higher operating expenses related to Infinera integration. Segment operating margin broadened to 11.6% in 2Q26 from 6.4% a year earlier. For all of 2025, Network Infrastructure revenue of 7.99 billion euros was up 23% from 2024.

Within Network Infrastructure, IP Networks sales increased 16% in constant currency. Strength from AI and Cloud customers was offset by weakness in traditional telecommunication networks. Optical Networks revenue rose by 20% in constant currency. Optical Networks growth was driven by hyperscale and cloud & AI customers partly offset by weakness in mission critical enterprise & defense. Although hyperscale is driving strong order intake across multiple cloud service providers, growth has been tempered by supply constraints. Fixed Networks revenue was down 2% on a constant currency basis.

In February 2025, Nokia completed the acquisition of U.S.-based Infinera, a provider of optical communications technology. Around the same time, Nokia sold its submarine business to the nation of France. Management expects the Infinera deal and submarine disposition to focus and strengthen the network infrastructure business, deliver faster innovation, and strengthen positioning with both webscale and North American customers. Acquiring Infinera has expanded Nokia's presence in the fast-growing webscale segment.

The Infinera acquisition is aiding in customer diversification particularly with cloud service providers, while strengthening regional markets and further reducing reliance on tier 1 carriers and the Mobile Networks business. While we expect Nokia to continue to invest tactically in its Mobile Networks business, the Infinera deal suggests that the company has a greater current focus on Network Infrastructure. We also believe CEO Hotard's recent role leading Intel's Data Center & AI Group aligns with Nokia's focus on the hyperscale market in its optical networks segment.

Under the new reporting structure, Mobile Networks revenue of 2.68 billion euros (56% of total) was up 6% year over year in IFRS and up 7% in constant currency. The constant currency gain in Mobile Networks revenue was primarily driven by APAC, although both Americas revenue (up 3%) and EMEA (up 7%) were positive.

Focus List

Within the new Mobile Networks reporting structure and in constant currency, Core Software revenue of 507 million euros was up 1%; radio networks revenue of 1.67 billion euros was up 7%; and Technology Standards revenue of 407 million euros was up 15%. This business posted an adjusted operating profit of 310 million euros, flat with a year earlier. The adjusted segment margin was 11.6%, compared with 12.2% for 2Q25.

On a customer-vertical basis and in constant currency, Nokia's biggest vertical of telecom service providers (73% of revenue) grew 4% in constant currency. AI & Cloud grew 105% year over year, and Enterprise & Defense declined 3%. Regionally, Nokia's revenue grew on a constant currency basis by 15% in the Americas, by 6% in EMEA, and by 7% in Asia-Pacific. For all of 2025 in constant currency and adjusted for portfolio, Americas revenue grew 5%; APAC revenue grew 5%; and EMEA revenue declined 2%.

Nokia is seeing slow topline growth but improving demand, AI momentum, and restructuring actions to increase agility and lower costs are leading to profit improvement. Ongoing momentum in enterprise and in Network Infrastructure has been offset by weak trends in Mobile Networks, but that business too showed positive signs in 2Q26. Given accelerating momentum in Network Infrastructure and stabilization in Mobile Networks, we are modeling Nokia to deliver adjusted operating profits within the upper half of its forecast 2026 range.

EARNINGS & GROWTH ANALYSIS

For 2Q26, Nokia reported revenue of 4.82 billion euros, which was up 8% year over year in IFRS and up 9% in local currency. All periods and year-over-year comparisons have been adjusted to exclude the submarine business. Revenue roughly matched the consensus forecast of 4.83 billion euros.

The non-IFRS gross margin was 46.0% for 2Q26, compared to 45.3% for 2Q25. The non-IFRS operating margin was 9.0% for 2Q26, compared to 8.3% a year earlier.

Nokia posted a non-IFRS profit of 0.07 euro per diluted share, up 67% from 0.04 euro in 2Q25. Adjusted EPS for 2Q26 topped the consensus estimate of 0.06 euro.

Translated into U.S. dollars, and assuming a blended exchange rate of US\$1.15/euro, Nokia posted dollar-equivalent revenue of \$5.54 billion, up 9% from \$5.18 billion a year earlier; the prior-year blended exchange rate was US\$1.14/euro. On a non-IFRS basis, Nokia earned \$0.08 per ADR in 2Q26, compared with \$0.05 per ADR in 2Q25. The adjusted U.S. dollar consensus non-IFRS EPS forecast for 2Q26 was \$0.07 per diluted ADR.

For all of 2025, Nokia generated revenue of 19.90 billion euros, up 3% from 19.4 billion euros in 2024, and non-IFRS

diluted EPS of 0.28 euros, down 28% from 0.39 euros for 2024. On a dollar-denominated basis, 2025 revenue of \$22.6 billion rose 10% from 2024 revenue of \$20.8 billion. Full-year 2024 non-IFRS diluted EPS was \$0.32, down 24% from \$0.42 in 2024.

We have raised our non-IFRS EPS forecast for 2026 to 0.39 euros per diluted share from 0.35. We have raised our non-IFRS EPS forecast for 2027 to 0.51 euros per diluted share from 0.50.

On a U.S. dollar basis, which is applicable to our valuation model, our non-IFRS EPS estimate for 2026 is \$0.45 per diluted ADS, up from \$0.41. Our non-IFRS EPS estimate for 2027 is \$0.60 per diluted ADS, up from \$0.59. Our five-year annualized EPS growth rate forecast for NOK is 9%, raised from 8%.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating is Medium-High. Cash, equivalents, and investments were 5.8 billion euros at the end of 2025. Cash, equivalents, and investments were 7.1 billion euros at the end of 2024, 7.0 billion euros at the end of 2023, 6.3 billion euros at the end of 2022, and 5.0 billion euros at the end of 2021.

Debt was 4.0 billion euros at the end of 2025. Debt was 4.1 billion euros at the end of 2024, 4.4 billion euros at the end of 2023, 4.7 billion euros at the end of 2022, and 4.8 billion euros at the end of 2021.

Net cash was 3.0 billion euros at the end of 2025. Net cash was 1.9 billion euros at the end of 2024, 2.6 billion euros at the end of 2023, 1.6 billion euros at the end of 2022, and 2.6 billion euros at the end of 2021.

Cash flow from operations was 2.07 billion euros in 2025. Cash flow from operations was 2.49 billion euros in 2024, 1.32 billion euros in 2023, 1.47 billion euros in 2022, and 2.63 billion euros in 2021.

In 2019, Nokia suspended its dividend to devote all resources to investments in 5G technology and business development. The board subsequently reinstated the dividend. Our annual dividend estimates are 0.14 euro (\$0.16) for 2026 and 2027.

MANAGEMENT & RISKS

In April 2025, Nokia named Justin Hotard as president and CEO. He was formerly EVP and general manager of Intel's Data Center & AI Group. He also served in various leadership roles at Hewlett Packard Enterprise between 2015 and 2024.

CEO Hotard pledged to focus on capital allocation to ensure that Nokia drives efficiency while investing in the right growth segments for long-term value creation. Marco Wiren became CFO in June 2020.

Focus List

NOK ADRs tend to trade around the \$5-\$7 level. Certain institutional investors are proscribed from owning shares trading below certain cutoffs, and \$5 is a common threshold. That can shrink the pool of available investors and potentially further increase pressure on the shares. At the same time, Nokia has extensive global presence, strong legacy customer relationships, leading technology and IP, and financial strength.

As a pure play in network equipment, Nokia has learned to live without the cash flow from its phones business. Nokia is seeking to move beyond reliance on carrier networks, although its push into the enterprise market has been a stop-and-start process.

The company faces fierce competition from Ericsson and from China-based vendors such as Huawei Corp. and ZTE Corp. Those Chinese vendors, however, face political hurdles in several markets outside China.

COMPANY DESCRIPTION

Finland-based Nokia Corp. acquired a majority stake in Alcatel-Lucent SA in January 2016. Having completed the sale of its mobile device business to Microsoft Corp. in April 2014, Nokia is now primarily a network communications equipment provider. The company has realigned its operating model to four main divisions: Mobile Networks, Network Infrastructure, Cloud & Network Services, and Nokia Technologies.

INDUSTRY

Our rating on the Information Technology sector is Over-Weight. The Information Technology sector accounted for a substantial 38.0% of the S&P 500 market cap as of the end of June. We think diversified investors should have meaningful exposure to the sector, at least in line with the current sector weight.

The sector receives above-average marks on our six-part 'blind' sector rating criteria, which includes growth momentum, valuation, financial strength, and analyst conviction, among other factors.

The sector has outperformed the market year to date with a gain of 19.4% as of the end of June. The sector outperformed in 2025, with a gain of 23.3%, compared to a gain of 16.4% for the S&P 500. The beta for the sector is 1.4.

Over the past five years, the sector's weighting has ranged from 16% to 39%. The sector's P/E ratio on projected 2027 EPS was 20-times on a GAAP basis, above the market multiple. The yield of 0.1% was below the market average. The sector's smoothed earnings growth rate of 16% was above the market average.

The Information Technology sector is primarily a secular growth sector. The macroeconomic factors that may affect

the performance of stocks in the Information Technology sector include Global and Domestic GDP Growth, Global and Domestic Wage Growth, and Employment Trends, among others. Trends in the dollar can affect factors such as Cost of Goods Sold.

Potential sell signals for stocks in the Information Technology sector can be a change in the direction or rate of a company's sales or earnings growth, a pronounced slowdown in new product announcements, or changes in the regulatory environment.

At this stage of the market and economic cycle, our favored industries within the Information Technology sector include Semiconductors and Application Software.

VALUATION

The following valuation discussion uses NOK financial data calculated in euros and translated into dollars at current exchange rates.

NOK trades at 22.7-times our 2026 non-IFRS dollar-based estimate and at 17.3-times our non-IFRS 2027 forecast; the average two-year forward P/E of 20.0 is above the historical (2021-2025) P/E of 12.3. Nokia trades at a relative P/E of 0.83 for 2026-27, compared to a trailing 5-year average relative P/E of 0.59. Low earlier absolute and relative P/Es reflected weak stock price in prior periods as Nokia struggled in mobile networks. Comparable price-based historical valuations point to a mid-single-digit value near \$7.00, in a rising pattern and below current prices.

Compared with peers, NOK trades at discounts on most price-based multiples; peer-indicated value of \$17 reflects improving NOK fundamentals and rising tech shares. Based on our unadjusted discounted free cash flow model, NOK ADRs are valued in the \$16 range, in a clear uptrend. Our blended value for NOK is also near \$16. Applying our country discount, we see value in the NOK ADRs in the \$15.50 range.

Nokia has extensive global presence, strong legacy customer relationships, leading technology and IP, and financial strength. With AI driving network traffic growth, we are reiterating our intermediate-term BUY rating and 12-month target price of \$15 on the NOK ADRs.

ByLine

On July 23, BUY-rated NOK closed at \$9.73, down \$0.55. (Jim Kelleher, CFA, 7/23/26)

Zions Bancorp NA (ZION)		
Rating:	BUY	
Market Cap:		LARGE
Sector:		Financial

Raising target price

Focus List

- ▶ On July 20, ZION reported 2Q26 operating EPS of \$1.74, up from \$1.54 a year earlier, primarily due to higher net interest income and noninterest income.
- ▶ ZION shares are up 22% over the past year, compared to a 16% increase for the Mid-Cap ETF IJH and a 20% increase for the SPDR Regional Bank ETF KRE.
- ▶ On March 23, 2026, Zions announced it entered into a definitive agreement to acquire the agency lending business of Basis Multifamily Finance I, LLC.
- ▶ Our revised target price of \$76, up from \$70, assumes a multiple of 11.5-times, in line with other smaller regional banks.

INVESTMENT THESIS

We are reiterating our BUY rating and raising our target price on Focus List selection Zions Bancorporation NA (NGS: ZION). The shares are trading at 10.4-times our 2026 estimate, below the current levels of stocks in the peer group. With a positively sloped yield curve in place, the Net Interest Margin (3.27% in 2Q) should settle in the 3.20%-3.40% range in the current rate environment, which would provide a boost to earnings.

While larger regional banks are likely to face new regulations, Zions, with \$90 billion in assets, is below the threshold for further Federal Reserve stress tests. In addition, the company has seen deposits stabilizing around the \$75-76 billion range, with a most-recent reading of \$76 billion. Federal Reserve Chair for Supervision Michelle Bowman has indicated a potential easing of regulatory requirements, particularly around tier thresholds, which could benefit regional banks if the \$100 billion asset threshold is adjusted upward. That said, regional banks with a high percentage of held-to-maturity securities are most vulnerable to deposit flight.

Zions is a collection of seven community banks with operations in the western U.S. This structure allows the company's affiliates to operate 'locally,' but with the backing of a large institution. We like the company's focus on improving retail customer service, while also strengthening risk management and financial performance. It has strong capital levels and a high loan-to-deposit ratio. Zions has also streamlined its corporate structure by merging the parent company into its operating bank subsidiary, reducing regulatory costs.

The company remains well capitalized. On June 30, it reported a Common Equity Tier 1 Capital ratio of 11.8%, up from 11% a year earlier and well above regulatory minimums. The ratio remains near the high end of the peer group range.

At prices near \$69, the shares remain attractive, in our opinion, and we believe that a BUY rating is appropriate. Our new target price is \$76, up from \$70.

RECENT DEVELOPMENTS

ZION shares are up 22% over the past year, compared to a 16% increase for the Mid-Cap ETF IJH and a 20% increase for the SPDR Regional Bank ETF KRE. Approximately 24% of the available float is held in various ETFs. The beta is 0.79.

On July 20, ZION reported 2Q26 operating EPS of \$1.74, up from \$1.54 a year earlier, primarily due to higher net interest income and noninterest income. Total operating revenue rose 6% from the prior year to \$885 million. The company reported a credit loss provision of \$3 million, compared to negative \$1 million in 2Q25.

Average total deposits of \$76.6 billion were up 4% compared to the prior year, while the cost of deposits declined to 1.48% from 1.68% a year earlier. Some \$26.2 billion of these deposits are non-interest-bearing and \$50.4 billion are in interest-bearing accounts.

Total net loans and leases rose 3% to \$62.5 billion at the end of 2Q, with an average yield of 5.61%. Commercial loans were up 3%, at \$32.6 billion; commercial real estate loans were up 3% at \$14 billion; and consumer loans rose 1%, to \$15.8 billion. The loan-to-deposit ratio in 2Q was 82%, consistent with the prior year.

The \$17.7 billion investment portfolio is comprised of approximately 95% U.S. government and U.S. government-backed agency securities. The duration of the portfolio was 3.6 years at the end of the quarter with an overall yield of 2.62%. AFS securities totaled \$9.2 billion at the end of the quarter, with an average yield of 3.02%. Held-to-maturity (HTM) securities totaled \$8.5 billion at the end of 2Q, with an average yield of 2.19%. In 4Q22, ZION transferred \$10.7 billion of fair value securities to HTM from available-for-sale (AFS).

Second-quarter net interest income rose 4% to \$677 million, as funding costs are decreasing, and average interest-earning assets are increasing. That increase was further supported by a shift in the composition of average interest-earnings assets, where growth occurred in average loans and borrowings. Because of these trends, the net interest margin was 3.27%, up from 3.17% a year earlier. The yield on interest-earning assets decreased by 21 basis points, to 4.90%, reflecting lower interest rates. Non-interest income was \$182 million, up 11% from the prior year, primarily due to increases in loan-related fees and income. Total non-interest expense rose 5%, to \$551 million, on higher salaries and benefits. The efficiency ratio of 62.2% in 2Q was the same as the prior-year quarter.

On March 23, 2026, Zions announced that it had entered into a definitive agreement to acquire the agency lending business of Basis Multifamily Finance I, LLC. This agreement will allow Zions to expand its presence in the secondary mortgage market via specialized programs backed by the

Focus List

GSEs. The deal is expected to close later this year pending regulatory approval.

In 3Q25, Zions and other regional bank shares had been under pressure due to the disclosure of a \$50 million charge-off and \$10 million reserve that was announced pre-earnings in 3Q. The charge-off arose from loans to two related entities that used the funds to purchase distressed commercial real estate. Zions has filed a lawsuit to recover approximately \$60 million that it had lent to the entities Cantor II and Cantor IV.

On March 24, 2025, California Bank & Trust, a subsidiary of ZION, announced the acquisition of FirstBank's California banking operations. The four branches are all centered in the growing Coachella Valley area.

EARNINGS & GROWTH ANALYSIS

We expect low-single-digit loan growth in 2H26 due to our projection for no rate cuts in 2026, current macroeconomic uncertainty, and the war in the Middle East. Management expects commercial loans, driven by initiations in C&I and Owner Occupied, to lead growth along with a recovery in CRE. We also expect the net interest margin to stabilize in the 3.2% to 3.4% range, given the current level of interest rates, declining deposit costs, and portfolio runoff being reinvested into higher-yielding loans. We look for net interest income to increase moderately as earning asset remix, loan and deposit growth, and fixed-rate asset repricing drive improvement. In addition, we expect low-single-digit growth in noninterest income, driven by increasing capital markets activity and moderately higher non-interest expense from technology costs, increased marketing, and continued investment in revenue-generating businesses. Management expects positive operating leverage of 100 to 200 basis points, with revenue outpacing expense growth in the near-term.

Overall credit quality remained solid in 2Q and we are seeing improvements in certain metrics. The non-performing assets/loans and leases ratio was 0.48%, down from 0.51% a year earlier. The net charge-offs to average loans ratio decreased to 0.06% from 0.07%. Classified loans fell to \$2.3 billion from \$2.7 billion a year before. The \$14.1 billion commercial real estate portfolio represents 22% of total loans. The \$1.6 billion office portfolio represents 2.5% of total loans and 11% of CRE loans, with 75% in suburban areas and 25% in central business districts. The office portfolio has an average LTV ratio of less than 60%.

Based on better-than-expected 2Q results, a steady NIM, and management's 2026 outlook, we are raising our 2026 EPS estimate to \$6.64 from \$6.37 and our 2027 EPS estimate to \$7.11 from \$6.82.

FINANCIAL STRENGTH & DIVIDEND

Based on the company's solid capital levels, our financial strength rating on Zions is Medium-High, the second-highest

rank on our five-point scale. Zions is rated Baa2/stable by Moody's and BBB+ /stable by S&P. The company reported a CET 1 ratio of 11.8% at the end of 1Q, up from 11% a year earlier, and well above regulatory minimums. Long-term debt was \$2 billion, up from \$970 million in 2Q25. The increase was due to senior note issuances over the past year.

In 2Q26, Zions repurchased 1.2 million common shares outstanding for \$75 million compared to no common shares during the prior-year period.

On August 1, 2025, ZION announced a 5% increase in the dividend to \$0.45 from \$0.43 per share, or \$1.80 annually, for a yield of about 2.6%. Our dividend estimates are \$1.80 for 2026 and \$1.92 for 2027.

MANAGEMENT & RISKS

Zions is led by Chairman and CEO Harris H. Simmons. Mr. Simmons has been president and CEO since 1990. Ryan Richards is the CFO. The company is transparent with its growth strategy and cost-savings initiatives, and provides guidance with respect to loan growth, non-interest expense, and efficiency forecasts, as well as credit quality metrics.

The company is subject to a range of risks, including changes in interest rates, credit quality, loan demand, and capital markets liquidity. It also faces risks from financial services regulation, though it has benefited from the lifting of its SIFI designation. Zions is most sensitive to economic and business conditions in the Western U.S.

COMPANY DESCRIPTION

Based in Salt Lake City, Zions provides a range of retail and commercial banking, residential mortgage lending, and asset management services. The company has approximately 9,400 employees and more than 400 branches in Utah, Texas, New Mexico, Arizona, Colorado, South Dakota, Idaho, Washington, Oregon, Nevada, and California.

INDUSTRY

Our rating on the Financial sector is Over-Weight. The Financial sector accounted for 11.8% of the S&P 500 as of the end of June. We think diversified investors should have meaningful exposure to the sector, at about 125-150% of the current sector weight.

The sector receives above-average marks on our six-part 'blind' sector rating criteria, which includes growth momentum, valuation, financial strength, and analyst conviction, among other factors.

The sector has underperformed the market year to date with a loss of 2.1% as of the end of June. The sector underperformed in 2025, with a gain of 13.3%, compared to a gain of 16.4% for the S&P 500. The beta for the sector is 0.9.

Over the past five years, the sector's weighting has ranged

Focus List

from 10% to 15%. The sector's P/E ratio on projected 2027 EPS was 14, below the market multiple. The yield of 1.6% was above the market average. The sector's smoothed earnings growth rate of 9% was below the market average.

The Financial sector is a cyclical and often value-oriented sector. The macroeconomic factors that may affect the performance of stocks in the Financial sector include the Unemployment Rate (which can influence the debt repaying capability of consumers and therefore credit costs), Interest Rates (which can determine lending profitability), and GDP or growth in the economy (which influence loan growth). The industry is also highly regulated, so changes in the regulatory environment can influence capital set-aside requirements and thus profitability.

At this stage of the market and economic cycle, our favored industries within the Financial sector include Diversified Banks, Financial Exchanges & Data, and Investment Banking & Brokerage.

VALUATION

At current prices near \$69, ZION shares are trading near the high point of their 52-week range of \$46-\$74. The shares currently are trading at a multiple of 10.4-times our revised 2026 EPS estimate and below the midpoint of the regional peer group due the current macroeconomic uncertainty, commercial real estate exposure and the possibility of no rate cuts. We believe the stock merits a higher multiple based on the company's strong long-term growth prospects, improving credit metrics, and a positively sloped yield curve. As such, our rating remains BUY. Our increased target price of \$76 assumes a multiple of 11.5-times, in line with other smaller regional banks.

ByLine

On July 27 at midday, BUY-rated ZION traded at \$68.97, down \$0.32. (Kevin Heal and Divya Chandrasekaran, 7/27/26)

Change in Rating / Initiation of Coverage

*There are no companies updated in this category
this week.*

Growth Stocks

Growth Stocks in this Report

	TICKER	PRICE as of 7/29/2026
3M Co	MMM	\$ 182.48
Abbott Laboratories	ABT	107.27
AvalonBay Communities Inc	AVB	190.39
British American Tobacco PLC	BTI	62.30
Crown Castle Inc	CCI	75.75
Danaher Corp	DHR	199.05
Equity Residential	EQR	68.09
Intel Corp	INTC	86.30
Johnson & Johnson	JNJ	266.73
Kinder Morgan Inc	KMI	31.61
MSCI Inc	MSCI	579.39
Novartis AG	NVS	159.85
Philip Morris Intl Inc	PM	200.17
Roche Holding AG	RHHBY	56.52
SAP SE	SAP	179.17
ServiceNow Inc	NOW	110.62
Tesla Inc	TSLA	307.44
Texas Instruments Inc	TXN	277.07
Thermo Fisher Scientific Inc	TMO	576.41

3M Co (MMM)

Rating: **BUY** 
Market Cap: **LARGE**
Sector: **Industrial**

Raising target price amid turnaround progress

- ▶ MMM has experienced meaningful improvement in revenue and earnings despite tariffs and a challenging macroeconomic environment.
- ▶ The results reflect contributions from new products, market share gains, and a company-wide restructuring that has increased productivity and manufacturing efficiency.
- ▶ Management raised its 2026 guidance and continues to buy back shares.
- ▶ We are raising our target price to \$205 and boosting our estimates for 2026 and 2027.

INVESTMENT THESIS

We are maintaining our BUY rating on 3M Co. (NYSE: MMM), a diversified industrial company with worldwide operations. The company has been mired in litigation pertaining to faulty products and the cleanup of PFAS (per- and polyfluoroalkyl substances) in drinking water amid chemical seepage from prior 3M manufacturing. 3M's

margins have also been suffering from inefficiencies in its factories, a weak supply chain, and R&D challenges. In response, 3M brought on a new CEO to institute a turnaround, spun off one of its crown jewels (its Healthcare business), and cut the dividend back in 2024 to conserve cash. The company is taking aggressive steps to improve revenue and earnings, with a focus on cross-selling efforts, product innovation, operational excellence, and investments in the business.

3M again reported gains in revenue, EPS, operating income, and operating margin, despite tariffs and a challenging macroeconomic environment. The results benefited from new products that should help drive future revenue and continued market share gains, as well as a company-wide restructuring featuring supply chain improvements, productivity, and efficiency gains in manufacturing plants. In all, margins are widening meaningfully, and cash flow remains strong. Management continues to signal confidence by using cash to buy back shares, including \$3 billion so far in 2026, exceeding its full-year target. It also recently increased the dividend by 7%, a sign that business is again headed in the right direction.

3M's manufacturing footprint in the U.S., and local manufacturing in countries like China, help it to shift production as needed to mitigate tariffs. It will also look to manufacture in free-trade zones, change supplier sourcing, and raise pricing. Management also expects the recent increase in oil prices to be offset by surcharges. Despite the macroeconomic uncertainty, management raised its guidance for 2026, reflecting strong results in the first half and double-digit growth in orders and the backlog. On valuation, the shares are trading at 19-times our 2026 estimate, within its historical range and below a group of peers on P/E. Based on the valuation and progress made on turnaround efforts, we are maintaining our BUY rating and are raising our target price to \$205.

RECENT DEVELOPMENTS

MMM shares have outperformed the market over the past quarter, advancing 19% compared to a gain of 4% for the S&P 500. Over the past year, the shares have risen 15%, compared to gains of 17% for the index and 12% for the iShares U.S. Industrials ETF, IYJ. In the past five years, the shares have returned 3%, compared to advances of 68% for the index and 45% for the ETF. The beta on MMM is 1.04.

MMM recently reported 2Q26 results that exceeded analyst earnings expectations. Revenue of \$6.0 billion grew 2% from the prior year as reported. On an adjusted organic basis, sales rose 5%. Adjusted EPS came to \$2.40 (up 11%), compared to \$2.16 a year earlier, and topped the Street estimate of \$2.25. The adjusted segment operating profit rose 7%, while the adjusted segment operating margin widened by 40 basis points (bps) to 24.9%.

Management believes product innovation will result in higher

Growth Stocks

sales and margins for the company, as well as gains in market share. MMM launched 92 products in 2Q26, up 44% from the prior year and in line with its 2026 target of 350. New product launches reached 284 in 2025, up 68% and above management's target of 250. In 2024, MMM launched 169 new products, an increase of over 30% from 2023. MMM has set a target of 1,000 new launches by 2027.

In July, 3M announced a strategic partnership with Microsoft Corp. to use MMM's patented Expanded Beam Optical (EBO) technology in Azure data centers. EBO makes fiber connections faster to install, more resilient, and less expensive to maintain than traditional connectors. Revenue from EBO in 2026 is about \$45 million, and management believes it could be 4- to 5-times that over the next few years as the product is currently being tested by other hyperscalers. The total addressable market is expected to double, reaching \$2 billion by 2028. 3M is scaling production capacity both internally and externally with third parties to meet anticipated demand.

In 2Q26, 3M acquired 51% of Madison Fire & Rescue, a premier provider of rescue technology and fire suppression. The company will help create a leading global fire and safety business within 3M that is expected to expand margins and grow at a high-single-digit rate.

Management is taking steps to resolve litigation and insurance reimbursements. 3M will begin making payments of \$6 billion pertaining to Combat Arms Earplugs Version 2. This number may grow, as there are cases still outstanding. It has also finalized a \$12.5 billion settlement with U.S.-based Public Water Systems and a \$450 million settlement with the state of New Jersey that will be paid over a period of 25 years. 3M is engaged in arbitration with insurance companies for these matters amid a reluctance by insurance carriers to cover the claims. Regardless, management believes that its liability will exceed insurance recoveries.

Along with the results, management raised its 2026 guidance, citing better-than-expected results in 1H26, as well as strong order and backlog growth. MMM now looks for adjusted EPS of \$8.80 to \$8.95, compared to \$8.06 in 2025. On sales, MMM expects adjusted sales growth of greater than 4.5% and adjusted organic sales growth of above 3.5%. Previous guidance called for adjusted EPS of \$8.50-\$8.70 and sales growth of 4%, including adjusted organic sales growth of 3%. Unchanged is the company's forecast for operating margin expansion of 70-80 bps. Expectations for operating cash flow are now \$5.8 billion-\$6.0 billion, up \$200 million on either side of the range, with free cash flow conversion above 100%. The company has met its \$2.5 billion share buyback goal for 2026. Management said it will continue to buy shares opportunistically going forward.

EARNINGS & GROWTH ANALYSIS

Following the spin-off of its Healthcare business, 3M now has three primary business segments: Safety & Industrial

(S&I, 48% of 2Q sales), serving the automotive and aerospace industries, among others; Transportation & Electronics (T&E, 32%); and Consumer (20%), including home improvement, consumer healthcare products, and stationery/office supplies.

Growth was driven by the S&I segment in the quarter. Margins were helped by additional volume and productivity. Orders were up 10%. The backlog grew 20% year over year. Geographically, growth was seen in all regions, with double-digit growth in China and India.

In S&I, the largest segment, sales rose 8% on an organic basis from the prior year, with six out of seven divisions contributing positive results. Management noted strength in industrial adhesives, abrasives, electronic markets serving semiconductors and data centers, and new product launches. The adjusted operating margin grew 200 bps to 27.8%

For T&E, sales grew 6%, with growth in all divisions. High growth areas included the semiconductor, aerospace, and data center businesses. The adjusted operating margin narrowed by 20 bps to 24.4%.

In the Consumer segment, organic sales fell 2% from the prior year, with two out of four divisions reporting lower results amid some retailer destocking. The adjusted operating margin fell 100 bps to 20.1%.

On the expense side, the gross margin narrowed by 120 bps to 41.3% from 2Q25 but improved sequentially. SG&A expense declined over 16% from the prior year and was 16% of sales, down considerably from 20% a year earlier. The adjusted operating income margin was up 40 bps to 24.9%, with help from productivity and cost containment that more than offset tariffs and investments.

Based on current sales and margin trends, cost savings, and management's guidance, we are raising our 2026 EPS estimate to \$8.99 from \$8.65, implying growth of over 11% for the year. We expect further growth in 2027 and are raising our estimate to \$9.58 from \$9.40.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on 3M is Medium. The company gets average marks on our main financial strength criteria of profitability, cash flow generation, debt levels, and fixed-cost coverage. S&P assigns a BBB+ rating to the company's long-term debt.

In the second quarter, MMM had \$3.0 billion in cash and marketable securities, compared to \$5.2 billion at the end of the prior year. Cash flow from operations grew to \$1.6 billion, compared to a negative \$1.0 billion a year earlier. The company had debt of \$12.6 billion, in line with 4Q25. Including lease liabilities, the debt-to-total capitalization ratio was a high 81%, compared to 73% at the end of the prior

Growth Stocks

year.

3M has a share buyback program. In 2Q26, the company bought back \$1.0 billion of its shares, for a total of \$3 billion so far in 2026. MMM repurchased a total of \$3.2 billion in all of 2025. In 2024, MMM repurchased \$1.8 billion of its shares. About \$4.5 billion remains on its repurchase authorization.

The company pays a dividend. In February 2026, management raised the quarterly dividend by 7% to \$0.78 per share, or \$3.12 annually, for a current yield of about 1.8%. This follows a 4% increase in 2025. In 2024, management had cut the quarterly dividend from \$1.51 per share to \$0.70 amid increased litigation costs. The recent 7% increase was above our expectations and another positive sign from management on expectations for strong earnings growth. Our dividend estimates are \$3.12 for 2026 and \$3.34 for 2027.

MANAGEMENT & RISKS

William Brown, the former chair and CEO of L3Harris Technologies, became the company's CEO in May 2024 and a year later was also named as the executive chairman. Anurag Maheshwari is 3M's CFO. Previously, Mr. Maheshwari spent two years as the CFO at Otis Worldwide Corp.

MMM has been refining its businesses, which it previously consolidated from five groups to four. Following the spin-off of its Healthcare business (Solventum Corp. (SOLV)), MMM now has three groups, though it maintained a 19.9% stake in the healthcare business.

At the company's last investor day in 2025, management set three-year targets, including \$1 billion in organic sales growth above the industry, operating margin of 25%, high-single-digit adjusted EPS growth, and free cash flow conversion of 100%. Management believes the company is tracking ahead of these targets.

MMM is implementing improvements in manufacturing productivity, supply chain, quality, and asset utilization. Its 2027 targets are gross margin in the high-40% and operating margin of 25%. The company is making steady progress towards these goals.

Investors in MMM shares face risks. The company grows organically as well as through M&A, introducing integration risks. 3M consistently is ranked near the top of lists for the most innovative companies and relies on a history of product innovation to drive revenue and earnings. If it is unable to develop and market new products, results could suffer.

With approximately 65% of revenue generated outside the U.S., 3M's results typically are linked to global economic trends. MMM is also sensitive to trends in the dollar. A stable or falling dollar would be a positive development for the Industrial sector and 3M.

More recently, governments in the U.S. and internationally have been regulating PFAS. While the company exited all PFAS manufacturing at the end of 2025, the feasibility, costs, and financial impacts new regulation are unknown currently. The company has also identified several locations where it may be liable for the cost of investigation and remediation of PFAS contamination at current or former facilities. It may also be liable for additional litigation from other entities for claims seeking contributions for cleanup costs.

COMPANY DESCRIPTION

3M Co. is a diversified Industrial company, with worldwide operations organized into three segments. The stock is a component of the Dow Jones Industrial Average and the S&P 500. Headquartered in Saint Paul, Minnesota, the company employs approximately 85,000 people.

VALUATION

We think MMM shares are attractively valued at current prices of about \$172, near the top of their 52-week range of \$139-\$177. On a technical basis, the shares had been in a bullish pattern of higher highs and higher lows that date back to October 2023. They declined amid tariffs and higher oil prices resulting from the conflict in Iran but have since recovered.

On fundamentals, the shares are trading at 19-times our 2026 EPS estimate, at the top of the five-year historical range of 6-19 and below 26 for a group of peers that includes EMR and HON. Compared to the peer group, MMM trades in line on price/sales. Based on the valuation, market share gains, anticipated growth, and progress on turnaround efforts, we are maintaining our BUY rating and are raising our target price to \$205 from \$190.

ByLine

On July 27 at midday, BUY-rated MMM traded at \$176.75, up \$4.13. (Kristina Ruggeri, 7/27/26)

Abbott Laboratories (ABT)

Rating:	BUY
Market Cap:	LARGE
Sector:	Healthcare

Adds cancer diagnostics with Exact Sciences acquisition

- ▶ Abbott sees stronger topline growth in the second half of 2026, driven by cancer diagnostics, cardiovascular, and an improving Nutritional Products segment.
- ▶ Abbott has added a cancer diagnostics platform by acquiring Exact Sciences and has the resources to expand the markets for the Cologuard cancer screening in the U.S. and overseas.
- ▶ The company raised its dividend earlier this year, for the 54th consecutive year. The dividend yield is about 2.5%.

INVESTMENT THESIS

Growth Stocks

Our rating on Abbott Laboratories (NYSE: ABT) is BUY and underpinned by the company's upbeat outlook. The company sees stronger topline growth in the second half of 2026, driven by cancer diagnostics, cardiovascular, and an improving Nutritional Products segment.

Abbott plans three product launches in Cardiovascular as well as expanded reimbursement coverage for FreeStyle Libre.

Notably, management saw no signs of a slowdown in procedure volume for medical devices due to Affordable Care Act (ACA) disenrollment and pointed to accelerating topline growth over the past three quarters. With core lab diagnostics sales increasing 7.5% in 2Q26, this points to procedure volume growth as patients follow up on diagnoses of serious medical conditions.

While the ABT shares have underperformed (-20.0%) year to date, we see the valuation (16.1-times our 2027 adjusted EPS estimate) as attractive.

We are reaffirming our target price of \$125.

RECENT DEVELOPMENTS

Abbott delivered strong results for 2Q26 (reported July 16). Given the quarterly outperformance and an upbeat outlook for the rest of the year, the company raised its 2026 guidance for adjusted EPS. It now expects adjusted EPS of \$5.45-\$5.60, from a prior view of \$5.38-\$5.58.

Notably, management saw no signs of a slowdown in procedure volume for medical devices due to ACA disenrollment and pointed to accelerating topline growth over the past three quarter. Management observed that Abbott's medtech business treats major chronic conditions like diabetes, cardiovascular disease, and cancer - whose patient pools tends not to forego insurance.

Management also noted that comparable sales growth in 2Q26, at 4.8%, has accelerated over the past three quarters. It also expects stronger topline growth in the second half of the year.

For the quarter, adjusted EPS was \$1.31, beating the consensus estimate by \$0.03 and increasing 4.0%.

GAAP net income was \$928 million or \$0.53 per share, compared to \$1.779 billion or \$1.01 per share a year earlier. Net sales were \$12.6 billion, increasing 13.0% as reported and 4.8% on a comparable sales basis. Comparable sales growth excludes the impact of foreign exchange and of acquisitions and divestitures.

Among the growth drivers were U.S. core lab diagnostics (+7.5% comparable basis), U.S. rhythm management (+10.7%), electrophysiology (+13.4% worldwide; +15.9% U.S.), U.S. heart failure +10.9%), and diabetes care (+9.0%

worldwide). Sales of FreeStyle Libre continuous glucose monitors increased 9.5%.

The growth in U.S. core lab diagnostics is a good directional indicator to procedure volume that typically follows a diagnosis of serious medical conditions. As management noted on the 2Q26 earnings call: 'Diagnostic test results inform approximately 70% of all healthcare decisions, making testing volumes a reliable barometer of overall healthcare activity and demand. Our test volume data, that's sourced directly from our diagnostic instruments located across the United States and around the world, continues to reflect strong and stable demand for testing. We view this as a positive indication of the durable underlying demand for healthcare, not just in the U.S., but globally.'

Furthermore, management expects growth in the cancer diagnostics segment (which has integrated the Exact Sciences acquisition) to be higher in the second half of the year, supported by increasing volumes from programs that close care gaps, recently launched tests, and continued international adoption of Cologuard.

While not yet a growth driver, sequential improvement in results at the Nutritional Products segment is also contributing to the company's updated outlook.

Abbott completed the acquisition of Exact Sciences in March. Exact sales, which includes the Cologuard colon cancer test, will be classified in the cancer diagnostics group. Exact had 13.3% comparable sales growth in 1H26.

By measures of profitability, the adjusted gross margin was 58.0%, up 100 bps. This was driven by favorable business within the legacy Abbott portfolio and by the addition of Exact Sciences. The adjusted pre-tax margin was 21.4%, down 240 bps.

Recent milestones that represent future growth drivers include:

- CE Mark for Libre Duo, the world's first dual glucose-ketone biowearable sensor. CE Mark clears the device for commercial sales in Europe.

- Abbott submitted to the FDA for review the Amulet 360 left atrial appendage (LAA) device.

- The American Cancer Society issued updated colorectal cancer (CRC) screening guidelines that reaffirmed Cologuard and Cologuard Plus as preferred screening options for adults age 45 and older who are at average risk for CRC.

EARNINGS & GROWTH ANALYSIS

Given the quarterly outperformance and an upbeat outlook for the rest of the year, the company raised its 2026 guidance for adjusted EPS. It now expects adjusted EPS of \$5.45-\$5.60, raised from a prior view of \$5.38-\$5.58. The

Growth Stocks

guidance for comparable sales growth remains unchanged at 6.5%-7.5%.

We are reducing our adjusted EPS estimate for 2026 to \$5.55 from \$5.60. We are maintaining our 2027 estimate at \$6.20.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on Abbott is Medium, the midpoint on our five-point scale. Cash flow from operations in 1Q26 was \$1.315 billion, compared to \$1.417 billion a year ago.

Abbott raised its dividend by 6.8% to an annualized rate of \$2.52 in January 2026. The dividend yield is about 2.53%. Abbott has now raised the dividend for 54 consecutive years. Our dividend estimates are \$2.52 for 2026 and \$2.70 for 2027.

MANAGEMENT & RISKS

Robert B. Ford is chairman and CEO of Abbott. Phil Boudreau serves as CFO.

Abbott faces operational, competitive, and regulatory risks. In the near term, it faces operational risks as it seeks to control costs while addressing supply chain issues. It also faces costs from tariffs.

The company faces pricing pressure in markets in which it seeks reimbursement coverage for its products. In certain overseas markets, reimbursement policies are set by national health agencies, such as the National Health Service in the U.K.

Abbott's medical devices are subject to premarket review by regulators in the U.S., Japan, and the EU before they are brought to the market.

COMPANY DESCRIPTION

Abbott Laboratories is a diversified healthcare company that develops, manufactures and markets a wide range of medical products and services. Its main product lines are nutritionals for adults and infants, diagnostic systems, vascular implants, cardiac rhythm management products, and diabetes care products. It operates in four segments: Established Pharmaceutical Products, Diagnostic Products, Nutritional Products, and Medical Devices.

INDUSTRY

Our rating on the Healthcare sector is Market-Weight. The sector accounted for 9.5% of the S&P 500. We think diversified investors should have exposure to the sector, in line with the current market weight.

The sector receives above-average marks on our six-part 'blind' sector rating criteria, which includes growth momentum, valuation, financial strength, and analyst conviction, among other factors.

Year-to-date, through July 22, the sector has underperformed the market over the past year with return of 3.4%, compared to 9.6% for the S&P 500, through July 22. The beta for the sector is 0.7.

Over the past five years, the sector's weighting has ranged from 8% to 15%. The sector's P/E ratio on projected 2026 EPS was 18, below the market multiple. The yield of 1.2% was equal to the market average. The sector's smoothed earnings growth rate of 8% was below the market average.

The Healthcare sector is primarily a defensive, counter-cyclical sector. The largest macroeconomic factor that will affect the performance of stocks in the Healthcare sector is the aging population, both in the U.S. and in other developed countries, including China. Other factors include GDP Growth, Interest Rates, Inflation, Government Policy and Regulation, Trade, Pandemics or Health Crises, and Employment/Unemployment Rates. Trends in the dollar can affect factors such as Cost of Goods Sold.

Healthcare stocks are often favored during periods of economic weakness. Sell signals for stocks in the sector can be material changes in regulatory decisions that alter business models, pending patent cliffs for pharma companies or a weakened balance sheet that threatens a dividend.

At this stage of the market and economic cycle, our favored industries within the Healthcare sector include Healthcare Equipment and Healthcare Distributors.

VALUATION

ABT shares trade at 16.1-times our 2027 EPS estimate, above the average multiple of 17.4 for our coverage universe of MedTech stocks. We believe that Abbott's growth drivers (including the FreeStyle Libre, electrophysiology products, leadless pacemakers, and other cardiovascular devices) and its solid track record in developing and launching new products will continue to propel growth in sales and earnings.

ByLine

On July 22 at midday, BUY-rated ABT traded at \$100.71, up \$1.04. (David Toung and Divya Chandrasekaran, 7/22/26)

AvalonBay Communities Inc (AVB)

Rating: **BUY**
Market Cap: **LARGE**
Sector: **Real Estate**

Merger expected to close in 2H26

- ▶ Results exceeded quarterly guidance, with 2Q26 core FFO of \$2.86 per share, a 1% increase over \$2.82 in 2Q25.
- ▶ Same-store assets drove results, with strong performance and pricing power in Northern California.

Growth Stocks

- ▶ In May, AVB announced plans for an all-stock merger with Equity Residential (EQR), with expectations that it will be accretive to both REITs. The new name is to be announced at closing.
- ▶ If the proposed merger is finalized, AVB expects an initial annualized dividend of \$2.81 per share.

INVESTMENT THESIS

We are maintaining our BUY rating on AvalonBay Communities Inc. (NYSE: AVB), a REIT that develops, owns, and operates upper-tier apartment communities. Our target price is \$199. The company announced a proposed merger with its chief rival, Equity Residential, in 2Q26, and the shares have been on an uptick since April 2026. While we expect slower fundamental growth reflecting lower asset development plans following robust spending in 2025, we expect the shares to trade on merger news. Overall, we like AVB's broad geographic exposure, growing asset development plans, and financial strength and believe the company has strong opportunities in the upper-tier apartment market, which has high barriers to entry. The company's assets are in 20 top urban markets in 12 states, and its current expansion efforts focus on cities and first-ring suburbs that have favorable demographics, including rising employment and high wages. The typical affluent customer helps AVB maintain pricing power, and upscale communities have also attracted a younger generation who are delaying marriage and children until their 30s or who are priced out of midtier homes.

The REIT had slowed its asset pipeline due to high borrowing costs and a weak economy, but in late 2024 and 2025, there was a sequential uptick in development and acquisitions. We expect that lower inventories in key markets will positively impact earnings through 2026. Recently, the company reported that increased occupancies from development assets are also likely to gain momentum in 2026. We see the current housing market helping to maintain demand for high-quality urban rentals. The dividend yield of about 3.7% is just above our peer average and adds to the total return.

RECENT DEVELOPMENTS

AVB shares have gained 9% over the past three months, compared with a gain of about 5.4% for the iShares U.S. Real Estate ETF, IYR, and an almost 5% rise for the S&P 500. Over the past 52 weeks, the shares have declined about 7%, compared with gains of 9% for the ETF and 17% for the S&P 500.

AVB reported 2Q26 core FFO of \$406 million, or \$2.86 per share, up 1% from \$404 million, or \$2.82 per share in 2Q25. For 1H26, core FFO were \$5.69 per share, compared with \$5.65 per share in 1H25. Same-store assets drove results, with strong performance and pricing power in Northern California. The results exceeded 2Q26 guidance of \$2.72-\$2.82 per share, with same-store residential NOI

adding \$0.09 per share to the previous outlook.

The REIT has continued to record favorable sequential revenue comparisons since 2Q21. Total revenue in 2Q26 increased 2% to \$778 million, compared with \$760 million in 2Q25. Second-quarter rental revenues rose 2.3% to \$776 million, compared with a year ago. Total revenues in 1H26 were \$1.55 billion, up 2.8% from \$1.51 billion in 1H25. Total operating expenses rose 3.5% in 2Q26 to \$246 million, compared with a year ago. Total operating expenses rose 5.5% in 1H26 to \$494 million, compared with a year ago.

There had been a sequential uptick in asset development over the past few years. At the end of 2024, development start activity was \$2.3 billion. At the end of 2025, it was \$1.65 billion. Management is projecting easing the budget to \$800 million in 2026. The REIT had an average of \$1.4 billion of construction in progress in 2025 and had been estimating \$1.7 billion in 2026. Management feels the tightened development pipeline will provide a targeted stabilized yield of 6.5%-7% and drive incremental NOI growth while lowering costs. At the beginning of 2026, there were 14 development projects under construction. To compare the impact of new assets on core FFO, 1H26 results reflected a contribution of \$0.15 per share from development NOI.

Asset development in 2Q26 included the completion of 410 homes in New Jersey, as construction commenced on three communities in Colorado, Massachusetts, and Virginia. The three new developments are expected to add 801 apartments and 5,000 square feet of commercial space.

Asset development in 1Q26 included \$188 million in development starts and \$341 million in dispositions. Dispositions included the sale of three communities, two on the East Coast and one in San Francisco. Construction began during the first quarter of two communities in New Jersey. The projects are expected to add 446 apartments at an estimated cost of \$188 million.

As for the proposed merger, in May, AVB announced plans for an all-stock merger with EQR, with expectations that it will be accretive to both REITs. The new name is to be announced at closing. Management called the transaction a 'merger of equals' that would create a single company with more than 180,000 apartments. In addition to increasing the number of rental units and assets under construction, cost synergies are expected to drive NOI growth. AVB projects that combining the two companies will generate \$125 million of net synergies after tax assessments. Benjamin W. Schall, AVB's current president and CEO, will remain in his positions in the new entity, and dual headquarters are expected to be maintained.

The merger is expected to close in 2H26. The pro forma ownership will be 51.2% AVB stockholders and 48.8% EQR shareholders. AVB shareholders will receive just under 2.8 newly issued EQR shares for each AVB share.

Growth Stocks

Along with 2Q26 results, management suspended core FFO guidance. The previous 2026 core FFO outlook was \$11.00-\$11.50 per share. Management had been guiding for a reduced development budget and for same-store revenue growth in a range of 0.4%-2.4%. Along with 2Q26 results, AVB revised its same-store revenue outlook to 1.1%-2.1% growth. Despite a smaller capital budget, the REIT feels it can capitalize on low inventories.

EARNINGS & GROWTH ANALYSIS

Earnings tend to be driven by same-store assets, and results are focused on same-store results. Currently, about 93% of apartments are considered same-store. For 2025, same-store revenues represented 90% of total revenues and 95% of NOI.

Compared with a year ago, 2Q26 same-store residential revenue rose 1.6% to \$710 million, with economic occupancy declining 10 basis points. By region, 2Q26 residential same-store revenues rose about 2% for Metro New York/New Jersey assets and increased 5.3% for Northern California assets, both compared with 2Q25. The Denver region struggled, with revenues declining almost 4% year over year. Compared with the prior quarter, 1Q26, second-quarter same-store rents increased 3.7%.

Residential NOI in 2Q26 increased 4.6% to \$522 million, compared with \$499 million in 2Q25. The Northern California region, which drove 2Q26 core FFO growth, had residential same-store NOI growth of 9% to \$84 million, up from \$77 million in 2Q25.

AVB led peers in expanding their portfolio away from large coastal cities to first-ring suburban assets. The REIT's upscale suburban apartments have performed well, and future expansion is focused on new suburban areas with added ground-floor retail space.

The REIT has been reporting top-line growth, and pricing power has been one of the REIT's strongest competitive advantages. AvalonBay has been able to maintain high occupancy and rent pricing strength by offering upscale communities in trending markets. This is at a time when insiders have reported that industry occupancy and rental rates have generally fallen amid economic uncertainty, while inventories are declining due to soaring construction and interest costs. AVB's ability to take advantage of the industry-wide development slowdown of the past 24 months, which has led to lower supply in the upscale market, is expected to drive 2026 performance, especially in established regions. Furthermore, AVB also projects that lower competitive supply will continue for the next two to three years. As a result, AVB expects to be able to meet demand and capitalize on solid occupancy, lower uncollectable rents, and stronger rental pricing.

AVB is optimistic about the current rental market and its

well-positioned portfolio. Management is reporting favorable demographics, including higher wage growth and median mortgage costs outpacing median rents in both expansion regions and established markets. Market occupancy including lease-up has maintained occupancy at current levels. Management also expects to see normal seasonality during the peak summer season, with maintained rent growth and reports that turnover has remained below historical normal levels.

As for pricing power, the REIT has been reporting top-line growth, driven by new assets, and ongoing rent increases, supported by professional, urban tenants. The company's tenant demographic has retained spending power despite the tighter economy, and AVB is reporting decreasing bad rental debt. In addition, young professionals are delaying marriage and remaining in apartments longer than previous generations. Older, financially secure renters are increasingly finding that ease, location, and proximity of amenities are making apartments more attractive than home ownership. Going forward, the company should also continue to benefit from high mortgage rates that are delaying first-time home ownership.

The REIT increased its asset pipeline beginning in late 2024 and continuing throughout 2025, with contributions driving results. The company peaked with \$1.65 billion in development starts in 2025. For 2026, the company is projecting \$800 million in development starts and \$47 million in development NOI, with net development contributing \$0.10 per share to earnings in 2026 before borrowing and transaction costs. The pipeline is expected to continue the ramp started in 2025. We expect new assets to continue to drive growth. About 90% of recent acquisitions have been suburban properties. New construction will continue to be focused in suburban markets, which we see as a positive. AVB has been increasing its dispositions to sell its lower-quality assets and raise capital. The REIT is still maintaining a strong long-term pipeline. The company's previous outlook estimated about 2,160 new homes in 2025. Premerger projections included 3,126 planned new homes in 2026. As of the end of 1H26, there are 9,500 new homes planned and 27 projects under construction with about 70,000 square feet of new commercial space.

AVB's long-term plans included increasing allocation to the suburbs and expansion regions, including Texas, Florida, Colorado, and the Carolinas. In fact, about three-fourths of current communities are in suburban settings, which we view as a positive. Dispositions have been focused in California, New York, and Virginia. The company believes that the upgraded portfolio optimization could drive growth for same-store NOI and same-store revenues. The REIT's pipeline plans should build insulated strength and boost the supply outlook in regions where the company can outperform. The renewed focus on suburban markets and Sunbelt regions should help the company while it enters its slower season, helping to minimize the economy's

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headwinds to pricing power. As for combining portfolios into a new entity, AVB estimates that the majority of assets are in overlapping regions, with EQR contributing an entrance into the Carolinas and Georgia.

As for earnings headwinds, the REIT can face seasonal slowdown for new move-ins, high development costs, and delays in new projects. Pipeline delays have resulted in AVB's projected stronger occupancies in 2026, rather than its initial outlook of 2025. Overall, the REIT still has solid management with improving fundamentals as 2026 progresses. AVB expects to be able to continue to meet demand and capitalize on solid occupancy, lower uncollectable rents, and stronger rental pricing with a smaller capital plan. While AvalonBay has struggled with operating costs, the REIT should be able to offset costs with continued sequential revenue growth from its recent acquisitions. Typical for many REITs, results can tighten following a surge in growth as the company regroups, with lower fundamental growth reflecting a smaller capital plan as a natural correction after robust spending and before new plans can be implemented. The merger and large addition of assets will likely diminish the building-year impact in 2026 and early 2027.

While our estimates include slower fundamental growth reflecting lower capital, we are increasing our 2026 estimate to reflect the 2Q26 results and ongoing NOI momentum. Our revised 2026 estimate is \$11.44 per share, up from \$11.40 core FFO per share. We are maintaining a premerger 2027 estimate for AVB of \$11.80 per share, which implies 3% year-over-year growth.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on AVB is Medium-High, the second-highest rank on our five-point scale. AVB has a credit rating of A3 from Moody's and a rating of A- from S&P. EQR has identical ratings from Moody's and S&P.

The company's balance sheet remains healthy. At the end of 2Q26, cash and equivalents were \$81 million, down from \$187 million at the end of 2025. The value of construction in progress was \$1.7 billion at the end of 1H26, compared with \$1.5 billion at the end of 4Q25. The land held for development at the end of 1H26 was \$102 million, compared with \$124 million at the end of 2025. At the end of 2Q26, unsecured long-term debt totaled \$7.4 billion, down from \$7.9 billion at year-end. The debt/capital ratio was 38%, down from 40% at the end of 2025.

Currently, about 86% of total debt is fixed rate. At the close of 1H26, the weighted average years to maturity was about 6.5 years.

In 2025, the company repurchased shares for \$488 million, with a weighted average stock price of \$182. The prior repurchase plan was terminated, and the company adopted a new repurchase program of up to \$500 million in aggregate

purchases. The new plan does not have an expiration date. At the end of 1Q26, the REIT had repurchased \$198 million of shares. There were no repurchases during 2Q26.

AVB announced a 2% dividend hike for 2026 to \$1.78 per quarter, up from \$1.75. The increased rate is payable in 2Q26, as opposed to previous hikes, which were payable in the first quarter. This follows annual hikes closer to 3% in 2025 and 2024. The current yield is about 3.7%, which compares with an average of 3.6% for REIT peers. Pending the closing of the planned merger with EQR, we are maintaining our 2026 dividend estimate at \$7.09 per share and our 2027 estimate at \$7.20 per share. Along with 2Q26 results, AVB indicated that it expected the new entity to have an initial annualized dividend of \$2.81 per share, which would match EQR's existing payout.

MANAGEMENT & RISKS

Benjamin W. Schall is the company's CEO and president and a member of the board. Mr. Schall joined Avalon in 2020 and has extensive management experience in residential, retail, and office REITs. Kevin O'Shea is CFO. In 4Q25, Conor Flynn was appointed as an independent director. He is CEO and a board member of Kimco Realty Corp. If AVB combines with EQR, the new entity will have a board consisting of seven existing EQR trustees and seven existing AVB directors. Mr. Schall will be the president and CEO of the combined REIT.

AVB faces risks associated with local economic conditions, including the state of the job market, mortgage rates, and supply and demand for high-end housing. In addition, the company faces regulatory risks and may be hurt by the lack of sole decision-making authority in joint venture operations. The company has shown a willingness to abandon development projects that are not economically viable.

REITs in general face interest rate risk, which may be exacerbated if acquisitions are funded with floating-rate debt or if existing debt matures and credit conditions are tight. As interest rates rise, the stock could also be sensitive to the upward movement in bond yields as investors shift to fixed-income assets.

COMPANY DESCRIPTION

AvalonBay Communities Inc. is a real estate investment trust that develops, owns, and operates apartment communities. The company was founded in 1978 and focuses on upper-tier apartments with amenities. In 2Q26, the company announced a proposed merger with rival Equity Residential. AVB's portfolio has a concentration in New England, New York/New Jersey, and California but has assets in 20 markets, 12 states, and Washington, D.C. Apartment communities are varied, with luxury high-rise urban buildings and smaller communities in suburban areas. Of same-store apartments, 40% are located in California, and 16% are located in New York/New Jersey.

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Revenues in 2025 were about \$3.04 billion, of which 99% were from rental income, with the remainder from management fees. Commercial revenues in 2025 were \$40 million. At the end of 1H26, the REIT has about 319 communities containing over 98,300 apartments, concentrated in high-wage regions. First-ring suburban assets have performed well, and future expansion is focused on new suburban areas with added ground-floor retail space. AVB shares are a component of the S&P 500, and the company's market cap is about \$27 billion.

VALUATION

We think AVB has prospects for long-term steady growth and expect high mortgage rates to keep more young professionals in rental apartments as they defer home ownership. We are maintaining our BUY rating on AVB and believe merger news and improving fundamentals will maintain share momentum.

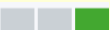
The shares are trading above the midpoint of their 52-week range of \$160-\$203 and below their five-year highs near \$252. Shares are trading at 16.4-times our 2026 core FFO estimate, below the peer average of 19.6-times, and at 15.9-times our 2027 estimate, below the peer average of 19.5 times. The shares are also trading favorably to their five-year average ratio of 17.7. The PEG multiple of 3.8 is also favorable to the peer average PEG of 4.0. The EV/EBITDA value of 19.8 is also favorable to the REIT peer average of 21.0. The price/sales multiple is in line with peers, as is the dividend yield of 3.7%.

We believe the REIT will see stronger fundamental growth as 2026 progresses. We are reiterating our BUY rating and our target price of \$199.

ByLine

On July 24, BUY-rated AVB closed at \$189.61, down \$1.19. (Marie Ferguson, 7/24/26)

British American Tobacco PLC (BTI)

Rating: **BUY** 
Market Cap: **LARGE**
Sector: **Consumer Staples**

Company reconfirms guidance, sees strength in Velo pouches

- ▶ BTI recently confirmed the company is on track to deliver on its fiscal year 2026 guidance provided last quarter. As such, it still forecasts adjusted diluted EPS growth of 5%-8% and overall revenue growth of 3%-5% at a constant-currency rate.
- ▶ Management cited strength in its U.S. markets and in its New Category segment as drivers and raised its revenue growth forecast in the New Categories segment.

- ▶ It says it is seeing specific strength in its Modern Oral and Vapour categories, with Velo especially delivering strong revenues globally.
- ▶ The company added 4.7 million new customers to its smokeless brands in 2025.
- ▶ BTI shares offer an attractive dividend yield of about 5.4% and are in a bullish technical pattern.

INVESTMENT THESIS

Our rating on British American Tobacco plc (NYSE: BTI) is BUY. British American Tobacco, a leading global tobacco supplier, has been pivoting toward smokeless products over the past few years. We believe the plan is gaining traction. BTI recently gave an update on its first fiscal quarter of 2026. Management confirmed the company is on track to deliver on its fiscal year 2026 guidance provided last quarter. As such, it still forecasts adjusted diluted EPS growth of 5%-8% and overall revenue growth of 3%-5% at a constant-currency rate. It confirmed that it still expects performance at the lower end of these ranges. It cited strength in its U.S. markets and in its New Category segment as drivers and raised its revenue growth forecast in the New Categories segment to midteens from low-double-digit growth at a constant-currency rate. It said it is seeing specific strength in its Modern Oral and Vapour categories, with Velo especially delivering strong revenues globally. The company also noted that it continues to see a return of growth in the U.S. market. While 2024 and 2025 were rebuilding and transformation years, management expects more-sustainable growth starting in 2026. British American is committed to shifting to a smokeless company by 2035. The company's balance sheet is solid, and we certainly like the yield of about 5.3%. Our target price is \$68, implying a 12% gain from current levels.

RECENT DEVELOPMENTS

BTI shares have outperformed over the past three months, rising 8% compared to a gain of 6% for the S&P 500. Over the past year, the shares have risen 19%, matching the performance of the index and outperforming the 6% return for the iShares U.S. Consumer Staples ETF, IYK. Over the past five years, the shares have underperformed the index and outperformed the ETF. The beta on BTI is 0.31.

British American Tobacco reports earnings twice a year and presents its results in British pounds. It also provides an update on a quarterly basis between its formal results. For the convenience of U.S. ADR investors, we provide dollar-based EPS and dividend estimates. Each ADR represents one share of common stock.

On June 2, BTI gave an update on its first fiscal quarter of 2026, one of the in-between periods of its reporting schedule. Management confirmed the company is on track to deliver on its fiscal year 2026 guidance provided last quarter. As such, it still forecasts adjusted diluted EPS growth of 5%-8% and overall revenue growth of 3%-5% at a constant-currency rate. It confirmed that it still expects

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performance at the lower end of these ranges. It cited strength in its U.S. markets and in its New Category segment as drivers and raised its revenue growth forecast in the New Categories segment to midteens from low-double-digit growth at a constant-currency rate. It said it is seeing specific strength in its Modern Oral and Vapour categories, with Velo especially delivering strong revenues globally. It still sees 4% -6% growth in adjusted profit from operations growth. It expects a 1.0% transactional currency headwind. It sees faster deterioration in global tobacco industry volume, now expecting a decline of 2.5%, versus the prior view of a decline of 2%.

BTI has a new CFO. Announced in April, Dragos Constantinescu will join as CFO starting on September 1. Mr. Constantinescu is currently acting as CEO of Asahi Europe & International at Asahi Group Holdings Ltd.'s Asahi Breweries.

EARNINGS & GROWTH ANALYSIS

As mentioned in a previous note, on February 12, BTI reported results for its fiscal year 2025 and gave initial guidance for its fiscal 2026. For 2025, revenue totaled GBP 25.6 billion, down 1% on a reported basis and up 2% in constant currency. Adjusted EPS totaled 352 pence, up 1% in constant currency. The adjusted operating margin narrowed 80 basis points (bps) to 45.2%. In U.S. dollars, and at an exchange rate of \$1.32/GBP 1, the company earned \$4.61 per share, matching 2024. Results for 2025 were at the top end of management's guidance from its prior update. In 2025, the company added 4.7 million consumers to its smokeless products and now has 34.1 million.

Management noted the overall increase in revenue, despite the currency headwinds, was due to strong growth in the U.S. market - mostly from growth in combustibles. In addition, the company saw continued growth in Americas and Europe (AME), which was offset partially by Asia-Pacific, Middle East, and Africa (APMEA). Results also were helped by Velo's global growth, including the newer brand extension of Velo Plus. Management was pleased with the launch of three new products including Vuse Ultra, glo Hilo, and Velo Shift. It plans for further rollouts in targeted markets this year. As did its peers, BTI noted that its vapor products suffer competition from illicit products that have not passed regulatory approval.

British American Tobacco reports results in two major segments: Combustibles (about 80% of 2H25 sales) and Non-Combustibles (or Smokeless) (about 20%). A smaller segment called Other also exists.

The Combustibles segment is comprised of traditional cigarettes. Sales of GBP 9.5 billion were up 5% on a reported basis. The Non-Combustibles segment is comprised of the following categories: Traditional Oral (snuff/stick); New Categories, which includes vapor (pods) and tobacco heating products (THPs); and Modern Oral (pouches). Sales of GBP 2.3 billion were up 9% on a reported basis.

Management keeps an eye on margins. In 2025, the adjusted operating margin narrowed 80 bps to 45.2%.

The company adjusted results as normal but also based on a settlement with Canada. As of year-end 2025, it has paid GBP 3 billion towards this settlement. It estimates an additional payment of GBP 85 million due on July 30, 2026. The settlement, announced on August 29, 2025, is a court-sanctioned plan to resolve all past, present, and future tobacco claims in Canada. The total settlement amount is GBP 32.5 billion.

Turning to our estimates, based on recent sales trends and management's outlook, we are maintaining our 2026 adjusted EPS estimate of \$4.90. Our estimate implies 6% growth from 2025. We expect continued growth in 2027 and are maintaining our EPS estimate at \$5.30.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on BTI is Medium, the midpoint on our five-point scale. The company scores average on profitability, debt/cap, and fixed cost coverage.

The company had GBP 3.8 billion in cash and cash equivalents at the end of 2025. Adjusted net debt rose to GBP 31.7 billion. Management said it continues to target an adjusted net debt/EBITDA ratio of 2- to 2.5-times. The adjusted net debt/EBITDA ratio was within that range, at 2.48-times, in 2025, up from 2.4-times in 2024 and down from 2.6-times in 2023.

The company plans for capital expenditures of approximately 750 million GBP pounds in 2026.

British American pays a dividend, and management reiterated its commitment to dividend growth. In February, the company announced a 2% dividend increase. The annualized payout now of 245.04 pence per ordinary share for the year is payable in four quarterly installments. The current yield is about 5.4%. We think the dividend is secure and likely to grow moderately. Our dividend estimates are 249 pence (\$3.23) for 2026 and 254 pence (\$3.30) for 2027.

Management also reiterated its commitment to share repurchases. In March 2024, British American announced that it would start a share repurchase program with GBP 700 million worth of shares to be purchased in 2024 and GBP 900 million in 2025. The company plans to repurchase GBP 1.3 billion worth of shares in 2026.

MANAGEMENT & RISKS

Tadeu Marroco succeeded Jack Bowles as CEO in 2023. Mr. Marroco previously served as the company's finance director. He also serves as chairman of the board. Javed Iqbal is serving as interim chief financial officer, stepping in for Soraya Benchikh who announced in August that she would step down. The company announced in April that Dragos

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Constantinescu will join as CFO starting on September 1. Mr. Constantinescu is currently acting as CEO of Asahi Europe & International. Prior to his time at Asahi Breweries, he spent 16 years at British American, holding senior finance and general management roles.

British American is committed to phasing out of smoking and becoming a predominantly smokeless business by 2035. It is attracting more adult consumers of smokeless products. To convert to nonsmoking, the company is focusing on building three product lines in what they call New Categories: Vapor, Heated Products (sticks), and Modern Oral (pouches). The company viewed 2025 as a 'deployment' year, meaning putting resources to their proper use. This follows 2024, which management called an 'investment' year.

Investors in BTI face numerous risks. As a British company, there is trade and currency risk. The tobacco industry is heavily regulated in most countries and, in some cases, has been required to sell cigarettes with bold health warnings. Governments also consistently target the industry through excise taxes, which lower net revenue and weigh on profitability. Higher excise taxes also tend to increase the sale of counterfeit cigarettes, lowering overall sales. BTI also is exposed to litigation risk related to tobacco use.

Cigarette smoking is addictive. As such, there is a low elasticity of demand among many users. This means that smokers often continue smoking, despite the known health risks, as it is difficult to stop. Demand tends to be impacted more by high unemployment and inflation than by tax increases or health warnings. Smokers often trade down to lower-priced brands or counterfeit products when their discretionary income shrinks.

COMPANY DESCRIPTION

London-based British American Tobacco plc is the holding company for a group of companies that manufacture, market, and sell cigarettes and other tobacco products, as well as smokeless products. Its major brands include Newport, Dunhill, Kent, Lucky Strike, Pall Mall, Vuse, glo, Velo, Grizzly, Rothmans, Camel, Natural American Spirit, Vogue, Viceroy, Kool, Peter Stuyvesant, Craven A, State Express 555, and Shuang Xi. It employs nearly 50,000 people.

VALUATION

We believe that BTI shares are attractively valued at current prices near \$62, near the top of their 52-week range of \$50-\$67. From a technical standpoint, the shares have been in a bullish pattern of higher highs and higher lows since April 2024.

On a fundamental basis, the shares are trading at 12-times our 2027 EPS forecast, below the peer average, including PM and MO, of 14-times. They are also trading at a price/sales multiple below the peer average. The dividend yield of about 5.3% is above the peer average of 4.9%. Our target price is \$68.

ByLine

On July 22 at midday, BUY-rated BTI traded at \$62.19, up \$0.77. (Christine Dooley, 7/22/26)

Crown Castle Inc (CCI)

Rating: **HOLD**
Market Cap: **LARGE**
Sector: **Real Estate**

Sale of fiber and small cell operations completed

- ▶ Revenues dropped 5% and site rental revenues in 2Q26 dipped 4%, driven by asset sales as 2026 outlook relies on cost savings.
- ▶ AFFO in 2Q26 was \$1.13 per share, up from \$1.02 per share in 2Q25. For 1H26, AFFO rose about 3% to \$1.15 per share, up from \$1.12 per share.
- ▶ Shares have underperformed peers and the broad market over the past 3 months and the past 52 weeks.
- ▶ Management expects to maintain the \$4.25 annual payout through the end of 2026 after cutting its dividend 32% in 2025 due to asset sales.

INVESTMENT THESIS

We are maintaining our HOLD rating on Crown Castle Inc. (NYSE: CCI). The company has entered into an agreement to sell its small cell and fiber segments. During 2024, these operations accounted for about one-third of CCI's total revenue. The company had focused, unlike peers, on domestic operations and had not entered the data center market, maintaining its previous small cell focus and expanding service to rural communities. While we are positive on streamlined operations, we expect the remaining tower operations to continue to see slower fundamental growth as industry-wide demand for wireless communications equipment remains sluggish. Earnings are also expected to reflect the negative impact of churn through 2026. Overall, we expect CCI to benefit over time from the increased demand from artificial intelligence (AI) for 5G wireless communications, but meaningful growth in sales for cell phones is unlikely in the near term.

The \$8.5 billion sale of CCI's small cell tower and fiber segments is expected to close in 1H26, with CCI planning a 20% reduction in its workforce. The company saw growth in 2019 and 2020, helped by the pandemic surge in e-commerce and remote work. The stock reached a five-year high near \$209 in December 2021 but has fallen sharply since that time, in part, on concerns over lower capital spending by large mobile service providers and company restructuring. CCI had a record of consistent annual dividend growth, and after it slashed the payout in 2Q25, we don't project a dividend hike until 2027.

RECENT DEVELOPMENTS

Shares have underperformed peers and the broad market

Growth Stocks

over the past 3 months and the past 52 weeks. Over the past three months, the shares have declined almost 9% compared with gains of 3.5% for the Real Estate ETF (IYR) and a gain of 6% for the S&P 500. Over the past 52 weeks, shares have declined 27%, compared with a gain of 9% for the IYR, and a gain of about 19% for the broad market.

AFFO in 2Q26 was \$488 million, or \$1.13 per share, up from \$444 million, or \$1.02 per share in 2Q25. For the first six months of 2026, AFFO rose about 3% to \$1.15 per share, up from \$1.12 per share. Adjusted EBITDA in 2Q26 was \$675 million compared with \$705 million a year ago. For 1H26, Adjusted EBITDA was \$1.3 billion compared with \$1.4 billion in 1H25.

Revenues in 2Q26 declined 5% to \$1.01 billion, down from \$1.06 billion in 2Q25. For 1H26, net revenues also decreased 5% to \$2.02 billion compared with \$2.12 billion in 1H25. Second-quarter operating costs decreased 3% to \$538 million, down from \$554 million in 2Q25. Site costs in 2Q26 were \$249 million compared with \$251 million a year ago. Interest expense declined to \$208 million in 2Q26 versus \$243 million a year ago.

In 1Q26, CCI announced that it had terminated DISH Wireless accounts for failure to make recent payments. DISH and its parent EchoStar Corp. notified CCI in September 2025 that it was discontinuing its network operations, as EchoStar was selling its public spectrum licenses. DISH feels that it is no longer required to honor contractual obligations for operations related to the EchoStar sale. CCI plans to move to recover payments in excess of \$3.5 billion. Site billings for DISH in 2025 were about \$222 million.

On May 1, 2026, CCI closed on the sale of its small cell and fiber business. The REIT received \$8.4 billion net cash proceeds. The company had agreed to sell operations so that it could focus on its core tower business. Management acknowledged that the operating capabilities needed to run the tower business were not in line with the small cell and fiber segments. The fiber business was sold to EQT, an infrastructure fund, for \$4.25 billion. The small cell operations were sold to Zayo Group Holdings Inc. for \$4.25 billion. At the end of 1H25, the company reported losses from the disposal of discontinued operations of \$1.1 billion and income losses of \$722 million from discontinued operations, net of tax. In addition to asset sales, management has also added a focus on operational efficiency, with plans to reduce the workforce by 20%, which when combined with other measures will result in about \$65 million in cost savings.

For 2026, the streamlined REIT had planned for long-term discretionary capital expenditures of \$150 million-\$250 million.

Along with 2Q26 results, management revised its AFFO guidance to \$4.53-\$4.65 per share, up from \$4.38-\$4.49 per share. While the upgraded guidance implies 5% earnings

growth from the midpoint over 2025 results, management is including cost savings of \$25 million due to smaller operations. The upgraded guidance also assumes lower interest costs, offset by higher organic contribution to site rental billings. The previous outlook for organic contribution to site rentals had been a decline of \$110 million. The revised outlook projects a decline of \$105 million. The outlook does not include any contribution from DISH Wireless in 2026, following the termination of the contract in January 2026.

EARNINGS & GROWTH ANALYSIS

Beginning with 1Q25 results, CCI's fiber segment will be reported as discontinued operations. Site rentals accounted for 95% of total revenue in 2025.

Site rental billings were \$945 million in 2Q26 with total site rental revenues of \$967 million. This compares with site rental billings of \$961 million in 2Q25 with total site rental revenues of \$1.0 billion. Compared with a year ago, the Organic Contribution to site rental billings in 2Q26 before the negative impact of DISH and Sprint terminations was \$38 million versus \$34 million. However, including the negative impacts of DISH and Sprint, Organic Contribution was a loss of \$16 million, compared with a loss of \$6 million a year ago.

The company is transitioning into a pure-play tower company, and our 2026 revenue estimates project negative year-over-year comparisons. While improved operational performance should help FFO, we expect growth momentum to wait until 2027, when industry demand is expected to experience an uptick and churn from cancellations shows signs of diminishing. The company is continuing to see a lack of significant growth in core leasing, with 2025 activity up 3% over 2024, relatively flat with 2.9% growth in core leasing in 2024 over 2023.

In 2020, Crown Castle's earnings grew 20%, reflecting rising demand for wireless services due to remote working and e-commerce. Now, however, wireless carriers and tower operators are seeing slower 5G growth, reflecting maturing demand and natural correction from the peak levels. Wireless carriers are also moving toward increased spending on AI infrastructure and increasing data center space. CCI has not expanded into global tower operations or the data center market, unlike some peers. Going forward, the lack of significant entry into these markets could constrain long-term growth until core demand for wireless improves.

We like the company's willingness to pivot and refocus operations beginning in 2023 to respond to tighter demand. As a result, however, 2026 will be a rebuilding year, primarily impacting the top-line.

The following is a brief summary of the downsizing. In 4Q23, Elliot Investment Management LP, which holds a roughly \$2 billion stake in CCI, called for significant changes to correct underperformance. The Elliot plan, entitled 'Restoring the

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Castle,' included new executive leadership, a new board, and a strategic review of the fiber business. As a result, CCI restructured its board and conducted a strategic review of its fiber business. CCI closed its review in 4Q24 with the announcement that it would sell fiber and small cell assets to focus on large tower operations.

Crown Castle has reached agreements to sell its small cell and fiber solutions businesses in two transactions that closed in 1H26. The company acknowledged that the operating capabilities needed to run the tower business were not in line with the small cell and fiber segments. The fiber business was sold to EQT, an infrastructure fund, for \$4.25 billion. The small cell operations were sold to Zayo Group for \$4.25 billion.

In addition to asset sales, management has also increased its focus on operational efficiency. The company plans to reduce its workforce by 20% following the transactions, which when combined with other measures will result in about \$65 million in cost savings.

Management has provided guidance regarding the impact of the upcoming asset sales on 2026 results. For 2026, adjusted EBITA is unchanged with an estimated range of \$2.67 billion-\$2.72 billion, compared to 2025 adjusted EBITDA of \$2.86 billion. Site rental revenues in 2026 have been updated to include \$5 million in organic site billings growth. The revised projected range is about \$3.83 billion-\$3.88 billion, compared with \$4.05 billion in 2025 and \$4.27 billion in 2024. While CCI raised its organic contribution guidance, it did not raise its outlook for core leasing activity. For 2026, the core-leasing outlook remains \$65 million and lease escalations remain \$130 million. Ongoing churn will also shrink the top-line. However, in spite of Organic growth, guidance suggests that the downsizing is expected to reduce site rental revenues by about 6% in 2026. While management has revised guidance to imply year-over-year earnings growth in 2026, it is operating efficiencies and lower administrative costs that are primarily driving growth.

We are positive on the long-term impact of tower-focused operations. While significant tower expansion could wait until after 2027 due to wireless spending that has struggled against tighter consumer spending and wireless providers that are focusing their budgets into AI infrastructure. In the interim, CCI will have a stronger balance sheet as a result of the asset sales. Currently, CCI plans to use the cash proceeds to repay debt and fund share repurchases. As for earnings, we expect about 4% year-over-year AFFO growth in 2026, compared with 2025, but negative revenue comparisons, with the top-line strengthening in 2027. We note, however, that 2025 comparisons also struggled with lower revenues and AFFO in 2025, compared with 2024.

We are adjusting our AFFO estimates to include the stronger-than-expected performance in 2Q26 and ongoing

efficiencies. Our revised 2026 estimate is \$4.53 per share, up from \$4.42 per share. Our revised 2027 estimate is \$4.60 AFFO per share, up from \$4.55 per share. Our 2027 estimate implies 1% growth over our 2026 estimate.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on CCI is Medium, the midpoint on our five-point scale. The company has a Baa3/stable credit rating from Moody's, a BBB+/stable rating from Fitch, and a BBB/stable rating from S&P.

At the end of 2Q26, cash and equivalents were \$1.04 billion, compared with \$99 million at the end of 2025 and \$100 million at the end of 2024. Deferred site rental receivables in 2Q26 were \$2.26 billion compared with \$2.29 billion at the end of 2025. Long-term debt and other obligations were decreased to \$16 billion, down from \$21.6 billion at the end of 2025. The company has negative equity.

The company's long-term debt is about 79% fixed rate, and the weighted average debt maturity is about six years. CCI plans to use proceeds from the sale of its fiber business to repay about \$7 billion in debt and to repurchase about \$1 billion of shares.

The company had a record of annual dividend increases commencing in 2014 through 2022 and had maintained a quarterly payout of \$1.565 since 4Q22. However, with the company streamlining operations, the dividend decreased. Along with 2Q25 results, the company cut its quarterly payout to \$1.0625 per share, for an annual payout of \$4.25, down from the previous annual dividend of \$6.26 per share. The reduction reflects a 32% decrease per share from the same period in the prior year. Along with year-end results, management indicated it expected to maintain the \$4.25 annual dividend in 2026. Our 2026 dividend estimate remains \$4.25. Our 2027 dividend estimate is \$4.40 per share. The current yield of about 5.6% is above our REIT peer average of 3.6%.

MANAGEMENT & RISKS

Chris Hillabrant is president and CEO, effective September 15, 2025. The company terminated Steven Moskowitz as CEO and president in 2025 after a tenure of less than 12 months. Sunit Patel became CFO in April 2025.

Investors in Crown Castle face a range of risks including low demand for mobile devices. The company provides communications infrastructure and faces long-term saturation as 5G availability expands domestically. In addition, CCI could face customer concentration risk from wireless network operators. This risk has been increased by industry mergers, such as the T-Mobile US Inc./Sprint combination, which could eliminate duplicate tower leases and result in the loss of tenants.

The company also faces risks from government regulation, as well as from rising bond yields that could pressure the

Growth Stocks

dividend or increase borrowing costs. When interest rates rise, REIT stocks in general can decline along with bonds.

COMPANY DESCRIPTION

Crown Castle is a domestic communications REIT primarily providing cell tower space for colocation and single tenants. After completing a strategic review in 2024, the company has reached an agreement to sell its small cell and fiber businesses and keep operations that own and lease large towers. The sales are expected to close in 2026, and the company reported a net loss from discontinued operations of \$659 million in 2025.

Before asset sales close, CCI has operations in 49 states with both single-tenant and colocation towers, including about 40,000 large towers, 105,000 small cells, and 90,000 route miles of fiber. The small cell and fiber businesses had accounted for about one-third of total revenues.

In 2025, total revenues were almost \$4.3 billion, of which 95% was from site rentals. The company is based in Houston. CCI has a market cap of \$34 billion and is part of the S&P 500.

INDUSTRY

Our rating on the Real Estate sector is Market-Weight. The Real Estate sector accounted for 1.8% of the S&P 500 as of the end of June. We think diversified investors should have exposure to the sector, in line with the current sector weight.

The sector receives average marks on our six-part 'blind' sector rating criteria, which includes growth momentum, valuation, financial strength, and analyst conviction, among other factors.

The sector outperformed the market year to date, with a gain of 9.7% as of the end of June. The sector underperformed in 2025, with a loss of 0.3%, compared to a gain of 16.4% for the S&P 500. The beta for the sector is 1.0.

Over the past five years, the sector's weighting has ranged from 1% to 4%. The sector's P/E ratio on projected 2027 EPS was 14, below the market multiple. The yield of 2.2% was above the market average. The sector's smoothed earnings growth rate of 6% is below the market average.

We think of the Real Estate sector as an income sector. The macroeconomic factors that may affect the performance of stocks in the Real Estate sector include Borrowing Costs, Labor Costs, Construction Costs, and Consumer Spending. Trends in the dollar can affect factors such as Cost of Goods Sold.

Generally, investing in REITs is a good way to profit from overall economic growth as part of a well-diversified portfolio. There are several approaches to investing in REITs, and they include choosing companies that have greater revenue and profit upside from falling interest rates, selecting

companies that appear to be attractive takeover candidates, and focusing on high growth REITs. Other approaches include selecting REITs that pay an attractive and sustainable cash dividend or purchasing shares of large and relatively safe REITs whenever they are attractively valued.

At this stage of the market and economic cycle, our favored industries within the Real Estate sector include Data Center REITs and Retail REITs.

VALUATION

CCI shares are currently trading below the midpoint of their 52-week range of \$73-\$115.

News of asset sales and negative guidance comparisons have pressured shares in 2026. With the shares already responding to the negative news, we think investors can seek a more favorable entry point.

The shares are currently trading at a 2026 P/AFFO ratio of 19.7-times, compared with the peer average of 17.1-times. The 2027 P/AFFO ratio of 16.9-times compares with 19.5 for our peer average. The shares' five-year average P/AFFO multiple is 21.9. The shares trade in line with the peer average as to their EV/EBITDA value and their price/sales multiple. The share's PEG multiple of 3.5 is unfavorable to our REIT peer average of 3.1-times. The shares' dividend yield is 5.6%. While this is above the peer average of 3.6%, the company is projecting no dividend increase in 2026. The decline in share price has contributed to favorable price valuations compared to peers.

We remain cautious, as the company is undergoing a significant downsizing. We also note the lack of dividend growth as giving further weight to our HOLD rating.

ByLine

On July 23, HOLD-rated CCI closed at \$74.57, down \$2.93. (Marie Ferguson, 7/23/26)

Danaher Corp (DHR)

Rating: **BUY**
Market Cap: **LARGE**
Sector: **Healthcare**

End markets improving

- ▶ Danaher raised 2026 EPS guidance on strong order growth from biopharma companies.
- ▶ The robust pace of new biologic drug approvals should drive orders for consumables and equipment for the manufacturing of therapies, such as monoclonal antibodies and biologics to treat cancer and diseases of the aging. Demand for these therapies grows as the population ages.
- ▶ We are raising our estimates for adjusted EPS to \$8.52 from \$8.45 for 2026 and to \$9.30 from \$9.20 for 2027.

Growth Stocks

- We note that the conversion rate for free cash flow to net income was 124% in 2025, providing ample resources to support the dividend and for M&A. Danaher recently raised its dividend 25%.

INVESTMENT THESIS

Our rating on Danaher Corp. (NYSE: DHR) is BUY. We believe that recent trading volatility in the shares presents a buying opportunity. The big picture from the 2Q26 results is that biotech and pharmaceutical customers have accelerated their orders of consumables and equipment from life sciences tools suppliers such as Danaher. This key takeaway is confirmed by the 2Q26 report from Thermo Fisher of across-the-board stronger topline growth.

The company saw sequentially higher revenue growth at its Life Sciences and Diagnostics segments, while the Biotechnology segment had shipment pushouts of orders. We view the latter development as a near-term headwind that does not take away from the strengthening of the underlying business, as reflected by double-digit growth of consumables and instruments in 2Q26.

Danaher management remains upbeat on the company's long-term opportunities to support the development of breakthrough biologic therapeutics, such as monoclonal antibodies (MABs). These therapeutics treat age-related neurodegenerative diseases and cancers.

While DHR has underperformed (-17.2%) year to date, we think the fundamentals to drive growth are solid. DHR's recent stock performance has improved, gaining 5.9% over the past month.

Our price target is \$230.

RECENT DEVELOPMENTS

Danaher's end markets improved in 2Q26, as orders from customers increased sequentially, enabling the company to raise its 2026 EPS guidance. Upbeat comments from management about higher growth in 2H aside, a delay in shipments of a few large orders led the DHR stock to sell off. Nonetheless, the big picture is the improved demand from biotech and pharmaceutical customers that are developing new drugs. These customers are ordering reagents, antibodies, and instruments to develop and manufacture medical therapies.

Revenue growth improved sequentially as non-GAAP core growth stepped up in 2Q26 to 3.0%, from 0.5% in 1Q26. Excluding respiratory testing revenue, non-GAAP core growth improved by 150 bps sequentially to 4.5%.

For 2Q26, Danaher reported adjusted EPS of \$1.94, increasing 8.0% and beating the consensus estimate by \$0.10. Results were reported July 21. GAAP net income was \$870 million or \$1.23 per share, compared to \$555 million or \$0.77 per share a year earlier.

Revenue was \$6.3 billion growth, increasing 5.5% as reported. Non-GAAP core revenue growth, which excludes the impact of foreign exchange and acquisitions and divestitures, was 3.0%. Excluding respiratory testing revenue, non-GAAP core growth was 4.5%, accelerating by 150 bps from the first quarter. The quarter was marked by a milder flu season.

Within the business segments, Life Sciences delivered its strongest quarter (+5.5% core sales growth) in several years. Excluding respiratory testing, Diagnostics (+5.0%) also showed stronger sales growth. Both Life Sciences and Diagnostics segments showed meaningful sequential improvement in revenue growth.

Within the Biotechnology segment, core growth was 2.5% (vs. 7.0% in 1Q26). While the pushout of certain order shipments hurt topline growth in Biotechnology, the segment still saw robust underlying order trends. Demand from large pharma and biotech customers remained healthy while improved biotech funding supported higher new order activity. While revenue was impacted by customer timing, underlying demand in the biotech segment remained very healthy, with mid-teens order growth in both consumables and equipment.

Academic and government markets have largely stabilized, while clinical and applied markets remained strong.

In applied markets, the Pall filtration business revenue increased 10%, driven by its microelectronics line. This business provides mission-critical filtration solutions across the semiconductor manufacturing workflow.

By measures of profitability, the adjusted gross margin was 58.4%, down 80 bps.

The adjusted operating profit margin of 27.1% was down 20 basis points as lower respiratory testing revenue more than offset the benefits of higher non-respiratory volume and disciplined cost management.

EARNINGS & GROWTH ANALYSIS

Danaher raised its 2026 guidance for adjusted EPS. It now expects adjusted EPS of \$8.45-\$8.60, raised from a prior view of \$8.35-\$8.55. The outperformance in 2Q26 and an earlier-than-expected close to the Massimo acquisition are incorporated into the guidance lift.

We are raising our estimates for adjusted EPS to \$8.52 from \$8.45 for 2026 and to \$9.30 from \$9.20.

Our five-year EPS growth rate forecast is 10%.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on DHR is Medium-High, the second-highest rank on our five-point scale. The company

Growth Stocks

expects free cash flow in 2026 to exceed \$5 billion.

The company generated \$2.4 billion of free cash flow in 1H26, compared with \$2.144 billion. In 1H26, the free cash flow to net income conversion ratio was 124%

Given this strong generation of free cash flow, Danaher has the capital resources to support the dividend and allocate capital for M&A.

The annualized dividend rate is \$1.60 for a yield of about 0.9%. Danaher raised the dividend 25% in March. Our dividend estimates are \$1.60 for 2026 and \$1.80 for 2027. We note that Danaher increased the dividend 18.5% in 2025.

MANAGEMENT & RISKS

Steven M. Rales is chairman of the company, and Rainer M. Blair is president and CEO. Matt Gugino succeeded Matt McGrew as CFO, effective February 2026.

Danaher faces risks from supply-chain disruptions and rising distribution costs. It also faces risks related to the regulatory approval of new products and the integration of acquired businesses.

COMPANY DESCRIPTION

Danaher is a diversified life sciences and diagnostics company with global operations. Its products and solutions support the biopharma industry in the development and production of therapies. Its Diagnostics segment provides clinical instruments, reagents, and consumables to hospitals, physicians' offices, and reference laboratories. Danaher was founded in 1984 by the Rales brothers, Steven and Mitchell. Through acquisitions, Danaher evolved from being a mortgage services company to become a life sciences tools company serving the biotech and diagnostics industry and applied markets.

In March 2020, it acquired the GE Biopharma business and renamed it Cytiva. Danaher has continued to make acquisitions, including Aldevron in 2021 and Abcam in 2023. These acquisitions broadened its technology offerings and expanded its manufacturing capabilities.

INDUSTRY

Our rating on the Healthcare sector is Market-Weight. The sector accounted for 9.5% of the S&P 500. We think diversified investors should have exposure to the sector, in line with the current market weight.

The sector receives above-average marks on our six-part 'blind' sector rating criteria, which includes growth momentum, valuation, financial strength, and analyst conviction, among other factors.

Year-to-date, through July 23, the sector has underperformed the market YTD with a return of 4.1%, compared to 8.3% for the S&P 500. The beta for the sector is 0.7.

Over the past five years, the sector's weighting has ranged from 8% to 15%. The sector's P/E ratio on projected 2026 EPS was 18, below the market multiple. The yield of 1.2% was equal to the market average. The sector's smoothed earnings growth rate of 8% was below the market average.

The Healthcare sector is primarily a defensive, counter-cyclical sector. The largest macroeconomic factor that will affect the performance of stocks in the Healthcare sector is the aging population, both in the U.S. and in other developed countries, including China. Other factors include GDP Growth, Interest Rates, Inflation, Government Policy and Regulation, Trade, Pandemics or Health Crises, and Employment/Unemployment Rates. Trends in the dollar can affect factors such as Cost of Goods Sold.

Healthcare stocks are often favored during periods of economic weakness. Sell signals for stocks in the sector can be material changes in regulatory decisions that alter business models, pending patent cliffs for pharma companies or a weakened balance sheet that threatens a dividend.

At this stage of the market and economic cycle, our favored industries within the Healthcare sector include Healthcare Equipment and Healthcare Distributors.

VALUATION

DHR trades at 19.3-times our 2027 EPS estimate, above the average of 17.3 for life science stocks in our coverage universe. We believe that Danaher has strong growth prospects that support this valuation.

Through M&A, the company has added new growth drivers and expanded its product offerings to support biopharma customers. Newly launched products from Cepheid and Beckman Coulter also expanded Danaher's testing capabilities for respiratory and infectious diseases.

ByLine

On July 23, BUY-rated DHR closed at \$192.50, up \$13.36. (David Toungh and Divya Chandrasekaran, 7/23/26)

Equity Residential (EQR)

Rating: **BUY**
Market Cap: **LARGE**
Sector: **Real Estate**

Maintaining BUY with merger pending

- ▶ Strong rental market and proposed all-stock merger could strengthen share levels through 2H26.
- ▶ EQR reported 2Q26 NFFO of \$1.02 per share, up 3% from \$0.99 in 2Q25.

Growth Stocks

- ▶ California and New York markets continue to perform well. Same-store revenues increased 7% in San Francisco and increased 3.8% in New York compared with 2Q25.
- ▶ Equity Residential hiked its dividend by 1.4%, payable in 2Q26. The current yield is about 4.1%, above the peer average of 3.6%.

INVESTMENT THESIS

Our rating on Equity Residential (NYSE: EQR) is BUY with a target price of \$70. The shares have seen an uptick since the company announced a potential merger with AvalonBay (AVB) in May 2026. The all-stock transaction is expected to close in 2H26 and news could continue to strengthen share levels. EQR provides high-end rentals with an emphasis on large coastal cities. While these markets were hit hard in 2020 when many residents fled to the suburbs, the company is now benefiting from high barriers to home ownership, including high mortgage rates and housing prices. With mortgage rates that may have just begun to thaw, we believe that apartment demand will remain solid. With high occupancy rates, the company relies on new assets, rental increases, and low turnover to boost NOI. Fortunately, EQR benefits from steady demand from affluent renters who tend to accept rate increases and wish to postpone homeownership. However, the company needs an active asset pipeline to achieve NFFO growth, and a slower asset development pipeline can tighten earnings. While high costs may slow the company's pipeline in 2026, we expect an uptick as the economy improves.

We have a favorable view of management's expansion plans, which have in the past balanced acquisitions with sales of noncore properties. Historically, EQR has focused on large properties in major coastal cities but is now also expanding in fast-growing inland markets in Georgia, Colorado, Texas, and North Carolina. Recent past economic conditions have kept new supply low in established markets and have helped maintain pricing power.

The dividend yield is about 4.1%, which is above most peers and adds to total return.

RECENT DEVELOPMENTS

EQR shares have recently outperformed, rising over 8% over the past three months, compared with gains of 5% for the Real Estate ETF IYR, and a gain of 3% the S&P 500. Over the past 52 weeks, the shares have gained about 0.6%, compared with a gain of 9% for IYR and an increase of almost 16% for the index.

Normalized FFO was \$394 million, or \$1.02 per share in 2Q26, up 2% from \$387 million, or \$0.99 per share in 2Q25. The 2Q26 results were at the top of EQR's NFFO guidance for 2Q26. The results reflected a higher depreciation and miscellaneous contributions to FFO in 2026, offset by a higher negative impact from gains in 2Q25. For 1H26, NFFO was \$2.01 per share, up from \$1.94 per share for 1H25. Total NOI for 2Q26 decreased slightly to \$520.04 million,

down from \$520.22 million a year ago.

EQR has had year-over-year quarterly revenue growth each quarter since 4Q21. Revenues in 2Q26 rose 2% to \$785 million, up from \$769 million in 2Q25. This follows a similar year-over-year increase in 1Q26. Revenues for the first half of 2026 were \$1.56 billion, up 2.2% from \$1.53 billion in 1H25. The REIT has felt cost pressures. In 2Q26, total expenses rose 4.2% to \$566 million compared with a year ago. Interest expense in 2Q26 was \$82.5 million, up from \$75.3 million in 2Q25.

The company had been growing its portfolio. However, in 2025, the company sold 11 properties while acquiring nine assets. The company had no acquisition/disposition activity to report in 1Q26. At the beginning of 2026, EQR had seven projects in development and lease-up. For 2025, management targeted \$750 million in acquisitions with \$750 million in dispositions. Guidance for 2026 had been about \$165 million in dispositions, with no rental acquisitions yet planned. The estimated budget for capital expenditures for residential same-store properties in 2026 was about \$60 million, prior to the announcement of the merger. At the end of 1Q26, there were nine projects in development and lease-up. During 2Q26, the company sold two rental properties with a sales price of \$164 million.

As for the proposed merger, in May AVB announced plans for an all-stock merger with Equity Residential (EQR) with expectations that it will be accretive to both REITs. The new name to be announced at closing. Management called the transaction a 'Merger of Equals' which would create a single company. The new entity would have a combined construction pipeline of \$4.4 billion with 10,800 planned apartments. In addition to increasing the number of rental units and assets under construction, cost synergies are expected to drive NOI growth. AVB projects that by combining the two companies, it will generate \$125 million of net synergies after tax assessments. AVB's current president and CEO will remain in the position in the new entity, and dual headquarters are expected to be maintained.

The merger is expected to close in 2H26. The pro forma ownership will be 51.2% AVB stockholders and 48.8% EQR shareholders. AVB shareholders will receive just under 2.8 newly issued EQR shares per each AVB shares.

The company has ceased providing FFO and EPS guidance due to the proposed merger. Management did provide growth ranges for several operating statistics as if EQR continued as a single REIT. Same store revenue growth at the midpoint is projected around 2.2% at the midpoint compared with 2025. Along with 2Q26 results, EQR broadened its guidance range for same-store NOI growth with the growth between the midpoint around 0.3%. Along with 1Q26 results, management reiterated 2026 NFFO guidance of \$4.02-\$4.14 per share.

Growth Stocks

EARNINGS & GROWTH ANALYSIS

EQR largely reports results in terms of same-store properties, which accounted for over 85% of 2025 revenues.

Management says it is benefiting from lower supply in its markets. Same-store 2Q26 NOI increased 1.4% to \$509 million. While same-store revenues rose about 2% year over year, second-quarter expenses increased 3% compared with 2Q25.

Compared with a year ago, same-store lease rates increased about 1.8% from 2Q25 as vacancy rates remained flat. Leasing concessions in 2Q26 declined 0.1% compared with 2Q25. Same-store physical occupancy dropped 40 basis points in 2Q26 to 96.2% compared with 2Q25.

As for regional same-store segments, California helped drive results. Revenues in San Francisco increased 7% compared with 2Q26 while Orange County revenues rose 2.4%. Revenues in the New York market increased 3.8% with NOI increasing 3.7% compared with 2Q25.

EQR owns and operates about 312 properties, primarily in key coastal cities. The company's current construction pipeline is weighted toward the Sunbelt, including Texas and North Carolina, with the region expected to represent about 10% of the company's portfolio upon completion. As the job market accelerates, the urban, high-end apartment appeals to the strongest spending demographic and to lifestyle preferences for young professionals. The housing market remains depressed, and the economy continues to favor the rental market. Apartment REITs in general benefit from high barriers to homeownership, including high mortgage rates and housing prices. With mortgage rates that may have just begun to thaw, we believe that apartment demand will remain solid. EQR's affluent renters tend to accept rate increases while delaying homeownership.

The REIT has had favorable revenue comparisons every quarter since 3Q21. The company emerged from the pandemic slowdown with 7% year-over-year earnings growth in 2023. Since then, earnings have grown at a more moderate compound annual growth rate of about 2.5% through 2025. The reasons include high interest costs, rental expenses, and development costs. Management had also maintained an active asset pipeline, including acquisitions and new developments, which provided ongoing momentum to results. In 2025, however, dispositions outpaced acquisitions. As a result, transaction activity tightened results in 2025, and we expect the negative impact to continue in 2026. Management had been projecting that the negative impact from asset gains on NOI could reduce NFFO by about \$0.06 per share.

As for positives, the company expects occupancy to remain strong, above 96%, and the growth rate for same-store revenues to remain on track. EQR reported solid operating performance in 2025, including year-over-year growth of

2.6% for same-store revenues and year-over-year growth for same-store NOI also above 2%. Management expects low supply levels to help leasing statistics through the remainder of 2026. The positive impact of the company's share repurchase plans could also offset high interest expense and the negative impact of 2025 transactions. At the end of 1H26, EQR reported a positive impact of share repurchases and corporate overhead was \$0.06 per share compared with 1H25. In spite of slower pipeline activity at the beginning of 2026, our current estimates project year-over-year NFFO growth of 2.5%-3% for both 2026 and 2027. The company's steady revenue growth and solid fundamentals could also allow the shares to participate in any positive sector momentum should interest rates fall in 2026.

Going forward, Argus expects the housing market to remain frozen at least through late 2026, and we believe EQR will continue to benefit from positive demographic trends into 2027. The cost of homeownership remains high, especially for homes desired by higher-income buyers. Young professionals are tending to have smaller families and continue to defer homeownership in favor of high-end rental apartments with amenities. The company's young, college-educated tenants also have stronger employment and wage demographics than lower-income renters. In addition, older Americans often turn to rentals after selling their homes. We expect EQR's high-quality units to outperform and note that luxury assets have the lowest vacancies and strongest pricing power.

In prior years, the company had a smaller development and acquisition pipeline than some peers. However, in 2023, with interest and construction costs both high, the slower pace of development and acquisition activity became a positive. In 2024 and 2025, the company increased its pipeline activity by both acquiring properties in core and emerging locations and selling its older assets. Recently, management has noted that its established coastal markets have lower new supply due to economic conditions. As a result, core assets have enjoyed strong leasing statistics and rental increases while same-store NOI has been driving earnings. While emerging markets have higher supply levels, slower leasing had been outpaced by coastal pricing power. The REIT's San Francisco and New York assets drove revenue growth in 2H25, with the coastal regions continuing to drive same-store performance through 1Q26. The performance in large coastal cities has also added a competitive strength over its key competitor that has enlarged its focus on midsize suburban markets.

We are maintaining our estimates. Our 2026 NFFO estimate is \$4.10 per share, and our 2027 NFFO estimate is \$4.20 per share, reflecting about 2.4% growth over our 2026 estimate.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on EQR is Medium, the midpoint on our five-point scale. S&P's credit rating is A-, and Moody's credit rating is A3.

Growth Stocks

The company had been using proceeds from asset sales to pay down debt and repurchase shares. At the end of 2Q26, cash and equivalents totaled \$36 million, down from \$56 million at year-end 2025. The net value of investment in real estate at the end of 1H26 was \$30.4 billion. Long-term mortgages and notes totaled \$7.6 billion at the end of 2Q26, relatively flat with the end of 2025. The long-term debt/capital ratio at the end of 2Q26 was 42%, compared with 40% at the end of 2025 and below the peer average near 50%. About \$1.4 billion of debt matures in 2026. About 90% of total debt is fixed rate.

During 1Q26, Equity Residential repurchased and retired about 3.5 million common shares for an aggregate purchase price of \$219 million. Total shares repurchased in 2025 were 4.8 million common shares. EQR used proceeds from asset sales to invest in the share repurchases. EQR has a current authorized repurchase program for up to 13 million shares. Management is guiding for a weighted average of 384.2 million diluted shares outstanding in 2026. At the end of 1H6, there were 384.5 million weighed average diluted shares outstanding.

EQR hiked its quarterly dividend 1.4% to \$0.7025, payable in 2Q26. This followed a 2.6% increase in 2Q25. The current yield of about 4.3% is above the peer average of 3.8% for Argus-covered REITs. Prior to March 2022, the company had not raised its payout for eight quarters. Our 2026 dividend estimate is \$2.81 per share, and our 2027 estimate is \$2.86. If the proposed merger is completed, AVB has indicated that the new entity will initially pay the current EQR dividend.

MANAGEMENT & RISKS

Mark J. Parrell is the president and CEO and has been with the company since 1999. David J. Neithercut is chairman. Bret D. McLeod is the CFO. The former CFO, Robert A. Garechana, has replaced the retiring chief investment officer. If Equity Residential and AVB complete the merger, as planned, the new entity will have a board comprised of seven existing EQR trustees and the seven existing AVB directors. The current president and CEO of AvalonBay, Benjamin Schall, will carry on those roles in the combined REIT.

EQR's primary challenge has been high interest rates and development costs. The company also faces challenges related to economic conditions, employment levels, the increased supply of rental properties, and the risk that high rents will outprice new tenants. The company focuses on high-quality apartments with high rents, and demand can suffer when owning a home becomes more attractive than renting.

COMPANY DESCRIPTION

Equity Residential, based in Chicago, is one of the largest apartment real estate investment trusts in the U.S. The company focuses on high-quality properties and has benefited from the high cost of homeownership. Prior to the

pandemic, the company's properties were primarily in large coastal cities in four core states. Its new growth strategy is focused on 12 Sunbelt and other noncoastal markets, including expansion projects in suburban Raleigh, Atlanta, Austin, and Denver. The average EQR tenant is a professional in his or her early 30s, a group that has enjoyed recent strong employment demographics

Total revenues in 2025 were just under \$3.1 billion. At the end of 1H26, the REIT owned 312 properties with about 85,500 apartments. As of the beginning of 2026, over 80% of the portfolio is located in established markets, and almost 40% of properties are located in California. The shares are a component of the S&P 500. The company's market cap is about \$26 billion.

INDUSTRY

Our rating on the Real Estate sector is Market-Weight. The Real Estate sector accounted for 1.8% of the S&P 500 as of the end of June. We think diversified investors should have exposure to the sector, in line with the current sector weight.

The sector receives average marks on our six-part 'blind' sector rating criteria, which includes growth momentum, valuation, financial strength, and analyst conviction, among other factors.

The sector outperformed the market year to date, with a gain of 9.7% as of the end of June. The sector underperformed in 2025, with a loss of 0.3%, compared to a gain of 16.4% for the S&P 500. The beta for the sector is 1.0.

Over the past five years, the sector's weighting has ranged from 1% to 4%. The sector's P/E ratio on projected 2027 EPS was 14, below the market multiple. The yield of 2.2% was above the market average. The sector's smoothed earnings growth rate of 6% is below the market average.

We think of the Real Estate sector as an income sector. The macroeconomic factors that may affect the performance of stocks in the Real Estate sector include Borrowing Costs, Labor Costs, Construction Costs, and Consumer Spending. Trends in the dollar can affect factors such as Cost of Goods Sold.

Generally, investing in REITs is a good way to profit from overall economic growth as part of a well-diversified portfolio. There are several approaches to investing in REITs, and they include choosing companies that have greater revenue and profit upside from falling interest rates, selecting companies that appear to be attractive takeover candidates, and focusing on high growth REITs. Other approaches include selecting REITs that pay an attractive and sustainable cash dividend or purchasing shares of large and relatively safe REITs whenever they are attractively valued.

At this stage of the market and economic cycle, our favored industries within the Real Estate sector include Data Center

Growth Stocks

REITs and Retail REITs.

VALUATION

Shares are currently trading above the midpoint of their 52-week range of \$57-\$71. At current levels, the shares are trading favorably to peers on several price-to-earnings metrics. EQR shares are currently trading at 16.6-times our 2026 estimate and 16.2-times our 2027 estimate. This price/NFFO multiple compares with the 2026 peer average of 20.0-times and the 2027 peer average of 19.9-times. The shares are also trading below their five-year historical average of 19.5-times. The shares' EV/EBITDA value is 17.9, favorable to the peer average of 21.2, and the price/sales ratio of 8.1 is also below the peer average of 8.5.

We expect EQR's earnings to benefit from continued demand for high-end rental apartments as the housing market remains frozen. We believe that weak economic conditions and high mortgage rates will lead many professionals to continue to favor rentals over homeownership, at least through early 2027. We also like the company's manageable development pipeline and growing geographical diversity. The stock also carries an above-average dividend yield of about 4.1%, which adds to total return. Our target price is \$70 and considers fundamental trading and the potential merger.

ByLine

On July 27, BUY-rated EQR closed at \$67.24, down \$0.62. (Marie Ferguson, 7/27/26)

Intel Corp (INTC)

Rating: **HOLD** 
Market Cap: **LARGE**
Sector: Information Technology

Looking for more favorable entry point

- ▶ Intel reported above-consensus 2Q26 revenue and non-GAAP EPS. Sales for 2Q26 were up 25% from year-earlier levels for the strongest growth in 15 years, while adjusted EPS grew against a year-earlier loss.
- ▶ Supply constraints previously disclosed by the company moderated in 1Q26 and further eased in 2Q26. End markets such as servers and PCs, however, are at risk from soaring component (memory) costs.
- ▶ Intel is ramping its 18A and 14A process nodes, which are crucial to the company's long-term success, for internal and merchant applications. The company continues shifting supply from client (PC) products to data centers.
- ▶ Intel is maintaining its aggressive node and product roadmap in Client and Data Center CPUs, which could entail multiple low-profit quarters in the next several years.

INVESTMENT THESIS

HOLD-rated Intel Corp. (NGS: INTC) fell 3% in a mixed market on 7/24/2026 after the company reported revenue

and non-GAAP EPS for 2Q26 that topped consensus expectations. Second-quarter revenue exceeded the high end of guidance for the period while beating the consensus estimate by \$1.6 billion. Non-GAAP EPS of \$0.42 nearly doubled the consensus estimate of \$0.22. Management guided for non-GAAP EPS of \$0.38 per diluted share for 3Q26, which was \$0.10 above the pre-reporting consensus estimate of \$0.28 per diluted share.

Previously disclosed supply constraints began to moderate in 1Q26 and appeared to further ease in 2Q26. We are concerned, however, that key Intel end markets such as servers and PCs are at risk from soaring component costs, particularly for memory. Industry expectations are for global PC unit sales to decline in low-double-digit percentages for 2026. Server sales, while so far bolstered by AI-related demand, could also be strained by rising bill-of-materials costs.

Product revenue and Foundry revenue, which were both well above pre-reporting consensus in 1Q26, accelerated in 2Q26. Client Computing Group (CCG) revenue for 2Q26 rose 13% year over year; and Data Center & AI (DCAI) revenue rose 59% from 2Q25. Intel has been redirecting supply intended for CCG to DCAI. Intel late in 2025 exhausted CPU stockpiles in the client space, leading to shortages in CCG that continued in 1Q26. Supply constraints do not appear to be fully alleviated, although the spike in PC prices (due to high memory input costs) appears to be reducing PC demand. The demand outlook for DCG remains robust, and management expects to generate 3Q26 revenue above the high end of guidance assuming it can attain sufficient supply.

The AI revolution and demand for GPU compute, according to CEO Lip-Bu Tan, is also driving growth in x86 CPU demand principally in the data center as well as in the client space. Intel is in the midst of developing and deploying its 18A and 14A process nodes, and we see rollout of this technology for internal and merchant applications as crucial to the company's success. Intel's Core Ultra series 3 CPUs in 18A, code-named Panther Lake, should be entering high-volume production at Intel's Arizona fab later in 2026.

Intel Foundry, Intel's chip fabrication business, delivered above-consensus revenue and reduced its year-over-year loss in 2Q26. On the merchant fab front, CEO Lip-Bu Tan has signaled higher customer interest in the 14A process node than for 18A process.

Intel has paused previously planned capacity expansion projects both domestically and abroad, collapsed management layers, and instilled an engineering-first culture. Employment at the end of 2Q26 was down 19% from a year earlier. Intel in our view is positioned for modest annual revenue growth (adjusted for Altera deconsolidation) against easy year-earlier comps. But Intel faces numerous challenges including revering the loss of market share in the all-important CPU market; developing a proactive approach

Growth Stocks

to the GPU market opportunity; and turning Intel Foundry into a profitable segment. Intel remains committed to delivering on its strategic roadmap, achieving long-term goals, and maximizing shareholder value. Getting Intel back to significant annual EPS growth could take some time, however.

Despite the many challenges in front of the long-term industry leader, INTC shares have rallied ahead of the market and peers in the past several months. At least until Intel demonstrates that it is not only growing but recapturing CPU market share ceded to Advanced Micro Devices, we believe an intermediate-term HOLD rating is appropriate. Our long-term rating remains BUY.

RECENT DEVELOPMENTS

INTC is up 178% year-to-date in 2026, while peers are up 79%. INTC rose 84% in 2025, while the peer group of Argus-covered communications and computing semiconductor stocks advanced 36%. INTC fell 61% in 2024, while peers rose 11%; rose 90% in 2023, while peers advanced 63%; declined 49% in 2022, while peers fell 33%; and edged up 3% in 2021, while peers rose 34%.

For 2Q26, Intel reported revenue of \$16.13 billion, which was up 25% year over year and up 19% sequentially. Revenue came in well above the high end of management's \$13.8 billion-\$14.8 billion guidance range and bested the \$14.41 billion consensus estimate by about \$1.6 billion. Intel posted a non-GAAP profit of \$0.42 for 2Q26 compared with a year-earlier non-GAAP loss of \$0.10 per share. Intel projected that at a gross margin of 39.0%, it would generate non-GAAP EPS of \$0.20 per diluted share; the consensus forecast was \$0.21.

CEO Tan, who became chief executive in March 2025, noted that 2Q26 marked a seventh consecutive quarter of exceeding financial expectations. The company's core message is simple, according to the CEO. Strong demand for Intel products continues to outpace supply. Operating discipline put in place early in 2025 is 'beginning to show tangible results,' he noted, and the cultural transformation has led the organization to move faster, make better decisions, and operate with greater efficiency while staying close to customers.

Surging demand rapid build-out of compute infrastructure worldwide, driven by the AI revolution, has been accompanied by 'one of the most severe supply shortages in history' across leading-edge logic, silicon wafers, memory, and substrates. The CEO believed Intel has three strategically important assets that will help it succeed in this complex environment: the company's x86 CPU franchise, its advanced packaging technology, and its 'vast foundry wafer network.'

The CEO has repeatedly noted that evolution of AI technology and workloads is driving higher CPU demand. He

stated that as AI expands from training to inference and increasingly to agentic and multi-agent systems, 'general purpose server CPU density continues to increase. Intel's core server CPU franchise is growing faster than ever, and demand signals from customers are driving increased confidence in the sustainability of this growth. In response to these positive signs along with tangible deals with Google Cloud and others, Intel is substantially increasing investments to support the improving demand outlook.

Intel under CEO Tan has returned to hitting its production targets. During 2Q26, according to the CEO, production from the company's fabs across Intel 7 nm, Intel 3 nm, and Intel 18A exceeded internal volume targets. This reflected improving yields, better cycle times, and increasing wafer starts. Output of 18A increased meaningfully in 2Q26, and yields are tracking ahead of expectations. The company is using 18A process technology in internal products, such as Panther Lake and Wildcat Lake CPUs. Successful volume ramp of 18A internal products provides 'important validations' as Intel's foundry business engages with and seeks to develop merchant fab customers.

Intel 18A-based Core Series 3 products experienced the fastest new product ramps in five years, according to the CEO. More broadly on the technology front, Intel has begun risk production (i.e., low-volume production) of 18A-P, which provides power and performance advantages while remaining form-factor compatibility with 18A.

The company is targeting 18A-P products for external customers. Intel continues to build out and validate the IP portfolio for 14A process, as the company prepares the 14A family 'for broad-based adoption across a wide range of customers.' Intel is positioning 14A as its main product as it seeks to build its merchant fab role from its foundry business.

Beginning in 2025, Intel introduced a simplified segment reporting structure. For 2Q26, Intel Products revenue of \$15.14 billion was up 28% annually and 18% sequentially. Total Products operating income of \$4.82 billion was up 79% year over year.

Within Products, Client Compute & Physical AI Group (CC&AIG) revenue of \$8.88 billion (55% of total) was up 13% year over year and 15% sequentially. CC&AIG operating profit of \$2.34 billion was up 14% annually, and Client operating margin widened to 26.4% for 2Q26 from 26.1% a year earlier.

Intel 18A is the foundation for the next three generations of CPUs. Intel 18A is now in volume production across over 400 designs for commercial and consumer products, and factory output 'is increasing sequentially every month,' the CEO noted. Intel launched its first Ultra Core 3 Panther Lake CPUs in 18A process node as of calendar 2025 year-end, to be followed by additional SKUs across 2026. The first

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Panther Lake CPUs are for enterprise and consumer notebook PCs. Intel will launch Nova Lake, also in 18A process node, late in 2026.

According to CFO Dave Zinsner, AI PC revenue grew 26% sequentially and now represents two-thirds of client CPU mix. In Client, Intel has a legacy advantage of powering seven out of every 10 PCs. Management believes Intel Core Ultra across Panther Lake, Nova Lake, Wildcat Lake and subsequent iterations will enable the company to maintain leadership in AI PCs. The company believes the PC total addressable market (TAM) is being impacted by supply issues and higher PC prices related to soaring memory costs.

For 2Q26, Data Center and AI Group (DCAI) revenue of \$6.26 billion (39% of total) was up 59% annually and 24% sequentially. DCAI operating profit of \$2.47 billion grew 291% year over year, and operating margin of 39.5% for 2Q26 expanded from 16.1% in 2Q25. Margin drivers begin with volume leverage and include improved product margins, better cycle times and yields, and lower operating expenses.

Revenue grew across all DC&AI segments and customers. The company believes traditional server infrastructure has been impacted by underinvestment. Demand in DC&AI reflects accelerating investments in CPUs, according to Chief Financial Officer Dave Zinsner, to support the evolution of AI from generative and foundational training to inference, and from inference to agentic.

Intel Xeon 6 series CPUs deliver customizable CPU core frequencies to boost GPU performance across AI workloads. The Xeon 6776P processor currently serves as CPU for Nvidia DGX B300, Nvidia's prior generation of GPU-based AI accelerated systems, and Xeon was selected as the host CPU for Nvidia's state-of-the-art DGX Rubin NVL8 systems. During 1Q26, DC&AI signed multiple long-term contracts with companies including Google Cloud. Intel also saw strong ASIC growth with revenue up in double-digit percentages sequentially and nearly tripling year over year. During 2Q26, Intel launched Xeon 6+, codenamed Clearwater Forest, which is Intel's first server-class product on 18A process node.

Intel Foundry revenue of \$5.77 billion for 2Q26 increased 31% year over year and 6% sequentially. Foundry operating loss in the second quarter of 2026 was \$2.09 billion compared with a loss of \$3.17 billion in 2Q25. Intel Foundry carries the bulk of costs associated with early ramp of 18A, 18A-P, 14A and other products in development.

Foundry delivered significant growth in Intel 18A, with output about 25% above target and up more than 50% from 1Q26 output, according to the CFO. Foundry has driven down the cost of Intel's primary Panther Lake SKU by about 50% year to date and is on track for an additional 20% cost reduction by year-end; further meaningful cost reductions are planned

for 2027.

The company did not disclose 2Q26 external foundry revenue, which was \$174 million for 1Q26. Investors believe that Intel needs to secure high-profile external customers to move forward with a dedicated 14A chip factory. Failure to do so will increase speculation that Intel could eventually divest its foundry operations, although divestiture appears unlikely in the intermediate term.

Looking ahead, Intel is mindful that the macroeconomic and geopolitical environment is dynamic. Constraints and rising prices for key components such as memory, wafers, and substrates are driving higher costs that will impact demand to an unknown degree. Client revenues surprised to the upside in 1H26, but Intel is planning for PC demand to be 'sub-seasonal' the second half of 2026. In line with industry peers, Intel expects PC unit TAM in 2026 to decline in low-double-digit percentages on a unit basis. Given rising PC and CPU prices, the decline in PC-related revenue could be less than the unit decline. The forecast for server CPU demand, on the other hand, has improved in the past three months, and Intel is forecasting strong double-digit unit growth for 2026 and 2027 with momentum extending into 2028.

In 2025, Intel agreed to the U.S. government taking a 10% stake in the company for \$8.9 billion. Some of that amount is related to CHIPS Act and Secure Enclave funding. Japan's SoftBank took a 2% stake in Intel in August 2025. In September 2025, Nvidia invested \$5 billion in Intel in exchange for a 4% ownership position.

Over time, Nvidia could leverage its stake to source production at Intel Foundry, thus protecting its investment by giving the foundry business an important customer. Intel is benefiting as Nvidia pairs its industry-dominant GPUs with Intel's x86-based Xeon server CPUs. Nvidia mainly uses ARM-based CPUs in its GPU compute clusters, including its own Grace and Vera CPUs.

Intel remains committed to delivering on its strategic roadmap, achieving long-term goals and maximizing shareholder value. It is taking a more realistic approach to capacity expansion and will be a much leaner organization going forward. Given ongoing challenges in front of Intel, as well high valuation multiples relative to peers and the company's own historical metrics, we believe an intermediate-term HOLD rating is appropriate.

EARNINGS & GROWTH ANALYSIS

For 2Q26, Intel reported revenue of \$16.13 billion, which was up 25% year over year and up 19% sequentially. Revenue came in well above the high end of management's \$13.8 billion-\$14.8 billion guidance range and bested the \$14.41 billion consensus estimate by about \$1.6 billion.

The non-GAAP gross margin was 41.8% in 2Q26, versus

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41.0% in 1Q26 and 29.7% a year earlier. The non-GAAP operating margin was 17.2% in 2Q26, versus 12.3% in 1Q26 and -3.9% a year earlier.

Intel posted a non-GAAP profit of \$0.42 for 2Q26 compared with a year-earlier non-GAAP loss of \$0.10 per share. Intel projected that at a gross margin of 39.0%, it would generate non-GAAP EPS of \$0.20 per diluted share; the consensus forecast was \$0.21.

For all of 2025, revenue of \$52.8 billion was down less than 1% from \$53.0 billion for 2024. Non-GAAP EPS was \$0.41 per diluted share for 2025, compared with a non-GAAP loss of \$0.13 for 2024.

For 3Q26, Intel forecast revenue of \$15.8 billion-\$16.8 billion. At a forecast gross margin of 42.0%, Intel estimated it would generate non-GAAP EPS of \$0.38. At the midpoint, revenue of \$16.3 billion would be up 19% annually, while non-GAAP EPS would be up 67% from non-GAAP EPS of \$0.23 for 3Q25.

We are raising our 2026 non-GAAP EPS projection to \$1.49 per diluted share from \$0.55. We are raising our non-GAAP EPS projection for 2027 to \$1.81 per diluted share from \$0.94. We regard our estimates as fluid and subject to revision. Our long-term EPS growth rate estimate is 9%.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on Intel is Medium-High. Intel's credit ratings are mainly A1 or A2, per Moody's. Under CEO Tan, Intel has received a nearly \$20 billion infusion from investments by the U.S. federal government, Nvidia, and Softbank and cash proceeds from a partial sale of Altera.

Cash was \$29.7 billion at the end of 2Q26. Intel's cash & equivalents and investments totaled \$37.4 billion at the end of 2025, aided by cash investments from the U.S. government, Nvidia, and Japan's Softbank. Cash & equivalents and investments were \$22.1 billion at the end of 2024, \$25.0 billion at the end of 2023, and \$28.4 billion at the end of 2022.

Total debt was \$50.5 billion at the end of 2Q26. Total debt was \$46.6 billion at the end of 2025, \$50.0 billion at the end of 2024, \$49.3 billion at the end of 2023, and \$42.1 billion at the end of 2022.

Net debt was \$9.2 billion as of year-end 2025, down from \$27.9 billion at the end of 2024. Net debt was \$24.3 billion at the end of 2023, \$13.7 billion at the end of 2022, \$9.69 billion at the end of 2021, and \$12.5 billion at the end of 2020.

Cash flow from operations was \$9.70 billion in 2025. Cash flow from operations was \$8.3 billion in 2024, \$11.5 billion in 2023, \$15.4 billion in 2022, \$30.0 billion in 2021, and \$35.4 billion in 2020.

In February 2023, Intel slashed its quarterly dividend by 65%, to \$0.125, or \$0.50 annually. In August 2024, Intel announced that it was suspending its dividend as part of a comprehensive cost-reduction plan. Currently, we do not expect Intel to pay a dividend in 2026 or 2027.

MANAGEMENT & RISKS

In March 2025, the Intel board announced the appointment of Lip-Bu Tan as CEO. Dave Zinsner is CFO and president of Intel Products. Naga Chandrasekaran is COO and chief of Intel Foundry. Pushkar Ranade is chief technology officer, and Greg Ernst is head of sales and marketing.

Since long-time CEO Paul Otellini stepped down in 2013, the past several CEOs at Intel were either hired from within (Brian Krzanich, Bob Swan) or were ex-Intel employees who returned (Pat Gelsinger). Going to a complete outsider has worked well for Intel, given that hiring from within plainly had not worked. An outsider has a longer learning curve, which is a disadvantage given that the industry is dynamic and changing so rapidly. CEO Tan has translated his success in leading Cadence Design Systems to success in leading Intel, in our view.

A risk for Intel is the competitive success of rival Advanced Micro Devices, which has gained meaningful CPU share both in the PC and data center markets. Since the start of 2023, Intel has laid out multiyear product and solutions roadmaps in the PC and data center markets. Although investors remain skeptical, at least they now have tangible markers to measure future success or failure.

Past acquisitions, including Altera and Mobileye, carry risks related to Intel's spotty record in integrating past acquisitions. Although Mobileye is even more expensive than Altera, this leader in autonomous and assisted driving systems exposes Intel to a much larger TAM opportunity.

Intel faces the usual array of competitive risks but is a leader in microprocessors in PCs and in the data center. Given the company's history of technology leadership, and particularly the upcoming 18a process node, we expect some degree of market share stabilization going forward.

COMPANY DESCRIPTION

Intel supplies the computing industry with the chips, boards, systems, and software that are the primary components of computer architecture. Intel has also expanded through acquisitions, although these businesses are now being reviewed for possible sale. Intel formerly had the largest revenue base and market cap in the semiconductor industry, though it now lags Nvidia and others.

INDUSTRY

Our rating on the Information Technology sector is Over-Weight. The Information Technology sector accounted for a substantial 38.0% of the S&P 500 market cap as of the end of June. We think diversified investors should have

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meaningful exposure to the sector, at least in line with the current sector weight.

The sector receives above-average marks on our six-part 'blind' sector rating criteria, which includes growth momentum, valuation, financial strength, and analyst conviction, among other factors.

The sector has outperformed the market year to date with a gain of 19.4% as of the end of June. The sector outperformed in 2025, with a gain of 23.3%, compared to a gain of 16.4% for the S&P 500. The beta for the sector is 1.4.

Over the past five years, the sector's weighting has ranged from 16% to 39%. The sector's P/E ratio on projected 2027 EPS was 20-times on a GAAP basis, above the market multiple. The yield of 0.1% was below the market average. The sector's smoothed earnings growth rate of 16% was above the market average.

The Information Technology sector is primarily a secular growth sector. The macroeconomic factors that may affect the performance of stocks in the Information Technology sector include Global and Domestic GDP Growth, Global and Domestic Wage Growth, and Employment Trends, among others. Trends in the dollar can affect factors such as Cost of Goods Sold.

Potential sell signals for stocks in the Information Technology sector can be a change in the direction or rate of a company's sales or earnings growth, a pronounced slowdown in new product announcements, or changes in the regulatory environment.

At this stage of the market and economic cycle, our favored industries within the Information Technology sector include Semiconductors and Application Software.

VALUATION

INTC trades at 67.3-times our 2026 non-GAAP estimate and at 55.4-times our 2027 non-GAAP EPS projection. The two-year forward P/E of 61.4-times is way above the five-year (2021-2025) average P/E of 36.0. The two-year forward relative P/E of 3.0 is above the 2021-2025 average of 1.37. Our historical comparable valuation model renders a value for INTC in the high-\$30s, in a rising trend though well below current levels.

Peer group analysis shows INTC now trading at a discount to peers on price/sales and premiums on absolute and relative P/E and enterprise value/EBITDA. Peer-indicated value is in the mid-\$50s, rising sharply with the peer group but well below the current stock price.

Our forward-looking DCF model indicates a fair value in the low-\$90s, rising on improving fundamentals. Our forward-looking DCF valuation is predicated on Intel executing on its turnaround. Factoring in these multiple

valuation inputs, we calculate a blended value in the high-\$70s, rising but still below current prices.

Despite the many challenges in front of the long-term industry leader, INTC shares have rallied ahead of the market and peers in the past two months. We are reiterating our intermediate-term HOLD rating and long-term BUY rating on INTC shares.

ByLine

On July 24 at midday, HOLD-rated INTC traded at \$95.77, down \$4.47. (Jim Kelleher, CFA, 7/24/26)

Johnson & Johnson (JNJ)

Rating:	BUY
Market Cap:	LARGE
Sector:	Healthcare

Raising target after talc settlement

- ▶ We are raising our price target on the JNJ shares to \$300 from \$290, as the talc litigation settlement removes a cloud that has been over the stock.
- ▶ The settlement comes after a federal court made a favorable ruling that dismissed the plaintiffs' expert witnesses.
- ▶ The settlement amount is lower than earlier attempts by the company to settle the litigation, including one offer for \$8 billion that would have put the talc litigation in a Chapter 11 entity.

INVESTMENT THESIS

Our rating on Johnson & Johnson (NYSE: JNJ) is BUY and is based on solid growth drivers for 2026 and beyond. The company has a robust pipeline of new drugs and medical devices, as well as 28 product platforms that each generate more than \$1 billion in annual revenue. We view the pending separation of the orthopedics business as transforming JNJ into a faster-growing and higher-margin enterprise.

In our opinion, results for 2Q26 demonstrate the company's ability to sustain top-line growth despite the erosion of one of its key pharmaceutical brands, Stelara. Innovative Medicine sales grew 14%, excluding Stelara. Solid sales growth from oncology and neuroscience drugs, as well as from the recent acquisition in the MedTech segment, more than offset the sharp decline in Stelara, which faces competition from biosimilars.

JNJ shares (+34%) have outperformed the S&P 500 and the Healthcare sector over the past year.

Our new target price is \$300.

RECENT DEVELOPMENTS

J&J announced an agreement for a comprehensive resolution of talc litigation brought in federal proceedings and

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related state proceedings. The company said on July 27 that it had reached this agreement with firms representing the plaintiffs in the outstanding talc cases. The agreement is conditioned on the participation by lead plaintiff's firms in all ovarian talc litigation pending in federal and state courts, representing at least 95% of remaining claims. This process could take months to finalize.

J&J has committed to pay \$5.5 billion for the settlement, with the first payment capped at \$3.5 billion and to be made in 2027. No additional payment will be made before 2028.

As reported in The Wall Street Journal, a negotiating committee for the plaintiffs' attorney in the new settlement said they agreed to the deals after years of litigation.

The settlement comes shortly after a ruling favorable to J&J was issued by the federal court overseeing the Multi-District Talc litigation. The court ordered plaintiffs to show why the remaining pending talc claims should not be dismissed for inability to prove specific causation. The court had dismissed plaintiffs' expert witnesses.

This settlement removes a cloud that was hanging over J&J, and the stock responded positively to the news. The settlement amount is lower than earlier attempts by the company to settle the litigation, including one offer for \$8 billion that would have put the talc litigation in a Chapter 11 entity.

EARNINGS & GROWTH ANALYSIS

This settlement announcement does not affect the 2026 guidance nor our estimates for adjusted EPS. The company expects adjusted EPS of \$11.60-\$11.75 (midpoint of \$11.68). It expects reported sales of \$100.8 billion-\$101.4 billion (7.0%-7.6% increase; 7.3% midpoint).

On an operational basis, it expects growth of 6.5%-7.1% (midpoint 6.8%). The guidance includes a 100-basis-point benefit from the extra week in the fiscal year.

Our estimates for adjusted EPS are \$11.60 for 2026 and \$12.80 for 2027.

Our five-year EPS growth forecast is 9%.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on JNJ is High, the top rank on our five-point scale. JNJ's debt has an AAA credit rating.

In April, the board authorized a 3.1% increase to the dividend rate at the annualized rate of \$5.36, marking the 64th consecutive year of dividend growth. The current yield is about 2.2%. Our dividend estimates are \$5.32 for 2026 and \$5.44 for 2.27.

MANAGEMENT & RISKS

Joaquin Duato is CEO and chairman. Joseph J. Wolk serves

as CFO.

J&J faces a range of competitive, regulatory, and legal risks. On the pharmaceutical side, its competitors include both established manufacturers of branded drugs and biologics as well as suppliers of generics. The pharmaceutical business also faces patent expirations and loss of exclusivity for its drugs. In addition, the company faces significant costs in developing prescription drugs, which typically have lengthy development cycles. JNJ also faces pricing pressures from insurance companies and regulatory agencies in overseas markets, as government regulators in China and other countries set pricing for medical devices sold in their jurisdictions.

COMPANY DESCRIPTION

Johnson & Johnson is a diversified global healthcare company that develops, manufactures, and markets products in two business segments: Innovative Medicine (formerly Pharmaceuticals) and MedTech.

INDUSTRY

Our rating on the Healthcare sector is Market-Weight. The Healthcare sector accounted for 8.9% of the S&P 500 as of the end of June. Healthcare investors are finding nowhere to hide, as health insurance companies struggle with high costs and declining enrollments, medical device companies face declining elective-procedure volumes, and pharmaceutical companies face mandated lower prices and a pipeline that (excluding GLP-1) is seen as lacking in potential blockbusters.

The sector receives average marks on our six-part 'blind' sector rating criteria, which includes growth momentum, valuation, financial strength, and analyst conviction, among other factors.

The sector has underperformed the market year to date with a gain of 2.6% as of the end of June. The sector underperformed in 2025, with a gain of 12.5%, compared to a gain of 16.4% for the S&P 500. The beta for the sector is 0.6.

Over the past five years, the sector's weighting has ranged from 8% to 15%. The sector's P/E ratio on projected 2027 EPS was 19, equal to the market multiple. The yield of 1.3% was above the market average. The sector's smoothed earnings growth rate of 8% was below the market average.

The Healthcare sector is primarily a defensive, counter-cyclical sector. The largest macroeconomic factor that will affect the performance of stocks in the Healthcare sector is the aging population, both in the U.S. and in other developed countries, including China. Other factors include GDP Growth, Interest Rates, Inflation, Government Policy and Regulation, Trade, Pandemics or Health Crises, and Employment/Unemployment Rates. Trends in the dollar can affect factors such as Cost of Goods Sold.

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Healthcare stocks are often favored during periods of economic weakness. Sell signals for stocks in the sector can be material changes in regulatory decisions that alter business models, pending patent cliffs for pharma companies or a weakened balance sheet that threatens a dividend.

At this stage of the market and economic cycle, our favored industries within the Healthcare sector include Healthcare Equipment and Healthcare Distributors.

VALUATION

JNJ shares trade at 20.8-times our 2027 EPS estimate, compared to an average multiple of 17.3 for our coverage universe of large-cap pharma stocks. In view of the company's intention to transform itself into a faster-growing enterprise with the orthopedics separation, we view this as an attractive valuation. We believe that JNJ's growth opportunities and success in integrating acquisitions support this valuation. In addition, we expect the company's pharmaceutical pipeline and recently approved products to be solid growth drivers and to more than offset headwinds in other markets.

ByLine

On July 28, BUY-rated JNJ closed at \$266.73, up \$0.78. (David Toung, 7/28/26)

Kinder Morgan Inc (KMI)

Rating: **BUY** 
Market Cap: **LARGE**
Sector: **Energy**

Raising target price to \$38

- ▶ Kinder Morgan recently reported 2Q26 adjusted net income of \$821 million, or \$0.37 per share, up 32% from \$619 million, or \$0.28 per share, in 2Q25. EPS beat our estimate of \$0.30 and the StreetAccount consensus estimate of \$0.32.
- ▶ The higher 2Q26 earnings largely reflected strong results from Natural Gas Pipelines (higher volumes and power generation demand), Products Pipelines (higher commodity prices), and Terminals (higher tanker fleet rates).
- ▶ Kinder Morgan raised its 2026 financial outlook following 2Q26 earnings results. The guidance now calls for adjusted EBITDA of \$9.0 billion (versus \$8.6 billion previously) and adjusted EPS of \$1.52 per diluted share (versus \$1.36 per share previously).
- ▶ We are increasing our 2026 EPS estimate to \$1.52 from \$1.37, to reflect both 2Q operating results (which beat our estimate by \$0.07 per share) and upwardly revised company guidance.

INVESTMENT THESIS

Our rating on the shares of Kinder Morgan Inc. (NYSE: KMI), one of the leading energy infrastructure (Midstream) companies in the United States, is BUY, and we are raising our target price to \$38 per share (from \$36 per share). Our new target price suggests a total return potential of about 20% from current prices, including the dividend.

Kinder Morgan transports nearly 40% of all U.S. natural gas production throughout the country through its extensive natural gas network, which includes significant storage capabilities and 78,000 miles of natural gas pipelines. We believe the company's base businesses (Natural Gas Pipelines, Products Pipelines, Terminals, and CO2) are performing well, despite some commodity price volatility, and are well positioned for accelerating growth in the near-to-intermediate term, as demand for natural gas, including liquefied natural gas and natural gas liquids, continues to increase in consumer, commercial (export), manufacturing, and industrial applications. Additionally, KMI recently noted that it anticipates new, incremental natural gas demand for electricity generation associated with artificial intelligence operations.

In the recent past, while we had been concerned over KMI's growing debt obligations, we believe KMI's recent announcement to lower its leverage target to 3.5- to 4.5-times net debt-to-adjusted EBITDA (from 4.5-times previously) is a step in the right direction. The move should allow KMI to become more 'in line' with the rest of its midstream peer group. In addition, we believe the 'healthy' level of backlog projects (at \$9.6 billion) and the recent 2% increase in its dividend are extremely positive signs for the company.

RECENT DEVELOPMENTS

Kinder Morgan recently reported 2Q26 adjusted net income of \$821 million, or \$0.37 per share, up 32% from \$619 million, or \$0.28 per share, in 2Q25. EPS beat our estimate of \$0.30 and the StreetAccount consensus estimate of \$0.32.

The higher 2Q26 earnings largely reflected strong results from Natural Gas Pipelines (higher volumes and power generation demand), Products Pipelines (higher commodity prices), and Terminals (higher tanker fleet rates).

Revenue for 2Q26 was \$4.477 billion, up 11% from \$4.042 billion in 2Q25. Sales results also beat the StreetAccount consensus estimate of \$4.220 billion.

Adjusted EBITDA reached \$2.199 billion in 2Q26, up 12% versus \$1.972 billion in 2Q25. The year-over-year improvement in adjusted EBITDA performance was largely attributable to higher net income.

Executive Chairman Richard D. Kinder (cofounder of Kinder Morgan in 1997) is a significant owner of the company's stock. While he has not been an active acquirer since August 2020, he currently owns 257.1 million shares, or 11.6%, of

Growth Stocks

KMI.

On tariff regulation, Kinder does not believe that tariffs will have a material impact on project economics. The company began efforts to mitigate the potential impact early in 1Q25 by preordering critical project components, negotiating caps on cost increases, and securing domestic steel and mill capacity for larger projects, which total two-thirds of project backlog. KMI has estimated that on a year-to-date basis, tariff regulations have only increased project costs by about 1%.

EARNINGS & GROWTH ANALYSIS

Kinder Morgan raised its 2026 financial outlook following 2Q26 earnings results. The guidance now calls for adjusted EBITDA of \$9.0 billion (versus \$8.6 billion previously) and adjusted EPS of \$1.52 per diluted share (versus \$1.36 per share previously).

We are increasing our 2026 EPS estimate to \$1.52 from \$1.37, to reflect both 2Q operating results (which beat our estimate by \$0.07 per share) and upwardly revised company guidance.

At the same time, we are raising our 2027 EPS estimate to \$1.63 from \$1.52, reflecting our forecast that calls for continued strong natural gas demand and higher-trending backlog project growth.

FINANCIAL STRENGTH & DIVIDEND

We rate Kinder Morgan's financial strength as Medium, the middle rating on our five-point scale. KMI receives average scores on our financial strength benchmarks of debt/capitalization levels, fixed cost coverage, cash flow, and profitability and above-average scores on dividend and dividend coverage.

KMI's credit ratings are graded as BBB/positive by S&P and Baa1/stable by Moody's. Fitch currently has a rating of BBB/positive. All credit ratings are considered investment grade, suggesting a low risk of default.

On March 12, 2026, Moody's upgraded KMI's credit rating to Baa1 with a stable outlook from Baa2 with a positive outlook, citing reduced financial leverage, disciplined capital allocation, and a visible backlog of expansion projects.

The debt/capitalization ratio was 50.0% at the end of 2Q26, down from 50.2% at the end of 2Q25. Currently, the debt/cap ratio is modestly above its peer group. Over the past five-year stretch, it has averaged 50.1%.

Total debt was \$32.3 billion at the end of 2Q26, consisting of both short-term and long-term borrowings, compared to total debt of \$31.7 billion at the end of 2Q25. KMI now considers debt reduction a strategic priority.

Cash and cash equivalents totaled \$89 million at the end of

2Q26, compared to \$82 million at the end of 2Q25. Additionally, this compares to \$72 million posted at the end of 1Q26.

Cash from operating activities (cash flow) was \$1.960 billion in 2Q26, compared to \$1.649 billion in 2Q25. In addition, this compares to \$1.491 billion in 1Q26.

As discussed previously, on August 20, 2021, KMI entered a new \$3.5 billion revolving credit facility, with a maturity date of August 2026, which may be used for working capital and other general corporate purposes. This facility may be increased by \$1.0 billion if certain conditions are met.

The net debt-to-adjusted EBITDA ratio at the end of 2Q26 was 3.6-times. Just recently, Kinder announced that it was adjusting its long-term leverage target from 4.5-times net debt-to-adjusted EBITDA to a range of 3.5- to 4.5-times, which we are in support of. Kinder Morgan believes that this new targeted range is appropriate given the company's scale and energy infrastructure assets, which produce stable, fee-based cash flows, typically backed by multiyear contracts.

Dividends are part of KMI's strategy to return cash to shareholders. On April 22, 2026, the company raised its dividend by 2% to \$0.2975 per share, or \$1.19 annually. The yield is about 3.60%. Our dividend estimates are \$1.19 for 2026 and \$1.21 for 2027.

Kinder Morgan buys back its stock. The company did not repurchase any of its shares in 2Q26 but did buy back a total of \$6.7 million of shares in 2025. The company has approximately \$1.0 billion left on its current authorization. In 2024, the company repurchased approximately \$7 million worth of its shares.

MANAGEMENT & RISKS

Kinder Morgan has an experienced management team, with an incentive-driven compensation plan and a transparent reporting system. Richard D. Kinder (born in 1944) is executive chairman of the company. He has built a successful career in the energy business, and the investment community has given him high marks for his performance. Mr. Kinder receives annual compensation of \$1, with no bonuses or stock options. Since he owns 11.6% of the company (about 257.1 million shares), his interests align closely with those of other shareholders. In June 2015, Mr. Kinder was succeeded as CEO by Steven Kean, who held the position until August 2023. He was succeeded by Kinder Morgan President Kimberly Allen Dang, a 20-year KMI veteran, who has also served as CFO.

Midstream companies face risks related to commodity price fluctuations, adverse weather conditions, and environmental issues. Investment in pipelines also involves risks related to fires and explosions, as well as regulatory decisions at the federal and state level. All of the company's pipelines are

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regulated by the Federal Energy Regulatory Commission. Due to its capital-intensive nature and reliance on external funding, KMI also faces risks related to interest rate hikes.

COMPANY DESCRIPTION

Kinder Morgan Inc. is one of the largest natural gas transmission and storage companies in North America. After going private in May 2007, it went public again in February 2011 via a \$3.3 billion initial public offering. Following a late 2014 consolidation of its former operating entities, Kinder Morgan Energy Partners LP, Kinder Morgan Management, and El Paso Pipeline Partners LP, the newly consolidated company no longer has a master limited partnership structure, under which the former limited partners paid incentive distribution rights to KMI as their general partner.

Through its various operating businesses, KMI operates a diverse set of assets, including 79,000 miles of pipelines and 180 terminals. Its pipelines transport natural gas, refined petroleum products, crude oil, carbon dioxide, and other products, and its terminals store products such as petroleum, chemicals, ethanol, coal, coke, and steel. In addition, the company is a leading provider of carbon dioxide, which is used for enhanced oil recovery projects in North America. KMI also owns a 20% equity interest in NGPL PipeCo LLC, a major interstate natural gas pipeline and storage system. Kinder Morgan is a component of the S&P 500 and has 11,028 employees.

VALUATION

KMI shares have traded between \$25.60 and \$34.81 over the past 52 weeks and are currently trading above the midpoint of this range. To value the stock on a fundamental basis, we use peer group and historical multiple comparisons, as well as a dividend discount model.

On a price/earnings basis, the common shares are trading at 21.6-times our 2026 EPS estimate and at 20.2-times our 2027 forecast, compared to a 12-year annual average range of 18-30.

On other valuation measures, the shares are trading at a price/book multiple of 1.7, versus a range of 1.2-1.8; a price/sales multiple of 3.5, versus a range of 2.2-3.4; and a price/cash flow ratio of 10.2, versus a range of 6.4-9.8. They are also trading at a price/EBITDA multiple of 9.2, above the midpoint of the range of 6.3-9.8.

Summarizing valuation metrics, we view these metrics as attractive (despite a few metrics trading near the upper end of historical averages) based on our view that KMI stands at the start of a three-to-four-year, above-average earnings growth rate cycle, where revenue performance and profit should grow consistently quarter after quarter, pushing valuation metrics higher, largely the result of higher global natural gas demand.

[ByLine](#)

On July 27 at midday, BUY-rated KMI traded at \$31.91, down \$0.95. (Bill Selesky, 7/27/26)

MSCI Inc (MSCI)

Rating: **BUY** 
Market Cap: **LARGE**
Sector: **Financial**

Record ETF growth continues to drive results

- ▶ On July 21, the company reported 2Q adjusted EPS of \$4.94, up almost 19% from \$4.17 in the prior year and topping Street expectations. Revenue rose 12% year over year to \$867 million.
- ▶ Henry Fernandez, chairman & CEO, noted MSCI's record AUM levels totaling \$2.8 trillion and global AUM benchmarked MSCI Indexes surpassed \$2.2 trillion.
- ▶ Looking ahead, we expect low-double-digit EPS growth, multiple expansion, and share-price appreciation as the company continues to grow in its target markets.
- ▶ Our target price remains \$660.

INVESTMENT THESIS

Our rating on MSCI Inc. (NYSE: MSCI) is BUY. MSCI is a large-cap financial services company focusing on passive investing, analytics, and ESG and climate-related investing. In early February, MSCI's stock, along with other financial information services companies, were hit on news that AI would replace the data and services they provide. However, much of the data and services they provide is proprietary.

MSCI has an impressive track record, with double-digit annual growth in both sales and EPS. We expect MSCI to benefit over time from global GDP growth, the increased popularity of passive investment strategies, and the development of ESG and climate-based investing in developed and emerging economies.

The company also has opportunities to develop new products and raise margins, and to expand through targeted acquisitions. The balance sheet is clean, and management has a history of focusing on shareholder returns through dividend growth and share buybacks; the most recent dividend hike was 14% in January 2026. On valuation, the shares trade at a premium to the peer group - and while they have rewarded investors over time with above-market and above-peer-average returns, they are susceptible to sharp pullbacks on any earnings disappointment.

Looking ahead, we expect low-double-digit EPS growth, multiples expansion, and share-price appreciation as the company continues to expand in its target markets. Our target price remains \$660.

RECENT DEVELOPMENTS

Over the past year, MSCI shares have risen 6%, compared

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to a 16% advance for the S&P 500. Approximately 18% of the shares are held in various ETFs, and the shares make up 3.6% of the iShares U.S. Broker-Dealers ETF IAI. The beta on MSCI is 0.90.

On July 21, the company reported 2Q adjusted EPS of \$4.94, up almost 19% from \$4.17 in the prior year and topping Street expectations. Revenue rose 12% year over year to \$867 million. The adjusted EBITDA margin was 62.1%, up from 61.4% a year earlier.

Henry Fernandez, chairman & CEO, noted MSCI's record AUM levels totaling \$2.8 trillion and global AUM benchmarked MSCI Indexes surpassed \$2.2 trillion. Among client segments, the company recorded double-digit subscription run rate growth with banks and brokerages, asset managers, hedge funds, and asset owners.

In July 2026, MSCI announced a strategic partnership with UBS focused on the private markets. The objective is to bring transparency and consistency to private market investors.

MSCI announced an agreement with the NYSE to list U.S. options on key MSCI benchmark indexes. Listings went live in late February.

MSCI continues to expand its suite of services through acquisitions. In 4Q25, MSCI acquired Vantager, Compass Financial Technologies and PM Insights. Vantager is an AI-enabled Private Assets Diligence Platform, taking fragmented data into a structured intelligence for investment, operational, and legal due diligence. Compass Financial Technologies enables users to benchmark risk and performance across commodities and digital assets. PM Insights brings institutional-grade data, pricing transparency, and analytics to private markets.

EARNINGS & GROWTH ANALYSIS

MSCI has a record of solid long-term growth. It has increased adjusted EPS at a 15% CAGR over the past five years. We note that approximately 96% of total revenue is recurring.

MSCI has four main operating segments: Index (59% of 2Q revenue), Analytics (22%), Sustainability and Climate (10%), and Private Assets (9%). Recent trends and outlooks for these segments are discussed below.

The Index business includes the company's Market-Cap Weighted, Custom Indices, and Non-Market Cap Weighted. Clients license these indices to create a wide range of financial products, including ETFs, mutual funds, insurance products, over-the-counter derivatives, and listed futures and options. Index is the company's most profitable business, with an adjusted EBITDA margin in the high-70% range. Management is targeting low-double-digit revenue and adjusted EBITDA growth in this segment over the long term.

In the Analytics segment, the company's products offer institutional investors an integrated view of risk and return and help investors make better decisions. MSCI's analytics portfolio includes Barra multifactor models; pricing models; methodologies for performance attribution; RiskMetrics models for statistical analysis, such as VaR; and tools for security analysis, portfolio optimization, back testing, and stress testing. Analytics is the second most-profitable business, with an adjusted EBITDA margin in the mid-40s percent range. Management is targeting high single-digit revenue and low-double-digit adjusted EBITDA growth over the long term.

The Sustainability and Climate group offers ratings, data & solutions, indices, climate indices, and analytics and valuation tools. MSCI has been running analytics and models for more than 30 years. Management is targeting growth in the low-to-mid teens percent range for revenue and high-30s adjusted EBITDA in this segment over the long term.

Growth in revenues attributed to asset-based fees was driven by ETFs linked to MSCI equity indexes. Growth in recurring subscription revenue was driven by growth from market-cap weighted Index products and non-ETF indexed funds linked to MSCI indexes. The Index run rate as of June 30, 2026, was \$2 billion, up 17% year over year. The \$301 million increase reflected a \$191 million increase in asset-based fees run rate and a \$110 million increase in recurring subscription Run Rate.

Analytics revenue rose 7% to \$189 million from the prior year in 2Q; this growth was from recurring subscriptions related to both Equity Analytics and Multi-Asset Class products. The Analytics run rate as of June 30, 2026, was \$773.3 million, up 2%.

Sustainability and Climate revenue rose 2% from the prior year. The \$7 million increase was driven by growth from recurring subscriptions related to ratings and climate products. The Sustainability and Climate run rate as of June 30, 2026 was \$377 million, up 2% year over year.

Moving to margins, the 2Q26 adjusted operating margin was up year over year, at 56.2%, compared to 55% in 2Q25. EBITDA margins for Index, Analytics, ESG and Climate, and Private Assets were 77.8%, 46.5%, 38.7%, and 22.9%, respectively.

Along with the 2Q report, management reiterated its guidance for 2026. The company projects full-year free cash flow of \$1.485-\$1.545 billion, capital expenditures of \$160-\$170 million, and operating expenses of \$1.535-1.575 billion.

Turning to our estimates, based on trends and forecasts for the financial markets, as well as management's focus on growth and margins, we are raising our 2026 EPS estimate to \$19.81 from \$19.66 and our 2027 EPS estimate to \$22.38

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from \$22.22. Our long-term earnings growth rate forecast is 11%.

FINANCIAL STRENGTH & DIVIDEND

We rate the financial strength of MSCI as Medium, the midpoint on our five-point scale. The company scores above average on key tests such as fixed-cost coverage and profitability, but debt levels are on the high side.

Cash and cash equivalents and short-term investments totaled \$356 million as of June 30. Debt totaled \$6.5 billion, and the total debt/adjusted EBITDA ratio (based on trailing 12-month adjusted EBITDA) was 3.1, within management's target range of 3.0-3.5.

MSCI pays a dividend. In January 2026, the company raised the payout by 14%. The current quarterly dividend is \$2.05 per share, or \$8.20 annually, for a yield of about 1.5%. We think the dividend is secure, and likely to grow. Our dividend estimates are \$8.20 for 2026 and \$9.20 for 2027.

The company also has a share repurchase program. In 2Q, share repurchases totaled \$147 million. On October 25, 2025, the board of directors authorized a new repurchase program for up to \$3.0 billion and has approximately \$1.6 billion left under the current authorization.

MANAGEMENT & RISKS

The chairman and CEO of MSCI is Henry Fernandez. He has been CEO for almost three decades. Prior to becoming CEO, Mr. Fernandez was a managing director at Morgan Stanley. The CFO is Andrew C. Wiechmann, who previously served as chief strategy officer.

MSCI is well positioned to benefit from long-term secular trends, including global GDP growth and the increased interest in ESG and climate-based investing. The company has products to meet the needs of all participants in the investment process: providers of capital (asset owners), users of capital (corporations), and financial intermediaries (banks, broker-dealers, and exchanges).

MSCI also has a growth-by-acquisition strategy. It continues to pursue targeted acquisitions and sees the opportunity for operating-margin expansion. Share buybacks are also expected to boost EPS.

The company has also set long-term growth targets, including low-double-digit revenue growth, low to mid-teens EBITDA growth and an adjusted EBITDA margin in the high-50% range.

Investors in MSCI face numerous risks. The financial services industry is highly competitive and may be affected by AI adoption, slowing economy or by rising interest rates, which could reduce demand for index investing or investment services and tools.

As a global company, MSCI faces currency risk. A stable or lower dollar would be a positive development for companies such as MSCI. The company also faces regulatory risks. Its margins and multiples are high, so any EPS disappointment can lead to a sharp sell-off in the shares.

COMPANY DESCRIPTION

MSCI is a leading provider of investment-decision support tools worldwide. Its line of products and services includes indices, analytical tools, and ESG and climate research products. The stock is a component of the S&P 500. The company has approximately 6,300 employees.

INDUSTRY

Our rating on the Financial sector is Over-Weight. The Financial sector accounted for 11.8% of the S&P 500 as of the end of June. We think diversified investors should have meaningful exposure to the sector, at about 125-150% of the current sector weight.

The sector receives above-average marks on our six-part 'blind' sector rating criteria, which includes growth momentum, valuation, financial strength, and analyst conviction, among other factors.

The sector has underperformed the market year to date with a loss of 2.1% as of the end of June. The sector underperformed in 2025, with a gain of 13.3%, compared to a gain of 16.4% for the S&P 500. The beta for the sector is 0.9.

Over the past five years, the sector's weighting has ranged from 10% to 15%. The sector's P/E ratio on projected 2027 EPS was 14, below the market multiple. The yield of 1.6% was above the market average. The sector's smoothed earnings growth rate of 9% was below the market average.

The Financial sector is a cyclical and often value-oriented sector. The macroeconomic factors that may affect the performance of stocks in the Financial sector include the Unemployment Rate (which can influence the debt repaying capability of consumers and therefore credit costs), Interest Rates (which can determine lending profitability), and GDP or growth in the economy (which influence loan growth). The industry is also highly regulated, so changes in the regulatory environment can influence capital set-aside requirements and thus profitability.

At this stage of the market and economic cycle, our favored industries within the Financial sector include Diversified Banks, Financial Exchanges & Data, and Investment Banking & Brokerage.

VALUATION

We think that MSCI shares remain attractively valued at current prices around \$580. The shares have traded between \$501 and \$645 over the past 52 weeks and are currently above the midpoint of the range.

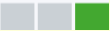
Growth Stocks

On the fundamentals, the current forward P/E is 39, below the midpoint of the historical range of 20-50. The price/sales ratio is 15, with a range of 10-26. We have examined a group of MSCI's publicly traded peers, including, among others, Morningstar, FactSet Research Systems, and S&P Global. MSCI trades at above-peer-average P/E and price/sales multiples, but the dividend yield on average is also higher. Over the long term, we expect low-double-digit EPS growth, multiple expansion, and a higher share price as the company continues to expand in its target markets. Our 12-month target price remains \$660, or 33-times our revised 2026 EPS estimate.

ByLine

On July 28, BUY-rated MSCI closed at \$579.39, up \$8.36. (Kevin Heal and Julianna Perri, 7/28/26)

Novartis AG (NVS)

Rating: **BUY** 
Market Cap: **LARGE**
Sector: **Healthcare**

Raising target price to \$170

- ▶ NVS shares had traded in a long-term bullish pattern of higher highs and higher lows dating back to 2022. While the stock recently retreated earlier in 2026, the shares have begun to recover, most recently rising back above their 50-day moving average.
- ▶ The company has a strong pipeline of product candidates that may act as near-term catalysts for the stock, with some drugs already under regulatory review and others potentially being filed for regulatory approval later in 2026.
- ▶ Novartis pays an attractive dividend, which recently grew 5.7% following shareholder approval, for a yield of about 3.1%.
- ▶ Our revised target price of \$170 implies a total potential return, including the dividend, of roughly 12% from current levels.

INVESTMENT THESIS

Our rating on Novartis AG (NYSE: NVS) is BUY. The company, which has a vast portfolio of immunology, neuroscience, oncology, cardiovascular, renal, and metabolic therapies, continues to see strong volume growth within its portfolio, with volumes rising 18% during the second quarter. While pressure from certain generic products has offset some of this growth, we note that the company has a strong pipeline that we believe will drive considerable growth in the years ahead. In this regard, we believe Novartis will benefit from the launch of additional products currently in its pipeline, including ionalumab, a potential treatment for Sjogren's disease and other autoimmune disorders, including systemic lupus erythematosus, lupus nephritis, immune thrombocytopenia, and warm autoimmune hemolytic anemia, which is currently under regulatory review in the U.S.,

Europe, Japan, and China. Because of its potential to elicit durable disease control across multiple autoimmune conditions, we look for peak annual sales in the \$4 billion-\$6 billion range if regulatory approval in Sjogren's disease is followed by successful expansion into broader autoimmune indications.

We also note the company pays an attractive dividend, which recently grew 5.7% following shareholder approval.

NVS shares are listed on the New York Stock Exchange in the form of American depositary receipts, each of which represents one ordinary share. Our revised target price of \$170 implies a total potential return, including the dividend, of roughly 12% from current levels.

RECENT DEVELOPMENTS

NVS shares have had mixed results over the past quarter, outperforming the market, with a gain of 6%, compared to a 4% gain for the S&P 500, but underperforming the gain of 11% for the iShares Biotechnology ETF, IBB. The stock has seen similar results over the past year, rising 32%, versus a gain of 16% for the market and a gain of 39% for the ETF. Over the past five years, the stock has outperformed both metrics, rising 80%, compared with an advance of 69% for the market and a gain of 13% for the ETF. The beta on NVS is below the peer average.

Novartis reported 2Q26 adjusted EPS (defined as 'core' by the company) of \$2.41, down 1% as reported and flat in constant currency but beating the consensus by \$0.26. Net sales were \$14.41 billion (up 3% as reported and 1% in constant currency), beating the consensus by \$894 million. Sales were driven by 18% volume growth but partially offset by a 14% negative impact from generic competition.

Along with the 2Q26 results, the company reaffirmed its guidance for 2026. Management expects net sales to grow at a low-single-digit rate. It also expects core operating income to decline at a low-single-digit rate.

The NVS share price is driven in part by pipeline developments. Novartis's top three pipeline prospects are pelacarsen, remibrutinib, and ionalumab. Key pipeline updates are summarized below.

Pelacarsen is an antisense oligonucleotide targeting lipoprotein(a) for the prevention of major adverse cardiovascular events in patients with established atherosclerotic cardiovascular disease and elevated lipoprotein(a). The program is in Phase 3 global development through the HORIZON cardiovascular outcomes trial and remains under clinical development in the U.S., Europe, Japan, and other major markets. Novartis expects the HORIZON Phase 3 readout in the second half of 2026, with regulatory submissions anticipated in 2027 and initial commercial launches expected in 2028 if the study meets its primary endpoint. The most recent update is management's

Growth Stocks

reaffirmation that HORIZON remains on schedule, making pelacarsen one of Novartis's most important near-term pipeline catalysts. The addressable global market for lipoprotein(a)-directed cardiovascular therapies exceeds \$20 billion-\$30 billion annually and is expected to grow more than 15% per year as routine lipoprotein(a) screening expands and outcome-driven therapies become available. Key competitors include Eli Lilly & Co.'s lepodisiran, Amgen Inc.'s olpasiran, Silence Therapeutics plc's zerlasiran, and Arrowhead Pharmaceuticals Inc.'s zodasiran. Pelacarsen is differentiated by being the most clinically advanced cardiovascular outcomes program in the lipoprotein(a) field and could become the first therapy to demonstrate a reduction in major adverse cardiovascular events. We estimate peak annual sales potential of \$5 billion-\$8 billion if the Phase 3 outcomes trial confirms a meaningful cardiovascular benefit.

Remibrutinib is an oral, highly selective Bruton's tyrosine kinase inhibitor being developed for chronic spontaneous urticaria, hidradenitis suppurativa, multiple sclerosis, and additional immune-mediated diseases. Novartis expects Phase 3 chronic spontaneous urticaria data and regulatory submissions to support an initial filing beginning in late 2026 or during 2027, with first commercial launches expected in 2028 if pivotal studies are successful. The most recent update is continued positive Phase 3 execution in chronic spontaneous urticaria alongside advancement of additional late-stage autoimmune programs. The combined addressable market across chronic spontaneous urticaria, hidradenitis suppurativa, multiple sclerosis, and related autoimmune diseases exceeds \$30 billion-\$40 billion annually and is growing approximately 8%-10% per year. Key competitors include Sanofi's Dupixent, Roche Holding AG's fenebrutinib, Incyte's povorcitinib, and multiple next-generation BTK inhibitors in development. Remibrutinib is differentiated by its high kinase selectivity, favorable pharmacokinetic profile, and broad life cycle expansion potential across multiple large autoimmune indications. We believe peak annual sales could reach \$3 billion-\$5 billion if the program delivers competitive efficacy across its lead autoimmune indications and successfully expands into additional labels.

lanalumab is a BAFF receptor-targeting monoclonal antibody that combines BAFF receptor blockade with antibody-dependent B-cell depletion for patients with Sjogren's disease and additional autoimmune disorders including systemic lupus erythematosus, lupus nephritis, immune thrombocytopenia, and warm autoimmune hemolytic anemia. The lead Sjogren's disease indication is under regulatory review in the U.S., Europe, Japan, and China following successful Phase 3 studies, while additional autoimmune indications remain in Phase 2 and Phase 3 development. Food and Drug Administration Priority Review has been granted for the Sjogren's disease application, although a target action date has not been publicly disclosed. The most recent update is completion of global regulatory

submissions, together with continued enrollment and expansion of late-stage studies in additional autoimmune diseases. The addressable market across Sjogren's disease and potential expansion indications exceeds \$15 billion-\$20 billion annually and is expected to grow approximately 8%-10% per year. Key competitors include Johnson & Johnson's nipocalimab, Roche's obinutuzumab, UCB SA's dapirolizumab pegol, and emerging BAFF- and CD20-directed therapies. lanalumab is differentiated through its dual mechanism of BAFF receptor inhibition and direct B-cell depletion, creating the potential for durable disease control across multiple autoimmune conditions. This asset could support peak annual sales in the \$4 billion-\$6 billion range if regulatory approval in Sjogren's disease is followed by successful expansion into broader autoimmune indications.

EARNINGS & GROWTH ANALYSIS

Performance during the quarter was largely driven by the company's blockbuster products with annual sales over \$1 billion, which collectively represent 73% of Novartis's second-quarter sales. These products include:

- Cosentyx, a prescription biologic used to treat plaque psoriasis, psoriatic arthritis, ankylosing spondylitis, and other autoimmune conditions, with 2Q26 sales of \$1.82 billion, up 10% in constant currency from 2Q25.
- Kisqali, a treatment for hormone receptor-positive, human epidermal growth factor receptor 2-negative advanced, metastatic, or high-risk early-stage breast cancer, with sales of \$1.70 billion, up 43% in constant currency.
- Kesimpta, a self-administered monthly injection used to treat adults with relapsing forms of multiple sclerosis, with sales of \$1.42 billion, up 32%.
- Entresto, a medicine used to reduce the risk of cardiovascular death and hospitalization in adult patients with chronic heart failure, with sales of \$1.18 billion, down 51%.
- Pluvicto, a targeted radioligand therapy for adult patients with prostate-specific membrane antigen-positive metastatic castration-resistant prostate cancer, with sales of \$651 million, up 43%.
- Jakavi, a treatment for polycythemia vera, myelofibrosis, and acute and chronic graft-versus-host disease, with sales of \$576 million, up 8%.

NVS management keeps an eye on margins. In the second quarter, the core operating income margin was 41.2%, having contracted by 70 basis points from 2Q25 in constant currency. Core cost of goods sold accounted for 21% of sales, up from 19% in 2Q25. Core SG&A accounted for 22% of sales, down from 24% in 2Q25. Core R&D accounted for 18% of sales, flat as compared to 2Q25.

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Turning to our estimates, given the company's 2Q26 results, we are raising our core EPS estimate for 2026 to \$8.80 from \$8.75, implying a decline of 2% for the year. Despite our expectation for this near-term decline, we expect 2026 to be a trough year followed by an acceleration in earnings in 2027, as the company brings additional products to market. With this in mind, we are reiterating our 2027 core EPS estimate of \$10.00, implying growth of 14% for the year.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on Novartis is Medium, the midpoint on our five-point scale.

As of June 30, 2026, cash and cash equivalents were \$7.62 billion, down from \$11.44 billion at the end of 2025. Total financial debts rose to \$47.08 billion from \$33.54 billion. Cash flow from operating activities in 2Q26 was \$5.88 billion, down 12% from the prior-year period, while free cash flow fell 12% to \$5.56 billion. Moody's gives Novartis a credit rating of Aa3/stable, while S&P's rates it as AA-/stable.

The company pays a dividend. In March 2026, Novartis increased its annual dividend by 5.7% to 3.70 Swiss francs per share, for a yield of about 3.1%. Our dividend estimates are 3.70 Swiss francs per share (\$4.52 per ADR using today's exchange rates) for 2026 and 3.90 Swiss francs (\$4.77 per ADR) for 2027.

MANAGEMENT & RISKS

Dr. Vasant Narasimhan has been the CEO of Novartis since 2018. He joined the company in 2005 and served as global head of drug development and chief medical officer before becoming CEO. Mukul Mehta has been CFO and a member of the executive committee of Novartis since March 16, 2026, having succeeded Harry Kirsch, who had served as CFO since 2013 and retired from Novartis after a 22-year career with the company. Prior to assuming this role, Mr. Mehta had worked at Novartis for over 20 years, having held key finance leadership roles across geographies and business units.

The company faces the risks and costs of long development timelines for drugs, sometimes stretching beyond 10 years. While approved drugs have a period of marketing exclusivity that provides pricing power, they lose exclusivity when patents expire.

Drugs also face reimbursement risks. Government agencies in overseas markets and managed-care organizations in the U.S. determine which drugs are covered for reimbursement.

COMPANY DESCRIPTION

Novartis AG is a pharmaceutical company based in Switzerland. Its portfolio is focused primarily on the areas of immunology, neuroscience, oncology, and cardiovascular, renal, and metabolic therapies. The company employs roughly 77,000 people, and its medicines reach more than 300 million people worldwide.

VALUATION

From a technical standpoint, NVS shares have begun to recover their stock price following a recent pullback earlier in the year, rising above their 50-day moving average. Despite the recent pullback, the shares continued to trade above their 200-day moving average the entire time, continuing a trend that has existed since mid-2025. We look for this trend to continue over the next year, as the stock attempts to achieve a new all-time high.

NVS shares appear attractively valued at current prices near \$155, above the midpoint of their 52-week range of \$112-\$171. The stock trades at 16-times our EPS estimate for 2027, slightly above the company's five-year historical average, but appropriate, in our view, given the strong momentum for the company's priority brands, its pipeline of promising product candidates, and the company's confidence in sustaining revenue growth despite experiencing the largest patent expiry in its organizational history. With an eye on 2026 reflecting a trough year before experiencing an acceleration in earnings growth in 2027 and beyond, we are reiterating our BUY rating. Our revised target price of \$170 implies a total potential return, including the dividend, of roughly 12% from current levels.

ByLine

On July 24, BUY-rated NVS closed at \$155.01, down \$1.13. (Jasper Hellweg, 7/24/26)

Philip Morris Intl Inc (PM)

Rating: **BUY**
Market Cap: **LARGE**
Sector: Consumer Staples

Demonstrating growth in nontobacco products

- ▶ PM shares outperformed over the past three months, rising 17% compared to a gain of 4% for the S&P 500.
- ▶ For 1Q26, Philip Morris reported a 15% jump in EPS from the prior-year quarter, beating consensus expectations as well as guidance provided by management last quarter.
- ▶ Philip Morris is demonstrating progress with its smoke-free products, especially the IQOS device, which is growing and gaining market share internationally.
- ▶ PM did note some impact from the Middle East war, saying that the impact is minor so far but is adding to transport, energy, and other input costs.

INVESTMENT THESIS

Our rating on Philip Morris International Inc. (NYSE: PM) is BUY. Philip Morris is demonstrating steady and sustainable progress with its smoke-free products, which are growing and gaining market share internationally. For 2Q, adjusted diluted EPS increased 15%, topping the consensus estimate and guidance provided last quarter. The company slightly lowered its full-year EPS forecast based on an estimated

Growth Stocks

unfavorable currency impact.

In 2Q, the product receiving the most accolades from management was again IQOS, a tobacco device that allows for nicotine to be heated, not burned. This application is regarded as healthier, though it still poses health concerns. IQOS saw 8% volume growth during the quarter. PM now has 66% of volume share in the category. Overall, in the Smoke-Free segment, net revenue grew 14% on a reported basis and 12% organically. Volume rose 8%. In the Combustibles segment, a highlight was top brand Marlboro continuing to gain share in the category, achieving 11% market share, matching last quarter's record high. PM did note some impact from the Middle East war, saying that the impact is minor so far but is adding to transport, energy, and other input costs. Given the prospects for higher revenue driven by its growing Smoke-Free segment, we feel there is more runway for the stock. Our target price is \$210.

RECENT DEVELOPMENTS

PM shares outperformed over the past three months, rising 17% compared to a gain of 4% for the S&P 500. Over the past year, the shares slightly underperformed, rising 16% compared to a gain of 17% for the index and 5% for the iShares U.S. Consumer Staples ETF, IYK. Over the past five years, the shares are up 94%, compared to a 68% rise for the index and a 20% gain for the ETF. The beta on PM is 0.29.

On July 22, Philip Morris reported 2Q26 results that exceeded consensus expectations, offered guidance for 3Q26, and slightly lowered guidance for its full-year 2026 due to currency concerns. For 2Q, adjusted diluted EPS of \$2.20 increased 15% year over year, including currency impact, topping the consensus estimate of \$2.05. Results also were better than the guidance provided by management last quarter. The company posted net revenues of \$11.2 billion, up 10% on a reported basis and up 8% organically. The gross margin widened 80 basis points (bps) to 68.4%, while the adjusted operating income margin also expanded by 80 bps to 42.6%.

For 3Q26, management sees adjusted diluted EPS of \$2.20-\$2.25, including a negative currency impact of eight cents. For 2026, it lowered its projected adjusted diluted EPS to \$7.19-\$7.34, down from \$8.36-\$8.51, at current currency rates, now implying growth of 9.5%-11.5%, down from 10.9%-12.9%. This includes 15 cents of positive currency impact, lowered from 20 cents. It still sees net organic revenue growth of 5%-7%. It projects organic operating income growth to 7%-9%. It now sees a total global industry volume decline of 2%-3% for cigarettes. It now describes growth as broadly stable and slightly growing from the previous description of broadly stable.

EARNINGS & GROWTH ANALYSIS

Philip Morris has two product lines: Combustibles, i.e., traditional cigarettes and heated tobacco products, which

accounted for 58% of 2Q26 revenue, and Smoke-Free Business, including nicotine pouches, snus, and moist snuff, which accounted for 42%.

In 2Q26, in the Combustibles segment, net revenue grew 10% on a reported basis and 6% organically, driven by higher pricing partly offset by geographic mix. A highlight was top brand Marlboro continuing to gain share in the category, achieving 11% market share, matching last quarter's record high. Overall revenue increased despite volume that was flat at 25%.

In the Smoke-Free segment, net revenue grew 14% on a reported basis and 12% organically. Volume rose 8%. The company pointed out that IQOS continued as the primary growth engine, with PM holding 66% of the volume share. Oral smoke-free products showed volume increase of 15%. ZYN nicotine pouches continue to expand into new markets, with a total now of 60, with the addition of two new markets last quarter.

Turning to our estimates, based on recent trends and management's lowered guidance, we are decreasing our 2026 adjusted EPS estimate to \$8.40 from \$8.45 and our adjusted 2027 EPS estimate to \$9.15 from \$9.25.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on Philip Morris is Medium, the middle rank on our five-point scale. The company typically receives above-average scores on our tests for cash flow generation and fixed-cost coverage and below-average scores on debt levels and profitability.

Cash & cash equivalents were \$4.9 billion at the end of 2025. Long-term debt was \$45 billion, and stockholders' equity was negative. The company's EBITDA margin is typically in the 40% range.

Management still plans for capital expenditures of \$1.4 billion-\$1.6 billion, with all mostly supporting its smoke-free business.

The company pays a dividend. In 3Q25, the board increased the dividend by 8.9% to \$1.47 per share quarterly, or \$5.88 annually. The current yield is about 3.1%. This was a much higher increase than the company has made over the past five years, which has averaged 3% per year. We believe the dividend is secure and likely to grow. The company has raised the dividend every year since going public in 2008, with compound annual growth of approximately 7.0%. Our 2026 dividend estimate is \$5.93, and our 2027 estimate is \$6.13.

PM is not currently buying back stock and does not expect to in 2026.

MANAGEMENT & RISKS

Jacek Olczak has served as CEO of Philip Morris

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International since May 2021. Emmanuel Babeau has served as the company's CFO since May 2020. Andre Calantzopoulos is chairman of the board.

The company's mission, in a reversal from its founding, is to abolish smoking. Through innovation, as well as acquisitions and partnerships, it is growing its nonsmoking product lines.

Investors in PM face numerous risks. On a macro basis, the company conducts business outside the U.S., exposing it to substantial currency risk.

The tobacco industry is heavily regulated in most countries and, in some cases, has been required to sell cigarettes in plain, unmarked packs or with bold health warnings. Governments also consistently target the industry through excise taxes, which lower net revenue and weigh on profitability. Higher excise taxes also tend to increase the sale of counterfeit cigarettes, lowering overall sales. PM is also exposed to litigation risk related to tobacco use.

Cigarette smoking is addictive, and thus there is a low elasticity of demand among many users. This means that smokers often continue smoking, despite the known health risks, as it is difficult to stop. Demand tends to be impacted more by high unemployment and inflation than by tax increases or health warnings. Smokers often trade down to lower-priced brands or counterfeit products when their discretionary income shrinks.

COMPANY DESCRIPTION

Philip Morris International manufactures and sells cigarettes, other nicotine-containing products, smoke-free products, and related electronic devices and accessories. PM has invested more than \$10 billion to develop and commercialize smoke-free products for adults who would otherwise continue to smoke, with the goal of completely ending the sale of cigarettes. PM's smoke-free products are available for sale in more than 90 markets. Philip Morris International was spun off from Altria Group Inc. in 2008. The company has approximately 85,000 employees. The shares are a component of the S&P 500.

VALUATION

We think PM shares are undervalued at recent prices near \$192, near the top of their 52-week range of \$142-\$200. On a technical basis, the shares have been in a bullish pattern of higher highs and higher lows since January 2024.

On the fundamentals, PM shares are trading at 21-times our 2027 EPS forecast, also near the top of their five-year historical range of 11-24. The price/sales ratio of 7.1 is above the peer average, which includes British American Tobacco plc and Altria, while the dividend yield of about 3.1% is below the peer average of 4.8%. Given the prospects for higher revenue driven by the company's growing Smoke-Free segment, we feel there is more runway for the stock. Our price target is \$210.

ByLine

On July 24 at midday, BUY-rated PM traded at \$193.31, up \$2.19. (Christine Dooley, 7/24/26)

Roche Holding AG (RHHBY)

Rating: **BUY** 
Market Cap: **LARGE**
Sector: **Healthcare**

Raising target price to \$60

- ▶ Following a strong run from August 2025 through February 2026, the RHHBY shares retreated, falling about 23% over less than a month. The stock has since recovered some of the losses, most notably following the release of first-half results, and appears poised to continue its recovery.
- ▶ Roche has a strong line-up of blockbuster products, a sizable pipeline of new product candidates, rising margins, and a longstanding and growing dividend.
- ▶ Management expects the company to generate mid-single-digit growth in group sales at constant exchange rates in 2026, while calling for core EPS growth at a high-single-digit rate at constant currency rates.
- ▶ Our revised target price of \$60 implies a total potential return, including the dividend, of roughly 12% from current levels.

INVESTMENT THESIS

Our rating on Roche Holding AG (OTC: RHHBY) is BUY. The company, a Switzerland-based diversified mega-cap healthcare company with pharmaceutical and diagnostics businesses, has a strong line-up of blockbuster products, a sizable pipeline of new product candidates, rising margins, and a longstanding and growing dividend. Regarding the company's portfolio, Roche continues to see strong growth within its pharmaceutical business, with its three highest-revenue-generating products growing sales by 7%, 11%, and 8% during the first half of 2026. Management expects the company to generate mid-single-digit growth in group sales at constant exchange rates in 2026, while calling for core EPS growth at a high-single-digit rate at constant currency rates. Our new target price of \$60, raised from \$55, implies a total potential return, including the dividend, of roughly 12% from current levels.

Roche shares trade in the U.S. in the form of American Depositary Receipts (ADRs), each of which represents one-eighth of an ordinary share.

RECENT DEVELOPMENTS

Roche ADRs have outperformed over the past quarter, rising 7%, while the ETF EFA has gained 2%. Over the past year, the shares have gained 33% compared to a gain of 16% for the ETF and a gain of 40% for the iShares Biotechnology ETF IBB. Over the past five years, the stock has gained 17%

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versus a 31% advance for the ETF and a 14% advance for IBB. The beta on RHHBY is below the peer average.

Roche is based in Switzerland and reports in Swiss francs (CHF). The company reports its earnings twice per year, once covering the first half of the year and the other covering the full year.

The company recently released its 1H26 results. Group sales in the period fell 2% as reported but grew 6% from the prior-year in constant currency, to CHF 30.4 billion. Core operating profit rose 10% in constant currency as the core operating margin rose by 20 basis points (bps) to 39.0%. Core EPS fell 2% as reported and rose 9% in constant currency, to CHF 10.85. In U.S. dollars, using the June 30, 2026, exchange rate and adjusting for the ratio of eight ADRs to one common share, earnings in the first half of 2026 came to \$1.67 per ADR and revenue came to \$37.5 billion.

Along with the 1H26 results, the company confirmed its outlook for all of 2026. Management continues to expect mid-single-digit growth in group sales at constant exchange rates, with core EPS expected to grow at a high-single-digit rate at constant currency rates. Roche also expects to increase its dividend in Swiss francs.

The RHHBY share price is driven in part by pipeline developments. Roche's top-three pipeline prospects are trontinemab, fenebrutinib, and prasinezumab. Key updates are summarized below.

Trontinemab is a Brainshuttle bispecific anti-amyloid beta monoclonal antibody designed to enhance blood-brain barrier transport for patients with early Alzheimer's disease. The program is in Phase 3 global development through the TRONTIER studies in early symptomatic Alzheimer's disease and the PreventRON prevention study in preclinical Alzheimer's disease. Roche expects ongoing Phase 3 enrollment and additional long-term data updates during the second half of 2026, with regulatory submissions anticipated in 2028 if pivotal studies are successful and first commercial launches expected in 2029. Encouraging long-term safety, amyloid clearance, and biomarker data, together with the Phase 3 prevention study design, was presented at the Alzheimer's Association International Conference in July 2026. The global Alzheimer's disease therapeutics market exceeds \$25-\$35 billion annually and is expected to grow more than 20% per year as disease-modifying therapies become more widely adopted. Key competitors include Eli Lilly's Kisunla, Eisai's Leqembi, AbbVie's ALIA-1758, and Biogen's BILB080. Trontinemab is differentiated by its Brainshuttle technology, which substantially improves central nervous system exposure while demonstrating rapid amyloid removal with a favorable ARIA profile in early studies. We estimate peak annual sales potential of \$6-\$9 billion if Phase 3 efficacy and safety results support best-in-class positioning.

Fenebrutinib is an oral, highly selective Bruton's tyrosine kinase inhibitor being developed for relapsing multiple sclerosis and primary progressive multiple sclerosis. The program is in Phase 3 global development across both indications. Roche expects Phase 3 readouts beginning in 2027, followed by regulatory submissions during 2027 or 2028 and initial commercial launches in 2028 if the pivotal trials are successful. The most-recent update is continued advancement of the parallel Phase 3 multiple sclerosis program as one of Roche's highest-priority late-stage neurology assets. The global multiple sclerosis therapeutics market exceeds \$25-\$30 billion annually and is growing approximately 5%-7% per year. Key competitors include Novartis' remibrutinib, Sanofi's tolebrutinib, Merck KGaA's evobrutinib, and Roche's own Ocrevus. Fenebrutinib is differentiated by its highly selective reversible BTK inhibition strategy that aims to address both peripheral and central nervous system inflammation while avoiding B-cell depletion. We believe peak annual sales could reach \$4-\$6 billion if the program demonstrates clinically meaningful efficacy across both relapsing and progressive multiple sclerosis.

Prasinezumab is a monoclonal antibody targeting aggregated alpha-synuclein for patients with early Parkinson's disease. The program is in Phase 3 global development following encouraging long-term efficacy signals from the Phase 2 PASADENA and PADOVA studies. Roche expects Phase 3 development to continue through 2026 with regulatory submissions anticipated in 2028 if the pivotal study confirms disease-modifying benefit and first commercial launches expected in 2029. The most-recent update is continued Phase 3 enrollment following Roche's decision to advance the program based on the totality of Phase 2 and open-label extension data. The global Parkinson's disease therapeutics market exceeds \$8-\$10 billion annually and is expected to expand approximately 7% -9% per year as disease-modifying therapies emerge. Key competitors include AbbVie's tavapadon, Biogen's BILB122, UCB's minzasolmin, and multiple investigational alpha-synuclein-targeting therapies. Prasinezumab is differentiated by directly targeting a central pathological driver of Parkinson's disease progression rather than providing symptomatic dopamine replacement, creating the potential to become one of the first disease-modifying therapies in the indication. This asset could support peak annual sales in the \$2.5 billion-\$4.5 billion range if Phase 3 confirms durable slowing of disease progression.

EARNINGS & GROWTH ANALYSIS

We start our analysis of business trends on the top line.

Pharmaceutical sales accounted for 78% of 1H26 revenues and rose 6% in constant currency, to CHF 23.6 billion. Sales in nearly all segments saw constant currency growth, including oncology (+1%, to CHF 7.4 billion), neurology (+9%, to CHF 5.0 billion), hematology (+14%, to CHF 4.6 billion), immunology (+8%, to CHF 3.3 billion), and ophthalmology (+6%, to CHF 2.1 billion). Sales in other

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therapeutic areas declined 5% in constant currency to CHF 1.3 billion.

Roche's Diagnostics segment accounted for 22% of 1H26 sales and rose 3% in constant currency. Growth was driven by demand for immunodiagnostic and clinical chemistry products, as well as pathology and molecular solutions, but was partially offset by a continuing negative impact from healthcare pricing reforms in China (which led to a 15% decrease in sales in the Chinese market). Within the Diagnostics business, Pathology Lab revenue rose 11% at CER, to CHF 874 million, Core Lab revenue rose 4%, to CHF 3.8 billion, and Molecular Lab revenue rose 3%, to CHF 1.2 billion, while Near Patient Care declined 5%, to CHF 909 million.

Taken by region, sales in the Europe, Middle East & Africa segment rose 3% at CER, to CHF 2.5 billion; sales in North America rose 8%, to CHF 2.2 billion; and sales in Latin America rose 10%, to CHF 536 million. Sales in the Asia-Pacific region declined 5%, to CHF 1.5 billion.

Performance during the quarter was largely driven by the company's blockbuster products with annual sales over CHF 1 billion, which collectively represent 81% of Roche's 1H26 Pharmaceutical sales. These products include:

- Ocrevus, a treatment for multiple sclerosis, with 1H26 sales of CHF 3.47 billion, up 7% from in 1H25 at CER.
- Hemlibra, a prescription medicine used to prevent or reduce the frequency of bleeding episodes in adults and children with Hemophilia A, with sales of CHF 2.49 billion, up 11%.
- Vabysmo, a prescription injection used to treat adults with retinal diseases causing vision loss, with sales of CHF 2.06 billion, up 8%.
- Tecentriq, a treatment for several advanced cancers, including non-small cell lung cancer (NSCLC), extensive-stage small cell lung cancer (ES-SCLC), liver cancer (hepatocellular carcinoma), and melanoma, with sales of CHF 1.70 billion, up 6%.
- Xolair, a biologic medication used to treat moderate to severe persistent allergic asthma, chronic spontaneous urticaria (CSU/chronic hives), nasal polyps, and immunoglobulin E (IgE)-mediated food allergies, with sales of CHF 1.67 billion, up 27%.
- Perjeta, a treatment for HER2-positive breast cancer, with sales of CHF 1.39 billion, down 7%.

Management keeps an eye on margins. In 1H26, the core operating profit margin was 39.0%, up from 38.8% in 1H25. Cost of sales accounted for 26% of sales, flat compared to 1H25. SG&A accounted for 22% of sales, down from 23% in

1H25. R&D accounted for 24% of sales, up from 22% in 1H25.

Given the results from the first half, as well as management's guidance, we are lowering our 2026 earnings estimate to \$3.20 per ADR from \$3.35 per ADR, implying growth of 7% for the year. While we expect growth to continue in 2027, we are lowering our earnings estimate to \$3.45 per ADR from \$3.60 per ADR, implying growth of about 8% for the year and reflecting the lower earnings base in 2026.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on Roche is Medium-High, the second-highest rank on our five-point scale. The company receives above-average scores on our key financial strength criteria of debt levels, fixed-cost coverage, cash flow generation, and profitability.

As of June 30, 2026, the company had cash, cash equivalents, and marketable securities of CHF 9.73 billion, down from CHF 15.48 billion at the end of 2025. It also had total debt of CHF 31.81 billion, up from CHF 31.64 billion. Operating free cash flow rose 21% at CER to CHF 6.26 billion in 1H26 compared to 1H25.

Roche Holding pays its dividend annually. At the company's 2025 Annual General Meeting, which was held on March 10, 2026, shareholders approved a 1% increase to the annual dividend to CHF 9.80 per share (\$1.51 per ADR based on the conversion ratio and exchange rates as of June 30, 2026) from the previous payout of CHF 9.70 per share. The new dividend holds a yield of about 2.8% at current prices. The March 2026 increase in dividend represents the company's 39th consecutive year of dividend raises, a streak we expect to continue. We think the dividend is secure and likely to grow. Our U.S. dollar dividend estimates are \$1.51 for 2026 and \$1.52 for 2027.

MANAGEMENT & RISKS

Dr. Thomas Schinecker serves as CEO of Roche Group. Dr. Schinecker previously served as CEO of Roche Diagnostics from 2019 to 2022. Dr. Alan Hippe is the CFO. Dr. Severin Schwan, who served as CEO prior to Dr. Schinecker's appointment, is chairman of the board.

Investors in Roche face risks. Several of the company's products, including Avastin, Herceptin, and Rituxan, face competition from biosimilars (close copies of branded biologic drugs). Still, biosimilars from some companies may be delayed by regulatory hurdles in the U.S. or E.U., as well as by patent litigation. The production of biosimilars, which requires specialized technology and facilities, could also be slowed by a lack of adequate manufacturing capacity.

Roche has had its share of failed product launches, including cholesterol drug dalcetrapib and schizophrenia drug biopertin. Profits on newly launched drugs can be high, but failed launches can result in significant losses.

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Roche shareholders also face regulatory risk. The company generates a substantial portion of its U.S. revenue from government payments, and sales of the company's premium-priced oncology products could be hurt by lower reimbursement levels under Medicare Part B.

The company is also exposed to macroeconomic risks. A weakening economy may cause some patients to postpone treatment, reducing sales of certain drugs.

COMPANY DESCRIPTION

Roche Holding AG operates through two segments: Diagnostics and Pharmaceuticals. The Pharmaceutical segment focuses on oncology, immunology, ophthalmology, infectious diseases and neuroscience, while the Diagnostics segment specializes in in vitro diagnostics. Headquartered in Basel, Switzerland, the company was founded by Fritz Hoffmann-La Roche in 1896.

The company has approximately 103,249 full-time employees.

Roche has substantial market shares in oncology treatments and in vitro diagnostics. It is working to combine its expertise in these areas to develop personalized medicines based on the genetic characteristics of patients. In addition to organic growth, the company has a growth-by-acquisition strategy.

INDUSTRY

Our rating on the Healthcare sector is Market-Weight. The Healthcare sector accounted for 8.9% of the S&P 500 as of the end of June. Healthcare investors are finding nowhere to hide, as health insurance companies struggle with high costs and declining enrollments, medical device companies face declining elective-procedure volumes, and pharmaceutical companies face mandated lower prices and a pipeline that (excluding GLP-1) is seen as lacking in potential blockbusters.

The sector receives average marks on our six-part 'blind' sector rating criteria, which includes growth momentum, valuation, financial strength, and analyst conviction, among other factors.

The sector has underperformed the market year to date with a gain of 2.6% as of the end of June. The sector underperformed in 2025, with a gain of 12.5%, compared to a gain of 16.4% for the S&P 500. The beta for the sector is 0.6.

Over the past five years, the sector's weighting has ranged from 8% to 15%. The sector's P/E ratio on projected 2027 EPS was 19, equal to the market multiple. The yield of 1.3% was above the market average. The sector's smoothed earnings growth rate of 8% was below the market average.

The Healthcare sector is primarily a defensive,

counter-cyclical sector. The largest macroeconomic factor that will affect the performance of stocks in the Healthcare sector is the aging population, both in the U.S. and in other developed countries, including China. Other factors include GDP Growth, Interest Rates, Inflation, Government Policy and Regulation, Trade, Pandemics or Health Crises, and Employment/Unemployment Rates. Trends in the dollar can affect factors such as Cost of Goods Sold.

Healthcare stocks are often favored during periods of economic weakness. Sell signals for stocks in the sector can be material changes in regulatory decisions that alter business models, pending patent cliffs for pharma companies or a weakened balance sheet that threatens a dividend.

At this stage of the market and economic cycle, our favored industries within the Healthcare sector include Healthcare Equipment and Healthcare Distributors.

VALUATION

RHHBY shares appear attractively valued at current prices around \$55, above the midpoint of their 52-week range of \$37-\$61. From a technical standpoint, following a strong run in the price of the shares from August 2025 through February 2026, the shares retreated, falling about 23% over less than a month. The stock has since recovered some of these losses, most notably following the release of its first-half results, and looks poised to continue its recovery. The stock has traded in a long-term pattern of higher highs and higher lows since 1995.

The stock trades at about 15.8-times our EPS estimate for 2027, below the company's five-year historical average. Given the company's strong portfolio of blockbuster products, its sizable pipeline of new product candidates, rising margins, and longstanding and growing dividend, we believe that a higher multiple is warranted. As such, we also believe that a BUY rating remains appropriate. Our new target price of \$60 implies a total potential return, including the dividend, of roughly 12% from current levels.

ByLine

On July 28 at midday, BUY-rated RHHBY traded at \$56.41, up \$1.64. (Jasper Hellweg, 7/28/26)

SAP SE (SAP)

Rating: **BUY**
Market Cap: **LARGE**
Sector: Information Technology

Lowering target price to \$215

- ▶ SAP reported a 6% increase in adjusted EPS on 9% revenue growth in 2Q26, though management continues to warn of the impact of geopolitical tensions and supply-chain disruptions.

Growth Stocks

- ▶ SAP expects cloud services and its new GenAI solutions to drive future revenue growth as its traditional license business diminishes.
- ▶ We are lowering our 2026 EPS estimate to \$8.17 from \$8.49 and maintaining our 2027 forecast at \$9.38.

INVESTMENT THESIS

We maintain our BUY rating on SAP SE (NYSE: SAP), but are lowering our target price to \$215 from \$285. SAP has been swept up in the market's concern over whether agentic AI will disrupt the enterprise software business. Although we think the market's fears may be overblown, the impact on SAP's share price has been quite real. SAP has become a system of record for its enterprise clients that may not wish to engage in do-it-yourself AI vibe-coded software. Although we cannot predict if or when market sentiment may change, SAP is forging ahead on its own terms. The company is harnessing agentic AI across its product suite and, most importantly, providing safe, reliable, and contextual agentic AI data services to its broad enterprise client base.

SAP's primary goal is to enable its enterprise customers to improve their own clients' experiences through digital transformation. Although this began with moving into in-memory and cloud computing, it now includes leveraging agentic AI solutions for the same purpose. SAP is looking to leverage powerful secular business trends by providing its clients the software tools they need to reap the benefits of digital transformation, cloud workload migration, and the emerging agentic AI paradigm. SAP undertook a significant restructuring of its own that has expanded margins.

SAP has coupled its S/4 HANA Cloud compute system with a powerful set of business-process applications, many of which it acquired and integrated into its platform. SAP's platform can deliver cloud-only or hybrid cloud-on-premises solutions that appeal to a wide range of enterprise customers. The company is highly leveraged in the enterprise market, particularly in Europe. SAP is looking to accelerate revenue, expand margin, and increase free cash flow.

RECENT DEVELOPMENTS

SAP reported 2Q26 results on July 23, 2026, after market close. Although SAP reaffirmed most of its 2026 guidance, it lowered its non-International Financial Reporting Standards (IFRS) operating profit growth guidance by one percentage point to 15% at the midpoint of the new range. Management blamed the change on margin dilution related to recent acquisitions. SAP shares rose 9% on July 24, 2026.

Second-quarter 2026 revenue rose 9.4% from 2Q25 to 9.88 billion euros [from?], driven by 24% constant currency growth in the company's cloud enterprise resources-planning software sales, and partly offset by declines in Software licenses and Support and Services. Negative currency-exchange movements shaved two points off revenue growth. Cloud and Software revenue rose 13% in

constant currency and comprised 89% of total revenue. Services revenue declined 2% in constant currency to 1 billion euros as the company realigned consultants 'to build AI agents and foster AI adoption.' Adjusted operating income rose 7% as negative currency movements shaved two points off its growth, though the operating margin narrowed by 70 basis points to 28%.

Adjusted diluted EPS attributable to SAP rose 6% from the prior year to 1.58 euros. SAP reported EPS of 1.88 euros, up from 1.44 euros in 2Q25 based on IFRS.

The current cloud backlog was 22.9 billion euros at the end of 2Q26, up 27% in constant currency. The current cloud backlog is defined as contractually committed cloud revenue that SAP expects to recognize during the next 12 months. It is thus an indicator of the company's near-term revenue pipeline. Although the Cloud business is probably cannibalizing the on-premises license business in the near term, as seen in the multi-quarter decline in Software License revenue, Cloud should also provide greater customer lifetime value for SAP.

SAP completed two new tuck-in acquisitions in July 2026. The first, Dremio, is an 'open high-performance data lake-house platform' that combines and harmonizes SAP and non-SAP data to accelerate agentic AI. Harmonizing different data types from different sources has emerged as a major roadblock to enterprises fully realizing the benefits of agentic AI. Dremio will be integrated into the SAP Business Data Cloud. The other July acquisition was Prior Labs. Prior Labs is an AI lab specializing in Tabular Foundation Models (TFMs), AI models 'purpose built' to understand structured business data. This data includes tables, numbers, and statistics that the TFM uses to 'accurately predict business outcomes...such as payment delays, supplier risks, upsell opportunities, customer churn risk, and more.' Prior Labs will be an independent subsidiary of SAP, although SAP is looking to productize Prior Labs' research across its product portfolio through SAP AI Core, the SAP Business Data Cloud, and its Joule agentic AI layer. SAP has also committed to investing \$1 billion in Prior Labs over the next four years to drive its research. Terms of both deals were undisclosed.

On May 7, 2026, SAP completed its acquisition of Reltio, an AI-native, cloud-native master data-management solution. Reltio unifies and harmonizes fragmented data, both structured and unstructured, from disparate internal sources and third parties. This is critical in preparing data for use with large language models (LLMs) and agentic AI. SAP expects to integrate Reltio into SAP's Business Data Cloud business-intelligence offering. Terms of the deal were not disclosed.

Macroeconomic and geopolitical instability and the weakening dollar have affected SAP's results. Management believes geopolitical tensions may extend deal cycles in

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2026, particularly supply-chain disruptions in the important energy-business vertical. Nevertheless, these may also increase the need for business transformation and demand for SAP software. Management has also raised a potential new growth vector for the company. As economies decouple, SAP is seeing a spike in the interest of both government entities and enterprises in sovereign data, that is, keeping, managing, and exploiting data within a country or trading bloc rather than with global hyperscalers, all of which are either American or Chinese. SAP as a leading European IT company could be a natural beneficiary as this trend gains momentum.

EARNINGS & GROWTH ANALYSIS

We are lowering our 2026 EPS estimate to \$8.17 from \$8.49 and maintaining our 2027 forecast at \$9.38. (Of note, accounting changes and changes in exchange rates can significantly affect dollar-based EPS estimates.) For 2026 and 2027, management is guiding to revenue growth acceleration from the 11% constant currency growth rate in 2025. Our average earnings growth-rate forecast is 14% over the next two years. Our long-term growth rate estimate is 10%.

Although cloud computing has emerged as SAP's primary revenue driver, generative AI applications are its future. These modalities are not ends in themselves, but are the most efficient ways to support SAP's primary goal of enabling its enterprise customers to improve their own products and customer experiences through digital transformation and what SAP calls the Intelligent Enterprise. SAP's Business Technology Platform is underpinned by its Business Data Cloud, which feeds into its Cloud ERP applications for business processes, including financial management, spend management, supply-chain management, human capital management, and customer experience. All its solutions are overlaid by an agentic generative AI layer, enabling business-process transformation with industry-specific, networked end-to-end functions orchestrated by SAP's Joule GenAI Copilot. Management sees SAP's long history as a system of record for its customers, providing key business contexts for agentic AI transformation as a moat against GenAI disruption.

The core S/4/HANA enterprise resource planning (ERP) suite's application workloads run on the three largest hyperscale public cloud providers (outside China): Amazon Web Services (AWS), Microsoft Azure, and Google Cloud Platform. This gives SAP's clients choices and the ability to avoid single-vendor lock-in; however, SAP's partnership deal with Microsoft and closer SAP/Azure integration could make Azure the preferred provider. Microsoft has adopted 'RISE with SAP' internally, using S/4 HANA for its own ERP system deployment. SAP's early strategic decision was to run its applications on top of the hyperscale cloud providers rather than competing against them. It is following a similar decision process with GenAI, choosing to provide the semantic layer on top of the frontier GenAI models rather than produce a

LLM itself. SAP's solutions enable its enterprise customers to use LLM's with their own proprietary data. The choice not to pursue its own LLM is an obvious huge money saver, as SAP has demonstrated by guidance of 10 billion euros in 2026 free cash flow, up from 8.2 billion euros in 2025. Whereas some AI solutions are included in regular software packages, others will be premium features.

SAP has made direct investments in AI start-ups Aleph Alpha, Anthropic, and Cohere. The company also has AI-focused partnerships with AWS, Microsoft, Google Cloud, IBM, Databricks, and NVIDIA. The strategic purpose of these investments and partnerships is to create what SAP calls an AI ecosystem whereby it can remain on the cutting edge of GenAI technology. SAP is participating in the next wave of agentic AI innovation through its Joule intelligent agents.

The company's 'Grow with SAP' program is a software solution for the middle market. This offers new and midsize companies a cloud-native ERP solution, the power of the S/4HANA Cloud compute system, and the SAP Business Technology Platform. This is all directed at customer digital transformation or, more succinctly, transitioning customer IT workloads from on-premises to the cloud. This includes the cloud-enabled design and automation of business processes, and application development for specific lines of business.

The Grow program follows 'RISE with SAP.' RISE with SAP has been aimed at enterprise digital transformation for SAP's large-company client base and has become a core company solution. Management looks to bring 'best-of-suite' ERP to its installed base of customers. The company's ecosystem includes both hyperscale cloud providers and systems integrators, tied together by SAP's business intelligence software platform and powered by its S/4 HANA cloud system. SAP is essentially looking to simplify digital transformation by bringing all vendors together into a single offer and contract, which it believes will result in a 20% reduction in the total cost of ownership over five years. With RISE, management is looking to convert one euro of on-premises compute spending into five euros of cloud compute spending, with about one-half of the increase coming from upselling and cross-selling.

SAP's S/4 HANA in-memory computing system business-applications suite is central to its go-to-market strategy, with SAP touting integrated applications platforms running off the HANA system. S/4 HANA enables customers to improve business processes by making IT simpler, despite the complexity that has come with the data explosion of the past few years. As usual in tech, more computing power leads to lower costs, with SAP claiming that customers lower their total cost of ownership by 30%-50% after HANA adoption. S/4 HANA also responds to the revolution in big data analytics, as it was designed for the superfast computing of large amounts of data and can give clients real-time insight into their businesses. We believe that SAP

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showed prescience in its early exploitation of in-memory computing and note that Oracle and other competitors have now developed their own in-memory computing solutions. SAP is leveraging the HANA computing architecture not just in its core businesses of applications, analytics, and databases, but also in the newer growth areas of mobile enterprise and cloud.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on SAP is High, the top of our five-point scale.

SAP declared an annual dividend of \$2.93 per share in April 2026. Our 2026 dividend estimate is \$2.93 and our 2027 forecast is \$3.19. The indicated yield is about 2%. SAP has grown its dividend at an average annual rate of 9% during the past five years.

MANAGEMENT & RISKS

Like most other enterprise software companies, SAP has been caught up in the market's reaction to the performance of recent GenAI models. Market sentiment had turned against enterprise software stocks on fears of agentic AI disruption. The disruption thesis, however, does not take into account that SAP and other software companies are themselves also extensively developing agentic AI tools and applications, powered by both third-party frontier and proprietary models. Neither Wall Street analysts nor software companies can tell what the catalyst for a change in this negative market sentiment may be. It therefore remains a salient risk to SAP shares.

With approximately 45% of the company's revenue derived from the EMEA region, SAP is highly sensitive to economic conditions in Europe. The large portion of revenue outside its home territory, Europe, also exposes the company to significant exchange-rate risk, particularly with regard to the U.S. dollar. Although technology-acquisition budgets often have their own cycle, a general economic retrenchment in Europe and/or the U.S. could lead businesses to cut spending on new projects, hurting SAP's revenue.

As more IT workloads move to the cloud, this legacy provider of data services is in danger of either losing business to new hyperscale cloud providers or having its own cloud services cannibalize its incumbent on-premises business.

SAP's former management made a string of significant strategic acquisitions, including Ariba, Callidus, Concur, Qualtrics, SuccessFactors, and Sybase, although we think the company often overpaid for these businesses. Current management has expressed a desire for organic (internal) growth rather than growth from M&A, though it remains uncertain whether it can drive sustainable organic growth.

Investors face considerable losses if SAP fails to meet expectations. Global demand for enterprise software could weaken if customers seek to cut IT expenses due to

macroeconomic headwinds, or if GenAI applications are able to compete cheaply with traditional enterprise software. Also, SAP could fail to execute its business plan. Adding complexity to its operations, SAP's business is seasonal, with a stronger fourth quarter and weaker first quarter. U.S. investors must also accept currency risk; SAP is based in Germany, and its financials are denominated in euros.

SAP faces increased competition from mature rivals including Oracle and Microsoft, as well as from newer start-ups such as Salesforce and Workday. New enterprise-oriented AI models from GenAI start-up Anthropic are becoming popular and are aimed directly at SAP's enterprise customer base, which could disrupt SAP's business. Cheap Chinese open-weight GenAI models could also provide substitution risk to SAP.

Christian Klein was appointed co-CEO in October 2019 and became sole CEO in April 2020. Mr. Klein has essentially spent his whole career at SAP, beginning in 1999. Dominik Asam became SAP's CFO in March 2023. Mr. Asam comes from outside SAP and previously served as the CFO of Airbus and Infineon Technologies.

COMPANY DESCRIPTION

One of the world's largest business software companies, SAP provides enterprise software addressing both the management of core business processes and analytics. The company offers specific solutions for industry segments including high tech, oil and gas, utilities, chemicals, healthcare, retail, consumer products, and the public sector. Based in Walldorf, Germany, SAP has a broad base of customers worldwide, including 99 out of the 100 largest global companies, with 80% of its customer base small and midsize enterprises. Products are maintained through product support services and option upgrades. SAP generates 69% of its revenue outside the U.S.

INDUSTRY

Our rating on the Information Technology sector is Over-Weight. The Information Technology sector accounted for a substantial 38.0% of the S&P 500 market cap as of the end of June. We think diversified investors should have meaningful exposure to the sector, at least in line with the current sector weight.

The sector receives above-average marks on our six-part 'blind' sector rating criteria, which includes growth momentum, valuation, financial strength, and analyst conviction, among other factors.

The sector has outperformed the market year to date with a gain of 19.4% as of the end of June. The sector outperformed in 2025, with a gain of 23.3%, compared to a gain of 16.4% for the S&P 500. The beta for the sector is 1.4.

Over the past five years, the sector's weighting has ranged from 16% to 39%. The sector's P/E ratio on projected 2027

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EPS was 20-times on a GAAP basis, above the market multiple. The yield of 0.1% was below the market average. The sector's smoothed earnings growth rate of 16% was above the market average.

The Information Technology sector is primarily a secular growth sector. The macroeconomic factors that may affect the performance of stocks in the Information Technology sector include Global and Domestic GDP Growth, Global and Domestic Wage Growth, and Employment Trends, among others. Trends in the dollar can affect factors such as Cost of Goods Sold.

Potential sell signals for stocks in the Information Technology sector can be a change in the direction or rate of a company's sales or earnings growth, a pronounced slowdown in new product announcements, or changes in the regulatory environment.

At this stage of the market and economic cycle, our favored industries within the Information Technology sector include Semiconductors and Application Software.

VALUATION

SAP shares are down 34% year-to-date, compared to an 8% increase for the S&P 500, a 20% decline for the S&P 500 Software Industry Index, and a 3% decline for the Global X DAX Germany ETF (DAX). On a trailing basis, the EV/EBITDA of 12 is below the peer median of 13.1. We are maintaining our target price on SAP but lowering our target price to \$215 from \$285.

ByLine

On July 24, BUY-rated SAP closed at \$160.00, up \$13.62. (Joseph Bonner, CFA, 7/24/26)

ServiceNow Inc (NOW)

Rating: **BUY** 
Market Cap: **LARGE**
Sector: Information Technology

Company sees GenAI as an accelerator

- ▶ ServiceNow provides scalable IT services management to enterprises using a hybrid subscription-based, software-as-a-service model.
- ▶ The company reported 11% non-GAAP EPS growth on 24% revenue growth in 2Q26.
- ▶ ServiceNow has made a case for doubling its subscription revenue, up to \$32 billion by 2030.
- ▶ We are maintaining our 2026 non-GAAP EPS estimate at \$4.19 and our 2027 forecast at \$5.02.

INVESTMENT THESIS

We are maintaining our BUY rating on ServiceNow Inc. (NYSE: NOW) to a 12-month target price of \$134. As has been the case with many other software-as-a-service (SaaS)

companies, the NOW shares have experienced volatility recently as market sentiment includes the theory that generative artificial intelligence (GenAI) may displace SaaS products, enabling enterprises to 'do it themselves' when it comes to software. We are skeptical of this theory, but the impact on NOW shares has been real. As we see it, ServiceNow's fundamental metrics, including around 20% revenue growth and expanding margins, belie the market sentiment as the company looks to capitalize on the opportunities in leveraging agentic AI for business process transformation (rather than being disrupted by it).

ServiceNow sees a unique opportunity to leverage its core strength in IT operations applications through new GenAI tools. The company has leapt into the next wave of GenAI innovation with its agentic AI services. NOW sees GenAI as an accelerator for its business, increasing its total available market and boosting average selling prices.

ServiceNow's software makes its customers' businesses more efficient, productive, and resilient, which should be a real value proposition in uncertain times. Management believes that the positive long-term tailwinds from enterprise digital and cloud transformation are more powerful than any near-term economic uncertainty. The company is executing on a rapid R&D cycle as it continues to invest in product extensions into adjacent areas -- most importantly, its focus on agentic AI. It is also designing products for specific industry verticals and expanding internationally and into the public sector.

Management sees opportunities in the currently unsettled business environment, and we think the company's technology underpinnings and go-to-market strategy continue to be solid.

RECENT DEVELOPMENTS

ServiceNow reported 2Q26 results on July 22 after the market close. Adjusted EPS beat the consensus estimate by \$0.04, and revenue was \$57 million above the consensus estimate. ServiceNow raised its 2026 subscription revenue (97% of total revenue) guidance by a modest \$15 million at the midpoint of the new range.

Second-quarter revenue rose 24% to \$3.99 billion year over year, with the positive exchange rates adding 150 basis points (bps) to growth and the growth rate accelerating from 22% in 2Q25. At the end of 2Q26, the company had 658 customers with an annual contract value (ACV) of more than \$5 million, adding 28 customers in the quarter and with this customer cohort up 23% year over year. The current remaining performance obligation, a measure of revenue momentum over the next year, rose 21.5% in constant currency to \$13.2 billion, with the growth rate level with 2Q25. Non-GAAP income from operations rose 23% from the prior year to \$1.17 billion, accelerating from 20% in 2Q25. The non-GAAP operating margin narrowed by 30 bps from the prior year to 29.4%, exceeding management's guidance

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for the quarter by about 300 bps. Management attributed the margin expansion to revenue outperformance and the timing of its marketing spend.

Non-GAAP diluted EPS rose 11% from the prior year to \$0.90, while GAAP diluted EPS fell to \$0.29 in 2Q26. Stock-based compensation, the major exclusion from non-GAAP EPS, rose 31% in 2Q26 and was level year over year at 16% of revenue.

ServiceNow held a Financial Analyst Day on May 4 in conjunction with its annual Knowledge user/developer conference. Management laid out a base case for 85% growth in subscription revenue to \$30 billion in 2030 (from its \$16.2 billion guidance for 2026, representing a 17% CAGR). Management also sees an upside opportunity to \$32 billion in subscription revenue in 2030, representing a 19% CAGR. These optimistic forecasts are based on several factors, including the company's new AI Control Tower product, which is supercharging demand for ServiceNow's cybersecurity services. We note the proliferation of agentic AI across enterprises, new available market opportunities from recent acquisitions Armis and Veza, and ServiceNow's entry into and taking share in the customer relationship management market. ServiceNow sees its total addressable market expanding to \$600 billion, encompassing AI expansion across its data, workflow, and security business verticals. Management also reinforced its long-held strategic focus on a balance between revenue growth and profitability with its guidance of 100 basis points of non-GAAP operating margin expansion to 32.5% in 2027 (with significant savings driven by internal agentic AI expansion). Another component of profitability would be ServiceNow reducing stock-based compensation to 10% in 2029 from 15% in 2025, as management expects share dilution to be neutral in 2026 based on its policy of large share repurchases.

On April 20, ServiceNow completed its acquisition of Armis Security Ltd. for \$7.75 billion in cash, its largest acquisition to date. Armis is a cybersecurity start-up focused on the management of cyber asset exposure (which we see as an aspect of observability), providing 'real-time, agentless discovery and classification of managed and unmanaged assets. These assets include operational technology, the internet of things, endpoint monitoring and management devices, and medical and industrial devices. A class of cyber threats associated with the proliferation of GenAI computing and the advent of AI agents has created a gold rush around acquisitions in the cybersecurity observability and identity tools area, with Alphabet Inc. (Google), Palo Alto Networks Inc., and CrowdStrike Holdings Inc. all announcing significant acquisitions in the last year. Nine of the Fortune 10 companies already rely on Armis.

Armis had over \$340 million in annual recurring revenue and ServiceNow expects to triple its 'market opportunity' in the security and risk solutions business, a business that already has an over \$1 billion annual contract value. ServiceNow

expects near-term margin dilution from the Armis acquisition to normalize in 2027.

ServiceNow also completed its acquisition of Veza for \$1.25 billion on March 2. Veza is an AI-native identity and access-management security platform. Again, the company is beefing up its cybersecurity business as GenAI drives an increasingly dangerous cyber threat landscape. ServiceNow expects that 'together, Armis delivers real-time visibility and protection across every connected cyber asset, while Veza maps every permission and access path across human, machine, and AI agent identities.'

EARNINGS & GROWTH ANALYSIS

We are maintaining our 2026 non-GAAP EPS estimate at \$4.19 and our 2027 forecast at \$5.02. Our estimates imply 20% EPS growth over the next two years. Our long-term earnings growth rate forecast is 21%.

As the development and deployment of AI agents moves into the billions of autonomous agents over the next few years, ServiceNow has identified AI agent orchestration and security as 'hypergrowth' opportunities for the company. ServiceNow identifies itself as the AI control tower for business transformation. Its product set is now 'AI native' and capable of enabling business data to generate real outcomes through process workflow innovation and with an integrated ecosystem of partners that provide services across client industries. ServiceNow has released AI Control Tower, designed to orchestrate AI agents with oversight and standards governance across frontier models and cloud providers; AI Agent Fabric for agent collaboration; and AI Agent Studio for no-code agent creation. New acquisitions Armis and Veza should bolster the company's already robust security offerings.

ServiceNow's core product has been, and remains, its IT operations and service management software. CEO Bill McDermott identifies the company's strategic opportunities as enabling its customers to control costs and boost productivity by applying ServiceNow's business-process automation tools to customer workflows while also transforming their business models. ServiceNow can leverage its platform of solutions by cross selling its expanding product portfolio, including new and emerging applications, while offering customers a more complete solution. While the platform expands, ServiceNow enables enterprise-wide adoption of its tools as the fragmented enterprise software market consolidates, essentially expanding its share of customer technology spend. The company has moved from 'one-size-fits-all' software to tailoring industry-specific solutions for key sectors. These include telco/media/technology, manufacturing, public agency, and healthcare/life sciences. ServiceNow is also expanding its offerings from traditional IT and personnel management workflows into finance and enterprise resource planning workflows, CRM, and creator workflows. Management has been expanding its total available market

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(TAM), both organically and through acquisitions, and sees a TAM of \$600 billion for its solutions.

ServiceNow is highly invested in the emerging agentic AI next wave of GenAI innovation. The company's strategy has been to leave the cost of developing frontier GenAI models to others, and instead focus on the business application layer (already the company's core strength). We think the move of large language models (LLMs) toward commoditization and the dropping cost of GenAI inference validates the company's strategy. The company has developed a hybrid go-to-market strategy, moving from the traditional seat-based license to more-flexible pricing models, including consumption, a model that works well with agentic AI. Some 50% of net new business now comes from non-seat-based pricing models. The purpose of the consumption piece is to provide ease of adoption and scaling of agentic AI, while also continuing to provide a base level subscription. In 2Q, the company reached \$1 billion in AI product annual contract value -- and management expects to meet its \$1.5 billion goal for 2026. We also note that ServiceNow continues to integrate and connect with other platforms, not least including the hyperscalers, but also data and GenAI leaders Oracle Corp., Databricks Inc., and Snowflake Inc.

CEO Bill McDermott has noted four key drivers that he believes uniquely differentiate ServiceNow's successful growth in the tough enterprise technology macro environment. The first is elite execution. We take this to mean execution on product innovation (what we consider the foundation of the company's business model) and on go-to-market. Next, Mr. McDermott sees ServiceNow growing from a mere transactional vendor to becoming an important strategic partner in enterprise business transformation for its customers. The third driver is the company's AI platform, also aimed at business process transformation and automation. Finally, Mr. McDermott has identified the company's growing brand awareness and expanding addressable market, which we again see being driven by product innovation and extension, most importantly in AI applications.

ServiceNow's go-to-market strategy is based both on quota-carrying sales representatives and a large and expanding ecosystem of partners, including the three large cloud providers, Amazon's Amazon Web Services (AWS), Microsoft Corp., and Google Cloud; AI chip maker NVIDIA Corp.; and large systems integrators Deloitte, KPMG International Ltd., and Accenture plc, among others. ServiceNow has a particularly close partnership with Microsoft as it connects its platform to Azure OpenAI but also signed a partnership deal with OpenAI competitor Anthropic PBC in January. Management expects to see a 25% increase in average selling prices as new GenAI-based tools drive higher-priced solutions. While the company offers service tiers for any size of customer (down to the individual creator), management's focus is on expanding its highest-tier marquee and enterprise-tier customer bases, signing larger

deals for multiple products at a time. The existing customer base accounts for 85% of net new annual contract value sales, and the company's renewal rate remains around 98%.

ServiceNow's target market is large enterprises, which management defines as having more than \$100 million in revenue and 1,000 or more employees. IT Service Management, arguably the company's most-mature product, has less than 30% penetration of its target market, giving the company plenty of room to grow. In addition to AI, the growth vector du jour for every Information Technology company, ServiceNow also is focused on expanding its global public sector business, primarily in five of the top six economies (the U.S., Japan, Germany, India, and the U.K., but excluding China, where it does not do business). The company is pursuing deals globally at all three levels of government: federal, state, and local.

In October 2024, ServiceNow launched Workflow Data Fabric, an enhanced data-integration solution that unifies business and technology data across the enterprise, and is intended to power all workflows and AI agents with 'real-time, secure access to data from any source.' The company sees data fabric as another 'hypergrowth' opportunity, as GenAI systems rely on data harmonization. ServiceNow has entered into partnerships with data harmonization specialists Databricks and Snowflake. In addition, systems integrator Cognizant is the first channel-marketing partner on Workflow Data Fabric.

ServiceNow is partnering with Nvidia to develop enterprise-grade GenAI tools, aimed at transforming business processes with 'intelligent workflow automation' to increase capabilities and productivity across the enterprise. It is also working to help Nvidia streamline its own operations.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength assessment for ServiceNow is Medium-High. The company had cash and short-term investments of \$4.72 billion at the end of 2Q26. Total debt at the end of 2Q26 was \$7.5 billion, of which \$2.1 billion is due within the next year. Trailing-12-month free cash flow was \$4.9 billion in 2Q26, up 27%, or an incremental \$1 billion, year over year.

ServiceNow generally repurchases shares to offset some of the dilution from employee share awards. However, the company has been accelerating share repurchases as the NOW share price has experienced volatility over the last year. The first quarter of this year saw a radical acceleration as the company bought back 20.1 million shares for \$2.225 billion, though the company took a breather in 2Q with no repurchases. ServiceNow bought back 4.9 million shares for \$1.9 billion in all of 2025, 1.1 million shares for \$696 million in 2024, and 900,000 shares for \$538 million in 2023. The share count fell by about 13 million shares or about 1% in the last year, as the company also moves more in favor of cash versus share compensation. ServiceNow does not pay a

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dividend, and we do not expect it to implement one.

MANAGEMENT & RISKS

The continued development of highly performant AI models and applications has led to a market thesis, and market sentiment, that agentic AI will destroy enterprise software businesses like ServiceNow. This thesis has had a significantly negative impact on the NOW shares. That said, ServiceNow has been a rapid adopter of agentic AI both internally for workflow optimization and throughout its product set - which creates the possibility that, instead of destroying its business, agentic AI may actually accelerate business. Still, the market thesis persists and is a risk for investors in the NOW shares. Another risk around GenAI is that these new AI systems may not perform as expected, could be vulnerable to cyber-attack, and could produce unreliable or biased results, resulting in harm to the ServiceNow brand. As well, the company may not reap the expected return on its AI investments, and other GenAI developers could innovate competing solutions to ServiceNow's products.

While we expect ServiceNow's revenue growth should be highly correlated with the ups and downs of technology spending, one stabilizing factor is that the company's technology is squarely aimed at making clients' own IT systems more efficient and lowering the total cost of ownership. That is a value proposition that has even-greater salience in volatile spending environments. The company continues to face risks from a possible macroeconomic-induced industry slowdown and federal government budget cuts.

ServiceNow has been on an acquisition spree in the past few years and may not recognize the hoped-for returns on these acquisitions. It could also face difficulties in integrating these acquisitions, leading to operational disruptions.

ServiceNow is subject to the usual risks of a high-growth tech company. It must effectively manage the transition from its current high-growth period to a period of slower growth and higher margins, while also building out its product portfolio and sales force. The company will likely continue to invest heavily in R&D and in scaling its marketing efforts, which may not produce the desired or expected returns. In addition, as a cloud data-management service, ServiceNow transmits and stores large amounts of customer data, and thus runs the risk of a data breach due to its own errors or negligence or those of third parties. It must also ensure the reliability of its service platform. ServiceNow relies on various third-party partners, such as systems integrators, to help implement its solutions. If these third parties fail to implement properly or turn to other vendors, NOW's sales could be impacted materially. ServiceNow already has a six- to nine-month sales cycle, and economic disruption or concerns over technology spending could lengthen this and impact the company's results.

ServiceNow's high valuation as a technology start-up could

also lead to a sharp sell-off in the stock if the company reports inconsistent results or fails to meet investor expectations.

ServiceNow operates in an industry with considerable patent and intellectual property (IP) development and faces a range of IP-related risks. In particular, adverse rulings in patent infringement cases could force the company to design patent workarounds, abandon certain technologies, or pay exorbitant license fees. These additional technical and legal costs could have a substantial negative effect on the company's results. For example, ServiceNow settled a suit by Hewlett-Packard Co. for patent infringement with a payment of \$270 million to HP in 2016.

CEO and Chairman Bill McDermott has extended his contract with ServiceNow through December 31, 2030. He was appointed CEO in October 2019. He had a proven record of growth as a big-tech CEO at SAP, and we think he is capable of taking a younger company like ServiceNow to the next level. Amit Zavery, has been president, chief product officer, and chief operating officer since October 2024. Gina Mastantuono has been CFO since January 2020 and was promoted to the additional role of co-president in January 2025.

COMPANY DESCRIPTION

ServiceNow provides cloud-based SaaS management applications to automate and track workflows across the enterprise, including IT, HR, facilities, and field service, among others. The company markets to enterprises in industries ranging from financial services and consumer products to healthcare and technology. About 97% of revenue comes from subscription software sales, with the remainder from professional services. About 41% of the company's revenue is generated outside of the U.S. ServiceNow went public on June 29, 2012, at \$18 per share. In June 2023, ServiceNow became part of the Fortune 500. The company has been a component of the S&P 500 since November 2019. ServiceNow completed a 5-for-1 stock split on December 17, 2025.

INDUSTRY

Our rating on the Information Technology sector is Over-Weight. The Information Technology sector accounted for a substantial 38.0% of the S&P 500 market cap as of the end of June. We think diversified investors should have meaningful exposure to the sector, at least in line with the current sector weight.

The sector receives above-average marks on our six-part 'blind' sector rating criteria, which includes growth momentum, valuation, financial strength, and analyst conviction, among other factors.

The sector has outperformed the market year to date with a gain of 19.4% as of the end of June. The sector outperformed in 2025, with a gain of 23.3%, compared to a

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gain of 16.4% for the S&P 500. The beta for the sector is 1.4.

Over the past five years, the sector's weighting has ranged from 16% to 39%. The sector's P/E ratio on projected 2027 EPS was 20-times on a GAAP basis, above the market multiple. The yield of 0.1% was below the market average. The sector's smoothed earnings growth rate of 16% was above the market average.

The Information Technology sector is primarily a secular growth sector. The macroeconomic factors that may affect the performance of stocks in the Information Technology sector include Global and Domestic GDP Growth, Global and Domestic Wage Growth, and Employment Trends, among others. Trends in the dollar can affect factors such as Cost of Goods Sold.

Potential sell signals for stocks in the Information Technology sector can be a change in the direction or rate of a company's sales or earnings growth, a pronounced slowdown in new product announcements, or changes in the regulatory environment.

At this stage of the market and economic cycle, our favored industries within the Information Technology sector include Semiconductors and Application Software.

VALUATION

Our valuation methodology is multistage, including peer analysis, a multiple-analysis matrix applied to our proprietary forecasts, and discounted cash flow modeling. NOW shares have traded between \$81 and \$211 over the last year and are currently near the bottom of that range. The shares have fallen 40% year to date, compared to an 8% advance for the S&P 500, a 21% decline for the S&P 500 Software (Industry) Index, and an 18% decline for the iShares Expanded Tech-Software Sector ETF (IGV). The trailing enterprise value (EV)/sales multiple of 6.9 is below the peer median of 10.3. We are maintaining our BUY rating on NOW, with a 12-month target price of \$134.

ByLine

On July 24 at midday, BUY-rated NOW traded at \$97.41, up \$5.47. (Joseph Bonner, CFA, 7/24/26)

Tesla Inc (TSLA)

Rating: **HOLD** 
Market Cap: **LARGE**
Sector: Consumer Discretionary

2Q26 profit down 18%

- ▶ Tesla reported 2Q26 adjusted net income of \$1.153 billion or \$0.33 per share, down 18% from \$1.393 billion or \$0.40 per share in 2Q25. EPS missed our estimate of \$0.41 and the Street quarterly consensus estimate of \$0.53.

- ▶ The lower 2Q26 earnings largely reflected a lower vehicle average selling price (ASP), lower gross margins, and lower regulatory credit revenue, which more than offset higher vehicle deliveries and higher automotive ancillary sales.
- ▶ Tesla does not provide any financial guidance, but management once again highlighted that they expect a heavy capital-spending program in 2026 (about \$25 billion), with a similar amount to be spent at least through 2027 and 2028 to scale autonomous technologies, robotaxi, and Optimus production.
- ▶ In the near-term, Tesla expects a continued pivot to AI and energy growth. In addition, the company expects to see modest overall revenue and vehicle delivery growth in 2026.

INVESTMENT THESIS

Our rating on Tesla Inc. (NGS: TSLA) is HOLD. The company remains one of the largest electric vehicles (EV) sellers in the world and holds a significant portion of the EV market share in the United States, with about 50% of the market as of the end of 2025. However, EV demand has trended lower over the past 12 months, largely the result of the expiration of government incentives (a \$7,500 federal tax credit) and tepid consumer demand.

We are not recommending purchase of Tesla shares at this time as the company's core EV business, in our view, continues to experience uneven demand growth. This is despite a 25% increase in deliveries in 2Q26, as rising competition from both traditional automakers and Chinese electric vehicle manufacturers, continuing pricing pressures, and rising capex spending, all continue to erode both vehicle gross margins and company profit.

In addition, we view capital spending plans (estimated at \$25 billion in 2026) as an all-important risk to earnings growth in 2026 (and likely in 2027 and 2028), as Tesla begins its heavy ramp in spending on Artificial Intelligence (AI), autonomy, and new capacity. We expect this to pressure free cash flow and delay earnings growth, without providing any near-term shareholder return. As a result, we believe it will be nearly impossible for Tesla to generate any consistency in profit growth in the near-term. We would consider an upgrade when we see a stabilization (or acceleration) of EV deliveries with clear and sustainable margin recovery, showing that soft demand and softening pricing power has bottomed.

RECENT DEVELOPMENTS

Tesla reported 2Q26 adjusted net income of \$1.153 billion or \$0.33 per share, down 18% from \$1.393 billion or \$0.40 per share in 2Q25. EPS missed our estimate of \$0.41 and the Street quarterly consensus estimate of \$0.53.

The lower 2Q26 earnings largely reflected a lower vehicle average selling price (ASP), lower gross margins, and lower regulatory credit revenue, which more than offset higher

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vehicle deliveries and higher automotive ancillary sales.

Revenue (total) increased 26% to \$28.236 billion, while Automotive division revenue improved 23% to \$20.516 billion. Services and Other revenue increased 50% to \$4.581 billion. The Street consensus for total revenue was \$26.201 billion.

Gross margin (GAAP) for the second quarter of 2026 totaled 16.8% versus 17.2% in 2Q25, a decrease of 40 basis points, largely the result of lower average selling prices (ASPs) and a higher average cost per vehicle.

Energy Generation and Storage revenue totaled \$3.139 billion in the second quarter of 2026, up 13% from \$2.789 billion in the second quarter of 2025, reflecting record energy storage deployments, supported by record deployments from Megafactory Shanghai,

In 2Q26, Tesla delivered 480,126 total vehicles (12,364 Model S and Model X and 467,762 Model 3 and Model Y), up 25% from the second quarter of 2025. The improvement in year-over-year deliveries, we believe, is largely due to a recovery in production output and stabilization in consumer demand.

EARNINGS & GROWTH ANALYSIS

Tesla does not provide any financial guidance, but management once again highlighted that they expect a heavy capital-spending program in 2026 (about \$25 billion), with a similar amount to be spent at least through 2027 and 2028 to scale autonomous technologies, robotaxi, and Optimus production. Tesla continues to pivot to AI and energy growth in the near-term and anticipates modest overall revenue and vehicle delivery growth for the remainder of 2026.

We are lowering our 2026 EPS estimate to \$1.70 from \$1.85 to reflect 2Q26 results, which missed our quarterly estimate (by \$0.08 per share) and our forecast calling for lower gross margins in auto and continued R&D growth.

We are also reducing our 2027 EPS estimate to \$2.07 from \$2.32 to reflect our expectations for a higher spending forecast (capex and AI investments) and delayed returns from robotaxi/FSD initiatives.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on Tesla is Medium, the middle ranking on our financial scale. Tesla receives average scores on our financial strength criteria of fixed cost coverage, cash flow, profitability and an above-average score on debt/capitalization levels.

Tesla's credit ratings are designated as Baa3/stable at Moody's, while Standard & Poor's rates the company's credit profile at BBB/stable. Tesla believes it has sufficient liquidity to fund its product roadmap, long-term capacity expansion

plans, and other needs.

Debt (total) at the end of 2Q26 stood at \$15.990 billion, consisting of short-term borrowings of \$2.465 billion and long-term borrowings of \$13.525 billion. This compares to total outstanding debt of \$12.328 billion at the end of 2Q25.

The debt-to-capitalization ratio was 15.9% at the end of 2Q26, up from 15.3% a year earlier but still below the average for peer auto manufacturers. Tesla's five-year average debt/cap ratio is 16.7%.

Cash and cash equivalents totaled \$43.524 billion at the end of 2Q26, up from \$36.782 billion a year earlier and compared to \$44.743 billion generated at the end of the first quarter of 2026.

Net cash provided by operating activities (cash flow) was \$4.697 billion in the second quarter of 2026, up from \$2.540 billion in the second quarter of 2025 and compared to \$3.937 billion in 1Q26.

Tesla does not pay a dividend and does not have a share-repurchase program in effect. We do not believe the company will initiate a program in either area over the foreseeable future, intending to use excess cash for capital investment.

MANAGEMENT & RISKS

Tesla founder Elon Musk has served as the company's CEO since 2008. He is also the CEO and chief designer of Space Exploration Technologies (SpaceX), and the nonexecutive chairman and principal shareholder of SolarCity, one of the leading providers of solar power systems in the U.S. Mr. Musk has overseen product development and design at Tesla from the start and has had a nearly two-decade-long interest in electric vehicles and other environmentally friendly technology.

Like its competitors, Tesla faces risks from weak global economic conditions and changes in consumer preferences and spending patterns. Tesla is also at risk from higher costs for components and raw materials, as well as from manufacturing disruptions.

COMPANY DESCRIPTION

Tesla Inc. manufactures and sells electric vehicles (EVs) as well as energy-generation and storage systems. The company was founded in 2003 and went public in June 2010, with an initial public offering at \$17 per share. As of December 31, 2025, Tesla had approximately 134,800 employees. It recently moved its headquarters to Austin, Texas, from Palo Alto, California, and its stock is a component of the S&P 500.

VALUATION

Tesla common shares have traded between \$297.82 and \$498.83 over the past 52 weeks and currently are trading

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below the midpoint of the range. To value the stock on a fundamental basis, we use peer group and historical multiple comparisons, as well as a dividend discount model.

Using a price/earnings (P/E) multiple as our starting point, the Tesla common shares currently are trading at 189-times our 2026 EPS estimate and at 155-times our 2027 forecast, compared to a 15-year annual historical average range of 128-254.

On other valuation measures, the shares are trading at a price/book multiple of 17.3, versus a historical range of 14.2-41.5; a price/sales multiple of 12.8, versus a range of 7.1-16.7; and a price/cash flow ratio of 75.7, versus a range of 36.3-75.3. They are also trading at a price/EBITDA multiple of 111.8, below the low end of the range of 134.6-209.2.

ByLine

On July 23, HOLD-rated TSLA closed at \$319.69, down \$54.32. (Bill Selesky, 7/23/26)

Texas Instruments Inc (TXN)

Rating: **BUY** 
Market Cap: **LARGE**
Sector: Information Technology

Raising target price to \$360

- ▶ Texas Instruments posted 2Q26 revenue and GAAP EPS that topped consensus expectations. The company in 2Q26 sustained annual sales growth from 2025, which followed nine straight down quarters from 4Q22 through 4Q24.
- ▶ Given TXN's role as a primary semiconductor manufacturer with a large domestic fabrication footprint, the company has a long-term competitive advantage over tariff-exposed fabless semiconductor rivals.
- ▶ TXN during 1Q26 agreed to acquire Silicon Laboratories Inc. (SLAB), a leader in secure and intelligent wireless technology that should strengthen the company's embedded processing strategy.
- ▶ The company has announced plans to invest about \$60 billion in U.S. semiconductor manufacturing. Continued recovery in industrial, automotive, and communications infrastructure should drive annual top- and bottom-line growth.

INVESTMENT THESIS

BUY-rated Texas Instruments Inc. (NGS: TXN) were lower on July 23 after the company posted above-consensus 2Q26 revenue and GAAP EPS. Texas Instruments in 2Q26 sustained annual sales growth from 2025, which followed nine straight down quarters from 4Q22 through 4Q24. The company also guided sharply above prereporting consensus expectations for 3Q26.

For 2Q26, revenue of \$5.46 billion rose 23% from \$4.07 billion a year earlier, while GAAP EPS of \$2.14 rose 52% from \$1.48 in 2Q25. GAAP EPS were above the high end of management's 2Q25 guidance and the \$1.92 consensus call. Revenue strength was driven by recovery in high-value-added market niches, while strong double-digit expansion in EPS reflected volume leverage and high-valued-added mix, partly offset by higher costs.

The uneven pace of demand recovery in 2025 forced TXN to reduce capacity utilization, leading to a near-term slowing in top- and bottom-line growth. TXN experienced continued recovery in gross margin in 2Q26, despite high ongoing depreciation and not-yet-optimal factory loadings. The company deliberately maintains high inventories, given its focus on serving customers.

The company guided for 3Q26 sales and GAAP EPS (at midpoint) that were significantly above prereporting consensus estimates. We believe TXN is positioned for accelerating top- and bottom-line growth for 2026 after modest recovery in 2025 and a down 2024. TXN's core business-to-business markets, which recovered as 2025 proceeded, are carrying late-2025 momentum across the current year. Enterprise is now the fastest-growing end market, due to the surge in artificial intelligence (AI) data center investment. Iran war impacts are so far modest to immaterial to TXN, and tariff and trade uncertainty has diminished if not totally gone away.

TXN during 1Q26 agreed to acquire SLAB, a leader in secure and intelligent wireless technology. TXN CEO Haviv Ilan cited 'compelling strategic and financial' benefits of the deal, which should enhance TXN's global leadership in embedded wireless connectivity solutions, leverage low-cost manufacturing to better serve SLAB customers, and deepen customer engagement across market-channel and cross-selling opportunities while presenting substantial synergy opportunities. The company also announced transition in the CFO office in August of this year.

Throughout past challenging periods, TXN has been disciplined in its factory loadings and operating cost controls, allowing the company to maintain its operating margin at high levels relative to industry rivals. TXN's base of industrial, automotive, and communications infrastructure customers remains largely committed to growth and is aligned with TXN's long-term investment planning. We believe TXN's strong fab presence in the U.S. is a competitive advantage in the current environment. The company has announced plans to invest about \$60 billion in foundational semiconductor production at its Texas and Utah fabs.

In January 2026, we raised our five-year EPS growth rate forecast for TXN to 12% from a prior 10%. On a secular basis, TXN is benefiting from multiple growth drivers across its industrial, automotive, infrastructure, and technology end markets. Given the company's market strength, diversified

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customer base, domestic manufacturing presence, and focus on shareholder returns, we believe the depressed TXN share price offers good value at current levels. We are reiterating our BUY rating and raising our 12-month target price to \$360 from \$320.

RECENT DEVELOPMENTS

TXN is up 70% year-to-date in 2026, while immediate peers are up 79%. TXN declined 8% in 2025, while the peer group of Argus-covered semiconductor stocks rose 35%. TXN rose 13% in 2024, while the peer group was up 19%; edged up 3% in 2023, while peers soared 63%; declined 12% in 2022, while peers declined 33%; and rose 15% in 2021, while the peer group advanced 34%.

For 2Q26, Texas Instruments reported revenue of \$5.46 billion, which was up 23% from \$4.45 billion a year earlier and up 13% sequentially from 1Q26. Revenue was above the upper end of management's \$5.0 billion-\$5.4 billion guidance range and exceeded the \$5.24 billion consensus estimate. GAAP earnings were \$2.14 per diluted share, up 52% from \$1.41 a year earlier. GAAP EPS were above the high end of management's \$1.77-\$2.05 guidance range and also topped the \$1.92 consensus estimate.

CEO Ilan noted that TXN delivered across-the-board strength in 2Q26, with Analog and Embedded Processing both growing sequentially and year over year. Commenting on the demand environment, he noted that 2Q revenue came in above internal expectations based on continuing strength in industrial and data center end markets 'in addition to accelerated growth in automotive.'

Past and ongoing investments in capacity and inventory are allowing TXN to support customers during a time of increased demand, some of which is related to AI activity. The company is prepared with capacity and has clean room space available, positioning TXN to support continued growth.

The company provides detailed end-market data on a yearly basis only but in any quarter provides dynamic color on its key markets. The industrial end market, which represented about 34% of 2025 revenue, grew 30% in 2Q26 and was up about 10% sequentially while growing broadly across business segments and regions. Automotive (35% of 2025 sales) increased in midteens year over year and rose in high-single-digits sequentially.

Data Center, while representing just 4% of 2025 revenue, doubled year-over-year in 2Q26 and surged 20% sequentially. Personal Electronics (20% of 2025 revenue) grew in single digits sequentially, while Communication Equipment (5% of 2025 sales) grew both annually and from 1Q26.

Management believes that customers across all regions and market segments are increasingly turning to analog and

embedded technology to make their products more reliable, more affordable, and lower in power usage. This trend is driving increased chip content per application, particularly in the company's strategic end markets.

On a product category basis for 2Q26, Analog posted revenue of \$4.37 billion (80% of total), up 26% annually and up 11% sequentially. This business, which declined 7% annually for all of 2024, grew by 15% in 2025 and represented 79% of full-year revenue.

Analog operating profit of \$1.99 billion increased 50% year over year in 2Q26. The Analog segment margin expanded to 45.6% from 38.4% a year earlier on rising factory loadings and increased volume leverage, which offset higher costs and restrained pricing power.

Embedded Processing revenue of \$788 million (14% of total) rose 16% annually and was up 14% sequentially. Embedded Processing operating profit of \$68 million rose 98% from \$85 million in the prior year, and the segment margin expanded to 21.3% for 2Q26 from 12.5% a year earlier.

This business late in 2024 into early 2025 experienced weakness in non-China automotive and industrial applications, before beginning to recover in 2H25. Embedded Processing revenue, which declined 24% for all of 2024, posted 7% growth for all of 2025 and represented 15% of full-year revenue.

The Embedded Processing business is also now heavily located in LFAB, the Lehi, Utah, fab acquired from the former Intel Corp./Micron Technology Inc. XPoint joint venture. This fab had been underutilized, further contributing to margin pressures, but is slated for expansion as markets recover and demand normalizes following tariff shocks.

Given TXN's strong exposure to Automotive, we look for Embedded margins to resume expansion within a broader economic bounce back and as demand for mission-critical parts recovers along with the broad industrial category. We look for the Embedded Processing margin to continue expanding as Lehi becomes more efficient (in 2027) and as SLAB adds high-margined revenue. The company believes that as end markets recover, Embedded Processing will be a major contributor to free cash flow growth.

The Other category (6% of total revenue), which includes DLP products, calculators, and custom application-specific integrated circuits, is highly seasonal. Other revenue dipped 2% year over year but rose 74% sequentially from 1Q26. For all of 2025, Other represented 6% of revenue and grew 3% from 2024. Other segment profit in 2Q26 contracted 2% year over year, and the margin of 48.4% for 2Q26 was little changed from 48.3% in the year-earlier quarter.

During 1Q26, TXN announced an agreement to acquire SLAB. The acquisition will create a global leader in

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embedded wireless connectivity solutions, management believes, by combining SL's portfolio and expertise in mixed signal solutions with TXN's leading analog and embedded processing portfolio, internally owned technology, and manufacturing capabilities. The combined company will accelerate growth by better serving existing and new customers through enhanced innovation and market access.

Management cited the compelling strategic and financial benefits of the deal, which should enhance TXN's global leadership in embedded wireless connectivity solutions, leverage low-cost manufacturing to better serve SLAB customers, and deepen customer engagement across market-channel and cross-selling opportunities while presenting substantial synergy opportunities. TXN will pay \$231.00 in cash per SLAB share, or about \$7.5 billion. The transaction is expected to close in the first half of 2027, subject to receipt of regulatory approvals and other customary closing conditions.

Implementation of extensive national tariff and product category policies by the Trump administration has increased the urgency to develop and expand domestic production. TXN announced capacity expansion agreements under the CHIPS & Science Act and has unveiled an even more ambitious expansion agenda. Texas Instruments plans to invest about \$60 billion into seven U.S. semiconductor fabs across three manufacturing sites in Utah and Texas. Through this investment, Texas Instruments will, over time, manufacture hundreds of millions of chips daily.

At the center of this plan is Texas Instruments' Sherman, Texas, campus, where the company is building four new fabs: SM1 and SM2, which are already underway, and two future facilities, SM3 and SM4. SM1 began production as of the end of 2025, just three years after construction started. Additional manufacturing capacity is being added at the company's Richardson, Texas, and Lehi, Utah, sites, where existing and under-construction fabs will expand TXN's 300 millimeter chip output and support its long-term growth in the U.S. The forecast investment is expected to support over 60,000 jobs across Texas and Utah, including construction, operations, and broader supply chain roles.

Aided by federal backing, several major American companies are partnering with TXN to support their own product development and supply chain resilience. Apple Inc. uses TXN's chips to power its devices, and Ford Motor Co. highlighted its collaboration with TXN as key to securing domestic semiconductor supply for its vehicles. Medtronic plc, a medical device manufacturer, used TXN products to maintain critical supplies during recent chip shortages.

Other partners include Nvidia Corp. and Space Exploration Technologies Corp. (SpaceX), which rely on TXN's technology for high-performance computing and satellite internet, respectively. Nvidia is working with TXN to develop advanced chips for AI infrastructure, while SpaceX uses

TXN's silicon for Starlink connectivity systems.

Following a down 2024 and mid-single-digit EPS growth in 2025, TXN is on track for high-double-digit EPS growth in 2026 and high-teens-to-low-20% growth in 2027. Key revenue and margin drivers include broad end-market exposure, a diverse and high-margined product catalog, domestic manufacturing presence, strong customer relationships, and focus on shareholder returns.

EARNINGS & GROWTH ANALYSIS

For 2Q26, Texas Instruments reported revenue of \$5.46 billion, which was up 23% from \$4.45 billion a year earlier and up 13% sequentially from 1Q26. Revenue was above the upper end of management's \$5.0 billion-\$5.4 billion guidance range and exceeded the \$5.24 billion consensus estimate.

The GAAP gross margin was 61.4% in 2Q26, versus 57.9% a year earlier. The GAAP operating margin widened by over 700 basis points to 42.3% in 2Q26 from 35.1% a year earlier.

GAAP earnings were \$2.14 per diluted share, up 52% from \$1.41 a year earlier. GAAP EPS were above the high end of management's \$1.77-\$2.05 guidance range and also topped the \$1.92 consensus estimate.

For all of 2025, revenue of \$17.7 billion increased 13% from \$15.6 billion for 2024. GAAP earnings of \$5.43 per diluted share for 2025 rose 5% from \$5.20 per diluted share for 2024.

TXN guided for 3Q26 revenue of \$5.65 billion-\$6.15 billion, for a midpoint of \$5.90 billion; the prereporting consensus forecast was \$5.41 billion. Management also guided for non-GAAP EPS of \$2.23-\$2.57, for a midpoint of \$2.40; the prereporting consensus forecast was \$2.04. At respective guidance midpoints, revenue would be up 24% year over year, while GAAP EPS would be up over 50% from 3Q25.

We are raising our 2026 GAAP EPS estimate to \$8.28 per diluted share from \$7.16. We are raising our 2027 GAAP EPS forecast to \$9.18 per diluted share from \$7.80. Our five-year EPS growth rate forecast for TXN is 12%, raised from a prior 10% in January 2026.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on Texas Instruments is Medium-High.

Debt was \$14.1 billion at the end of 2Q26. Debt was \$14.1 billion at the end of 2025, \$13.6 billion at the end of 2024, \$11.2 billion at the end of 2023, and \$8.7 billion at the end of 2022.

Cash was \$7.00 billion at the end of 2Q26. Cash and equivalents were \$4.88 billion at the end of 2025, \$7.58 billion at the end of 2024, \$8.8 billion at the end of 2023, and \$9.1 billion at the end of 2022.

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Cash flow from operations was \$7.16 billion in 2025. Cash flow from operations was \$6.32 billion in 2024, \$6.42 billion in 2023, \$8.72 billion in 2022, and \$8.76 billion in 2021.

Free cash flow (FCF) was \$2.9 billion for 2025, \$1.50 billion for 2024, \$1.35 billion for 2023, \$5.9 billion for 2022, and \$6.3 billion in 2021. FCF covered the dividend by a factor of 0.3 in 2024, a factor of 0.3 in 2023, a factor of 2.0 in 2022, and a factor of 2.2 in 2021.

Debt/capitalization was 45.8% at year-end 2025. Debt/cap was 42.7% at year-end 2024, 40.3% at year-end 2023, 37.5% at year-end 2022, and 36.7% at year-end 2021.

Over the trailing-12-month period through 4Q25, TXN returned \$6.5 billion to shareholders. TXN returned \$5.72 billion to shareholders in 2024, \$4.85 billion to shareholders in 2023, \$7.9 billion to shareholders in 2022, and \$4.4 billion in 2021. The common stock base, including common stock equivalents, has fallen more than 50% since the end of 2004.

In September 2025, TXN announced a 4% hike in its quarterly dividend to \$1.42 per share. This follows a 5% increase in its quarterly dividend to \$1.36 per share in September 2024; a 5% hike to \$1.30 in October 2023; and an 8% hike to \$1.24 in September 2022. TXN has boosted its payout for 22 straight years. The current yield is about 2.9%.

We forecast annual dividends of \$5.74 for 2026 and \$5.96 for 2027.

MANAGEMENT & RISKS

Haviv Ilan has been the company's president and CEO since 2023. He succeeded Rich Templeton, who served 18 years, as CEO and succeeded Mr. Templeton as chairman of the board in January 2026. Amichai Ron is SVP of Embedded Processing & DLP Products, while Hagop Kozanian is SVP of Analog Signal Chain.

Rafael Lizardi, who served as CFO since 2017, will step down from that role at the end of August. He will be succeeded as CFO by Julie Knecht, who has been chief accounting officer and VP of accounting and tax since 2021. We expect the CFO transition to be a nonevent for TXN shares.

The still formulating tariff environment represents risks for all semiconductor companies. As of mid-2026, most semiconductors imported into the U.S. were exempt from tariffs. The administration has proven whimsical in its tariff policies, however, and could rescind that exemption at any time. Additionally, less than 4% of all U.S. semiconductor imports come from China. Semiconductors shipped into overseas markets may encounter tariffs, including reciprocal tariffs. TXN is relatively well positioned for a tariff war, in our view, due to its strong base of domestic production, primarily in Texas and Utah.

While the COVID-19 pandemic is past, shutdowns in Shanghai in the postpandemic period underscore the ongoing risk of geopolitical events to customers and supply chains. We believe that TXN has the financial strength, market leadership, and growth characteristics to emerge a stronger player. We also believe the pandemic has further accelerated the digital economy, driving demand for semiconductors that enable connected devices used in industrial, automotive, infrastructure, and consumer applications.

A key risk for TXN is that long-term demand fails to justify its significant asset expansion, even though that expansion was conducted at very low cost. TXN added several major fabrication sites and acquired National Semiconductor in little more than a year -- and appears to be wrestling with production planning as it seeks to incorporate all these new assets. For the long term, we note that TXN is a decades-old company that has successfully integrated assets while simultaneously spinning off noncore businesses.

Other end markets present risks, particularly computer peripherals and other, more-consumer-oriented niches. Demand could weaken if consumer spending falters. Still, we believe that the diversity of TXN's customer base lessens the risks of weakness in any particular niche.

COMPANY DESCRIPTION

Dallas-based Texas Instruments Inc. is a vertically integrated producer of analog and embedded processing semiconductors. It serves end markets that include industrial, automotive, and communications infrastructure. Recent acquisitions and divestitures have increased the focus on nontraditional end markets while lessening the company's exposure to computing, mobile communications, and consumer electronics. The 2011 acquisition of National Semiconductor significantly increased its exposure to industrial, automotive, aerospace-defense, instrumentation, and other high-value-added and long-cycle markets.

VALUATION

TXN shares are trading at 35.1-times our GAAP EPS estimate for 2026 and at 31.7-times our 2027 projection; the two-year average forward P/E of 33.5 is above the five-year (2021-2025) average P/E of 26.6. The current two-year forward relative P/E of 1.39 is above TXN's historical relative P/E of 1.26. Comparable historical valuation signals a price in the \$270s, near current levels.

Although TXN historically traded at significant premiums to peers on absolute and relative P/E and price/sales, it now trades at slight premiums on those metrics and at a discount on EV/EBITDA. Peer-indicated value is in the \$270s, in a rising trend. Discounted FCF analysis renders a fair value in the \$450s, in a fast-rising trend and above current levels.

Our blended model suggests a long-term fair value around

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\$410, rising and above current levels. With the company now back to growth, we believe TXN's competitive positioning has strengthened, given its extensive domestic production footprint while rivals rely on outsourced fabs. The company's robust infrastructure and low lead times enable it to keep customers supplied, creating a long-term competitive advantage. In periods of robust demand, TXN's vertical production gives it an enduring margin advantage.

Appreciation to our 12-month target price of \$360 (raised from \$320), along with the 2.0% annual dividend yield, implies a risk-adjusted return that exceeds our forecast for the broad market. On that basis, we are reiterating our BUY rating on TXN.

ByLine

On July 23 at midday, BUY-rated TXN traded at \$282.23, down \$11.96. (Jim Kelleher, CFA, 7/23/26)

Thermo Fisher Scientific Inc (TMO)

Rating:	BUY	
Market Cap:		LARGE
Sector:		Healthcare

Raising target as capital is redeployed to drive growth

- ▶ Thermo Fisher raised 2026 guidance as it saw sequentially stronger topline growth in each of its end markets.
- ▶ The integration of recently acquired Clario Holdings is going better than the deal model suggested and is expected to make greater contribution to revenue and EPS growth in 2026.
- ▶ Besides M&A, capital deployment also includes divesting the microbiology business, with sale proceeds being deployed for share repurchases.

INVESTMENT THESIS

BUY-rated Thermo Fisher Scientific Inc. (NYSE: TMO) has delivered an impressive 18% ROE and eight successive years of increased dividends. Its reagents, antibodies and instruments assist the biotech and pharma industries in developing life-saving medicines.

The company's ability to deploy capital effectively for growth underpins our rating on the stock. Indeed, Thermo Fisher is deploying capital for M&A, facility expansions, and new product offerings (such as AI tools). It is also shedding underperforming assets. We also believe that Thermo's recent acquisition of Clario Holdings will drive increased market share, as it serves both existing and new customers.

RECENT DEVELOPMENTS

Thermo Fisher delivered strong results for 2Q26 (reported July 23). Adjusted EPS were \$6.03, beating the consensus estimate by \$0.31 and increasing 13%.

Pharma and biotech customers increased their orders as a part of developing and manufacturing new drugs. Thermo Fisher saw topline sequential increases in all of its end markets - including bioproduction, clinical research, academic and government, industrial and applied, and diagnostics and healthcare.

Reflecting the tailwind from the 2Q26 outperformance and an upbeat outlook, TMO lifted its 2026 guidance for adjusted EPS and revenue growth. It now expects 2026 adjusted EPS to be \$24.93-\$25.33, raised from a prior view of \$24.64-\$25.12. It now expects organic revenue growth rate to be at the upper end of its previously issued guidance range 3%-4%.

Reviewing financing results, GAAP net income was \$1.736 billion or \$4.68 per share, compared to \$1.617 billion or \$4.28 per share a year ago.

Revenues were \$11.994 billion, increasing 10% as reported and 5% organically. Notably, organic growth improved from 1% in 1Q26.

By measures of profitability, the adjusted gross margin was 41.4%, up 10 basis points (bps). The adjusted operating margin was 22.8%, 90 bps higher than a year ago. It was driven by higher productivity and favorable leverage from volume growth, partly offset by unfavorable business mix and higher investments for future growth.

We note the following three highlights from management's commentary on the 2Q26 call.

There was a return to growth in the academic and government end market, where TMO saw low-single-digit growth in the quarter, driven by demand for chromatography and mass spectrometry.

There was a return to growth in the China end market. China represents about 7.5% of company revenue and it grew low-single digits in 2Q26. Both the central and regional governments in China are committed to funding the development of new biologic drugs.

There was an ongoing pickup in biotech funding. While Thermo Fisher and other Life Sciences Tools companies have observed this dynamic over the past several quarters, we note it takes about six-to-nine months between new funding and new authorizations to commit to spending on drug development programs.

The above developments were confirmed by other companies that produce life sciences tools, with quarterly results that reflect demand for equipment and services from Thermo and the industry.

We are also paying close attention to the Clario acquisition, which closed earlier this year for about \$8.8 billion in cash.

Growth Stocks

As described in the press release, 'Clario integrates clinical trial endpoint data from devices, sites and patients enabling pharma and biotech customers to collect, manage and analyze clinical evidence digitally across every phase of drug development, supporting faster, more confident trial decisions. The company's platform has supported approximately 70% of FDA drug approvals over the past decade.'

'Clinical trial endpoint data refers to the specific outcomes or events that are measured to determine whether the treatment or intervention being studied is effective and safe. Pharma and biotech customers increasingly depend on high-quality endpoint data to evaluate therapeutic safety, efficacy, and value -- both during drug development and after approval. This data is essential for regulatory success, evidence-based pricing and reimbursement decisions, as well as R&D pipeline development.'

As for redeployment of capital, Thermo expects to complete the divestiture of its microbiology business in 3Q26 for approximately \$1.2 billion. The company has already deployed the anticipated proceeds from that transaction and repurchased \$1 billion of its shares in the second quarter.

Thermo's capital deployment strategy continues to prioritize strategic M&A, complemented by return of capital to shareholders.

EARNINGS & GROWTH ANALYSIS

As noted earlier, Thermo Fisher raised its 2026 guidance. It now expects adjusted EPS of \$24.93-\$25.33, up from a prior view of \$24.64-\$25.12, effectively lifting the midpoint by \$0.25. It now expects the organic revenue growth rate to be at the upper end of its previously issued guidance range 3%-4%. It also now expects revenue of \$47.4 billion-\$48.1 billion, representing 6%-8% reported revenue growth over 2025. This compares to a prior view of \$47.3 billion-\$48.1 billion.

Factoring the impact of the pending microbiology divestiture, the updated guidance includes an EPS dilution of \$0.05 and reduction of revenue of \$200 million from the divestiture, as well as inclusion of higher expected contribution from acquisitions and a step-up in revenue growth in the second half from the legacy enterprise.

We are raising our estimates for adjusted EPS to \$25.20 from \$25.00 for 2026 and to \$27.45 from \$27.25.

Our 5-year forecast for adjusted EPS is 9%.

FINANCIAL STRENGTH & DIVIDEND

We rate TMO's financial strength as Medium-High, the second-highest peg on our five-point scale. Thermo intends to invest its robust operating cash flow in technology upgrades, capacity expansions, and acquisitions -- all contributing to future growth.

Free cash flow in the first six months of 2026 was \$1.679 billion, compared to \$1.479 billion a year earlier. The company expects free cash flow in 2026 to be in the range of \$6.9 billion to \$7.4 billion, compared to \$6.293 billion in 2025.

As noted above, Thermo's capital deployment strategy continues to prioritize strategic M&A, complemented by return of capital to shareholders.

The company lifted its dividend 9.3% in February 2026 to an annualized rate of \$1.88, with a yield of 0.33%. This marks the eighth consecutive year of dividend hikes. Our dividend estimates are \$1.88 for 2026 and \$2.04 for 2027.

MANAGEMENT & RISKS

Marc Casper is chairman and CEO. Jim Meyer is CFO, having succeeded Stephen Williamson, who retired in March 2026.

There are risks in owning the TMO shares. With production facilities around the world, the company is subject to supply-chain risk. As well, its growth is dependent on developing new products and adapting to technological change; economic conditions and related uncertainties; and the possibility that benefits related to recent or pending acquisitions may not materialize.

COMPANY DESCRIPTION

Thermo Fisher manufactures scientific instruments, consumables, and chemicals. It operates through four segments: Life Sciences Solutions, Analytical Instruments, Specialty Diagnostics, and Laboratory Products & Biopharma services. The company's Life Sciences Solutions segment offers reagents, instruments, and consumables for biological and medical research, discovery and production of drugs and vaccines, as well as diagnosis of infections and diseases.

INDUSTRY

Our rating on the Healthcare sector is Market-Weight. The Healthcare sector accounted for 8.9% of the S&P 500 as of the end of June. Healthcare investors are finding nowhere to hide, as health insurance companies struggle with high costs and declining enrollments, medical device companies face declining elective-procedure volumes, and pharmaceutical companies face mandated lower prices and a pipeline that (excluding GLP-1) is seen as lacking in potential blockbusters.

The sector receives average marks on our six-part 'blind' sector rating criteria, which includes growth momentum, valuation, financial strength, and analyst conviction, among other factors.

The sector has underperformed the market year to date with a gain of 2.6% as of the end of June. The sector underperformed in 2025, with a gain of 12.5%, compared to a gain of 16.4% for the S&P 500. The beta for the sector is

Growth Stocks

0.6.

Over the past five years, the sector's weighting has ranged from 8% to 15%. The sector's P/E ratio on projected 2027 EPS was 19, equal to the market multiple. The yield of 1.3% was above the market average. The sector's smoothed earnings growth rate of 8% was below the market average.

The Healthcare sector is primarily a defensive, counter-cyclical sector. The largest macroeconomic factor that will affect the performance of stocks in the Healthcare sector is the aging population, both in the U.S. and in other developed countries, including China. Other factors include GDP Growth, Interest Rates, Inflation, Government Policy and Regulation, Trade, Pandemics or Health Crises, and Employment/Unemployment Rates. Trends in the dollar can affect factors such as Cost of Goods Sold.

Healthcare stocks are often favored during periods of economic weakness. Sell signals for stocks in the sector can be material changes in regulatory decisions that alter business models, pending patent cliffs for pharma companies or a weakened balance sheet that threatens a dividend.

At this stage of the market and economic cycle, our favored industries within the Healthcare sector include Healthcare Equipment and Healthcare Distributors.

VALUATION

TMO trades at 20.4-times our 2027 EPS estimate, compared to the average multiple of 18.3 for our coverage universe of life sciences stocks. The company has solid long-term growth opportunities in the U.S. as well as in overseas markets. It also has an enviable record of integrating acquisitions that have added new technology and expanded capabilities. We expect Thermo Fisher to continue to benefit from the launch of new products and services.

ByLine

On July 27 at midday, BUY-rated TMO traded at \$561.81, down \$6.45. (David Toungh, 7/27/26)

Value Stocks

Value Stocks in this Report

	TICKER	PRICE as of 7/29/2026
AGNC Investment Corp	AGNC	\$ 11.07
American Airlines Group Inc	AAL	15.36
American Express Co	AXP	336.63
Annaly Capital Management Inc	NLY	23.20
AT&T Inc	T	24.66
Baker Hughes Co	BKR	58.46
Boyd Gaming Corp	BYD	91.26
Brown & Brown Inc	BRO	73.65
Capital One Financial Corp	COF	212.41
Celestica Inc	CLS	350.20
Charter Communications Inc	CHTR	139.97
Chubb Ltd	CB	363.50
Comcast Corp	CMCSA	24.19
Cracker Barrel Old Country Sto	CBRL	53.81
DR Horton Inc	DHI	151.16
Gentherm Inc	THRM	42.08
Genuine Parts Co	GPC	129.71
Halliburton Co	HAL	31.23
Harley-Davidson Inc	HOG	25.29
Hasbro Inc	HAS	96.34
International Business Machine	IBM	227.55
Invesco Ltd	IVZ	29.43
KeyCorp	KEY	22.63
Lazard Inc	LAZ	42.76
Lockheed Martin Corp	LMT	581.31
Northrop Grumman Corp	NOC	549.22
Packaging Corp of America	PKG	253.24
PayPal Holdings Inc	PYPL	58.32
Quest Diagnostics Inc	DGX	235.94
Sanmina Corp	SANM	172.43
SLB Ltd	SLB	49.98
Tractor Supply Co	TSCO	31.46
Travelers Cos Inc/The	TRV	397.22
W R Berkley Corp	WRB	76.17

AGNC Investment Corp (AGNC)

Rating: **HOLD** 
 Market Cap: **LARGE**
 Sector: **Real Estate**

Lower MBS issuance aiding spreads

- On July 20, AGNC reported 2Q26 EPS of \$0.40, up from \$0.38 in the prior-year quarter and four cents above the dividend.

- In 2Q, the company issued 16.2 million shares for \$167 million through at-the-market offerings.
- AGNC pays an annualized dividend of \$1.44 per share for a yield of about 13.6%.
- With the stock currently trading well above the reported book value, we believe that a HOLD rating remains appropriate.

INVESTMENT THESIS

We are maintaining our HOLD rating on AGNC Investment Corp. (NGS: AGNC). AGNC has historically traded at a premium closer to book value, which ended the second quarter at \$8.58 per share. The premium to book value is currently 1.24 times on recent A-T-M equity issuance, attractive MBS spreads, and muted issuance offset by recent curve flattening and chatter about potential rate hikes. In 2Q, the company issued 16.2 million shares for \$167 million through at-the-market offerings. Although the 13.6% dividend yield remains attractive, we believe that a HOLD rating remains appropriate based on valuation and uncertainty over the path of interest rates and MBS spreads.

On the recent earnings call, management addressed the dividend and indicated that it is looking at a breakeven level ROE of approximately 15%-17% when considering dividends on both the common and preferred issues and operating costs. A decline in interest-rate volatility would help improve future results. Investors that are looking for less price volatility and dividend stability may want to look at preferred shares issued by AGNC.

The company generates income from the interest earned on securities less hedging and borrowing costs, and from net realized gains and losses on its investment portfolio. The company's leverage was 7.4-times as of June 30, unchanged from the end of 1Q and in line with management's target range. This leverage enables the company to pay a high dividend, currently an annualized \$1.44 per share.

The Federal Reserve's rate hikes and muted bank demand caused mortgage spreads to widen in 2024 and into 2025. But spreads tightened in 2H25 and into early 1Q26. In January, news of purchases of up to \$200 billion of Agency MBS by Freddie Mac and Fannie Mae tightened MBS spreads to approximately 100 basis points (bps). However, the war in the Middle East in March caused spreads to widen to approximately 125 bps and they have been range bound since. We expect hedge funds and asset managers to continue to purchase most of the lower-coupon MBS that other banks continue to offload in readjusting their portfolios.

Meanwhile, we look for mortgage REITs to buy intermediate-coupon MBS (4.5%-5%) to take advantage of money manager demand and select prepay-protected higher-coupon MBS, which carry rates of 5.5% or above. We note that mortgage securities rates remain near 130 bps over

Value Stocks

5-to-10-year treasury blend, above the historical average.

RECENT DEVELOPMENTS

Over the past year, AGNC shares have underperformed the broad market, rising 9% while the S&P 500 has risen 16%. The main driver of the stock is the dividend yield, currently around 13.6%. AGNC has a beta of 0.70. Approximately 13% of the shares are held in various ETFs. AGNC represents approximately 15.9% of Mortgage REIT ETF REM.

On July 20, AGNC reported 2Q26 EPS of \$0.40, up from \$0.38 in the prior-year quarter and four cents above the dividend. Adjusted net income of \$462 million was up from \$388 million in the prior year.

AGNC reported a 2Q conditional prepayment rate (CPR) of 13.0% compared to 10.3% in the prior quarter, primarily due to lower mortgage rates in January and February. As of June 30, it projected a CPR of 8.6% for the remaining life of its agency securities, down from 10.3% at March 31. (The CPR is the percentage of a mortgage security or pool that is expected to be prepaid in a year, and the higher the CPR, the lower the return on the investment purchased at a premium. Conversely, a lower CPR boosts returns and benefits earnings.) Looking ahead, we expect a lower-than-average CPR for the AGNC portfolio due to the purchase of prepayment-protected securities.

During the conference call, management reiterated its long-term focus on returns on tangible common equity. In 2Q, the 6.7% return was comprised of \$0.36 per share in dividends and a \$0.20 increase in tangible net value per share due to positive MBS performance relative to interest rate hedges.

EARNINGS & GROWTH ANALYSIS

AGNC invests in agency mortgage-backed securities by using collateralized borrowings structured as repurchase agreements. Income is generated through interest earned on the company's investment assets, net of associated borrowing and hedging costs, and net realized gains and losses on its investment activities. At the end of 2Q26, the company had a \$97.2 billion investment portfolio (up from \$96.6 billion at the end of 1Q26) that included \$92.1 billion in fixed-rate agency MBS, \$4.5 billion of CMOs and ARM securities, and \$0.7 billion of credit risk transfers and non-agency securities.

The company funds its mortgage-backed securities via the repo market, allowing it to leverage its MBS portfolio to pay the dividend. (Its leverage ratio was 7.4% as of June 30). In 2Q, average agency repo cost was 3.75%, compared to 3.77% in 1Q, with an average maturity of 13 days. The hedge portfolio totaled \$75.2 billion, covering 73% of the company's funding liabilities. AGNC sees growth in times of economic stability, when U.S. interest rates and MBS rate spreads are steady, as it takes advantage of the spread between the yield of the acquired securities and its hedging costs. We note that

AGNC and other REITs are required to pay out 90% of their income to shareholders.

AGNC adjusted its investment portfolio in 2Q by purchasing intermediate-coupon securities to take advantage of money manager demand due to net inflows in 2Q. They also swapped some lower coupon securities for higher coupon securities to take advantage of the expectations for slower prepayments.

Based on better-than-expected 2Q results and lower new MBS issuance, we are raising our 2026 EPS estimate to \$1.59 from \$1.54 and maintaining our 2027 EPS estimate of \$1.50.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on AGNC is Medium. The company scores well above average on our three main measures of financial strength: leverage based on debt/cap, profitability, and interest coverage.

AGNC did not repurchase shares in 2Q25. It intends to repurchase stock only when the market value falls significantly below estimated tangible net book value per share. However, it issued 16.2 million shares via an at-the-market share program totaling \$167 million.

The company pays a monthly dividend of \$0.12 per share, or \$1.44 annually, for a yield of about 13.6%. Our dividend estimates are \$1.44 for both 2026 and 2027.

MANAGEMENT & RISKS

The company was founded in 2008 and is based in Bethesda, Maryland. Peter Federico serves as the CEO and Bernice Bell is the CFO.

Investors in AGNC shares face numerous risks. On a macro level, the company is dependent on a stable housing environment. Investments in agency MBSs are very interest rate-sensitive. Liquidity risks are also significant, as AGNC must be able to fund its securities through repurchase agreements. AGNC currently maintains approximately 47 repo counterparties and has a captive broker-dealer, Bethesda Securities, with direct access to the Fixed Income Clearing Corp. (FICC) that funds approximately 53% of its portfolio. The company also faces regulatory risks at both the national and state level.

COMPANY DESCRIPTION

AGNC Investment Corp. is a publicly traded REIT focused on residential housing. The company's investment portfolio consists of agency mortgage-backed securities (MBS) managed on a leveraged basis. The company uses an actively managed portfolio and hedging strategies with the goal of preserving net asset value in different interest rate scenarios.

INDUSTRY

Value Stocks

Our rating on the Real Estate sector is Market-Weight. The Real Estate sector accounted for 1.8% of the S&P 500 as of the end of June. We think diversified investors should have exposure to the sector, in line with the current sector weight.

The sector receives average marks on our six-part 'blind' sector rating criteria, which includes growth momentum, valuation, financial strength, and analyst conviction, among other factors.

The sector outperformed the market year to date, with a gain of 9.7% as of the end of June. The sector underperformed in 2025, with a loss of 0.3%, compared to a gain of 16.4% for the S&P 500. The beta for the sector is 1.0.

Over the past five years, the sector's weighting has ranged from 1% to 4%. The sector's P/E ratio on projected 2027 EPS was 14, below the market multiple. The yield of 2.2% was above the market average. The sector's smoothed earnings growth rate of 6% is below the market average.

We think of the Real Estate sector as an income sector. The macroeconomic factors that may affect the performance of stocks in the Real Estate sector include Borrowing Costs, Labor Costs, Construction Costs, and Consumer Spending. Trends in the dollar can affect factors such as Cost of Goods Sold.

Generally, investing in REITs is a good way to profit from overall economic growth as part of a well-diversified portfolio. There are several approaches to investing in REITs, and they include choosing companies that have greater revenue and profit upside from falling interest rates, selecting companies that appear to be attractive takeover candidates, and focusing on high growth REITs. Other approaches include selecting REITs that pay an attractive and sustainable cash dividend or purchasing shares of large and relatively safe REITs whenever they are attractively valued.

At this stage of the market and economic cycle, our favored industries within the Real Estate sector include Data Center REITs and Retail REITs.

VALUATION

With prices around \$10.60, we think that AGNC shares are fairly valued in the current interest-rate environment. On the fundamentals, the stock is trading well above its June 30 tangible net book value of \$8.58 per share. We believe that this reflects investor expectations for further increases in book value and management's comments regarding the dividend but note that book value may fluctuate due to the volatility of mortgage spreads and the uncertain path of interest rates. Despite the recent flattening, the positive sloping yield curve has eased the pressure between MBS rates and funding costs, which could be positive for future earnings.

That said, if mortgage securities spreads over Treasuries

remain near or above 130-150 basis points in 2Q26, we expect AGNC to continue to take advantage of the attractive mortgage pricing to purchase lower coupon MBS to match demand from index buyers. We now expect the Fed to leave the fed funds rate unchanged in 2026 and expect the longer end of the curve to remain near current levels, dampening mortgage production. However, with the stock currently trading well above the recently reported book value, we believe that a HOLD rating remains appropriate.

ByLine

On July 27, HOLD-rated AGNC closed at \$10.64, up \$0.05. (Kevin Heal, 7/27/26)

American Airlines Group Inc (AAL)

Rating:	HOLD
Market Cap:	LARGE
Sector:	Industrial

Maintaining HOLD after earnings report

- ▶ AAL's high debt relative to other legacy airlines and stubbornly high jet fuel prices remain concerns.
- ▶ From a technical standpoint, the shares have traded in a bearish pattern of lower lows and lower highs since early March 2021.
- ▶ We believe the current share price adequately reflects elevated debt levels and high jet fuel prices.

INVESTMENT THESIS

We are reiterating our HOLD rating on American Airlines Group Inc. (NGS: AAL). Our rating reflects the company's high debt relative to other legacy airlines and our concerns about stubbornly high jet fuel prices. We expect higher marketing spending in particular to hinder free cash flow. The company has suspended share buybacks, and the balance sheet is clean. From a technical standpoint, the shares have traded in a bearish pattern of lower lows and lower highs since early March 2021. The shares are trading at a multiple well below their five-year average.

RECENT DEVELOPMENTS

AAL shares have outperformed over the past quarter, advancing 15%, versus a 5% gain for the S&P 500. They have underperformed over the past year, gaining 6%, versus an 18% advance for the S&P 500 and a 17.5% gain for the State Street Industrial Select Sector SPDR ETF, XLI. AAL shares have fallen 30% over the past five years.

In 3Q26, the consensus is calling for adjusted EPS of \$0.31, up from a loss of \$0.17 a year ago. Revenue is expected to increase 16% to \$16 billion. Street estimates have been rising over the past 90 days.

On July 23, American Airlines posted adjusted 2Q26 earnings of \$0.15 per share, compared to earnings of \$0.96 per share in the prior-year period and above the consensus

Value Stocks

estimate calling for earnings of \$0.03 per share. Management's guidance had called for results between a loss of \$0.20 per share and earnings of \$0.20 per share. On a GAAP basis, AAL earned \$0.11 per share, down from earnings of \$0.91 per share in 2Q25.

Overall revenue rose 16.3% from the prior year to just under \$16.74 billion, reflecting both higher passenger and cargo revenue. The consensus estimate had called for revenue of \$16.7 billion. Passenger revenue rose 15.9% to \$15.2 billion, and other revenue rose 18% to \$1.25 billion. Consensus estimates had called for passenger and other revenue of \$15.3 billion and \$1.23 billion, respectively. Cargo revenue rose 30% to \$273 million, above the consensus estimate of \$222 million. The load factor fell to 83.2% from 84.7%. The consensus estimate was for a load factor of 84.8%. Total revenue per available seat mile rose 10.3% to \$0.205, matching the consensus estimate. Below the line, interest income fell to \$74 million from \$100 million, and interest expense fell to \$409 million from \$433 million. The share count increased to 663 million from 660 million.

In 3Q26, American Airlines projects 16%-19% higher revenue. Costs per available seat mile, net of special items, fuel, and profit sharing, is expected to rise 2.5%-4.5%.

In the 2Q26 press release, AAL forecast 2026 adjusted earnings between a loss of \$0.65 per share and earnings of \$0.65 per share. American Airlines believes efficiency efforts and strong demand for its products will enable it to endure an environment of high fuel prices.

As discussed in a previous note, in 2025, revenue increased 77 basis points to \$54.6 billion. The increase primarily reflected 8.6% higher other revenue. The company posted earnings of \$0.36 per share, compared to \$1.96 in 2024.

EARNINGS & GROWTH ANALYSIS

Reflecting continued business momentum, offset in part by stubbornly high jet fuel costs, we are leaving our 2026 EPS estimate at \$0.58. For 2027, to reflect likely easing jet fuel costs and a resilient airline industry, we are raising our EPS estimate to \$2.56 from \$2.40 per share.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on American Airlines Group is Medium-Low, the second-lowest point on our five-point scale. The company ended 2Q26 with just under \$7.8 billion in cash and cash equivalents and short-term investments, up from \$7.0 billion at the end of 4Q25. Long-term debt totaled \$25.8 billion, up from \$25.3 billion at the end of 4Q25.

AAL ended 2Q26 with \$41.4 billion in total debt. Liquidity was \$11.3 billion at the end of the quarter. The company expects to maintain liquidity at high levels. We project 2026 year-end liquidity of \$11.1 billion.

To conserve cash, management has suspended share

buybacks and dividend payments, and we do not expect the company to resume them this year.

MANAGEMENT & RISKS

Robert Isom has been CEO since March 2022 and serves on the airline's board. Based on his history at the company, we are confident in his ability to lead American through a period of slowing growth and higher fuel prices. He was president of American from 2016 to 2022. Prior to that, he served as executive vice president and COO of American after holding those same positions at US Airways Group Inc. Devon May is CFO.

Like other airlines, American faces a range of risks, including fuel cost volatility, labor negotiations, and fare wars. Airlines have also historically had difficulty matching capacity to demand and could be hurt by weak economic conditions or significant health risks - such as the COVID-19 pandemic - that reduce demand for air travel. Airlines also face reputational risk from flight delays and poor customer service, as well as risks related to war and terrorism. As earnings in the airline industry tend to be highly cyclical and volatile, we believe airline stocks are most appropriate for speculative investors.

COMPANY DESCRIPTION

American Airlines Group Inc., through its subsidiaries, operates as a network air carrier in the United States, Latin America, Atlantic, and Pacific. The company has almost 1,000 aircraft and serves destinations in more than 50 countries. It is also one of the world's largest cargo transporters.

VALUATION

AAL shares trade at about 5.3-times our revised 2027 earnings estimate, well below their five-year average of 11.2, adequately reflecting elevated debt levels and stubbornly high fuel prices. As such, our rating remains HOLD. If leverage continues to decline or jet fuel prices ease more than we anticipate or the outlook for the airline industry remains favorable, we would consider an upgrade.

ByLine

On July 24 at midday, HOLD-rated AAL traded at \$14.46, up \$0.90. (John Staszak, CFA, 7/24/26)

American Express Co (AXP)

Rating:	BUY
Market Cap:	LARGE
Sector:	Financial

Spending volume remained at a healthy 9% 2Q

- On July 24, American Express reported 2Q26 earnings of \$4.53 per share, up from \$4.08 a year earlier and above the \$4.41 consensus. Total network volumes rose 9%, similar to the 1Q pace.

Value Stocks

- ▶ Management pushed 2026 revenue growth guidance to 10%, from a prior 9%-10%, but left intact its EPS guidance, noting marketing spend opportunities to invest in customer acquisition.
- ▶ We expect continued healthy spending volume from AXP's generally affluent card members and see marketing efforts leading to card-member growth, particularly among Millennial and Gen-Z cohorts.
- ▶ Our target price remains \$390, or about 19-times our 2027 estimate.

INVESTMENT THESIS

We are maintaining our BUY rating on American Express Co. (NYSE: AXP) following 2Q earnings, which were helped by continued strength in billed business. Management slightly raised 2026 revenue growth guidance to 10% (from a range of 9%-10%), while leaving EPS guidance intact in a range of \$17.30-\$17.90, implying 12%-16% growth.

In late 2025, American Express announced enhancements to its U.S. consumer and business Platinum cards, offering what it said was \$3,500 in annual value across travel, dining, entertainment, shopping, wellness, and business solutions segments of spending. We look for the refresh to provide additional spending volume benefits going forward as cardmembers consolidate spending on their Platinum card to maximize reward benefits.

With respect to billed business, the company's customers, who tend to have higher incomes than those of other credit-card companies as well as better credit scores, generally are more insulated from economic distress and have not shown signs of slower spending despite periods of high inflation and interest rates. Rising stock-market and home-equity values, along with greater interest income from bond portfolios, remain tailwinds for consumer spending for this cohort.

AXP appears keenly aware of elevated competition in the credit-card industry, noting that rewards and pricing in particular have become very heated. However, the company has also emphasized the strong cardholder loyalty and other differentiating factors of its premium cards. While we believe that AXP will maintain share at the high end of the premium card market, we expect the lower tier of that market to face increased competition from lower-priced cards with similar rewards benefits.

Merchant acceptance remains a top 'pain point' for AXP card members. The company continues to make progress on this front, emphasizing the benefits of its card members' higher spending; however, AXP's greater transaction fees are often an offsetting negative for merchants. The company is aiming to reach merchant-acceptance parity with other card networks by using modified pricing in some segments, as well as by focusing on franchises and partnerships.

In our view, the company has competitive advantages with its closed-loop platform, in which it acts as merchant acquirer, merchant processor, issuer processor, and payment issuer. This is particularly true in the co-brand space, as the closed-loop system provides the company with data on consumer spending habits that allow it to target offerings and promotions more effectively. The closed-loop system also helps with fraud prevention. We note that management's own metrics show above-industry-average performance with respect to spending growth, customer retention, and the prevention of fraud. Among large competitors, only Capital One (which acquired Discover Financial in May 2025) has a similar closed-loop system. However, we do not believe that American Express has been as innovative in the payments space as other providers, such as PayPal, which have developed in-app, in-store, and online-payment mechanisms to compete with traditional operators.

We believe that the high-quality AXP shares offer value at current levels. We are keeping our target price at \$390, or about 17-times our 2027 EPS forecast, which we believe is deserved based on consistently positive operating leverage and mid-teens EPS growth.

RECENT DEVELOPMENTS

AXP shares rose 10% over the past year, versus a 17% gain for the broad market.

On July 24, American Express reported 2Q26 earnings of \$4.53 per share, up from \$4.08 a year earlier and above the \$4.41 consensus.

Net revenues rose 9% to \$19.6 billion, aided by a similar increase in discount revenues on higher billed business, 15% greater net card fees, and an 11% rise in net interest income. Consolidated expenses were \$14.5 billion, up 12% from the prior year, mostly reflecting higher customer-engagement costs.

Lending net write-offs were 2.0% of loans in 2Q26, equal to a year earlier. The company had a \$1.08 billion loan-loss provision, down from \$1.41 billion a year earlier. Net income was up 8%, to \$3.11 billion. EPS was up a greater 11%, reflecting a 3% decline in average shares outstanding.

EARNINGS & GROWTH ANALYSIS

In 2Q26, total network volumes rose 9% from the prior year, similar to the pace in 1Q26, with increases of 11% in U.S. Consumer, 5% in Commercial Services, and 12% in International. We expect card spending growth, and thus billed business, to remain in the 7%-9% range. We note that the company's relatively affluent cardholders have been less impacted by inflation and have not shown signs of slower spending. Rising stock-market and home-equity values remain tailwinds for consumer spending for this cohort in what is known as the 'wealth effect.' While AXP often is perceived as having significant exposure to travel &

Value Stocks

entertainment (T&E) spending, the proportion of T&E spending on its cards is actually about 30%. The company's September 2025 re-refresh of its Platinum card benefits is also producing cardmember-spending gains.

Along with 2Q results, management updated its 2026 guidance, now calling for revenue growth of 10% (up from a range of 9%-10%) and EPS of \$17.30-\$17.90 (unchanged), implying 12%-16% growth. Its long-term aspiration is annual revenue growth over 10% and mid-teens EPS growth.

The company continues to spend significantly on marketing, with \$6.3 billion spent in 2025, as it seeks to acquire new card members and makes a push particularly toward Millennial and Gen Z demographics. With 1Q revenues coming in ahead of its expectations, management raised growth expectations for marketing spend in 2026 to the mid-single-digits from the low single-digits, noting it saw marketing investment opportunities.

We are keeping our 2026 EPS estimate at \$17.86, while moving our 2027 forecast to \$20.22 from \$20.15.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on American Express is High.

AXP reported a Tier 1 common equity ratio of 10.4% on June 30, 2026, under Basel III, down from 10.6% a year earlier and well above the regulatory minimum of 7%. AXP has targeted a ratio in the 10%-11% range. In 2Q26, the company repurchased 7 million shares of its common stock. Amex's long-term capital-allocation goal is to return 50% of capital to shareholders and retain 50% for growth initiatives and acquisitions.

The company raised its quarterly dividend by 16% to \$0.95 per share, or \$3.80 annually, beginning with the 1Q26 payment. We expect dividends of \$3.80 in 2026 and \$4.20 in 2027. The yield is about 1.1%.

MANAGEMENT & RISKS

American Express is led by Chairman and CEO Stephen J. Squeri, who succeeded Kenneth Chenault following his retirement in February 2018. In August 2023, Deputy CFO Christophe Le Caillec became the new CFO following the retirement of Jeffrey C. Campbell.

American Express is broadly exposed to global economic conditions because its revenue growth depends on increased spending by both consumers and businesses. In fact, merchant discount fees now account for about 55% of the company's revenue. However, in contrast to Visa and MasterCard, American Express has a large card loan portfolio of about \$150 billion that generates added revenues from loan growth and/or margin expansion.

In June 2018, the Supreme Court ruled that American Express did not violate antitrust laws through the use of

contractual agreements with merchants that prohibit merchants from encouraging individuals to use credit cards with lower swipe fees.

A long-term concern is that the discount rate - the rate the company charges merchants for transactions - declines faster than we expect. If it does, AXP will need to add even more accounts and drive more spending volume to compensate for the lost revenue. At the same time, the discount rate gap between American Express and both Visa and MasterCard have narrowed in recent years, thereby increasing the value proposition for Amex merchants. AXP has also demonstrated to merchants that card member spending is typically much greater on Amex cards than on either Visa or MasterCard.

COMPANY DESCRIPTION

American Express provides charge-card and credit-payment-card products and travel-related services to customers worldwide. The company's product portfolio consists of charge-card and credit-card products; expense-management products and services; consumer and business travel services; stored-value products, including travelers checks and other prepaid products; network services; point-of-sale, marketing, and information products and services for merchants; fraud prevention services; and the design of customer loyalty and rewards programs.

INDUSTRY

Our rating on the Financial sector is Over-Weight. The Financial sector accounted for 11.8% of the S&P 500 as of the end of June. We think diversified investors should have meaningful exposure to the sector, at about 125-150% of the current sector weight.

The sector receives above-average marks on our six-part 'blind' sector rating criteria, which includes growth momentum, valuation, financial strength, and analyst conviction, among other factors.

The sector has underperformed the market year to date with a loss of 2.1% as of the end of June. The sector underperformed in 2025, with a gain of 13.3%, compared to a gain of 16.4% for the S&P 500. The beta for the sector is 0.9.

Over the past five years, the sector's weighting has ranged from 10% to 15%. The sector's P/E ratio on projected 2027 EPS was 14, below the market multiple. The yield of 1.6% was above the market average. The sector's smoothed earnings growth rate of 9% was below the market average.

The Financial sector is a cyclical and often value-oriented sector. The macroeconomic factors that may affect the performance of stocks in the Financial sector include the Unemployment Rate (which can influence the debt repaying capability of consumers and therefore credit costs), Interest Rates (which can determine lending profitability), and GDP or

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growth in the economy (which influence loan growth). The industry is also highly regulated, so changes in the regulatory environment can influence capital set-aside requirements and thus profitability.

At this stage of the market and economic cycle, our favored industries within the Financial sector include Diversified Banks, Financial Exchanges & Data, and Investment Banking & Brokerage.

VALUATION

AXP shares have traded in a range of \$288-\$387 over the past year and are currently around the middle of that range. We expect spending volume from the company's generally affluent cardholders to remain strong, helped by a recent re-fresh of rewards for the flagship Platinum card, while marketing efforts lead to good card-member growth, especially among the Millennial and Gen-Z demographic. We also see long-term benefits from the greater usage of credit cards relative to cash and checks.

AXP shares trade at 16.2-times our EPS estimate for 2027. Our target price is \$390, or about 19-times our 2027 estimate.

ByLine

On July 24 at midday, BUY-rated AXP traded at \$323.76, down \$17.08. (Stephen Biggar, 7/24/26)

Annaly Capital Management Inc (NLY)

Rating: **BUY** 
Market Cap: **LARGE**
Sector: **Real Estate**

Quarterly dividend raised to \$0.75

- ▶ On July 21, the company reported core 2Q26 EPS of \$0.79, up from \$0.73 a year earlier and above consensus estimates of \$0.75.
- ▶ The company's economic leverage was 5.6-times as of the end of 2Q, down from 5.7-times at the end of 1Q26. This leverage enables the company to pay a high dividend, currently an annualized \$3.00 per share.
- ▶ In June 2026, the board of directors increased the dividend to \$0.75 from \$0.70. Management is confident that it will produce earnings above the dividend.
- ▶ Our target price remains \$24.

INVESTMENT THESIS

We are maintaining our BUY rating and target price of \$24 on Annaly Capital Management Inc. (NYSE: NLY). Historically, NLY has traded near book value, which ended 2Q26 at \$20.15 per share. However, we believe that NLY's other segments provide additional earnings power. We expect no rate cuts in the federal funds rate during 2H26, which would keep NLY's funding costs steady. We also

expect longer-term rates to trade in the 4.25%-4.75% range, keeping mortgage rates higher and MBS spreads attractive. We also like the low-weighted average coupon of 3.31% in the MSR portfolio and successful non-agency securitizations.

NLY invests mainly in U.S. agency mortgage securities on a leveraged basis, funding the assets through repurchase agreements (repos). As of June 30, 2026, NLY's investment portfolio totaled \$109.5 billion: \$95.0 billion in agency MBS, \$10.4 billion in non-agency securities, and loans, and \$4.1 billion in mortgage servicing rights (MSRs).

The company generates income from the interest earned on securities less hedging and borrowing costs, net realized gains and losses on its investment portfolio, and securitizations. The company's economic leverage was 5.6-times as of the end of 2Q, down from 5.7-times at the end of 1Q26. This leverage enables the company to pay a high dividend, currently an annualized \$3.00 per share. Investors looking for less price volatility and dividend stability may want to look at preferred shares issued by NLY.

The Federal Reserve's rate hikes and muted bank demand caused mortgage spreads to widen in 2024 and into 2025, but spreads tightened in 2H25 and into early 1Q26. In January, news of purchases of up to \$200 billion of Agency MBS by Freddie Mac and Fannie Mae tightened MBS spreads to approximately 100 basis points (bps). However, news of the war in the Middle East in March led spreads to widen to approximately 125 bps and have been range bound since. We expect hedge funds and asset managers to continue to purchase most of the lower-coupon MBS that other banks continue to offload in readjusting their portfolios. Meanwhile, we look for mortgage REITs to buy lower coupon MBS to take advantage of money manager demand and select prepay-protected higher-coupon MBS, which carry rates of 5.5% or above. We note that mortgage securities rates remain near 130 bps over the 5- to 10-year Treasury blend, and above the historical average.

Recent bond market volatility has caused spreads to widen some, and we believe that NLY is positioned to take advantage of wider spreads in the MBS sector and also offers a dividend yield of 13.4%. Based on these factors, we believe that a BUY rating remains appropriate.

RECENT DEVELOPMENTS

Over the past year, the NLY shares have risen 8%, versus a 16% advance for the index. We note that the main driver of the stock is the dividend yield, currently at 13.4%. NLY has a beta of 0.72. Approximately 20% of the shares are held in various ETFs; the stock accounts for 24% of the Mortgage Real Estate ETF REM.

On July 21, the company reported core 2Q26 EPS of \$0.79, up from \$0.73 a year earlier and above consensus estimates of \$0.75. Book value increased to \$20.15 per share at the end of 2Q26 from \$19.82 at the end of 1Q26. The economic

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return, which combines the change in book value and the quarterly dividend payment, was 5.5% in 2Q.

The average yield on interest earning assets, excluding PAA, was 5.46%, up 11 basis points from 1Q26. The average cost of interest-bearing liabilities was 3.96%, up three basis points from 1Q26. The net interest spread, excluding PAA, was 1.50%, up from 1.42% in 1Q26.

NLY reported a 2Q conditional prepayment rate (CPR) of 11.6%, up from 10.2% in 1Q26, primarily due to lower mortgage rates in the quarter. Management projects an 11.0% long-term CPR. The CPR is the percentage of a mortgage security or pool that is expected to be prepaid in a year. We expect the CPR to remain in the 8%-11% range in 2026 as long as long-term rates remain near the current range.

In June 2026, the board of directors increased the dividend to \$0.75 from \$0.70. Management is confident that it will produce earnings above the dividend.

In October 2025, NLY announced that it has entered into a subservicing agreement with PennyMac Financial Services. Annaly agreed to purchase a portfolio of MSRs from PennyMac and PennyMac will handle the servicing and recapture for the MSRs sold to Annaly.

EARNINGS & GROWTH ANALYSIS

Annaly invests mainly in agency MBS collateralized by residential mortgages. Its \$109.5 billion investment portfolio includes \$95.0 billion (87%) of agency securities, composed of specified pools, to be announced securities, derivatives, and agency commercial MBS. NLY increased its agency portfolio by approximately 3%, purchasing 5.0% and higher specified pools and TBA securities. The weighted-average coupon of the portfolio rose five bps to 5.11%. It also raised its hedge ratio to 97% from 87% in 1Q26, reflecting on-going interest rate volatility. The company generates income through the spread between the yield on its investments and the cost of borrowing and hedging activities. As of June 30, agency investments represented 57% of NLY's equity capital.

Annaly continues to be an active participant for MSRs. MSRs are the rights to 'service' an existing mortgage, including collecting payments and taxes. The originator of the loan pays a fee to the holder of the MSR. MSRs become more valuable in a steady- or rising-rate environment and act as a hedge against mortgage-basis volatility and slower prepayment speeds on discount dollar-priced MBS. The MSR book was unchanged at \$4.1 billion in 2Q, with a weighted-average coupon of 3.31% and a CPR of 5.2%. As of June 30, the MSR portfolio represented 21% of NLY's equity capital.

Annaly Residential Credit Group, with \$10.4 billion in assets, invests in non-agency residential mortgage assets. The portfolio consists of \$5.7 billion in securities and \$4.7 billion

in loans. In 2Q26, the company priced 13 securitizations for a total of \$6.8 billion. NLY is the largest non-bank issuer of non-agency securitizations and the second largest issuer overall of Prime Jumbo and Expanded Credit MBS. As of March 31, Residential Credit represented 22% of NLY's equity capital.

Given the widening in MBS spreads due to the ongoing war in the Middle East, the company plans to maintain a more-balanced position in agency MBS, residential credit, and MSR portfolios. Prior to spreads widening, NLY was allocating more capital to Residential Credit and MSRs.

In 2Q26, NLY took advantage of wider mortgage spreads to purchase 5.0% and higher specified and TBA securities. The company funds its mortgage-backed securities via the repo market, allowing it to leverage its MBS portfolio to pay its dividend. NLY sees growth in times of economic stability, when U.S. interest rates and MBS rate spreads are steady, as it takes advantage of the spread between the yield of the acquired securities and its hedging costs. We note that NLY and other REITs are required to pay out 90% of their income to shareholders.

Based on 2Q results, attractive MBS spreads and the recent dividend increase offset by macro uncertainty, we are raising our 2026 EPS estimate to \$3.10 from \$3.04 and our 2027 EPS estimate to \$3.12 from \$3.05.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on NLY is Medium. The company scores average on our three main measures of financial strength: leverage based on debt/capitalization, profitability, and interest coverage.

In 2Q26, NLY raised approximately \$447 million of common equity through its ATM program. The capital from this sale was deployed predominantly in the Agency portfolio. In 3Q25, NLY issued \$275 million 8.875% preferred stock.

In March 2026, the company raised its quarterly dividend to \$0.75 per share from \$0.70, or \$3.00 annually, for a yield of about 13.4%. In 2Q, the company out-earned the dividend of \$0.75, with 2Q earnings available for distribution of \$0.79. Our dividend estimates are \$2.90 for 2026 and \$3.00 for 2027.

The company has a share repurchase program. On December 31, 2024, Annaly's board approved a new common stock repurchase program allowing the repurchase of up to \$1.5 billion worth of its common shares. This authorization runs through December 31, 2029. No repurchases were made in 2Q26.

MANAGEMENT & RISKS

Founded in 1996 and based in New York, Annaly is managed by Annaly Management Company LLC. David Finkelstein became the company's CEO and chief

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investment officer in March 2020. Prior to joining Annaly in 2013, Mr. Finkelstein served as an officer in the markets group of the Federal Reserve Bank of New York. Serena Wolfe is the chief financial officer. Mike Fania was recently promoted to co-chief investment officer. Thomas Hamilton was appointment as independent chair of the board of directors in May 2025. Steve F. Campbell serves as president and chief operating officer.

Investors in NLY shares face numerous risks. On a macro level, the company is dependent on a stable housing environment. Investments in agency MBSs are very interest rate sensitive, especially in a fast-rising rate environment. Liquidity risks are also significant, as NLY must be able to fund its securities through repurchase agreements. Federal Reserve actions in the repo market have diminished fears that the market could again seize up. The company also faces regulatory risks at both the national and state level.

COMPANY DESCRIPTION

Annaly Capital Management is a leading diversified capital manager. It is a publicly traded REIT that invests in and finances residential assets. The company has three different types of businesses: Agency, Mortgage Servicing Rights, and Residential Credit. The company's primary investment portfolio consists of agency MBS, managed on a leveraged basis. The company uses an actively managed portfolio and hedging strategies with the goal of preserving net asset value in different interest rate scenarios. Annaly has around 200 employees, is headquartered in New York City, and has total assets of \$135 billion.

INDUSTRY

Our rating on the Financial sector is Over-Weight. The Financial sector accounted for 11.8% of the S&P 500 as of the end of June. We think diversified investors should have meaningful exposure to the sector, at about 125-150% of the current sector weight.

The sector receives above-average marks on our six-part 'blind' sector rating criteria, which includes growth momentum, valuation, financial strength, and analyst conviction, among other factors.

The sector has underperformed the market year to date with a loss of 2.1% as of the end of June. The sector underperformed in 2025, with a gain of 13.3%, compared to a gain of 16.4% for the S&P 500. The beta for the sector is 0.9.

Over the past five years, the sector's weighting has ranged from 10% to 15%. The sector's P/E ratio on projected 2027 EPS was 14, below the market multiple. The yield of 1.6% was above the market average. The sector's smoothed earnings growth rate of 9% was below the market average.

The Financial sector is a cyclical and often value-oriented sector. The macroeconomic factors that may affect the

performance of stocks in the Financial sector include the Unemployment Rate (which can influence the debt repaying capability of consumers and therefore credit costs), Interest Rates (which can determine lending profitability), and GDP or growth in the economy (which influence loan growth). The industry is also highly regulated, so changes in the regulatory environment can influence capital set-aside requirements and thus profitability.

At this stage of the market and economic cycle, our favored industries within the Financial sector include Diversified Banks, Financial Exchanges & Data, and Investment Banking & Brokerage.

VALUATION

We think the NLY shares remain attractive given the company's three business lines. On the fundamentals, the stock is trading above the March 31, 2026 tangible net book value of \$20.15 and management's recent update on the current book value. Looking forward, we expect the yield curve (10yr-2yr spread) to remain in positive territory. We expect longer-term rates to remain in the 4.25%-4.75% range and mortgage rates to remain higher, resulting in attractive investment opportunities for NLY.

If mortgage security spreads over Treasuries remain near current spreads in 2026, we believe that NLY will continue to take advantage of the scenario given its historically low leverage ratio. We also believe future purchases by Fannie Mae and Freddie Mac will aid MBS spreads. The low weighted average coupon (WAC) of the MSR portfolio remains attractive and significantly out of the money. Securitizations should maintain a similar pace in 2Q26. Our target price remains \$24.

ByLine

On July 28 at midday, BUY-rated NLY traded at \$23.00, up \$0.43. (Kevin Heal, 7/28/26)

AT&T Inc (T)

Rating: **BUY**
Market Cap: **LARGE**
Sector: Communication Services

Continued growth projected

- ▶ AT&T reported adjusted operating income of \$7.5 billion, or \$0.65 per share, up 20% from \$6.5 billion, or \$0.54 per share, in 2Q25.
- ▶ Recent acquisitions are driving management's 5% projected growth for service and connectivity revenues.
- ▶ The sector has felt cost pressures, which could be keeping share prices down. As a result, we are lowering our target price to \$30 from \$33.

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- ▶ The company anticipates \$8 billion in share repurchases in 2026 while maintaining the current dividend. Although the dividend is expected to remain flat, the current dividend yield is about 5.0% and tops our peer average.

INVESTMENT THESIS

We are maintaining our BUY rating on AT&T Inc. (NYSE: T). The Communication Services sector has felt cost pressures, which could be keeping share prices down. As a result, we are lowering our target price to \$30 from \$33. The wireless industry is fairly stable but remains highly competitive, as mobile demand becomes saturated. Like its industry peers, AT&T is looking for its next surge of 5G demand -- or next-generation wireless services -- and all the possible business models these new, lower-latency, more efficient services will offer. Since 2022, IT spending in general has been focused on artificial intelligence (AI) and data center tech rather than expanding 5G networks. In addition, consumer demand has been delayed by tightened spending and tariff impacts. However, in the long term, AI capabilities will eventually require more network capacity and lead to an increase in demand for broadband services.

The company has a narrower 5G footprint than some competitors. However, it continues to broaden coverage area with its rural 4G footprint, growing high-speed availability, and strong performance in Mexico. As another positive, AT&T has diversified its smartphones away from an overreliance on Apple Inc.'s iPhone (notwithstanding its blockbuster status) into Android, Windows Phone, and other models.

Management is executing on growing earnings as it focuses on expanding its fiber network build-out, expanding regional coverage with new licenses, and integrating its wireless and broadband networks. Tax savings from recent legislation could also accelerate its network build-out, as well as boost free cash flow. As for dividends, management announced that it expects a stable payout for the next two years, after slashing it almost in half in March 2022. The current dividend yield is about 5%, which is above the peer average of telecom peers under coverage. Investors should also consider the company's \$20 billion in share buyback capacity for 2025-27.

RECENT DEVELOPMENTS

The shares' five-year monthly beta is 0.42. AT&T shares rallied in early 2026 before dipping in June 2026. Over the past three months, the shares have declined 11%, compared with a decline of almost 5% for the iShares U.S. Telecommunications ETF, IYZ, and a gain of 6.4% for the S&P 500. Over the past 52 weeks, the shares have declined 16%, compared with a gain of 36% for the broad market and a 19% gain for IYZ.

AT&T reported adjusted operating income of \$7.5 billion, or \$0.65 per share, up 20% from \$06.5 billion, or \$0.54 per share, in 2Q25. The 2Q26 results topped the consensus

estimate of \$0.59 adjusted EPS. Adjusted EBITDA in 2Q26 rose to \$12.3 billion, up from \$11.7 billion in 2Q25. For 1H26, adjusted earnings rose 16% to \$1.22 per share, compared with \$1.02 per share in 1H25. For 1H26, adjusted EBITDA rose 3.7% to \$24.1 billion, versus \$23.2 billion in 1H25. The weighted average common shares outstanding declined 4% in 2Q26 compared with 2Q25.

For 1H26, total operating revenues rose 2.6% to \$63.1 billion. Total 2Q26 revenues rose 2% to \$31.6 billion, compared with \$31.8 billion in 2Q25. Second-quarter service revenues rose almost 3% to just under \$26 billion, compared with \$25.3 billion in 2Q25. Operating expenses were kept relatively in check, with a less than 1% increase from a year ago. Total operating expenses were \$24.5 billion in 2Q26, compared with \$24.3 billion in 2Q25. While selling and G&A costs rose 4% year over year, other costs of revenue exclusive of depreciation/amortization declined almost 2% to \$6.3 billion, down from \$6.4 billion in 2Q25.

The company has capital investment plans of about \$23 billion-\$24 billion annually in 2026 and in 2027. Capital investment in 2Q26 was \$5.7 billion, up from \$4.9 billion in 2Q25. Second-quarter acquisition costs were \$51 million, compared with \$28 million in 2Q25. Recent acquisition and disposition activity is as follows.

In 1Q26, T completed the acquisition of Lumen Technology, gaining 1 million subscribers and 4 million fiber locations in 11 states. Acquisitions are expected to be the key growth driver in 2026. AT&T spent \$5.75 billion in cash to acquire Lumen's mass-market fiber internet connectivity business. The deal adds customers in several new metro areas, including Denver, Seattle, and Salt Lake City. This transaction also illustrates AT&T's drive to increase its fiber footprint, even outside its traditional wireline service areas.

AT&T has another transaction expected to close in 1H26. The company is planning to buy spectrum licenses from EchoStar Corp. for \$23 billion in cash. The deal includes an average of 50 megahertz low-band and midband wireless, covering every domestic market. The acquired assets will become part of a fully owned subsidiary called NetworkCo. AT&T had indicated it plans to find an equity partner to purchase a share of NetworkCo. within 6-12 months of finalizing the original purchase.

Along with 2Q26 results, management affirmed its adjusted EPS guidance for 2026 of \$2.25-\$2.35. Driving the outlook is 5% projected growth for service and connectivity revenues, which includes the positive impact from acquisitions.

EARNINGS & GROWTH ANALYSIS

Prior to 2026, AT&T had reported results in two segments: Communications and Latin America. Before this year, operations within the Communications segment had included mobility, business wireless, and consumer wireline. Fiber operations had also been included within the

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Communications segment.

As a result of new investments, the company commenced reporting results as of 1Q26 in the following operating segments: Advanced Connectivity (about 90% of 2025 revenues), Legacy (Voice and Data Service and Copper Networks), and Latin America. Advanced Connectivity reports revenues for equipment and service operations.

Compared with a year ago, 2Q26 Advanced Connectivity revenues rose about 4% to \$28.6 billion, with operating margins increasing 350 basis points to 25.7%. For the first half of 2026, segment revenues rose 4.4% to \$57.1 billion, up from \$54.7 billion in 1H25. In 2Q26, total internet connections increased 29.5% year over year, with net internet adds increasing just 26.9% from a year ago.

Second-quarter revenues from the Legacy segment declined almost 26% to \$1.6 billion, down from \$2.2 billion a year ago. For the first half of 2026, Legacy revenues dropped 26% to \$3.4 billion, down from \$4.6 billion in 1H25. Operating income margins in 2Q26 declined to 32%, down from 43.6% in 2Q25.

The Latin America segment generated \$1.2 billion in operating revenues, up 16% from 2Q25. For 1H26, revenues rose 18% to \$2.4 billion, compared with \$2.0 billion in 1H25. Total wireless subscribers in Mexico dropped about 1.7% in 2Q26, compared with a year earlier.

AT&T added 1 million Advanced Connectivity customers during 2Q26. This includes 646,000 internet net adds and 432,000 postpaid net adds. New adds in 2Q26 within the Advanced Connectivity segment were about 43% for fixed wireless and 56% from fiber. Postpaid phone churn declined about 1 basis point in 2Q26 compared with 2Q25. For the full-year 2025, AT&T added 1.5 million postpaid phone customers and 1 million fiber net adds, similar to additions in 2024.

After the close of 1H26, total consumer and business fiber locations reached 38.6 million. Management believes it is on target to reach 40 million total fiber locations by the end of 2026 and 60 million by the end of 2030.

AT&T's recent struggles included the decline of legacy voice products as customers transition to mobile and cloud-based services. The company had also seen modest growth in subscribers in its key mobility segment due to tighter consumer spending, saturated markets, and high competition. The industry, overall, has seen growth diminish as iPhone sales have tightened due to lower consumer spending and less must-have new phone options. Management, however, is optimistic that demand will improve, as AI continues to hold momentum. Also helping the top line will be the continued increase of consumer interest in smart-home and connected-device trends, ongoing work-from-home relationships, and growth in

streaming and gaming. Management also reports that households with their home internet service are also choosing AT&T wireless as their service provider. As of the end of 1H26, over 42% of homes with AT&T home internet also had wireless plans.

The company has a smaller high-speed footprint than T-Mobile US Inc., but its midband licenses are expected to cover most service areas in the U.S., as the company finalizes its latest acquisition of spectrum licenses in 2026. While the company leads competition for 4G in rural areas and expanding markets, management has begun to focus on growing its 5G availability and broadening its fiber and internet connectivity. The Lumen acquisition, which closed in 1Q26, is expected to help the company meet its goal of reaching 60 million fiber locations by the end of 2030. As of the end of 1H25, AT&T had 30 million internet fiber locations. That grew to 32 million by the end of 2025.

To continue to drive growth following the recent acquisitions, management plans to pursue cost-saving measures and efficiently allocate capital. Cost savings of \$1 billion in run rate have been projected by the end of 2027, on top of the \$2 billion in savings AT&T expects to achieve by mid-2026 through tightened operations and asset dispositions, including the sale of DirecTV. Management also expects to accelerate its fiber network build-out with savings from recent tax reform legislation. In addition, while Legacy revenues are expected to decline about 20% in 2026, management expects the decline to be immaterial by the end of 2029.

Going forward, earnings are expected to reflect the company's twin growth pillars - revenue growth driven by Mobility and the expansion of its Consumer Wireline high-speed internet fiber business. The company plans to continue to expand services for both consumers and businesses and continue competitive pricing options. Customer statistics have had momentum. The company added over 1 million fiber broadband customers in each of 2023, 2024, and 2025. The company increased postpaid phone subscribers by over 1.5 million additions for the fifth consecutive year.

While the company had a negative (restated) earnings comparison in 2024 versus 2023, earnings growth appears to be gaining momentum. For full-year 2025, adjusted earnings rose 9% compared with 2024. Our 2026 adjusted earnings estimate also implies 9% year-over-year earnings growth. The slower earnings growth was due, in part, from the company's alignment with fiber. In 3Q24, AT&T completed the sale of its residual 70% interest in satellite television broadcaster DirecTV LLC to private equity firm TPG Inc. for \$7.6 billion in cash, consisting in part of \$5.4 billion after tax in 2025 and \$500 million after tax in 2029. AT&T's original sale of a 30% interest in DirecTV to TPG was in August 2021.

We are maintaining our estimates. Our 2026 adjusted EPS

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estimate is \$2.32, and our 2027 EPS estimate is \$2.45. Our 2027 estimate implies 6% growth over our 2026 estimate. The year-over-year earnings compound annual growth rate tops our peer group, as continued growth is projected for this undervalued stock.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on AT&T is Medium, the midpoint on our five-point scale. S&P gives AT&T investment-grade ratings of BBB.

Asset sales are reflected in the company's balance sheet. Cash and equivalents at the end of 2Q26 were \$17.6 billion, compared with \$18.2 billion at the end of 2025. The net value of property and equipment rose to \$134 billion, up from \$132 billion at the end of 2025 and up from \$129 billion at the end of 2024. Long-term debt at the end of 2Q26 was \$135 billion, up from \$127 billion at the end of 2025. About \$6.8 billion in debt matures in 2026.

Management has signaled that its top capital allocation priorities are debt reduction and investment in its wireless 5G network and wireline fiber network build-outs. AT&T had ceased significant share repurchases while it paid down debt, though it restarted its share repurchase program in 2Q25. Management repurchased about \$4 billion of its shares in 2025. The company expects to repurchase about \$8 billion of common stock in 2026 and has capacity for share repurchases through 2027. During 2Q26, the company returned \$2.2 billion in common share repurchases. The weighted average common shares outstanding at the end of 1H26 declined about 3% from the same period a year ago. At the end of 1H26, about 6.95 billion weighted average common shares were outstanding.

AT&T has not increased its dividend since 2Q22, with a current quarterly payout of \$0.278 per share. The yield is about 5%, which is above the peer average of 4.8% for our telecom stocks under coverage. Management has indicated that it expects the dividend to remain stable and not grow through 2027. Our dividend estimates are \$1.11 per share for both 2026 and 2027.

MANAGEMENT & RISKS

John Stankey is AT&T's CEO and chairman. Pascal Desroches is CFO, and Jeff McElfresh acts as COO.

AT&T is regulated at the federal, state, and local levels. As a regulated entity, it is vulnerable to changes in regulatory philosophy that could put it at a disadvantage relative to other industry players. As defensive stocks, telecoms tend to be more resilient than the average enterprise in an economic downturn; however, a recession could negatively impact AT&T's consumer and enterprise businesses. With international operations, the company can also face foreign exchange impacts.

COMPANY DESCRIPTION

AT&T provides telecommunications services to consumers in the U.S. and Latin America and to businesses worldwide. SBC Communications Inc. acquired the old AT&T Corp. in November 2005 and took the AT&T name shortly thereafter. The company is the second largest holder of spectrum licenses. It currently has less high-speed coverage than some peers but has a larger and wider 4G presence, including in rural areas and along interstate travel routes.

At the end of 1H26, the company had 38 million fiber locations and over 74 million postpaid phone subscribers. Total revenues in 2025 were almost \$126 billion, of which about 80% was for wireless service. The company's operations in Latin America have been solid. AT&T first moved into the Latin American market in 2013 and acquired two Mexican wireless carriers by 2015.

The shares are a component of the S&P 500. The market cap is \$155 billion.

VALUATION

T shares dipped in September and currently are trading below the midpoint of their 52-week range of \$19-\$29 per share. We are maintaining our BUY rating, with the shares currently performing favorable to peers' on several valuation metrics. Recent pullback could also create a buying opportunity, with year-over-year earnings growth estimated at around 9% in 2026. The 2026 P/E ratio is 10.0, below the peer average for Argus-covered telecom companies of 12.2-times. The 2027 P/E ratio is 9.4-times, below the peer average of 12.1-times. The shares' five-year P/E is 9.25-times. The shares' EV/EBITDA value of 6.9 is favorable to the peer average of 8.3, and the price/sales metric of 1.3-times is favorable to the peer average of 1.6-times. While the dividend is not expected to grow for about 24 months, share repurchases and a yield near 5% add to total return.

Based on long-term growth potential, we believe the shares could offer a favorable entry point to income-oriented investors. Our revised target price is \$30.

ByLine

On July 22, BUY-rated T closed at \$23.04, up \$0.78. (Marie Ferguson, 7/22/26)

Baker Hughes Co (BKR)

Rating: **BUY** 
Market Cap: **LARGE**
Sector: **Energy**

Guidance raised for 2026

- ▶ Baker Hughes recently reported 2Q26 adjusted net income of \$640 million or \$0.64 per share, up 2% from \$623 million or \$0.63 per share, in 2Q25. Earnings per share beat our estimate of \$0.62 and the Wall Street consensus estimate of \$0.49.

Value Stocks

- ▶ The modestly higher 2Q26 earnings largely reflected growth in the IET segment, where EBITDA rose 16% and the EBITDA margin expanded 280 basis points (to 20.6%), more than offsetting continuing weakness in OFSE.
- ▶ Baker Hughes raised guidance for 2026 following the release of its financial performance. For 2026, the company now expects revenue of \$26.650 billion-\$28.050 billion and adjusted EBITDA of \$4.600 billion-\$5.100 billion.
- ▶ We are raising our 2026 EPS estimate to \$2.88 from \$2.86 per share to reflect the 2Q26 results as well as our current expectations for only a modest impact from Middle East disruptions.

INVESTMENT THESIS

Our rating on Baker Hughes Co. (NGS: BKR) is BUY and our price target is \$79 per share, implying a total return potential in excess of 30% from current prices (including the dividend). Baker Hughes is a leading global oil services and equipment provider and separates its operations into two distinct business divisions: OFSE (Oilfield Services & Equipment) and IET (Industrial & Energy Technology)

The OFSE business continues to navigate a challenging energy environment, where volatile crude oil prices have prompted E&P producers to rethink or possibly pause spending plans, and now the continuing U.S./Iran conflict has added a new layer of higher costs and supply-chain difficulties. Yet the IET business continues to operate at a high level, as the division focuses on technologies that support both traditional and lower-carbon energy markets, including gas turbines and compressors, LNG equipment, and turbomachinery. We see this segment being the growth engine of Baker Hughes and expect it to generate strong top-and bottom-line results for years to come.

New orders in IET increased by 101% in 2Q26, as demand for turbines, LNG equipment, geothermal technologies, and industrial pumps and valves continues to grow. We view the IET segment as BKR's higher-quality business because it has a larger installed equipment base, generates recurring service revenue, and benefits from long-cycle investments in LNG, natural gas infrastructure, and industrial energy projects. Additionally, we believe that Baker Hughes is the least likely of the Big 3 oilfield services firms to be impacted by tariff-related uncertainties and commodity prices, largely due to the backlog in its IET segment. This backlog should provide the company with consistent profit growth in the near/intermediate term, while the OFSE business manages through a choppy energy environment.

RECENT DEVELOPMENTS

Baker Hughes recently reported 2Q26 adjusted net income of \$640 million or \$0.64 per share, up 2% from \$623 million or \$0.63 per share, in 2Q25. Earnings per share beat our

estimate of \$0.62 and the Wall Street consensus estimate of \$0.49.

The modestly higher 2Q26 earnings largely reflected growth in the IET segment, where EBITDA rose 16% and the EBITDA margin expanded 280 basis points (to 20.6%), more than offsetting continuing weakness in OFSE.

Revenue for the second quarter reached \$6.742 billion, down 2% from \$6.910 billion in 2Q25. Revenue exceeded the Wall Street consensus estimate of \$6.520 billion. Second-quarter 2026 results are summarized below.

OFSE revenue declined 3% from the prior year to \$3.413 billion, while EBITDA decreased 11% to \$605 million. The segment EBITDA margin fell to 17.5% from 18.7%. The weaker revenue results largely reflected the impact of the disposed Surface Pressure Control (SPC) business and disruptions in the Middle East, partially offset by the benefit of foreign exchange in Latin America. North America revenue was \$933 million, up 1% from the prior year, while international revenue declined 6% to \$2.518 billion.

IET revenue for the second quarter was \$3.291 billion, comparable with the prior-year quarter, while EBITDA increased 16% to \$678 million. The segment EBITDA margin rose to 20.6% from 17.8%. The sales performance was mixed, with Gas Technology Equipment sales up 529% and Gas Technology Services sales up 33%, offsetting softer year-over-year revenue in Climate Technology Solutions, down 94% year over year. The increase in segment EBITDA was driven by price, productivity, cost cutting, and favorable foreign currency effects, partly offset by lower volume and inflation.

As discussed in prior notes, Baker Hughes and Chart Industries Inc. (NYSE: GTLS) announced on July 29, 2025, that they had entered into a definitive agreement under which Baker Hughes would acquire all outstanding shares of Chart's common stock for \$210 per share in cash, equivalent to a total enterprise value of \$13.6 billion. Chart Industries is a global leader in the design, engineering, and manufacturing of process technologies and equipment for gas and liquid molecule handling across a broad range of industrial and energy end markets. Chart generated \$4.2 billion in revenue in 2024. It operates 65 manufacturing locations and over 50 service centers globally. The transaction closed on July 16, 2026.

We like the Chart acquisition, and view it as a strategically good fit for the company. Indeed, it aligns with a shift toward energy and industrial technologies that complement BKR's strengths (in rotating equipment, flow control, and digital services).

EARNINGS & GROWTH ANALYSIS

Baker Hughes raised guidance for 2026 following the release of second-quarter results. For 2026, Baker Hughes now

Value Stocks

expects revenue of \$26.650 billion-\$28.050 billion (versus \$26.200-\$28.300 billion previously) and adjusted EBITDA of \$4.600 billion-\$5.100 billion (versus \$4.550-\$5.150 billion previously). The company still expects a tariff-related impact of \$100 million-\$200 million for the year, comparable to 2025.

We are raising our 2026 EPS estimate to \$2.88 from \$2.86 per share to reflect the 2Q26 results as well as our current expectations for only a modest impact from Middle East disruptions. At the same time, we are raising our 2027 EPS estimate to \$3.23 from \$3.19 to reflect the company's growing exposure to liquefied natural gas and energy transition technologies, which should provide sustainable growth.

FINANCIAL STRENGTH & DIVIDEND

We rate the financial strength of Baker Hughes as Medium, the midpoint on our five-point scale. Baker Hughes receives average scores on our financial strength scale for debt/cap ratio, fixed cost coverage, dividend coverage, cash flow, and profitability.

The company's credit profile is rated A/stable by S&P and A3/stable by Moody's. Baker Hughes prides itself on maintaining a strong balance sheet, which provides the ability to pay down near-term debt maturities.

The debt-to-capitalization ratio was 27.4% at the end of 2Q26, up from 27.1% a year earlier and well below the peer group average. The debt/cap ratio has averaged 29.6% over the past-five-year period.

Debt (short-term and long-term obligations) reached \$16.253 billion at the end of 2Q26, up from \$6.034 billion at the end of 2Q25. The increase is the result of acquisitions, most recently of Chart Industries.

Cash and cash equivalents totaled \$15.757 billion at the end of 2Q26, up from \$3.087 billion at the end of 2Q25 and compared to \$14.764 billion in 1Q26.

Net cash flows from operating activities (on a GAAP basis) were \$1.345 billion in the second quarter, up from \$510 million in 2Q25 and compared to \$500 million in 1Q26.

Dividends are part of BKR's strategy of returning cash to shareholders. On January 30, 2025, Baker Hughes increased its quarterly dividend by 10% to \$0.23 per share, or \$0.92 annually, which is the current rate. The yield is about 1.5%. Our dividend forecasts are \$0.96 for 2026 and \$1.00 for 2027.

Share repurchases are also part of BKR's capital deployment strategy. The company currently has a \$4 billion repurchase program that was augmented in October 2022. BKR did not repurchase any shares in 2Q26 and has approximately \$2.01 billion left on its authorization.

MANAGEMENT & RISKS

Lorenzo Simonelli, the former CEO of GE Oil & Gas, is the company's chairman and CEO. Ahmed Moghal is CFO.

The oil services industry faces risks related to the health of the global economy, along with geopolitical risks in the Middle East, Latin America, Russia, Southeast Asia, and West Africa. Demand for services from E&P customers is also subject to changes in oil and natural gas prices, especially in North America, due to the dominance of the spot market.

COMPANY DESCRIPTION

Baker Hughes was formed from the merger of Baker Hughes Inc. and General Electric Co.'s oil and gas business in July 2017. It is the world's third-largest oil services company, with annual revenues of \$27.7 billion in 2025 and approximately 56,000 employees. Over the long term, the company expects to generate approximately 30% of revenue from the U.S. and 70% from international markets. Baker Hughes is a component of the S&P 500.

INDUSTRY

Our rating on the Energy sector is Market-Weight. The Energy sector accounted for 3.0% of the S&P 500 as of the end of June. We think diversified investors should have exposure to the sector, in line with the current sector weight.

The sector receives average marks on our six-part 'blind' sector rating criteria, which includes growth momentum, valuation, financial strength, and analyst conviction, among other factors.

The sector has outperformed the market year to date with a gain of 18.0% as of the end of June. The sector underperformed the market in 2025, with a gain of 5.0%, compared to a gain of 16.4% for the S&P 500. The beta for the sector is 0.0.

Over the past five years, the sector's weighting has ranged from 2% to 10%. The sector's P/E ratio on projected 2027 EPS was 13, below the market multiple. The yield of 2.2% was above the market average. The sector's smoothed earnings growth rate of 6% was below the market average of 10%.

The Energy sector is primarily a defensive, counter-cyclical sector. The macroeconomic factors that may affect the performance of stocks in the Energy sector include the Price of Oil, Global GDP, and Crude Oil Inventories.

Potential sell signals for stocks in the Energy sector can be extremely high prices of oil - say, above \$120 per barrel of the benchmark West Texas Intermediate crude oil - which tend to signal a cyclical peak and often precede an extended downward move. At the same time, if prices fall below \$50 per barrel, the fixed costs that are part of the infrastructure supporting the Energy industry make profitability challenging.

Value Stocks

At this stage of the market and economic cycle, our favored industry within the Energy sector is Integrated Oil.

VALUATION

BKR shares have traded between \$41.96 and \$70.41 over the past 52 weeks and are currently trading above the midpoint of this range. To value the stock on a fundamental basis, we use peer group and historical multiple comparisons, as well as a dividend discount model.

Using a price/earnings (P/E) multiple as our starting point, the common shares of Baker Hughes are currently trading at about 21-times our 2026 EPS estimate and about 18.8-times our 2027 forecast, compared to an eight-year annual average historical range of 20-56.

On other valuation measures, the shares are trading at a price/book multiple of 2.3, versus an average annual range of 1.6-2.4; at a price/sales multiple of 1.4, versus a range of 0.9-1.4; and at a price/cash flow ratio of 13.0, versus a range of 12.9-22.3. The price/EBITDA multiple is 10.4, above the midpoint of the range of 7.4-12.6.

Valuation metrics may appear to be mixed, but we believe that Baker Hughes is at the beginning of a cycle whereby growth in its IET division will continue to strengthen, offsetting weakness in its OFSE business, despite higher-trending commodity prices. This should help valuation metrics strengthen over the long term, particularly with strong demand for data center growth and artificial intelligence infrastructure. As such, we reiterate our BUY rating to our 12-month target price of \$79.

ByLine

On July 28 at midday, BUY-rated BKR traded at \$58.29, down \$2.30. (Bill Selesky, 7/28/26)

Boyd Gaming Corp (BYD)

Rating: **BUY** 
Market Cap: **MID**
Sector: Consumer Discretionary

Raising target price

- ▶ The BYD shares have underperformed over the past quarter, down 1% compared to a 4% gain for the S&P 500.
- ▶ The company is expected to report 3Q26 EPS on October 23.
- ▶ From a technical standpoint, the shares have traded in a pattern of higher highs and higher lows since January 2024.
- ▶ On the fundamentals, the shares are trading at multiples well below those of other casino/gaming companies.

INVESTMENT THESIS

Our rating on Boyd Gaming Corp. (NYSE: BYD) is BUY, with a revised price target of \$100. Boyd Gaming owns and operates 28 regional casinos in 10 states. Its Online segment operates as a B2B and B2C digital platform. The BYD shares' multiple should increase, driven by fewer promotions and solid revenue growth. In our opinion, cost-cutting and leverage below that of its peers will also provide tailwinds.

The balance sheet is strong and the company spent \$156 million on share buybacks in 2Q26. From a technical standpoint, the shares have traded in a pattern of higher highs and higher lows since January 2024. On the fundamentals, the shares are trading at multiples well below those of other casino/gaming companies (MGM, WYNN) that we cover.

Over the long term, we expect Boyd's operating margin to increase as a result of favorable operating leverage at the Las Vegas properties and some of the regional casinos. Reflecting the company's extensive development pipeline, our long-term earnings growth rate estimate is 12%.

RECENT DEVELOPMENTS

The BYD shares have underperformed over the past quarter, down 1% compared to a 4% gain for the S&P 500. They have underperformed over the past year, gaining 7%, versus a 16% advance for the S&P 500 and a 2% loss for the Consumer Discretionary sector ETF XLY. The BYD shares have gained 57% over the past five years.

The company is expected to report 3Q26 EPS on October 23. The consensus is calling for adjusted EPS of \$1.70 per share, down from \$1.72 a year ago. Revenue is expected to increase 15 basis points to \$1.02 billion. Street estimates have been declining modestly over the past 90 days.

Boyd Gaming recently reported 2Q net revenue of \$1.034 billion, up from \$1.033 billion a year earlier. The increase primarily reflected solid results in the Midwest and South segment, Online segment, and Managed & Other business. The consensus estimate had called for revenue of \$1.04 billion.

By business segment, the Las Vegas Locals division posted 2Q revenue of \$226.0 million, down from \$229.1 million a year earlier, and above the consensus estimate of \$222 million. A strong Las Vegas Locals market was outweighed by construction disruption and fewer tourists. Adjusted EBITDAR fell by \$6.3 million year over year to \$106.4 million, and the EBITDAR margin narrowed to 47.1% from 49.3%. The consensus estimate had called for adjusted EBITDAR of \$106 million. Downtown Las Vegas revenue fell by \$3.2 million to just over \$52.1 million. The consensus estimate had called for revenue of \$54.2 million. Adjusted segment EBITDAR fell to \$16.9 million from \$19.4 million a year earlier. The consensus estimate had called for adjusted segment EBITDAR of \$19.8 million. In the Midwest and South segment, revenue rose by just over \$16.8 million to

Value Stocks

\$556 million, above the consensus estimate of just over \$553 million. The revenue beat reflected solid demand from core customers. The adjusted segment EBITDAR rose to \$208.7 million from \$201.4 million. The consensus estimate had called for adjusted segment EBITDAR of \$206 million.

Online revenue fell to \$158.2 million from \$173.1 billion. Adjusted EBITDAR decreased to \$11.0 million from \$22.2 million. The consensus estimate had called for Online revenue of \$170 million and adjusted EBITDAR of \$7.9 million. Managed & Other revenue increased to \$41.3 million from \$36.5 million, and adjusted EBITDAR rose to \$30.7 million from \$25.9 million. Consensus estimates had called for Managed & Other revenue of \$38.0 million and adjusted segment EBITDAR of \$27.2 million.

In all, Boyd Gaming posted second-quarter adjusted EBITDA of \$321.6 million, down \$7.8 million from the prior-year period and above the consensus estimate of \$311 million. The operating margin was 19.4%, down from 23.4% in the prior-year period.

On a GAAP basis, Boyd Gaming reported EPS of \$1.75, down from \$1.84 per share in the prior-year period. BYD reported adjusted EPS of \$1.93, up from \$1.87 in 2Q25 and above the consensus of \$1.89.

Boyd has surpassed consensus earnings estimates in seven of the past eight quarters.

Reflecting \$156 million in share buybacks in the second quarter, the share count declined year over year to 74.8 million from 82.3 million. As of the end of 2Q26, the company had \$551 million remaining under its share repurchase authorization.

As discussed in a previous note, on July 31, 2025, the company sold its 5% equity stake in FanDuel to Flutter Entertainment plc (NYSE: FLUT) for \$1.75 billion. Boyd plans to use the proceeds to reduce its debt, invest in its properties, and return capital to shareholders.

In 2025, revenue rose to \$4.1 billion from \$3.9 billion a year earlier. EPS rose to \$7.40 from \$6.55 in 2024.

EARNINGS & GROWTH ANALYSIS

We expect recent tax law changes, the completion of renovations in Las Vegas and solid results in the Midwest and South segment to benefit results. We are leaving our 2026 EPS estimate at \$7.90 and our 2027 estimate at \$8.50. Our above-consensus estimates reflect earnings beats in seven of the past eight quarters, including several times by double-digit amounts.

Reflecting the company's extensive development pipeline, our long-term earnings growth rate estimate is 12%.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on Boyd Gaming is Low. At the end of 2Q26, the company had \$323 million in cash and cash equivalents, and total debt of \$2.6 billion.

In March 2026, Boyd Gaming raised its quarterly dividend by 11.1% to \$0.20 per share or \$0.80 annually, for a yield around 0.9%. The new dividend was paid on April 25, 2026. Our dividend estimates are \$0.78 per share for 2026 and \$0.88 for 2027.

MANAGEMENT & RISKS

Keith Smith is the president and CEO of Boyd. Josh Hirsberg is CFO & Treasurer.

Boyd faces the risk that states near the company's existing operations could legalize or expand gambling activity, driving up competition. The company also faces risks from terrorism or outbreaks of disease, such as the coronavirus, which could cause tourists to cancel travel plans or force it to close casinos. Severe weather, particularly Gulf Coast hurricanes, could also force temporary closures.

COMPANY DESCRIPTION

Boyd Gaming, based in Las Vegas, owns and operates 30 gaming properties, up from 16 in 2011. The company's properties are located in Nevada, Iowa, Mississippi, Indiana, Illinois, Kansas, Missouri, Ohio, Pennsylvania, and Louisiana. Its Online segment operates as a B2B and B2C digital platform.

INDUSTRY

Our rating on the Consumer Discretionary sector is Under-Weight. The Consumer Discretionary sector accounted for 9.3% of the S&P 500 as of the end of June. We think diversified investors should have exposure to the sector, but at about 50-75% of the current sector weight.

The sector receives below-average marks on our six-part 'blind' sector rating criteria, which includes growth momentum, valuation, financial strength, and analyst conviction, among other factors.

The sector has underperformed the market year to date, with a loss of 1.1% as of the end of June. The sector underperformed in 2025, with a gain of 5.3%, compared to a gain of 16.4% for the S&P 500. The beta for the sector is 1.1.

Over the past five years, the sector's weighting has ranged from 8% to 12%. The sector's P/E ratio on projected 2027 EPS was 24, above the market multiple. The yield of 0.5% was below the market average. The sector's smoothed earnings growth rate of 10% was equal to the market average.

The Consumer Discretionary sector is a cyclical growth sector. The macroeconomic factors that may affect the performance of stocks in the Consumer Discretionary sector include Nonfarm Payrolls, Personal Income, Fuel Prices,

Value Stocks

Retail Sales, Auto Sales, Housing Starts, and New and Existing Home Sales, among others. Trends in the dollar can affect gross profit for companies in the sector.

Potential sell signals for stocks in the Consumer Discretionary sector can be a change in the direction or rate of a company's sales or earnings growth, a rapidly rising unemployment rate or signs of an impending recession.

At this stage of the market and economic cycle, our favored industries within the Consumer Discretionary Group include Broadline Retail, Homebuilding, and Home Furnishings.

VALUATION

BYD shares are trading at 11.1-times our 2026 EPS estimate, below the midpoint of their three-year range of 4-28. We believe that the current multiple inadequately reflects the company's history of earnings beats and prospects for solid results in both the Midwest and South and Managed and Other segments. At current prices, our target price of \$100, if achieved, offers investors the prospect of a 16% return including the dividend.

ByLine

On July 24, BUY-rated BYD closed at \$87.04, up \$0.48. (John Staszak, CFA, 7/24/26)

Brown & Brown Inc (BRO)

Rating:	HOLD
Market Cap:	LARGE
Sector:	Financial

Weak organic revenue likely to persist

- ▶ The BRO shares have underperformed over the past quarter, up 10 basis points compared to a 14% gain for the S&P 500.
- ▶ From a technical standpoint, the shares have traded in a pattern of lower lows and lower highs since early January 2025.
- ▶ Still, Brown & Brown's strong free cash flow has enabled it to fund share buybacks and raise its dividend.

INVESTMENT THESIS

We are reiterating our HOLD-rating on Brown & Brown Inc. (NYSE: BRO). The company is a global insurance brokerage and risk management firm. It operates as an intermediary providing property and casualty insurance, employee benefits, and specialized program management. While Brown & Brown regularly displays above-peer margins and high-quality earnings, the growth rate of its underwriting business appears to be slowing, which is likely to limit margin expansion. Further pressuring margins are rising employee compensation and benefit costs.

The company's balance sheet is clean and Brown & Brown has authorized a \$1.5 billion share-buyback program. From a

technical standpoint, the shares have traded in a pattern of lower lows and lower highs since early January 2025. The shares are trading at multiples well below their five-year average, adequately reflecting the company's weak organic revenue, in our opinion.

Still, Brown & Brown's strong free cash flow has enabled it to fund share buybacks and raise its dividend.

RECENT DEVELOPMENT

The BRO shares have underperformed over the past quarter, up 10 basis points compared to a 14% gain for the S&P 500. They have underperformed over the past year, down 29% versus a 16% advance for the S&P 500. The BRO shares have gained 34% over the past five years versus a 68% gain for the S&P 500.

The company is expected to report 3Q26 EPS on October 27. The consensus is calling for third-quarter adjusted EPS of \$1.07, up from \$1.06 a year ago. Revenue is expected to increase 9% to \$1.76 billion. Street estimates have been falling modestly over the past 90 days.

On July 27, the company reported 2Q26 adjusted earnings of \$1.07 per share, in line with the consensus estimate and up from \$1.03 in the second quarter of 2025. On a GAAP basis, earnings rose year over year to \$0.84 from \$0.78 per share. Results reflected 32% higher income from commissions and fees, which the company earns by acting as an intermediary between insurers and customers seeking insurance.

Total revenues of \$1.68 billion missed the consensus estimate of \$1.72 billion. Revenue increased 32.3% from the prior-year period, driven by higher commissions and fees, which increased year over year to \$1.65 billion from \$1.25 billion. Organic revenues fell by \$8 million, to \$1.18 billion in the second quarter. Investment and other income was down by 39% year over year to \$21 million. Adjusted EBITDAC was \$598 million, up 27% year over year. The adjusted EBITDAC margin fell 100 basis points year over year to 35.7%. Consensus estimates had called for adjusted EBITDAC of \$611 million. Total expenses increased 33% to \$1.29 billion due to increases in employee compensation and benefits, and other operating expenses, and amortization. The operating margin fell to 22.9% from 24.2% in 2Q25.

As discussed in a previous note, in 2025, helped by 2.8% organic growth, revenue grew 22.8% to \$5.9 billion. Adjusted EPS increased 11% to \$4.26 from \$3.84. In June of 2025, Brown & Brown acquired Accession Risk Management Group.

EARNINGS & GROWTH ANALYSIS

Our 2026 revenue forecast calls for 23% growth. We expect the company to lower costs by \$150 million and incur \$220 million in integration costs over the next three years.

Value Stocks

We are lowering our 2026 EPS estimate to \$4.46 per share from \$4.50 and reducing our 2027 estimate to \$4.85 from \$5.00 per share. Our long-term growth estimate remains 10%.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on Brown & Brown is Medium-High, the second-highest rank on our five-point scale. The company receives above-average scores on our four main criteria of cash and debt levels, interest coverage, and ROE.

The company's 2025 return on equity was 11%. In 2Q, shareholders' equity rose by \$35 million to \$12.6 billion. In the second quarter of 2026, operating income was just over 3.8-times interest expense. We like to see an interest ratio of 5.0 or higher.

Brown & Brown had cash and cash equivalents of \$918 million at the end of 2Q, down from \$1.08 billion at the end of 2025. Long-term debt was \$7.7 billion at the end of the second quarter, down from just under \$8.3 billion at the end of 2025. Net cash provided by operating activities at the end of the second quarter was \$608 million, up from \$538 billion in the prior-year period.

On October 22, 2025, the board raised the quarterly dividend to \$0.165 per share from \$0.15. The company also authorized \$1.5 billion in share buybacks. We are maintaining our 2026 dividend estimate of \$0.68 and our 2027 estimate of \$0.80.

MANAGEMENT & RISKS

J. Powell Brown is CEO, president, and a director of the company. R. Andrew Watts is executive vice president and CFO.

Driven by increased amortization, higher salaries and wages, and rising benefit costs, Brown & Brown has seen costs rise. Interest expense also has been increasing over the past several years due to higher interest payments attributable to the company's floating-rate notes and increased leverage.

The company does business in Bermuda and Europe and is vulnerable to changing trade regulations, weak foreign currencies, and softening international economies.

COMPANY DESCRIPTION

Brown & Brown Inc. sells property and casualty policies to individual and corporate customers. The company's property insurance policies protect against physical damage to property and disruptions to businesses caused by internal explosion, windstorm, fire, and riot or civil commotion. Casualty insurance includes bodily injury, legal liabilities, and commercial and automobile insurance. It also protects businesses from employee fraud (fidelity) and assures work will be completed (surety). The company's headquarters are in Daytona Beach, Florida.

INDUSTRY

Our rating on the Financial sector is Over-Weight. The Financial sector accounted for 11.8% of the S&P 500 as of the end of June. We think diversified investors should have meaningful exposure to the sector, at about 125-150% of the current sector weight.

The sector receives above-average marks on our six-part 'blind' sector rating criteria, which includes growth momentum, valuation, financial strength, and analyst conviction, among other factors.

The sector has underperformed the market year to date with a loss of 2.1% as of the end of June. The sector underperformed in 2025, with a gain of 13.3%, compared to a gain of 16.4% for the S&P 500. The beta for the sector is 0.9.

Over the past five years, the sector's weighting has ranged from 10% to 15%. The sector's P/E ratio on projected 2027 EPS was 14, below the market multiple. The yield of 1.6% was above the market average. The sector's smoothed earnings growth rate of 9% was below the market average.

The Financial sector is a cyclical and often value-oriented sector. The macroeconomic factors that may affect the performance of stocks in the Financial sector include the Unemployment Rate (which can influence the debt repaying capability of consumers and therefore credit costs), Interest Rates (which can determine lending profitability), and GDP or growth in the economy (which influence loan growth). The industry is also highly regulated, so changes in the regulatory environment can influence capital set-aside requirements and thus profitability.

At this stage of the market and economic cycle, our favored industries within the Financial sector include Diversified Banks, Financial Exchanges & Data, and Investment Banking & Brokerage.

VALUATION

Trading at 10.4-times our revised 2026 earnings estimate (near the industry average), the BRO shares are adequately valued as we see it. We believe that the current valuation appropriately reflects the company's markets, acquisitions, margins, and earnings. Were employee compensation and benefit costs to moderate, or organic revenue to improve, we would consider an upgrade.

ByLine

On July 28 at midday, HOLD-rated BRO traded at \$72.87, up \$3.17. (John Staszak, CFA, 7/28/26)

Capital One Financial Corp (COF)

Rating:

BUY

Market Cap:

LARGE

Sector:

Financial

Value Stocks

Maintaining BUY as 2Q credit costs fall markedly

- ▶ On July 21, Capital One reported adjusted 2Q26 earnings of \$5.81 per share, up from \$5.48 a year earlier and above the consensus of \$4.69.
- ▶ Comparisons continued to reflect the May 2025 acquisition of Discover Financial, with average loans up 28% in 2Q.
- ▶ Credit quality was stable, and loan loss provisions dropped markedly. We note a favorable employment environment aiding industry-wide consumer credit.
- ▶ In April, the company acquired Brex, a software platform offering finance solutions for businesses to issue corporate cards, automate expense management, and make real-time payments. With the acquisition, COF furthers its goals in the payments space for small and middle-market customers.
- ▶ We see the shares at an attractive entry point at only 8.4-times our 2027 EPS estimate. Our target price is \$250.

INVESTMENT THESIS

We are maintaining our BUY rating on Capital One Financial Corp. (NYSE: COF) following 2Q earnings, which came in above our estimate and the consensus (largely on lower-than-expected credit loss provisions), while showing continued growth in average loans and improvement in the net interest margin. We see the shares as being at an attractive entry point at only 8.4-times our 2027 EPS estimate.

In May 2025, Capital One completed its acquisition of Discover Financial Services (DFS) in an all-stock deal valued at \$35.3 billion. Discover shareholders received 1.0192 shares of COF for each DFS share. The acquisition included domestic card loans of \$98.3 billion, personal loans of \$9.9 billion, and deposits of \$106.7 billion.

We view the merger positively, offering scale opportunities for marketing, compliance and technology costs, and a larger, vertically integrated platform to compete better with other payment networks. COF sees double-digit EPS accretion in 2026 and 15% in 2027, reflecting \$1.5 billion of expense synergies (26% of Discover's operating expenses and 10% of marketing expenses), and \$1.2 billion of network synergies as COF debit purchase volume moves to Discover's network. The acquisition will allow COF to deal more directly with merchants through Discover's payment network, including controlling interchange fees. COF plans to continue Discover's flagship credit-card product, student credit-card business, and secured card business. The combined firm is expected to have 70 million merchant acceptance points in more than 200 countries, making it the sixth-largest U.S. bank by assets.

We are impressed by COF's competitive strategy.

Management is focused on the top end of the credit-card market, acknowledging the increased investment needed in airport lounges, marketing spend, and unique customer access. COF's strategy with Venture X focuses on differentiation rather than copying competitors, like Chase or American Express, offering two-times earn rates and flexibility across any airline. In retail banking, COF differentiates itself by being the only major bank offering a primary product with no fees, no minimums, and no overdraft fees.

We believe that the company is well positioned for the long term in the credit-card space. Our target price of \$250 implies a multiple of 10.5-times our 2027 EPS estimate.

RECENT DEVELOPMENTS

Over the past year, the COF shares have declined 8%, compared to an 18% increase for the broad market.

On July 21, Capital One reported adjusted 2Q26 earnings of \$5.81 per share, up from \$5.48 a year earlier and above the consensus of \$4.69. Results in the current period exclude Discover amortization and integration expenses of \$1.08 per share. Net revenues rose 38% year over year, to \$15.9 billion, aided by the integration of Discover.

Average loans held for investment rose 28% from the prior year, to \$450.7 billion, with gains of 48% in credit cards and 10% in consumer banking, and 3% in commercial banking, all including the Discover acquisition. Net interest income rose 36% from the prior year to \$12.4 billion. The 2Q net interest margin was 8.01%, up from 7.62% a year earlier, this due to the full-quarter impact of the Discover Acquisition.

Net charge-offs were \$3.64 billion (3.23% of average loans) in 2Q26, up from \$3.06 billion (3.24%) in 2Q25. There was a credit-loss provision of \$2.99 billion, down from \$11.43 billion a year earlier.

In April 2026, Capital One acquired Brex, a software platform offering finance solutions for businesses to issue corporate cards, automate expense management, and make real-time payments, for \$5.15 billion in cash and stock.

EARNINGS & GROWTH ANALYSIS

In 2Q26, average loans held for investment were up 1% sequentially and up 28% from the prior year, with much of the latter gain related to the Discover acquisition and consumers carrying higher revolving balances. We look for more-modest 4% growth in 2026 now that Discover loans have been integrated.

Marketing expenses rose 29% in 2025, largely due to Discover. The company continues to see good opportunities for customer attraction, in both credit cards and auto lending, but we look for only a mid-single-digit uptick in marketing expenses in 2026.

Value Stocks

Credit costs are often a big swing factor for Capital One, as seen in 2023, when loss provisions surged to \$10.4 billion from \$5.8 billion in 2022 (as the company prepared for the normalization of consumer credit quality). Importantly, management has said it believes that 'normalization has run its course and credit results have stabilized.' We see stable net charge-offs in 2026, with the assumption that unemployment remains low.

We are raising our 2026 EPS estimate to \$20.42 from \$19.64 to reflect the better-than-expected 2Q results that included lower credit costs. Our 2027 forecast moves to \$23.74 from \$24.09.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on Capital One is High.

Capital One estimated a common equity Tier 1 capital ratio under the Basel III standardized approach of 13.7% on June 30, 2026, down from 14.0% a year earlier.

In June 2026, Capital One said its stress capital buffer requirement (following the Federal Reserve's 2026 CCAR results) would remain 4.5% until September 30, 2027. The CET1 ratio requirement is now 4.5%.

With the Discover merger complete, the quarterly dividend remains at \$0.80 per share. Our dividend estimates are \$3.26 for 2026 and \$3.42 for 2027. The current yield is about 1.6%.

In 2Q26, COF repurchased \$2.7 billion worth of common stock, under a \$16 billion share-repurchase authorization announced in late 2025.

MANAGEMENT & RISKS

Capital One's founder, Richard D. Fairbank, has been the company's CEO since its initial public offering in 1994 and its chairman since 1995. Andrew Young became CFO in April 2021. We believe management is very forthright on earnings calls regarding the outlook for lending, credit and margins, marketing opportunities, capital deployment, and the competitive landscape.

Capital One is a domestic bank that derives nearly 80% of its earnings from lending. As such, its results are levered to general U.S. economic conditions, primarily related to employment, consumer spending, debt leverage, and inflation.

The actions of the Consumer Financial Protection Bureau (CFPB) and other regulators bear watching, as Capital One's presence in subprime consumer lending could come under increased scrutiny.

COF has other near-term and long-term risks related to interest-rate and yield-curve changes, credit-quality deterioration (especially in credit-card portfolio), pressure

from digital banking and fintech, auto-lending weakness, cost of funding and deposit competition, and capital requirements related to Basel III 'endgame' rules.

COMPANY DESCRIPTION

With about \$674 billion in total assets and \$484 billion in total deposits, Capital One is among the largest banks in the U.S., with top-tier national businesses in credit-card and auto lending and a retail and commercial banking presence in the New York, Metro D.C., and the Louisiana/Texas markets. Capital One's mix of loans is about 60% card loans, 20% consumer loans, and 20% commercial loans. COF currently has around 78,000 employees and its shares are included in the S&P 100 index. It is headquartered in McLean, Virginia. The company acquired Discover Financial Services in May 2025.

INDUSTRY

Our rating on the Financial sector is Over-Weight. The Financial sector accounted for 11.8% of the S&P 500 as of the end of June. We think diversified investors should have meaningful exposure to the sector, at about 125-150% of the current sector weight.

The sector receives above-average marks on our six-part 'blind' sector rating criteria, which includes growth momentum, valuation, financial strength, and analyst conviction, among other factors.

The sector has underperformed the market year to date with a loss of 2.1% as of the end of June. The sector underperformed in 2025, with a gain of 13.3%, compared to a gain of 16.4% for the S&P 500. The beta for the sector is 0.9.

Over the past five years, the sector's weighting has ranged from 10% to 15%. The sector's P/E ratio on projected 2027 EPS was 14, below the market multiple. The yield of 1.6% was above the market average. The sector's smoothed earnings growth rate of 9% was below the market average.

The Financial sector is a cyclical and often value-oriented sector. The macroeconomic factors that may affect the performance of stocks in the Financial sector include the Unemployment Rate (which can influence the debt repaying capability of consumers and therefore credit costs), Interest Rates (which can determine lending profitability), and GDP or growth in the economy (which influence loan growth). The industry is also highly regulated, so changes in the regulatory environment can influence capital set-aside requirements and thus profitability.

At this stage of the market and economic cycle, our favored industries within the Financial sector include Diversified Banks, Financial Exchanges & Data, and Investment Banking & Brokerage.

VALUATION

Value Stocks

The COF shares have traded in a wide range between \$174 and \$260 over the past year and are currently below the midpoint of that range. The shares did pull back after President Trump called for a 10% cap on credit-card interest rates earlier in 2026. While there is headline risk, we expect the measure will have a difficult time becoming law as the industry would counter with negative consequences for consumers by limiting credit availability.

The shares trade at 8.4-times our EPS forecast for 2027. Peer comparisons are difficult for Capital One because the major U.S. card issuers (Citi, Bank of America, and JPMorgan Chase) tend to be global financial services firms with businesses that extend well beyond consumer finance.

COF's valuation tends to be low relative to banks, which we believe reflects the company's historical roots as a credit-card lender, with high margins but also inherently higher credit loss rates. COF's loan portfolio is about 60% in credit cards. Net charge-offs, and thus loss provisions, for credit-card portfolios are inherently volatile and can be a large swing factor in earnings. But we view Capital One as having excess loss reserves and as a strong manager of credit overall.

The COF shares remain undervalued by historical standards, and we believe the merger with Discover Financial will boost the company's prospects in terms of revenue, margins, and average loans, over the next few years. Our target price is \$250, or about 10.5-times our 2027 estimate.

ByLine

On July 23, BUY-rated COF closed at \$199.96, down \$1.40. (Stephen Biggar and Divya Chandrasekaran, 7/23/26)

Celestica Inc (CLS)

Rating: **BUY** 
Market Cap: **LARGE**
Sector: Information Technology

Strong performance driven by AI infrastructure

- ▶ Celestica reported 2Q26 revenue and non-GAAP EPS that beat consensus estimates and grew in mid-to-high-double-digit percentages.
- ▶ Management raised its already strong 2026 revenue, margin, and core EPS guidance based on positive momentum in diverse end markets led by AI data center. The company's 2026 guidance is consistent with 65% growth in revenue and 85%-plus growth in adjusted EPS.
- ▶ The company is benefiting from artificial intelligence (AI) and cloud data center growth and from a portfolio diversification strategy focusing on high-growth, high-margin businesses.
- ▶ Management believes the growth trajectory evident in 2026 will be sustained in 2027. Our 12-month target price is \$450, and our long-term rating is BUY.

INVESTMENT THESIS

BUY-rated Celestica Inc. (NYSE: CLS) rose 2% in a deeply down market for technology stocks on July 28, 2026, after delivering 2Q26 results ahead of consensus estimates and raising its already highly positive 2026 guidance. The shares edged higher despite a strong multiyear run and profit-taking in similar AI beneficiaries. In our view, the shares have further to go, based on multiple opportunities in front of the company.

Celestica, in our view, appears well positioned among the North American-based contract manufacturers to support massive AI data center build-outs for the age of AI. The company's demand fundamentals continue to accelerate, and margins are expanding on volume-driven overhead absorption.

Management is seeing positive momentum across its diverse end markets, led by AI data center. The company's 2026 guidance assumes 65%-plus annual growth in revenue, raised from 50%-plus growth (and before that from mid-30% growth), and 85%-plus growth in adjusted EPS, raised from 65%-plus growth (and before that from the mid-40% range). Management believes the growth trajectory anticipated in 2026 will be sustained in 2027. In addition to raising its sales and profit outlook for 2026, Celestica stated that profits would grow more quickly than sales in 2027.

Celestica appears to be benefiting from its portfolio diversification strategy, which has focused on high-growth, high-margin businesses. In particular, the company is seeing strong demand related to customer investments in AI and cloud data centers. It has also seen increased demand for networking products from hyperscaler customers and strength in other areas of its diverse portfolio. The company has divested over \$1 billion in nonstrategic business in the past five years, including its long-term manufacturing relationship with Cisco Systems Inc. (formerly representing 13% of annual revenue). Celestica is aggressively ramping its capital spending to about \$1 billion in 2026 and will fully fund this expansion organically.

Although the stock has moved up rapidly in recent years, the company's sales and profit growth are preventing valuations from running away from the stock. CLS soared in 2024 and through most of 2025, although investors captured profits into year-end 2025. Although CLS shares trade at premiums to historical P/E's and other price-based valuation metrics, the company is growing much faster than it grew historically and significantly faster than its peer group. We believe the company's growth prospects merit a higher multiple. We are reiterating our intermediate-term and long-term BUY ratings and our 12-month target price of \$450.

RECENT DEVELOPMENTS

CLS is up 10% year-to-date in 2026, versus a 44% gain for the electronic manufacturing services (EMS) peer group in Argus coverage. CLS rose 220% in 2025 versus a 109% gain for EMS peers. CLS soared 315% in 2024, driving the

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125% gain for peers; rose 140% in 2023, versus a 70% gain for peers; rose 1% in 2022, versus a 13% gain for peers; and rose 38% in 2021, compared to a 32% gain for peers.

For 2Q26, Celestica posted revenue of \$4.70 billion, which was up 62% annually and up 16% sequentially. Revenue was above the high end of management's \$4.15 billion-\$4.45 billion guidance range and topped the \$4.39 billion consensus forecast. Non-GAAP earnings of \$2.54 per diluted share for 2Q26 rose 83% from \$1.39 a year earlier and were up \$0.39 sequentially from \$2.16 in 1Q26. Non-GAAP EPS exceeded the high end of management's \$2.14-\$2.34 guidance range and bested the \$2.31 consensus estimate.

CEO Rob Mionis noted that Celestica continues to see 'sustained and accelerating momentum across our portfolio.' Sales and adjusted EPS above the high end of guidance for 2Q26 reflect strong operational execution across both segments, 'alongside record demand from our CCS (Communications & Cloud Solutions) customers.'

The company has two business segments: CCS and Advanced Technology Solutions (ATS). The CCS segment consists of enterprise, communications, telecommunications, servers, and storage. The ATS segment consists of aerospace and defense, industrial (energy storage and electric vehicle charging), HealthTech, and semiconductor capital equipment businesses.

Revenue in the first half of 2026 and for all of 2025 was driven by strength in the CCS segment. Margin expansion benefited from an improved product mix, production efficiencies, and higher volumes in CCS.

In the CCS segment, 2Q26 revenue of \$3.81 billion (81% of total) rose 84% annually and 18% sequentially, driven by strong demand from hyperscalers. CCS segment profit of \$33 million increased 93% annually. Segment operating margin for 2Q26 was 8.7%, expanding from 8.3% a year earlier on increased volume leverage and an improved product mix.

Within CCS, sales to communications customers were a record \$2.65 billion (56% of total), up 62% annually and up 10% sequentially. Revenue exceeded management's expectations for about 50% annual growth due to strength in 800 gigabit (800G) network switches, complemented by strong demand for 400G switches.

Sales to enterprise customers of \$1.16 billion (25% of total) rose 167% annually and 139% sequentially in 2Q26. This was the first \$1 billion-plus revenue quarter for the enterprise portion of CCS. 'Strong momentum in enterprise' is forecast to extend into 2027, supported by next-generation programs. Revenue exceeded management's expectations for about 130% annual growth due to an accelerated ramp of an AI and machine learning (AI/ML) compute program with a hyperscale customer and stronger than expected demand for

storage solutions.

Amid ramping volumes in 800 gigabit switch programs with multiple hyperscaler customers, Celestica is commencing 1.6 terabit switch programs with two hyperscalers in the second half of 2026. Celestica continues to expand with leading hyperscaler customers 'through close alignment on multi-year roadmaps,' stated the CEO.

These and other new wins should carry hyperscaler momentum into 2027, the company stated. Accelerating demand supports a strong long-term demand outlook into future years. Visibility is good, supported by new program wins and capacity alignment with customers, according to management. In the enterprise market, AI/ML compute programs are expected to continue ramping through 2026.

Revenue in the ATS segment of \$888 million (19% of total) was up 8% year over year and up 10% sequentially. ATS revenue growth has been challenged by discontinuation of a margin-dilutive program in the company's aerospace-defense business. The segment operating margin was 6.3% for 2Q26, compared to 5.3% in the prior year; margin was above the high end of management's target range of 5%-6%.

Across ATS, Celestica reports improving momentum. Semiconductor capital equipment is seeing a 'reacceleration of growth' driven by wafer fab equipment demand. Industrial and health technology are both being driven by new program ramps, and demand in aerospace-defense is now offsetting the strategic portfolio optimization activities in 2025.

Notwithstanding recent and ongoing profit-taking in AI-sensitive names, Celestica continues to experience exceptional growth and significantly raised its full-year sales and profit guidance for the third time in 120 days. Investors regard Celestica as among the best positioned of the EMS companies in the AI and cloud data center space. All the EMS companies in Argus coverage, which also include Sanmina Corp. (SANM), Flex Ltd. (FLEX), and Jabil Inc. (JBL), are supporting the build-out of AI data center compute and networking infrastructure to some degree. Sanmina's acquisition of the ZT Systems manufacturing business from Advanced Micro Devices Inc. has made Sanmina a tougher rival.

All four of the Argus-covered EMS companies have had a strong three-year run, with performance within the peer group based on perceived positioning within the AI opportunity. Investors continue to regard Celestica as among the best positioned of the EMS companies in the AI and cloud data center space.

Celestica acts as an original design manufacturer (ODM), a space otherwise dominated by Taiwan-based companies such as Compal Electronics Inc., Hon Hai Precision Industry Co., and Inventec Corp. Celestica builds 'white box' servers, which sit in racks and function as worker bees performing

Value Stocks

massively parallel computing tasks in huge cloud and AI data centers.

Among Celestica's key ODM customers is Alphabet Inc., which uses Celestica white box services to equip and operate AI and cloud data centers operated by Google Cloud. According to the company's 10-K filing for 2025, one customer in the CCS segment that we believe to be Alphabet represented 32% of 2025 revenue, after representing 28% of 2024 revenue and 22% of 2023 revenue. A second customer also in CCS represented 14% of 2025 revenue (11% of 2024 revenue). Three customers represented a combined 58% of 2025 revenue, with a split of 32%, 14%, and 12%.

Management is seeing positive momentum across its diverse end markets, led by AI data center. Revenue in 2025 rose 28% from 2024, while EPS advanced 55%; both top- and bottom-line performance for the full year far exceeded initial guidance. The company's revised 2026 guidance assumes 65%-plus annual growth in revenue to about \$20.5 billion and 85%-plus annual growth in adjusted EPS to about \$11.30. Management believes the growth trajectory anticipated in 2026 will be sustained in 2027 and likely beyond. As a result, Celestica is aggressively ramping its capital spending to about \$1 billion in 2026 from \$201 million for 2025. Celestica will fully fund this expansion organically.

EARNINGS & GROWTH ANALYSIS

For 2Q26, Celestica posted revenue of \$4.70 billion, which was up 62% annually and up 16% sequentially. Revenue was above the high end of management's \$4.15 billion-\$4.45 billion guidance range and topped the \$4.39 billion consensus forecast.

Non-GAAP gross margin was 11.5% for 2Q26, compared with 11.3% for 1Q26 and 11.7% a year earlier. The non-GAAP operating margin was 8.2% for 2Q26, versus 8.0% for 1Q26 and 7.4% for 1Q25.

Non-GAAP earnings of \$2.54 per diluted share for 2Q26 rose 83% from \$1.39 a year earlier and were up \$0.39 sequentially from \$2.16 in 1Q26. Non-GAAP EPS exceeded the high end of management's \$2.14-\$2.34 guidance range and bested the \$2.31 consensus estimate.

For all of 2025, revenue of \$12.39 billion rose 28% from \$9.65 billion for 2024. Non-GAAP EPS of \$6.05 per diluted share for 2025 increased 4% from \$3.93 for 2024.

For 3Q26, Celestica forecast revenue of \$5.25 billion-\$5.55 billion. At the \$5.40 billion guidance midpoint, revenue would be up 69% annually and 15% sequentially. Management also forecast a non-GAAP operating margin of 8.4% and non-GAAP EPS of \$2.88-\$3.08. At the \$2.98 guidance midpoint, EPS would be up 90% year over year.

Celestica also revised up its annual outlook for 2026. The company forecast revenue of \$20.5 billion, raised from its

April guidance of \$19.0 billion (initial guidance was \$16.0 billion). Management raised its non-GAAP operating margin guidance to 8.4% for 2026 from 8.1% and raised its non-GAAP EPS forecast for 2026 to \$11.30 per diluted share from \$10.15 (initial guidance was \$8.20). At these revised forecasts, revenue for 2026 would be up 65% from 2025, and non-GAAP EPS would be up 87%.

We are raising our non-GAAP EPS estimate for 2026 to \$11.30 per diluted share from \$10.18. We are raising our non-GAAP EPS forecast for 2027 to \$15.48 per diluted share from \$13.31. Our long-term earnings growth rate forecast for CLS is 11%.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on CLS is Medium. The company scores above average on debt levels, profitability, and cash flow generation and below average on fixed-cost coverage. Moody's gives Celestica a corporate family rating of Ba2; S&P returned the company's rating to BB in March 2024, after a downgrade the prior year.

Cash and equivalents were \$536 million at the end of 2Q26. Cash and equivalents were \$596 million at the end of 2025, \$423 million at the end of 2024, \$398 million at the end of FY24, \$370 million at the end of 2023, and \$496 million at the end of 2022.

Debt was \$810 million at the end of 2Q26. Debt was \$777 million at the end of 2025, \$770 million at the end of 2024, \$589 million at the end of 2023, and \$572 million at the end of 2022.

The debt/capital ratio was 29.9% at the end of 2025, compared to 34.1% at the end of 2024, 28.6% at the end of 2023, 29.9% at the end of 2022, and 28.6% at the end of 2021.

Cash flow from operations was \$696 million for 2025. Cash flow from operations was \$474 million for 2024, \$430 million for 2023, \$297 million for 2022, and \$227 million for 2021. The company intends to invest \$1 billion in capital expenditures in 2026, up from \$201 million for 2025. Management is guiding for \$500 million in free cash flow, implying that cash flow from operations will rise to about \$1.5 billion for 2026.

Celestica has consistently reduced its share base with stock repurchases (normal course issuer bids in Canada). In December 2023, the Toronto Stock Exchange accepted the company's bid to repurchase up to 11.8 million subordinate voting shares, or 10% of the public float, in 2024. The company's long-term goal is to return approximately 50% of free cash flow to shareholders through stock buybacks. Management said that it would buy back shares opportunistically.

Celestica does not pay a dividend and is unlikely to pay one

Value Stocks

in 2026 or 2027.

MANAGEMENT & RISKS

Rob Mionis has been CEO of Celestica since 2015, after previously working at private equity firm Pamplona Capital Management. Prior to Pamplona, he served for six years as CEO of StandardAero, a global aerospace overhaul and repair company. He has also held senior posts at Honeywell International Inc., General Electric Co., and AlliedSignal Inc. Mandeep Chawla is CFO. Yann Etienvre is COO; he joined the company in 2022 and previously served as Sensata Technologies Inc.'s chief supply chain officer.

The company began to diversify its portfolio in 2016. As part of this effort, it disengaged from more than \$1 billion in nonstrategic business, including its long-term manufacturing relationship with Cisco (which accounted for 13% of overall revenue but failed to meet management's profitability targets) and began to replace it with higher-margin, longer-product-life-cycle programs. In November 2021, it completed the acquisition of Singapore-based PCI Private Limited, a fully integrated design, engineering, and manufacturing solutions provider. Management believes that PCI better positions CLS for new growth opportunities.

Celestica is embarking on initiatives beyond its traditional IT-based expertise; these markets are essential to reviving growth. Celestica aims to serve customers in nontraditional markets such as aerospace, capital equipment, instrumentation, and medical. The company is at risk of misjudging these markets or otherwise fumbling its strategy, as it did with ODM.

Celestica faces competition from larger players in the industry and could see lower demand for its products in an ever-evolving environment. Celestica also faces customer concentration risk. During 2Q24, two customers together represented 44% of total company revenue, with the largest accounting for 32% of sales and the second largest 12%.

COMPANY DESCRIPTION

Celestica, formerly a captive manufacturing division of International Business Machines Corp., became a separate EMS company in 1996. Celestica provides end-to-end product life cycle solutions for a range of technology markets, including communications, servers, storage, and consumer electronics. It also serves diversified nontechnology markets, including industrial, automotive, capital equipment, and medical. Based in Toronto, the company has over 21,500 employees.

INDUSTRY

Our rating on the Information Technology sector is Over-Weight. The Information Technology sector accounted for a substantial 38.0% of the S&P 500 market cap as of the end of June. We think diversified investors should have meaningful exposure to the sector, at least in line with the current sector weight.

The sector receives above-average marks on our six-part 'blind' sector rating criteria, which includes growth momentum, valuation, financial strength, and analyst conviction, among other factors.

The sector has outperformed the market year to date with a gain of 19.4% as of the end of June. The sector outperformed in 2025, with a gain of 23.3%, compared to a gain of 16.4% for the S&P 500. The beta for the sector is 1.4.

Over the past five years, the sector's weighting has ranged from 16% to 39%. The sector's P/E ratio on projected 2027 EPS was 20-times on a GAAP basis, above the market multiple. The yield of 0.1% was below the market average. The sector's smoothed earnings growth rate of 16% was above the market average.

The Information Technology sector is primarily a secular growth sector. The macroeconomic factors that may affect the performance of stocks in the Information Technology sector include Global and Domestic GDP Growth, Global and Domestic Wage Growth, and Employment Trends, among others. Trends in the dollar can affect factors such as Cost of Goods Sold.

Potential sell signals for stocks in the Information Technology sector can be a change in the direction or rate of a company's sales or earnings growth, a pronounced slowdown in new product announcements, or changes in the regulatory environment.

At this stage of the market and economic cycle, our favored industries within the Information Technology sector include Semiconductors and Application Software.

VALUATION

CLS shares are trading at 28.2-times our 2026 non-GAAP estimate and at 20.6-times our 2027 projection. The two-year average forward multiple of 24.4 is above the five-year (2021-2025) average P/E of 14.4, though down from almost 40-times nine months ago on a mix of declining price and rising EPS estimates. The two-year forward relative P/E is 1.02, compared with a trailing-five-year average of 0.66. Low prior-year multiples were accorded at a time when Celestica was a much smaller company and was struggling to grow EPS. Price-based historical multiple comparisons support a share price in the high-\$160s range, below current prices and rising slightly after soaring in the past year.

Our peer-indicated value for CLS is in the \$280s, moderating from peak on and tech-sector profit-taking but supported by positive company fundamentals. Our discounted free cash flow analysis supports a valuation of about \$1,100 on positive forward momentum. Our blended fair value calculation of \$850 is rising again and is above current levels.

Value Stocks

We have a positive view of the company's diversification strategy and focus on higher-margin products. We also believe that future demand for Celestica's products will benefit from trends in AI/ML, electrification, and renewables, as well as increased government spending on aerospace and defense.

Appreciation to our calculated fair value exceeds our return forecast for the broad market and is consistent with a BUY rating. We believe the company's growth prospects merit higher multiples. We are maintaining our BUY rating and our 12-month target price of \$450 on CLS.

ByLine

On July 28, BUY-rated CLS closed at \$350.20, up \$31.96. (Jim Kelleher, CFA, 7/28/26)

Charter Communications Inc (CHTR)

Rating: **HOLD** 
Market Cap: **LARGE**
Sector: Communication Services

Looking ahead to Cox acquisition

- ▶ Charter posted a 4.3% decline in adjusted EBITDA on a 1.7% decline in revenue in 2Q26, amid intense competition for broadband internet subscribers.
- ▶ We see the proposed Cox Communications Inc. merger as a positive for Charter as it gains scale to defend its position in high-speed broadband against the encroachment of the telecoms.
- ▶ Charter sees its network infrastructure evolution and the subsidized expansion of its rural service footprint, as well as its vibrant mobile business, as longer-term growth vectors.
- ▶ We are raising our 2026 EPS estimate to \$41.99 from \$41.86 and our 2027 EPS forecast to \$46.06 from \$44.99.

INVESTMENT THESIS

Our rating on Charter Communications Inc. (NGS: CHTR) is HOLD. Like other large cable companies, Charter is seeing continued video and internet subscriber losses due to competition from cheaper streaming services and the ramp of competitive fixed wireless access (FWA) and fiber-based services from telecoms. While video has been on the decline for years, Charter, like other cable companies, views cable and wireless internet connectivity as its core business. Management blames a low-move activity market environment and intensifying competitive conditions for the internet subscriber losses. We see the proposed Cox Communications merger as a positive for Charter as it gains scale to defend its position in high-speed broadband against the encroachment of the telecoms.

In an 'if you can't beat them, join them' strategy, Charter is requiring content suppliers to also provide their streaming services for transmission through Charter's cable video

platform so that it can bundle those services with its own. It is clear that Charter management realizes streaming is the future of broadcast video and is looking for the new service bundles to blunt the continued video and internet subscriber losses. The company also sees expansion of its rural service footprint as a new growth vector and is expanding its rural network, including some subsidized networks. It also continues to upgrade its network to provide superfast internet speeds and is working to lower costs and testing even faster fixed broadband speeds. Charter's strategy is to offer superior broadband service, faster speed, and better reliability, bundled with video and mobile -- all at a reasonable price.

CHTR shares took a beating over the last year, given the competitive dynamics of the cable industry. We like the company's robust share repurchase plan, which management has pledged to continue even as it moves to acquire competitor Cox Communications.

RECENT DEVELOPMENTS

Charter reported 2Q26 results on July 24. The company beat the consensus revenue estimate by \$16 million and beat the consensus EPS estimate by \$0.68. CHTR shares were down 2.5% on July 24.

Second-quarter revenue fell 1.7% to \$13.5 billion. Declines in residential video, voice, and internet connectivity offset growth from mobile, commercial, and advertising revenue. Monthly revenue per residential customer fell 1.8% year over year to \$117.52, the third consecutive quarterly decline in this key performance indicator. The decline was driven by costs allocated to programmer streaming applications within new subscriber plans and netted against video revenue and the continuing decline in video customers, partly offset by growth of Spectrum Mobile and advertising sales. Residential services account for 77% of Charter's revenue.

Programming expense, the company's largest cost, fell 9.7% from the prior year, reflecting the same offsets as monthly revenue per customer. Adjusted EBITDA fell 4.3% from the prior year to \$5.45 billion. The adjusted EBITDA margin narrowed by 110 basis points to 40.3%. Net income attributable to Charter declined 0.7% from the prior year to \$1.29 billion, as lower adjusted EBITDA was mostly offset by a gain from extinguishment of debt. Diluted EPS rose 16% to \$10.66, with large stock buybacks over the last year lowering the share count and boosting the EPS increase relative to net income.

Charter lost a total of 184,000 customer relationships in 2Q26, compared to a loss of 100,000 in 2Q25. The total customer base shrank 1.7% year over year. The metric that really hurts is the loss of 145,000 internet customers, since, as noted above, residential internet is the company's core business unit and revenue driver. Continued losses in this core product are a concern. The continuing trend of low-move activity in the current macroeconomic environment

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and intensifying competitive conditions in the internet connectivity market, which we take to mean increased telecom competition from fiber and fixed wireless network build-outs, are long-term negatives for subscriber acquisition and churn. Wireless mobile was, as usual, a bright spot, as Charter added 406,000 mobile lines in 2Q26, though slowing from 491,000 net adds in 2Q25. Another positive, video customer losses moderated to 21,000 in 2Q26 from 80,000 in 2Q25. Perhaps those costly programmer-streaming applications are increasing customers' perceived value of the company's bundled video service plans and improving customer retention.

On May 16, 2025, Charter, the second-largest cable company in the U.S., agreed to acquire privately held Cox Communications, the third-largest cable company. The deal values Cox at an enterprise value of \$34.5 billion, consisting of \$21.9 billion of equity value and \$12.6 billion of net debt and other obligations. Charter expects to reap \$800 million in annual cost-saving synergies within three years of completion of the acquisition, up from an initial estimate of \$500 million. Cox Communications' parent company, Cox Enterprises Inc., should own about a 23% interest in Charter after the deal is completed. Once the deal is completed, Charter will change its name to Cox Communications. However, the company will continue to do business under the Spectrum brand and extend this brand's reach across Cox's 6 million customers and 12 million passings. Management expects the combined company to cover a geographic footprint covering 70 million U.S. households, boosting Charter's operational scale. Charter shareholders approved the transaction in July 2025. Charter CEO Chris Winfrey will be the CEO of the combined entity. Charter expects to complete the acquisition in 3Q26, subject to regulatory approval, though the completion date could be extended.

One might think the fact that the No. 2 and 3 players in the cable industry are combining in a horizontal merger is on its face a tough sell to regulators. However, given the long-term secular decline in cable video subscribers, the significant new competition from telecoms touting broadband-like FWA services, along with their continued competitive build-out of high-speed fiber optic broadband networks across the traditional cable footprint, and the possible disruption from Space Exploration Technologies' Starlink satellite-broadband internet service, a combination that makes the combined Charter/Cox more competitive is a pretty good argument to bring to the regulators. These arguments have won approval of the transaction from federal regulators and almost all of the necessary U.S. state regulators, as the completion of the Cox acquisition awaits only approval from the state of California.

On November 12, 2024, Charter and its controlling shareholder, Liberty Broadband Corp., agreed to combine in an all-stock deal. Liberty's principal assets are 45.3 million shares of Charter Class A common stock and an operating

subsidiary, GCI Holdings. On February 26, 2025, the shareholders of both companies approved the merger. Liberty common shareholders will receive 0.236 share of Charter common stock for each share of Liberty stock.

Liberty shareholders should own about 33% of Charter after completion of the merger. Liberty has \$2.6 billion in debt that will be repaid prior to the closing of the merger or assumed by Charter. In the interim, until completion of the merger, Charter also expects to make repurchases of Charter shares held by Liberty of \$100 million per month or other repurchases or loans for the purposes of Liberty debt repayment. Charter expects to complete the Liberty merger contemporaneously with the completion of the Cox Communications acquisition. At the close of the Cox transaction, management forecasts that Charter's share count will increase by 46 million shares, offset by 6.8 million shares as the result of completion of the Liberty transaction. As noted above, Charter has made large share repurchases over the last year in anticipation of the completion of the Cox merger.

EARNINGS & GROWTH ANALYSIS

We are raising our 2026 EPS estimate to \$41.99 from \$41.86 and our 2027 EPS forecast to \$46.06 from \$44.99. Our estimates imply average growth of 13% over the next two years, above our long-term earnings growth rate forecast of 5%.

Management believes that Charter's competitiveness is underpinned by three 'building blocks': its superior broadband network, its products and pricing strategies, and a company focus on increasing customer satisfaction. Aside from the Cox and Liberty transactions, Charter's main strategic initiatives are around continual network upgrade, primarily related to superfast multigigabit symmetrical download/upload speeds becoming more customer-friendly through competitive service plans and improved customer service. Charter also continues to expand its geographic service footprint into more rural areas, sometimes in partnership with, and subsidized by, local and state governments, and to expand mobile phone service, which the company sees as a key factor in customer retention.

Charter's rural network build-out has been a years-long important growth opportunity - a \$5 billion effort to extend service to 1 million hard-to-reach rural locations that management expects to complete in 2026. Underpinning this initiative is Charter's participation in the long-running federal Rural Digital Opportunity Fund and the new Broadband Equity Access and Deployment Program, which provides subsidies for rural network build-out.

In line with the rural network build-out, the company continues to focus on product development and network evolution, i.e., increased download and upload speeds; growth in the customer base; and the increased penetration of its service footprint. Charter's network evolution initiative

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remains on track, as Charter expects to have 50% of its network upgraded to multigig service by year-end 2026, with significant work completed on the remaining 50%. After completion of its own Spectrum-branded service footprint, Charter will move to upgrade the Cox footprint to pursue the same strategic opportunity, as customer data needs continue to spike higher. We think Charter sees the higher broadband speeds of next-generation DOCSIS technology as a competitive advantage, as the consumer hunger for higher-bandwidth applications continues to explode. The new technology may also be seen as a defensive move as AT&T Inc., Verizon Communications Inc., and T-Mobile US Inc. roll out new services for their competitive FWA networks.

Despite the contentious negotiations and short-term service blackout, Charter's renewal of its multiyear carriage rights agreement with Walt Disney Co. in September 2023 turned out to be a landmark for the company. In the Disney agreement, Charter won the rights to sell Disney's streaming services, Disney+, Hulu, and ESPN+, in some video service packages through a revenue-sharing arrangement and to its internet customers at a retail price. This extended to Disney's new ESPN Unlimited sports streaming service, launched in August 2025, and Charter has also announced a similar deal with Fox Corp.'s Fox One, the other new major sports streaming application. As Charter continues to bleed video subscribers, we think management has recognized that streaming is the future and that it is better to be in business with streamers than fight a losing battle. The Disney agreement became a template for Charter, which now has similar deals with Paramount Skydance Corp. for its Paramount+ and BET+ streaming applications and with Warner Bros. Discovery Inc. for its HBO Max service. Although these plans are costly to Charter, the company has made some progress on subscriber churn.

Spectrum Mobile, the company's effort to provide wireless telecom service to subscribers, has grown to about 7% of revenue over the last five years. The strategic imperative behind adding mobile to its service bundle is not just to build another revenue stream but also to solidify customer loyalty, as customers take more services at a discounted price, including a price lock guarantee. Charter has introduced wireless/fixed broadband service bundles and other promotions, which management believes offer better service at a lower cost than competing services. Management expects Spectrum Mobile to be a 'meaningful driver' of subscriber acquisition and retention. The mobile business has already become a significant revenue driver, even if its subscriber base is dwarfed by those of the telecoms. Charter operates Spectrum Mobile through mobile virtual network operator agreements with both Verizon and T-Mobile in a capital-light business model.

FINANCIAL STRENGTH & DIVIDEND

We rate Charter's financial strength as Medium-Low, the second-lowest point on our five-point scale. The company had \$94 billion in debt at the end of 2Q26, \$1 billion of which

is due within one year. Charter has been issuing new debt to refinance old debt and to make share repurchases. Debt/total capitalization was 81% at the end of 2Q26. Trailing-12-month free cash flow in 2Q26 totaled \$4.74 billion, a 9% or \$478 million decline compared to 2Q25.

Charter does not pay a dividend. The company repurchased 8.3 million shares for \$1.8 billion in 1H26 after buying back 17.1 million shares for \$5.1 billion in 2025, \$1.2 billion of its shares in 2024, and \$3.2 billion in 2023. The share count has declined by about 4%, or by about 21 million shares, over the past year.

MANAGEMENT & RISKS

Like other cable companies, Charter faces the prospect of disintermediation through internet-delivered video with video subscribers 'cutting the cord' to Charter, i.e., customers canceling or never signing up for Charter's cable video subscriptions in favor of simply streaming video programming directly from providers over the internet. Cord-cutting has become a rising secular trend among younger consumers beginning with the millennial generation (those born between 1980 and 2000) and intensifying through even younger Gen Z, as these generational cohorts grow in purchasing power. We see this secular trend as simply a reflection of a change in the paradigm of consumer video consumption patterns in the U.S. moving first to the internet, including streaming long- and short-form video, then to the mobile internet, as broadband bandwidth has grown and mobile devices have proliferated. Increased competition from telco fiber and FWA network build-outs has recently led to internet subscriber declines at Charter as well, marking a shift from earlier patterns. The practice of cord-cutting may accelerate as more consumers begin to see streaming as a viable alternative to cable video rather than as a complement. We think this would compound the negative impact of subscriber losses on Charter.

The company faces threats from streaming video services Netflix Inc., Disney's Hulu, and Amazon.com Inc.'s Prime Video, as well as from newer entrants Disney+, Apple Inc.'s Apple TV, HBO Max, Paramount+, and Comcast Corp.'s Peacock. Netflix has become a deadly threat through its aggregation of content and viewers and rapid global growth. It is joined by a host of services in addition to those already named, including Alphabet Inc.'s YouTube, TikTok, and Meta Platforms Inc.'s Facebook Video. With its Spectrum national service brand, the company is working to provide a seamless experience that allows consumers to access web-based video options and its standard linear channel format on any platform - from television to tablet to mobile phone. As internet download speeds continue to increase, disintermediation is a risk that bears watching.

Charter faces intense competition in the cable industry, including from satellite broadcasters TPG Inc.'s DirecTV and EchoStar Corp.'s DISH. Resurgent telecoms AT&T, Verizon, and T-Mobile are also ramping up comparable service

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offerings, including video, high-speed internet, and digital phone, and are combining them with wireless services that further intensify competition in the cable market. The telecoms are competing vigorously by offering low-priced promotions of their comparable broadband and video services. Charter and Comcast have added their own wireless service components through mobile virtual network operator agreements with Verizon and most recently T-Mobile for Business. The specter of in-home 5G FWA service as a replacement for cable connectivity, while still a minor part of the market, looms over the next few years as the telecom carriers build out their next-generation wireless networks and continue to expand both their fiber and wireless network service areas.

Programming is Charter's largest expense, and competition to license 'must-have' content may require the company to pay ever-higher prices for that content; particularly critical is popular sports programming, which tends to be watched live and is therefore more valuable. However, Charter may have the heft to bargain down program suppliers. Programming expense inflation has typically run in the mid-to-high-single digits; however, 2023, 2024, and 2025 actually saw programming costs decline as the loss of video subscribers and the higher mix of low-cost plans offset programming rate increases. Increasing payments to local broadcast television owners for retransmission rights could also raise the company's costs.

Charter also has large debt, which could limit investment in other business opportunities and potential acquisitions. Further, the company will need to refinance billions of dollars of debt in coming years, an unenviable position in a high-interest-rate environment.

Charter has an exceedingly complex capital structure, with multiple separate operating and debt-issuing subsidiaries. Its controlling shareholder, John Malone's Liberty Broadband, owns a controlling 20% of the company following the Time Warner Cable/Bright House Networks (TWC/BH) mergers. Advance Publications Inc./Newhouse, the controlling shareholder of Bright House, owns 13% of Charter and has granted Liberty Broadband a multiyear voting proxy. The interests of the controlling shareholder may not necessarily conform to the interests of minority holders.

The cable industry is highly regulated, with the Federal Communications Commission ruling on critical issues such as net neutrality, set-top box policy, and internet privacy, among others. States and local municipalities also regulate cable franchises.

CEO Chris Winfrey is a Charter veteran. Mr. Winfrey joined Charter as CFO in 2010 and became COO in 2021. He worked closely with former CEO Tom Rutledge and was instrumental in executing the transformative TWC/BH mergers. Jessica Fischer was appointed CFO in 2021.

COMPANY DESCRIPTION

Charter provides cable television, high-speed internet, and digital and wireless telephone services to communities across the United States. In May 2016, Charter acquired Time Warner Cable and Bright House Networks. Charter is the third-largest multichannel video program distributor in the U.S. John Malone's Liberty Broadband and Advance/Newhouse, the former owner of Bright House, together own a controlling minority interest in Charter.

VALUATION

CHTR shares are down 37% year-to-date, compared with an 8% increase for the S&P 500. Charter's trailing EV/EBITDA multiple of 5.2 is well below the peer median of 8.4. We are maintaining our HOLD rating on CHTR shares.

ByLine

On July 27, HOLD-rated CHTR closed at \$131.61, up \$8.30. (Joseph Bonner, CFA, 7/27/26)

Chubb Ltd (CB)

Rating:	BUY
Market Cap:	LARGE
Sector:	Financial

Raising target on global insurer

- ▶ A provider of property/casualty (P&C) and health/life insurance, as well as reinsurance, Chubb benefits from a strong brand, an experienced management team, and a healthy balance sheet.
- ▶ Chubb recently reported 2Q26 core operating income of \$2.8 billion, or \$7.26 per share, up from \$2.5 billion, or \$6.14 per share, in 2Q25, supported by record investment results, solid premium revenue growth, and lower catastrophe losses in P&C insurance.
- ▶ Adjusted investment income was a record \$1.88 billion, up 11% from a year earlier.
- ▶ Our revised target price of \$396 implies a multiple of 13-times our blended 12-month EPS estimate.

INVESTMENT THESIS

Our rating on Chubb Ltd. (NYSE: CB) is BUY, and we are raising our target price to \$396 from \$360. Chubb is a provider of P&C and health/life insurance, as well as reinsurance. Chubb benefits from a strong international brand, an experienced management team, and a healthy balance sheet. The company posted record core operating earnings (ex-catastrophes) and solid underwriting results in 2Q, with net investment income rising 12% to \$1.76 billion. Retention rates remain high, margins are improving, and the company is seeing growth in its overseas operations.

On the 2Q earnings call, CEO Evan G. Greenburg emphasized the company's resilience and the benefits of its diversified global business model, the size and strength of its

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balance sheet, and record net investment income. Additionally, he noted that the company is starting to see softer pricing conditions in large property accounts, leading CB to shed premium purposely due to inadequate pricing.

RECENT DEVELOPMENTS

Over the past year, CB shares have risen 32% compared to a 17% gain for S&P 500 and a 14% gain for the iShares U.S. Insurance ETF, IAK. Approximately 15% of the shares are held in various ETFs. CB shares account for approximately 13.2% of the IAK. The beta on CB is a low 0.43.

Chubb recently reported 2Q26 core operating income of \$2.8 billion, or \$7.26 per share, up from \$2.5 billion, or \$6.14 per share, in 2Q25, supported by record investment results, solid premium revenue growth, and lower catastrophe losses in P&C insurance. Management highlighted broad-based contributions, especially from North America, international P&C, growing life insurance business, and strong investment performance. Total revenue rose 2.7% to \$15.8 billion.

On the earnings call, management reported total pretax catastrophe losses of \$475 million, down from \$630 million the prior year.

Gross premiums written rose 4% to \$17.9 billion, and net premiums written rose 4% to \$14.7 billion. Net premiums earned rose 6% from the prior year to 13.9 billion. Net investment income rose 12.2% to a record \$1.76 billion. Adjusted investment income was a record \$1.88 billion, up 11% from a year earlier. Book value per share increased 12% to \$195.45, and tangible book value per share increased 17% to \$131.93 from 2Q25.

In June 2023, Berkshire Hathaway Inc. announced that it had taken a 6.4% stake in Chubb. Berkshire purchased approximately 26 million shares for \$6.7 billion. Recent filings showed an additional purchase of 2.9 million shares in 4Q25. Chubb is now the eighth-largest holding in Berkshire's portfolio, and Berkshire is now the second-largest shareholder of Chubb's outstanding shares.

During 2023, CB acquired additional shares in Huatai Insurance Group Co., bringing the ownership level to 76.5%. In 1Q24, the company acquired an additional 9%, bringing the ownership level to 85.5%, which is within management's goal of 83%-86%.

EARNINGS & GROWTH ANALYSIS

We expect Chubb to continue to benefit from higher net premiums. Management noted that retention rates remain strong and that premiums continue to rise in both the U.S. and international markets. We are encouraged by the growth in the P&C segment and expect further growth in the life insurance business.

Chubb's six business segments are Commercial P&C Insurance, Personal P&C, Agricultural Insurance (all North

America), Overseas General Insurance, Global Reinsurance, and Life Insurance.

In 2Q26, Commercial P&C net premiums written rose 2.3% to \$5.6 billion. The segment combined ratio rose to 85.4% from 83.5% a year earlier. The combined ratio excluding catastrophe losses inched up to 81.8% from 81.1%. A combined ratio of less than 100 indicates that premiums received exceeded claims paid and operating expenses.

In Personal P&C, net premiums written rose 6% to \$2.05 billion. The combined ratio declined to 67.3 from 73.5%. The combined ratio excluding catastrophe losses fell to 70% from 72.2%.

Agricultural Insurance net premiums written rose 13% to \$776 million. The combined ratio, excluding catastrophe losses, declined to 87.6% from 88.9%.

In the remaining segments, Overseas General Insurance premiums rose 10% to \$4.0 billion, and the combined ratio, excluding catastrophe losses, ticked down to 85.2% from 85.4%. Global Reinsurance net premiums written fell 7% to \$354 million, and the combined ratio, excluding catastrophes, rose to 76.9% from 73.5%. Life Insurance premiums written rose 14% to \$2.6 billion due to International Life growth. Segment income was \$332 million.

The core operating return on equity was 14.5%, up from 13.9% a year ago. Annualized ROE of 15.3% in 2Q26 declined from 17.6% a year ago.

Based on 2Q results, continued improving margins, higher net investment income, and significant stock repurchases offset by potential weather events, we are raising our 2026 EPS estimate to \$29.39 from \$28.76 and raising our 2027 EPS estimate to \$31.21 from \$30.54. Our long-term earnings growth rate estimate is 8%.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on Chubb is High, the top rank on our five-point scale. At the end of 2Q26, cash totaled \$2.75 billion, up from \$2.47 billion at the end of 2025. Long-term debt at the end of the quarter was \$17.4 billion, and the debt/equity ratio was 23%.

The company's senior debt has ratings of AA from S&P, Aa2 from Moody's, and AA from Fitch, all with stable outlooks.

Along with an annual dividend increase, the company also authorized a \$7.5 billion share repurchase program that took effect on July 1, 2026, with no expiration date. In 2Q26, the company repurchased shares totaling \$979 million.

The current annual dividend is \$4.08 for a yield of about 1.2%. Our dividend estimates are \$3.98 for 2026 and \$4.18 for 2027.

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MANAGEMENT & RISKS

Evan G. Greenberg is the chairman and CEO of Chubb. We have a positive view of Mr. Greenberg's management. Peter Enns serves as executive vice president and CFO.

Risks faced by Chubb investors include the possibility that the company's underwriters may misprice its policies and make the company suffer losses as claims exceed premiums written. The company may also be hurt by lower returns on its investment portfolio. Like other insurers, the company is exposed to substantial risk from weather-related losses and natural catastrophes.

COMPANY DESCRIPTION

Based in Switzerland, Chubb Ltd. is a global specialty insurer and reinsurer. It is the largest publicly traded P&C insurer in the world, operating in 54 countries and territories. With a market capitalization of approximately \$135 billion, CB shares generally are regarded as large-cap value.

INDUSTRY

Our rating on the Financial sector is Over-Weight. The Financial sector accounted for 11.8% of the S&P 500 as of the end of June. We think diversified investors should have meaningful exposure to the sector, at about 125-150% of the current sector weight.

The sector receives above-average marks on our six-part 'blind' sector rating criteria, which includes growth momentum, valuation, financial strength, and analyst conviction, among other factors.

The sector has underperformed the market year to date with a loss of 2.1% as of the end of June. The sector underperformed in 2025, with a gain of 13.3%, compared to a gain of 16.4% for the S&P 500. The beta for the sector is 0.9.

Over the past five years, the sector's weighting has ranged from 10% to 15%. The sector's P/E ratio on projected 2027 EPS was 14, below the market multiple. The yield of 1.6% was above the market average. The sector's smoothed earnings growth rate of 9% was below the market average.

The Financial sector is a cyclical and often value-oriented sector. The macroeconomic factors that may affect the performance of stocks in the Financial sector include the Unemployment Rate (which can influence the debt repaying capability of consumers and therefore credit costs), Interest Rates (which can determine lending profitability), and GDP or growth in the economy (which influence loan growth). The industry is also highly regulated, so changes in the regulatory environment can influence capital set-aside requirements and thus profitability.

At this stage of the market and economic cycle, our favored industries within the Financial sector include Diversified Banks, Financial Exchanges & Data, and Investment

Banking & Brokerage.

VALUATION

At current prices around \$359, CB shares are trading near the high point of their 52-week range of \$264-\$365. We believe that the shares remain attractively valued at 11.7-times our blended 12-month EPS estimate, near the peer median and the five-year historical average. Chubb remains focused on organic growth and capital returns to shareholders. Based on the company's recent earnings power, improved P&C pricing, and steady investment income, we believe that a BUY rating remains appropriate. Our revised target price of \$396 implies a multiple of 13-times our blended 12-month EPS estimate.

ByLine

On July 24, BUY-rated CB closed at \$359.75, up \$6.50. (Kevin Heal and Gordon Walsh. 7/24/26)

Comcast Corp (CMCSA)

Rating: **HOLD**
Market Cap: **LARGE**
Sector: Communication Services

Mixed 2Q26

- ▶ Pro forma consolidated adjusted EBITDA declined 5.3% on 4.7% pro forma revenue growth in 2Q26.
- ▶ The Peacock streaming service, wireless, and the studios business all reported good revenue and profit growth in 2Q, though they continue to be overshadowed by cable connectivity declines.
- ▶ We think management's decision to unwind the NBCUniversal (NBCU) acquisition and break the company apart is probably the right decision given the enormous structural changes in the entertainment industry over the last 15 years.
- ▶ We are raising our 2026 estimate to \$3.57 from \$3.37 and lowering our 2027 forecast to \$3.77 from \$3.81.

INVESTMENT THESIS

Our rating on Comcast Corp. (NGS: CMCSA) is HOLD. We think management's decision to unwind the NBCU acquisition and break the company apart is probably the right choice given the enormous structural changes in the entertainment industry over the last 15 years. While the NBCU acquisition may have made sense in the early years, the split should enable NBCU to pursue building scale to succeed in streaming video, the future of the entertainment industry. The split may also mean that legacy Comcast and its CMCSA shares may take a hit to capitalization when the spin-off occurs.

Comcast is facing a tough market for broadband subscribers, the company's key connectivity business, from increasingly aggressive fixed wireless and fiber broadband telecom competitors. The company is responding with new simplified

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plans, price-lock guarantees, and even free wireless lines. We think Comcast made some progress in 2Q26, though promotions are pressuring the EBITDA margin. Peacock's long overdue crossover to profitability is a positive, as is its strong subscriber acquisitions. Though its sports content is unparalleled, including such marquee events as the NFL, NBA, Olympics, and FIFA, we still think Peacock will need to merge with another streaming service to truly gain scale over the long term, though that deal may have to wait until NBCU becomes a free agent in 2027 or after. As the industry consolidates with the Warner Bros. Discovery Inc. sale, finding scale in the key video streaming business could become harder.

We are remaining on the sidelines, with a HOLD rating on CMCSA shares given its transformation into a much smaller company with the NBCU spin-off.

Comcast's balance sheet remains solid. Although management will suspend CMCSA share repurchases given the NBCU spin-off, it also reiterated its commitment to the company's dividend.

RECENT DEVELOPMENTS

Comcast reported 2Q26 results on July 23. Comcast beat the consensus revenue estimate by \$760 million and the consensus EPS estimate by \$0.07. Comcast completed the spin-off of its cable channels into Versant Media Group Inc. (VSNT) on January 2, 2026, and Comcast completed the sale of its subsidiary Sky's operations in Germany on May 31. For 2Q26, Comcast reported pro forma results excluding the results from Versant and Sky Germany from both 2Q25 and 2Q26, providing a better method of comparison than GAAP results. Comcast's 2Q was quite a mixed bag, with the continued subpar performance of its core Connectivity & Platforms (C&P) division essentially dragging down results across the P&L, but the company also saw some growth bright spots from smaller, more nascent businesses, as wireless reported its 'best quarter ever,' business services saw OK revenue growth and strong margin expansion, and the Content & Experiences (C&E) division was buoyed by strong growth from the FIFA World Cup broadcasts, Peacock's first quarter of profitability, and a strong Studios film slate performance. Aside from C&P, the most ominous issue was management's warning that it was surprised at the 'softness' in attendance at the company's flagship Orlando, Florida, theme parks in June and that the softness is continuing in 3Q. This is perhaps not surprising given consumer uncertainty over macroeconomic and geopolitical conditions but a negative for Comcast if such softness persists or deepens. CMCSA shares are down 5% since the 2Q print.

Second-quarter pro forma revenue rose 4.7% from the prior year to \$29.57 billion. The June broadcasts of the FIFA World Cup on Telemundo and the Peacock video streaming service added 160 basis points to 2Q revenue growth. The C&E division reported 23% growth in segment revenue to

\$10.7 billion driven by FIFA and Studios with a small contribution from the Theme Parks segment. The C&P, or cable, segment reported a 23.2% decline in revenue to \$19.8 billion year over year, reflecting continuing declines in domestic broadband and video. C&P comprises 66% of consolidated revenue.

The company's favorite metric, pro forma consolidated adjusted EBITDA, declined 5.3% to \$8.9 billion in 2Q26, as the adjusted EBITDA margin narrowed by 3.2 percentage points to 30%. Management had previously warned of EBITDA margin and cash flow pressure due to cable and wireless promotional activity and the first year of costs of the NBA rights package. The Peacock streaming service's adjusted EBITDA was \$189 million, as it finally crossed into profitability in 2Q26 and up from a loss of \$101 million in 2Q25. Peacock also saw a surge in subscriber sign-ups in June, no doubt related to the FIFA fan craze. Second-quarter pro forma adjusted net income fell 20%, though 2Q pro forma EPS declined 17% to \$1.04 year over year - as substantial share buybacks over the last year accounted for the difference in growth rates.

Management crowed on the earnings call about the improved subscriber losses in its key metric of domestic broadband, as the company lost 167,000 in 2Q26, down from a loss of 201,000 in 1Q25. While progress on this key performance indicator for what we think is the company's core business is a positive, still continuing to lose more than 100,000 customers a quarter is worrying and a sign that competition in the broadband connectivity space from other telco fiber overbuild providers and popular fixed wireless access providers remains a serious threat. The domestic broadband customer base declined 5% year over year. Cable video subscriber losses also improved to a loss of 280,000 from a loss of 325,000 in 2Q25. The video customer base was down 9% year over year.

On June 29, Comcast announced its plan to separate its cable connectivity and NBCU entertainment businesses into two new publicly traded companies through a tax-free spin-off of NBCU to shareholders. This announcement follows quickly on the heels of the January separation of the company's cable networks into the new public company, Versant, as well as Comcast's failed bid for Warner Bros. Discovery in late 2025. Management's stated reasoning for the breakup is that 'each company will be better positioned to pursue its own strategic priorities, invest for growth, and create long-term shareholder value as independent entities.' What went unsaid though we think it was a prime motivator for the spin-off was the 57% decline in CMCSA share value over the last five years, versus a 72% gain for the S&P 500. The benefits of a scaled entertainment business, marrying cable with content that Comcast had sought in the NBCU acquisition, have clearly not panned out as the structure of the entertainment industry has undergone radical change. As a reminder, Comcast's cable connectivity business provides broadband and wireless network communication services to

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residential and business customers across 40 states in the U.S., offering service to more than 65 million homes and businesses. NBCU is one the largest legacy Hollywood film and television studios, including the NBC and Telemundo television broadcast networks with their valuable attendant sports rights packages, the Peacock subscription video-on-demand streaming service, the Bravo cable channel, and a theme park division, second only to Walt Disney Co.'s, as well as the Sky European direct broadcast satellite television business and other European media businesses. Comcast expects to retain a 19.9% ownership interest in the new NBCU for up to one year after the close of the spin-off transaction. However, both companies will retain the dual class share ownership structure of the old Comcast with the Roberts family in control through supervoting Class B shares. Comcast Chairman and Co-CEO Brian L. Roberts expects to remain involved with both new companies, though current Comcast Co-CEO Michael J. Cavanaugh will become CEO of the new NBCU and former Comcast CFO Michael Angelakis will become CEO of the new rump Comcast. Management expects to complete the NBC spin-off by the end of June 2027, subject to the usual regulatory approvals and financing arrangements, though shareholder approval is unnecessary.

With its decision to spin off NBCU, Comcast has come full circle from its NBCU acquisition in 2011, which many thought of as a masterstroke of diversification, as increasing competition from upstart 'over-the-top' streaming services like Netflix Inc. and uncertainty around the growth of the cable business had only just begun to worry the market. That concern over the fate of cable has only intensified over the years as it has bled subscribers and the once very profitable cable bundle of video, broadband, and telecom services has disintegrated due to streaming and wireless telecom competition.

On July 6, NBCU's Sky announced its acquisition of fellow British television broadcast and streaming company ITV Media & Entertainment for 1.6 billion GBP (\$2.14 billion) in value, comprised of 1.2 billion GBP in cash, Sky's Love Productions business, and 200 million GBP in performance-related earn outs. We think Sky is looking to build scale in the face of increased competition from streaming video distributors YouTube and Netflix in the U.K. The acquisition would make Sky second in audience only to the BBC in the U.K. television broadcast/streaming market.

EARNINGS & GROWTH ANALYSIS

We are raising our 2026 estimate to \$3.57 from \$3.37 and lowering our 2027 forecast to \$3.77 from \$3.81. Management provides only very general guidance, and results reporting has been complicated by recent transactions, so we expect a high risk of variance between estimates and actual results for the new Comcast. Our estimates imply a 6% decline in average EPS growth over the next two years. Our long-term EPS growth rate forecast is 3%.

Comcast just keeps on slenderizing. The company has embarked on another large spin-off of its NBCU assets as it has just shaken off its Versant cable channel assets, essentially taking apart all the pieces that Co-CEO Roberts spent his career so assiduously assembling. Given the enormous structural changes in the entertainment industry over the last 15 years, we think management's decision to unwind the NBCU acquisition and break the company apart is probably the right decision. Investors will be offered the opportunity of choosing to invest either in the highly variable but growth-oriented NBCU or the cash flow-generating but structurally declining connectivity business. The market applauded the spin-off by giving CMCSA shares a 7% bump in late June around the announcement, though they have since again moved lower and are down significantly year-to-date.

On an operational level, Comcast has been focused on what it calls its six growth drivers: Residential Broadband, Wireless, Business Services, Theme Parks, Studios, and Streaming (Peacock). The company's key Residential Broadband business is suffering from both the macroeconomic factors that have constrained the residential move rate and the industry-specific factor of extraordinarily competitive offers from new entrants into Residential Broadband, resulting from telecom fiber-optic and fixed wireless access service build-outs. Management has responded to the competition with new simpler plans, service packages, a price-lock guarantee, and a free wireless line, though the progress of these offers has been muted in the white-hot competitive landscape. Management expects these moves to begin paying off in 2H26, though we remain somewhat skeptical. What these new promotions are doing is pressuring EBITDA margins. Management touts a cost-efficient path to a 10-gigabit network upgrade, which could give its networks a speed advantage as data usage continues to experience skyrocketing secular growth. The company pursues a 'capital-light' wireless telecom model as a Verizon Communications Inc. mobile virtual network operator (MVNO) and with a new T-Mobile US Inc. MVNO service for business customers.

Wireless has been one of Comcast's true success stories, as it added 448,000 lines in 2Q26, up from 378,000 in 2Q25, bringing its total wireless line count to 10.2 million. Wireless service revenue increased 14% to over \$1 billion. Of course, part of this business's strong customer additions comes from the free line offer, though management commented on the 2Q call that conversions of the free lines to paid relationships at the end of the offer period are tracking in line with expectations and it expects the majority of free lines to convert to paid as roll-offs accelerate in 2H26. Management also sees plenty of headroom for growth as Comcast wireless has only penetrated 17% of its domestic broadband customer base. Comcast's wireless business certainly fits with the company's focus on converged service bundles of broadband, video, and wireless services as both the most profitable and stickiest customer retention service offering.

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Peacock video streaming revenue rose a stellar 54% year over year, no doubt helped by the strong engagement of audiences with the FIFA World Cup, as the service added 2 million subscribers to reach a total base of 48 million. While retaining all those FIFA fans may be tough, it is a high-class problem to have. Another high-class problem is that press speculation is rife that FIFA may seek to double or quadruple the rights fees for the 2030 World Cup. We view the ramp of Peacock as a key strategic move for Comcast. Peacock differentiated itself from other video streaming rivals by including live sports content (leveraging the FIFA World Cup, Olympics coverage, the NFL, and, for higher tiers, its Premier League rights). The point of sports is to bring new subscribers onto the platform who may stay to watch other programming. Peacock's subscriber base is dwarfed by the scaled streaming giants Netflix and Disney, though any merger deal for Peacock may have to wait until NBCU becomes a free agent in 2027.

The new Universal Epic Universe park in Orlando signifies the company's strategic push to invest in expanding its Theme Parks business as it competes head-to-head with theme parks juggernaut Disney. Theme Parks adjusted EBITDA fell 5% to \$609 million in 2Q26. Management's warning on Orlando park attendance bears close scrutiny given the uncertain macroeconomy.

On July 24, 2024, the NBA announced a new broadcast rights deal with distributors Disney, Comcast/NBCU, and Amazon.com Inc. The agreement runs for 11 years beginning with the 2025-26 season. Comcast/NBCU will reportedly pay \$2.45 billion annually for its rights. Comcast/NBCU's deal includes the rights to air 100 NBA games and 50 WNBA games per season, with some postseason games. The NBC broadcast network and Peacock streaming began airing NBA games in October 2025. While this new sports rights agreement is no doubt pricey, a marquee sports franchise like the NBA can both drive subscribers/audiences to Peacock and NBCU and boost advertising. Since the NBA rights are amortized on a straight-line basis, amortization costs will be elevated in 2026 relative to 2025, before Comcast began broadcasting NBA games.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on Comcast is Medium, the midpoint on our five-point scale. Total debt/capitalization was 5% at the end of 2Q26. Total debt at the end of 2Q26 was \$90.4 billion, of which \$6.1 billion is due in the next year. The company has \$7.75 billion in cash and equivalents. Adjusted EBITDA covered interest expense by a factor of 8.5 in 2Q26. Trailing-12-month (TTM) free cash flow rose 7%, or by an incremental \$1.2 billion, to \$17.8 billion in 2Q26. Management is warning of significantly lower free cash flow in 2026 as the cash tax benefit from tax law changes declines relative to the large \$2 billion benefit in 2025 and as the Versant spin-off also removes the strong cash flows from the cable networks. Again, we cannot forget the one-time

\$9.4 billion net gain on investments primarily consisting of the sale of Comcast's interest in Hulu in 2Q25, which rolls off the TTM comp in 3Q26.

Comcast's quarterly dividend is \$0.33, or \$1.32 annually, with an indicated yield of about 5.6%. Comcast has raised its payout at a compound annual rate of about 7.5% over the last five years. As noted above, the Versant spin-off removes a significant source of cash flow for funding the Comcast dividend, though Comcast shareholders also benefited from the Versant share distribution as a dividend in kind. Management has pledged to maintain the dividend at its current level in 2026. Our 2026 estimate is \$1.32, and our 2027 forecast is \$1.36.

Comcast repurchased 75.8 million shares for \$2.1 billion in 1H26 after buying back \$7.2 billion of its stock in 2025 and \$8.6 billion in 2024, well off the pace of \$11.3 billion in 2023 and \$13.3 billion in 2022. Share count declined about 4% year over year in 2Q26.

MANAGEMENT & RISKS

Comcast reoriented its business toward internet connectivity years ago as its video business began declining due to the strong secular trend of consumers substituting cheaper over-the-top streaming video services for traditional cable video service. This trend began with younger-generation consumers and has now proliferated across consumer cohorts. This same phenomenon led to the decline in Comcast's cable channel business, resulting in the company spinning off the cable channels into Versant in January. While the 'cord cutting' trend may perhaps be beginning to stabilize after years of steep subscriber losses/segment revenue declines, Comcast has been hit with a new trend of telecom companies, particularly the big three facilities-based carriers, AT&T Inc., Verizon, and T-Mobile, overbuilding their service areas with both wired and wireless home internet connectivity solutions that are aimed directly at the core revenue driver of Comcast's cable business, residential broadband internet, severely intensifying competition for subscribers and leading to large subscriber losses in this key business. This risk has led Comcast to a wholesale readjustment of its service plans structure in 2026 to offer better value and promotions to its customer base, which management warns will impact profitability.

Programming costs are one of Comcast's largest single expense items, and faster growth in expenses than revenue would erode the company's profitability. So-called 'must-have' content providers typically have a negotiating advantage, an advantage that is even more pronounced for sports leagues, though this advantage is partly eroded by Comcast's sheer size. Broadcast networks are viewing cable retransmission fees as a profit center. Carriage renewal negotiations between content providers and cable companies have become extremely contentious and have resulted in occasional channel blackouts, though in the end, the cable companies often have to pay up. All these factors could

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increase Comcast's cost of doing business. Advertising is about 14% of total revenue. Though this is much less than at most of Comcast's integrated media peers, this cyclically sensitive and high-margin segment suffers in economic downturns and varies with the boom/bust political advertising cycle.

Comcast, like many other companies in the media sector, has two classes of stock, with supervoting shares in the hands of the controlling Roberts family. This system has been attacked by activists as being unresponsive to minority shareholder concerns. Brian L. Roberts is co-CEO and chairman. Michael J. Cavanagh is co-CEO. Jason S. Armstrong is CFO.

COMPANY DESCRIPTION

Comcast Corp. is a leading cable and telecommunications company in the U.S., providing television, high-speed internet, and telephone services over its networks. Comcast spun off its cable channel assets into a new company called Versant through a dividend in kind to shareholders on January 2, 2026.

VALUATION

Our valuation methodology for CMCSA is multistage, including peer analysis and a multiple analysis matrix applied to our proprietary forecasts. CMCSA shares are down 20%, compared to an 8% gain for the S&P year-to-date. CMCSA shares have traded between \$21 and \$33 over the last year and are currently at the low end of this range. The EV/EBITDA of 4.7 is well below the peer median of 8.5. We are maintaining our HOLD rating on CMCSA.

ByLine

On July 24, HOLD-rated CMCSA closed at \$22.30, up \$0.38. (Joseph Bonner, CFA, 7/24/26)

Cracker Barrel Old Country Sto (CBRL)

Rating: **BUY** 
Market Cap: **SMALL**
Sector: Consumer Discretionary

Announces new CEO, divests Maple Street Biscuit

- ▶ We see CBRL's two bold strategic moves as positives for the stock and company overall.
- ▶ The restaurant chain had been struggling to recover from a highly publicized logo fiasco last summer. We felt that management was making progress, but it seems the board is looking for faster results.
- ▶ Management raised guidance for its fiscal 2026 and we are raising our EPS estimates.
- ▶ We believe the brand will recover and maintain our BUY rating.

INVESTMENT THESIS

Our rating on Cracker Barrel Old Country Store Inc. (NGS:

CBRL) is BUY. On July 27, Cracker Barrel announced that it is bringing in a new CEO. David Deno will replace outgoing CEO Julie Masino, who will also step down as a board member. Ms. Masino will stay on until October 9 to ensure a smooth transition. Mr. Deno comes to Cracker Barrel with an impressive career history of C-suite roles in the casual dining and retail sectors, most recently serving as CEO at Bloomin' Brands.

The shakeup news follows the announcement last week that the company will shutter its Maple Street Biscuit restaurant brand. This closure will require certain one-time charges incurred in 4Q, but management feels it will be accretive to earnings in 2027. In addition, the company raised its guidance for its current 2026 fiscal year, about which it will formally report in September. The company now expects 2026 revenue at the high end of its prior guidance range of about \$3.3 billion. On profitability, the company now looks to exceed prior guidance for adjusted EBITDA. As such, we are also raising our EPS estimates for FY26 and FY27.

The CEO announcement comes a year after the company suffered a highly publicized marketing fiasco over its decision to change its long-time logo. Customer dissatisfaction was swift and material, and management quickly reinstated the beloved 'old-timer' logo. Still, the share price and customer traffic numbers took big hits. Since then, management was been working to regain the trust of its customer base.

Our view of the new CEO and closing of the Maple Street Biscuit restaurant brand is positive. Cracker Barrel is taking bold steps to reinstate the brand and get the company on track. We expect that its loyal customer base will return and traffic will improve. Yes, restaurants need to keep up with the times in serving food that its customers want, but Cracker Barrel serves a special niche of customers who know what they want and like what they have been getting at the long-time restaurant chain. The customer base has spoken loudly and the board is indicating that it has heard.

Based on valuations, the new CEO, and the divestiture of Maple Street, we are maintaining our BUY rating and target price of \$60.

RECENT DEVELOPMENTS

The CBRL shares have outperformed in the past quarter, rising 81% compared to 4% for the S&P 500. This is a turnaround as the shares underperformed over the past year, declining 19% compared to gains of 16% for the index and a decline of 3% for the Consumer Discretionary sector ETF IYC. Over the past five years, the shares have fallen 60%, compared to gains of 69% for the index and 26% for the sector. The beta on CBRL is 1.00.

Cracker Barrel is making some major strategic shifts, replacing its CEO and divesting its smaller Maple Street Biscuit Company brand.

Value Stocks

On July 27, the company announced that David Deno will replace outgoing CEO Julie Masino, who will also step down as a board member. Ms. Masino will stay on until October 9 to ensure a smooth transition. Mr. Deno comes to Cracker Barrel with an impressive career history of C-suite roles in the casual dining and retail sectors. Most recently, he was at Bloomin' Brand where he served as CEO from 2019-2024. He also has worked at Best Buy and Yum! Brands. He is on the board of directors at Krispy Kreme and Panera Brands. The CEO transition comes a year after the logo fiasco.

On July 20, the company announced it is closing its Maple Street Biscuit Company brand. Assets at 35 locations and the MSBC trademark have been sold to Biscuit Belly LLC. Some 16 other MSBC locations will be closed. Cracker Barrel said it will take a non-cash charge of around \$38 million plus a cash charge of about \$7 million during 4Q26 due to the divestiture. MSBC contributed less than 2% of Cracker Barrel's annual revenue, and management sees the divestiture as accretive to adjusted EBITDA beginning next year. Ms. Masino announced the sale and additional new guidance for 4Q26 and full-year 2026.

For 4Q, the company said through the first 11 weeks of the quarter, comp restaurant sales decreased 2.5% and comp retail store sales increased 0.5% compared to the prior-year period. For its fiscal full-year 2026, the company now expects revenue at the high end of its prior guidance range, which was \$3.27 billion-\$3.30 billion. On profitability, the company now looks to exceed prior guidance of adjusted EBITDA of \$120 million-\$125 million. Last quarter, management said it planned to open two new Cracker Barrel restaurants, which have opened. For full-year 2026, it expects commodity inflation of 2% compared to 2% to 2.5% and hourly wage inflation of 2% versus the prior view of 2.5% to 3.0%. Cracker Barrel is slated to report for 4Q and full-year 2026 on September 16.

On June 9, Cracker Barrel posted fiscal 3Q26 results and updated its guidance for fiscal 2026. For 3Q, management reported adjusted EPS of \$0.29, down from \$0.58 in the prior-year quarter but above the consensus estimate of a loss of \$0.48. Revenue totaled \$797 million, down 3% from the prior year. Gross margin of 69.8% decreased 10 basis points from a year ago. The adjusted EBITDA margin of 5.1% narrowed by 90 basis points from the year-ago period. For the first nine months, Cracker Barrel has recorded a loss of \$0.19 compared to earnings of \$2.42 in the prior year.

EARNINGS & GROWTH ANALYSIS

Cracker Barrel reports results in two segments: Restaurant (82% of 3Q revenue) and Retail (18%).

In the Restaurant segment and for Cracker Barrel stores only, revenue decreased 3% to \$644 million. Average unit volume per restaurant was also down 3% at \$1 billion. Comparable-store restaurant sales decreased 3% from the prior year.

In Retail, revenue of \$139 million decreased 2% from the prior year. Average unit volume per store was \$211,000, down 2% from a year earlier. Comparable-store retail sales decreased 2% from the prior year.

Management keeps an eye on expenses. Gross margin of 69.8% decreased 10 basis points from a year ago. The adjusted EBITDA margin of 5.1% narrowed by 90 basis points from the year-ago period. Cost of goods sold was down 3% from the prior-year quarter while labor and related expenses were down 1%.

Based on updated management's guidance, we are raising our FY26 EPS estimate to a loss of \$0.10 from a loss of \$1.25 and our FY27 estimate to \$0.90 from \$0.50.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on Cracker Barrel is Medium-Low. The company has average scores on fixed-cost coverage and below-average scores on profitability, cash conversion, and debt levels.

Cash and cash equivalents were \$40 million at the end of fiscal 2025, up from \$12 a year earlier. Long-term debt was \$335 million, down from \$477 million. Including long-term leases, the debt/capital ratio was 66.1%, down from 71.8% in 2024.

The company pays a dividend. The board announced a significant decrease in the dividend payment in 2Q24. The current quarterly payment of \$0.25 per share is down from \$1.30 per share in the prior year, and currently yields 2.3%. Our dividend estimates are \$1.00 for FY26 and \$1.00 for FY27.

Cracker Barrel has a share-buyback program. While releasing 4Q25 earnings, the board also announced a newly authorized share-repurchase program for \$100 million of its outstanding common stock. For 2026, the company confirmed its plan for capital expenditures of \$105 million to \$115 million.

MANAGEMENT & RISKS

On July 27, the company announced David Deno will replace outgoing CEO Julie Masino, who will also step down as a board member. Ms. Masino will stay on until October 9 to ensure a smooth transition. Mr. Deno comes to Cracker Barrel with an impressive career history of C-suite roles in the casual dining and retail sectors. Craig Pommells has served as CFO since 2021. He was previously CFO at Red Lobster. Carl Berquist serves as the chairman.

Management has been implementing a multi-year plan to refresh the company's brand, menu, and overall customer experience. CEO Masino laid out the detailed Strategic Transformation Plan in May 2024 and then updated it during the January 2026 investor meeting. The plan aims to turn the

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company around, using the existing brand as a strength, and building on the restaurant chain's loyal customer base. The company admittedly made a misstep in the summer of 2025 when it attempted to modernize its brand image. Customers revolted and the company quickly restored its longtime 'old-timer' logo.

Investors in CBRL shares face risks, including wage inflation, inflation in food and beverage costs, economic uncertainty, and weaker consumer confidence. High gas prices could also decrease restaurant traffic as the company's locations generally are located on major highways and appeal to travelers. Interest rate and credit risk are also pertinent.

COMPANY DESCRIPTION

Cracker Barrel Old Country Store, based in Lebanon, Tennessee, operates roughly 660 Cracker Barrel restaurants and gift shops in 43 states, primarily in the Southeast and the Midwest. It also had operated 68 Maple Street Biscuit stores but announced in July 2026 that it would sell certain assets and shut down the rest, fully closing the restaurant brand. Founded in 1969, Cracker Barrel has more than 70,000 employees.

INDUSTRY

Our rating on the Consumer Discretionary sector is Under-Weight. The Consumer Discretionary sector accounted for 9.3% of the S&P 500 as of the end of June. We think diversified investors should have exposure to the sector, but at about 50-75% of the current sector weight.

The sector receives below-average marks on our six-part 'blind' sector rating criteria, which includes growth momentum, valuation, financial strength, and analyst conviction, among other factors.

The sector has underperformed the market year to date, with a loss of 1.1% as of the end of June. The sector underperformed in 2025, with a gain of 5.3%, compared to a gain of 16.4% for the S&P 500. The beta for the sector is 1.1.

Over the past five years, the sector's weighting has ranged from 8% to 12%. The sector's P/E ratio on projected 2027 EPS was 24, above the market multiple. The yield of 0.5% was below the market average. The sector's smoothed earnings growth rate of 10% was equal to the market average.

The Consumer Discretionary sector is a cyclical growth sector. The macroeconomic factors that may affect the performance of stocks in the Consumer Discretionary sector include Nonfarm Payrolls, Personal Income, Fuel Prices, Retail Sales, Auto Sales, Housing Starts, and New and Existing Home Sales, among others. Trends in the dollar can affect gross profit for companies in the sector.

Potential sell signals for stocks in the Consumer Discretionary sector can be a change in the direction or rate

of a company's sales or earnings growth, a rapidly rising unemployment rate or signs of an impending recession.

At this stage of the market and economic cycle, our favored industries within the Consumer Discretionary Group include Broadline Retail, Homebuilding, and Home Furnishings.

VALUATION

The CBRL shares appear attractively valued at current prices near \$53, near the middle of their 52-week range of \$25-\$66. From a technical standpoint, the shares show a bullish pattern of higher highs and higher lows since the beginning of 2026.

The shares are trading at unusually high valuations, currently at 59-times our FY27 EPS estimate, at the high end of the historical average range of 11-62 and compared to the average multiple of 25 for a peer group that includes DRI, EAT, and CAKE. This is because earnings prospects have been reduced dramatically. Compared to the peer group, CBRL trades at a significant discount on price/sales. Based on valuations, the new CEO, and the divestiture of Maple Street, we are maintaining our BUY rating. Our target price is \$60.

ByLine

On July 27, BUY-rated CBRL closed at \$52.43, down \$1.28. (Christine Dooley, 7/27/26)

DR Horton Inc (DHI)

Rating: **BUY**
Market Cap: **LARGE**
Sector: Consumer Discretionary

Adjusting to market conditions

- ▶ We remain bullish on the need for affordable homes, the relative advantage of large builders in the current environment, the currently low cost of owning a new home compared to an existing home, and the company's top-tier financial strength in the industry.
- ▶ In our view, DHI has an edge in delivering affordable homes. Approximately 73% of the homes DHI delivered in the 12 months that ended on June 30, 2026, sold for less than \$400,000. The company has said that its average selling price of \$362,000 is about \$155,000 lower the average selling price of new single-family houses in the U.S.
- ▶ On the 3Q earnings call, President and CEO Paul Romanowski said, 'Affordability constraints and cautious consumer sentiment continue to impact new home demand, and our operators will continue to adjust as market conditions evolve.'

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▶ On July 21, D.R. Horton reported fiscal 3Q26 home-building revenue of \$8.7 billion, up 1% from the prior-year period. EPS decreased 4.8% to \$3.20. It exceeded our estimate of \$3.00 and the consensus of \$2.97. Management reduced its full-year revenue guidance. We are reducing our 12-month target price to \$165 from \$185.

INVESTMENT THESIS

We are maintaining our BUY rating on D.R. Horton Inc. (NYSE: DHI), one of the largest U.S. homebuilders based on home deliveries and revenue.

We remain bullish on the need for affordable homes, the relative advantage of large builders in the current environment, the currently low cost of owning a new home compared to an existing home, DHI's expertise in delivering affordable homes, and the company's top-tier financial strength in the industry.

Despite our long-term bullishness, there are still clear risks. A steady decline in mortgage rates appeared to be a hopeful sign at the beginning of the year, but the war with Iran sent rates as much as 50 basis points higher at the start of the spring 2026 selling season, peaking at 6.46% in early April. The benchmark rate was 6.58% on July 23.

Elevated mortgage rates have priced millions of prospective homebuyers out of the market. The first-time buyers who are so important to DHI and the housing market face the most pressure because they have lower incomes, they typically have less money to put down, and they are not selling a house that has appreciated in value to help with the new purchase. High rental costs, high food prices, the high price of owning a car, and very high prices of services, such as medical insurance and car insurance, are making it hard for aspiring households to save the money they need for a down payment. That said, DHI's buyers, 64% of whom were first-time buyers in 3Q, have an average household income of \$94,800 and a credit score averaging 721. The reinstatement of college loan payments will also constrain purchasing power and potentially credit scores for some prospective buyers.

Government efforts to manage affordability will be a balancing act to make homes more affordable for the marginal buyer without significantly lowering the value of the much larger housing market and denting economic growth. DHI and other builders would like to get relief on the state and local level.

Tariffs represent a potential risk to affordability. Tariffs could raise consumers' day-to-day costs, making it harder to save. DHI could see higher costs on Canadian lumber and on imported appliances and electrical equipment. We do not believe tariffs have had a material effect on building costs because demand for housing has been weak and builders have not had to buy as much tariffed material. Higher oil

prices are raising the price of gasoline and diesel fuel that is used by trucks that deliver supplies as well as construction equipment.

A May 2021 research note by Freddie Mac Chief Economist Sam Khater estimated that the share of entry-level homes in overall construction declined from 40% in the early 1980s to approximately 7% in 2019. In addition, building activity has been constrained since the housing crisis that accompanied (or perhaps caused) the Great Recession. The huge millennial generation (72 million U.S. residents born from 1981 to 1996) is at home-buying age as many healthy baby boomers (72 million U.S. residents born from 1946 to 1964) are taking advantage of new technology to stay in their existing homes, hoping to 'age in place.' Mr. Khater concluded that demand for entry-level single-family homes would remain high for the rest of the decade.

In our view, DHI has an edge in delivering affordable homes. Approximately 73% of the homes DHI delivered in the 12 months that ended on June 30, 2026 sold for less than \$400,000. The company has said that its average selling price of \$362,000 is about \$155,000 lower the average selling price of new single-family houses in the U.S. We believe this is a sign that the company is well positioned to serve the value-conscious buyers who are likely to drive the housing market over the next several years. While higher mortgage rates are straining affordability and incentives are weighing on profitability, we still expect DHI to be a dominant builder of affordable homes.

We expect large builders to take market share from smaller builders. Large public builders should be able to gain a relative advantage in securing relationships with well-qualified contractors. They may also have the scale and resources to use technology to improve production efficiencies. We look for DHI to benefit from its range of brands for high-end and especially entry-level homebuyers. D.R. Horton should also benefit from its broad geographic diversification and healthy balance sheet. DHI is one of a few homebuilders with investment-grade credit ratings from both Moody's and S&P. Moody's recently rated the company's senior notes A3. DHI said that they are the first homebuilder in Moody's history to earn an 'A' rating.

We are reducing our 12-month target price to \$165 from \$185.

RECENT DEVELOPMENTS

The DHI shares have underperformed the market on a year-to-date basis, slipping 0.8% while the S&P 500 has risen 8.2%. Over the past year, they are down 3% compared to gains of 16.5% for the index, and an increase of 1% for the Homebuilders sector ETF XHB. Over the past five years, the shares have gained 60%, compared to a gain of 68% for the S&P 500, and a gain of 10.5% for the industry. The DHI shares are trading slightly above their 200-day moving average.

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On July 21, D.R. Horton reported fiscal 3Q26 home-building revenue of \$8.7 billion, up 1% from the prior-year period. Total revenue, including financial services and rental operations, was flat at \$9.23 billion, which was slightly above our estimate of \$9.1 billion and above the StreetAccount consensus of \$9.1 billion. The company reduced the number of completed homes that have been unsold for more than six months by 25% sequentially to 600, which should pave the way for better margin performance.

EPS decreased 4.8% to \$3.20. It exceeded our estimate of \$3.00 and the consensus of \$2.97. The trailing-12-month return on equity was 12.8%, down from approximately 16.1% in the prior-year period. Return on inventory was 17.0%, down from 22.1% a year earlier. Average home-building inventory was \$20.79 billion, down from \$20.64 billion a year earlier.

On the 3Q earnings call, President and CEO Paul Romanowski said, 'Affordability constraints and cautious consumer sentiment continue to impact new home demand, and our operators will continue to adjust as market conditions evolve.'

Management reduced its full-year revenue guidance. DHI expects to deliver consolidated revenues of \$32.5 to \$33 billion, down from \$33.5 to \$34.5 billion in FY26. The company expects to deliver 83,800 to 84,300 homes, down from 86,000 to 87,500 homes. DHI still expects to repurchase approximately \$2.5 billion of its stock. The company's cash flow in 2026 is still expected to exceed \$3.0 billion. The tax rate is now expected to be approximately 25.0% up from 24.5%.

For 4Q26, DHI expects consolidated revenues of \$8.8 billion-\$9.3 billion, with closings of 22,500-23,000 homes. Our prerelease revenue estimate was about \$10.2 billion. The home sales gross margin is expected to be about 20.5%-21.0%, and the pretax margin is expected to be 12.3%-12.8%. Our prerelease estimate was \$12.2%.

DHI's 3Q home-building revenue reflected a 3.2% increase in the number of home deliveries, to 23,983 homes, which was slightly above the consensus of 23,728. The average closing price was down 2% year over year to \$362,000.

In 3Q, the dollar value of new orders was up flat, at \$8.44 billion. The number of new orders was also flat compared with the prior-year quarter. The cancellation rate was 20%, up from 17%. The average selling price on new orders was flat at \$362,000, approximately \$155,000 below the average selling price of new homes in the U.S. Incentives decreased slightly from 2Q to 3Q. The company expects gross margin to be relatively flat in 4Q compared with 3Q.

The quarter-end backlog increased 13.6% to 15,983 units, valued at \$6.18 billion, up 15.8%. The company used interest

rate buydowns to reduce the interest rate for customers to 4.99%-5.5% compared with a market rate of approximately 6.5%.

The company controlled 568,500 lots at the end of 3Q26, down from 591,900 a year earlier. Approximately 22% are owned, and 78% are controlled through options contracts. The company invested \$2.1 billion in lots and land in 3Q26. It invested \$8.5 billion in lots, land, and development in FY25.

The 3Q gross margin on home sales fell 110 bps from the prior year to 20.7%. The company is working to control costs, but there is some pressure from fuel costs.

SG&A in the home-building business increased by 50 bps to 8.3% of revenue in 3Q. The company thinks it will be able to reduce the expense rate when sales improve and when the average sales price and sales per community stabilize.

Pretax income was \$1.23 billion, down 9.7% year over year. Our estimate was \$1.13 billion. The pretax margin decreased by about 143 bps to 13.3%. The company's rental operations generated \$31 million of pretax income as the company sold 601 single-family homes and 555 multifamily rental units. The company expects rental inventory to remain around \$3 billion.

Home-building pretax income fell 11.7% to \$1.07 billion.

The tax rate was 25%. Our estimate was 25%. Net income fell 20% to \$647.9 million. Our estimate was \$641 million.

EARNINGS & GROWTH ANALYSIS

We are reducing our FY26 EPS estimate to \$10.49 from \$10.60 based on lower 4Q revenue than we had expected. The company said that prospective buyers are interested but they need to become more confident in economic conditions to move forward with a purchase. Our revenue estimate is \$32.7 billion, down from \$33.75 billion previously. Third-quarter EPS topped our estimate. Our 4Q EPS estimate is now \$3.05 per share, down from \$3.37. The full-year consensus is about \$10.45.

We expect to see a modest improvement in market conditions in FY27. That said, there are likely to be some lingering pressures on affordability and the rebound in gas prices probably keeps interest rates higher and keeps some buyers on the sidelines. We are reducing our FY27 EPS estimate to \$11.75 from \$12.10 in a lower outlook for deliveries.

Our long-term earnings growth rate estimate is 9%. We believe that DHI's national presence will allow it to move production to the most promising markets. We also believe that the company's designs for value-conscious buyers will help it to gain market share.

FINANCIAL STRENGTH & DIVIDEND

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Our financial strength rating on DHI is Medium, the midpoint on our five-point scale.

Homebuilding is a very cyclical industry. It is also capital-intensive, as builders often carry inventories of land needed to open future communities or to build additional homes in existing communities. It is a difficult balancing act, and a task where management teams can either fail or shine. When the housing market is weak, builders must decide between maintaining cash reserves or attempting to scoop up land at depressed prices. Entering the land market early can boost future gross margins if the market does recover. Remaining on the sidelines and maintaining liquidity may leave a builder chasing inventories if the market recovers sooner than expected. As the market matures, companies need to decide if they want to become more conservative, and potentially miss some sales, or run the risk of write-offs if they are caught with too much land or too many unsold homes.

DHI is aiming to recoup land investments within 24 months and to earn an annual return on inventory (ROI) of at least 20%. This is calculated as pretax income divided by average inventory. DHI reached a ROI of 16.6% in FY17, up from 15.4% in FY16. The company's ROI was 20.2% for FY18, 18.1% for FY19, 21.6% for FY20, 37.9% for FY21, 42.8% for FY22, and 29.7% for FY23. The trailing-12-month ROI was 27.8% at the end of FY24 and 20.1% at the end of FY25. It was 17% at the end of 3Q26.

Another structural risk is that builders do not have the level of recurring revenue that we see at some software or pharmaceutical companies. They also lack the relatively steady demand that we see at consumer-related companies such as Walmart Inc., Costco Wholesale Corp., and Kroger Co. While analyzing the backlog provides some visibility on future earnings, builders basically start communities from scratch and must find new buyers. Of course, they also have their reputation, the ability to advertise, and expertise in selecting good locations in desirable communities.

DHI's total 7Q debt of \$7.1 billion is down slightly from a year earlier. Debt was 22.6% of capital at the end of 3Q26, little changed from a year earlier. The company's long-term target is for debt to be about 20% of capital.

At the end of 3Q, the company had total liquidity of \$6.1 billion, consisting of cash and capacity on the revolving credit facility. The company has \$600 million bonds maturing in the next 12 months.

The current dividend yield is about 1.3%. In the 4Q25 earnings release, the company raised the quarterly dividend by 13% to \$0.45 per share. Our FY26 dividend estimate is \$1.80 per share. Our FY27 dividend estimate is \$1.90 per share. Our FY26 dividend is 17% of our new EPS estimate. DHI has paid a dividend for 29 consecutive years and increased it for 12 consecutive years. The company has

raised the dividend at a compound annual rate of 18% over the last five years.

In April 2025, the board authorized a new plan for a total of \$5 billion. DHI repurchased \$670 million of shares in 1Q26 and \$903.6 million in 2Q, and \$616 million in 3Q. There was \$1.1 billion remaining at the end of 3Q. The company repurchased \$2.2 billion of shares through the first three quarters and plans to purchase about \$2.5 billion shares in FY26.

For the five years through 3Q26, the company reduced the share count by 22%, including a 6% reduction on a year-over-year basis.

On February 19, 2025, the company issued \$700 million of debt at strong A3/BBB+ levels. This issuance raised debt back up to the company's 20% target. Those ratings were still in effect at the end of 3Q26.

MANAGEMENT & RISKS

Our biggest current concern is that still-high mortgage rates are keeping young buyers out of the market. Prolonged pressure on the housing market could hurt the financial strength of homebuilders and leave them with inventories that need to be marked down. So far, the overall economy has performed well, but we would like to see housing pulling its weight to augment robust investment in artificial intelligence. DHI and other builders have been pragmatic, adapting to market conditions with incentives to drive profitable sales and generate cash flow. Unfortunately, the strain on margins is notable.

DHI founder Donald Horton died in May 2024, having built more than 1 million affordable homes for families across the country. He served as chairman of the company since its inception in 1991. He also served as president and CEO from 1991 until 1998. Executive Chairman David Auld served as president and CEO of DHI from October 2014 to October 2023 and has been with the company and its predecessor firms since 1988. Paul Romanowski became president and CEO in October 2023. The executive team and the regional presidents have an average tenure of over 20 years.

The fortunes of DHI and other homebuilders are closely tied to economic activity, including employment, consumer confidence, demand for housing, availability of financing, the level of interest rates, prices of alternatives to new homes (existing homes, rentals, foreclosed homes), and demographic trends.

DHI could be hurt if it does not have easy access to capital to finance its inventory of land, the ability to hire skilled craftsmen, and the ability to provide mortgage financing and to sell those loans to investors.

Other risks include warranty claims, particularly if the company is found to have used faulty or unsafe materials.

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In early 2026, President Trump announced plans to curb the single-family rental market. The entire rental business at DHI - single family and the larger multifamily business - represented approximately 3% of operating income for the 12 months ended June 30, 2026. On June 30, rental property inventory totaled \$3 billion including \$2.7 billion of multifamily rental properties and \$321 million of single-family rental properties. The company expects rental inventory to remain near current levels.

The company is involved in a range of litigation.

Ernst & Young has been the company's auditor since 2018. PricewaterhouseCoopers was the company's auditor from 2008 to 2018.

COMPANY DESCRIPTION

D.R. Horton, based in Fort Worth, Texas, is one of the largest homebuilders in the U.S., with homebuilding revenue of \$31 billion on 84,863 closings for the fiscal year ended September 30, 2025. To be sure, DHI may be No. 1 based on deliveries while Lennar Corp.'s \$32.27 billion in home-building revenue topped Horton's in FY25, helped by an average sales price that is about \$22,000 higher than DHI's. DHI offers homes in 126 markets in 36 states. The average home price was down about 1% to \$365,000 in FY25. The company's financial services segment also provides mortgage financing and title agency services. DHI's rental division generated \$1.7 billion of revenue in 2025.

The company's fiscal year ends on September 30. The business is seasonal, with the highest revenues and operating income generally delivered in the third (ending in June) and fourth (September) quarters and lower revenues and operating income generally delivered in the first (December) and second (March) quarters.

INDUSTRY

Our rating on the Consumer Discretionary sector is Under-Weight. The Consumer Discretionary sector accounted for 9.3% of the S&P 500 as of the end of June. We think diversified investors should have exposure to the sector, but at about 50-75% of the current sector weight.

The sector receives below-average marks on our six-part 'blind' sector rating criteria, which includes growth momentum, valuation, financial strength, and analyst conviction, among other factors.

The sector has underperformed the market year to date, with a loss of 1.1% as of the end of June. The sector underperformed in 2025, with a gain of 5.3%, compared to a gain of 16.4% for the S&P 500. The beta for the sector is 1.1.

Over the past five years, the sector's weighting has ranged from 8% to 12%. The sector's P/E ratio on projected 2027 EPS was 24, above the market multiple. The yield of 0.5%

was below the market average. The sector's smoothed earnings growth rate of 10% was equal to the market average.

The Consumer Discretionary sector is a cyclical growth sector. The macroeconomic factors that may affect the performance of stocks in the Consumer Discretionary sector include Nonfarm Payrolls, Personal Income, Fuel Prices, Retail Sales, Auto Sales, Housing Starts, and New and Existing Home Sales, among others. Trends in the dollar can affect gross profit for companies in the sector.

Potential sell signals for stocks in the Consumer Discretionary sector can be a change in the direction or rate of a company's sales or earnings growth, a rapidly rising unemployment rate or signs of an impending recession.

At this stage of the market and economic cycle, our favored industries within the Consumer Discretionary Group include Broadline Retail, Homebuilding, and Home Furnishings.

VALUATION

The shares are down 3% over the last 12 months and down 0.8% this year.

Going back to the early 1990s, the company's median P/E, based on quarterly data, is 13.7. If we exclude the Great Recession, when multiples ranged from 4 to 90, the company's multiple has normally ranged from 6 to about 20. The shares are currently trading at about 13.3-times our FY26 EPS estimate and at 11.9-times our FY25 EPS estimate. These multiples look reasonable. We believe it is because near-term earnings prospects are constrained by soft demand and the need for incentives, while longer-term demand looks strong and additional government programs on the state and local side or lower interest rates could provide a catalyst. Unfortunately, the escalation of fighting with Iran is likely to hurt mortgage rates because 10-year Treasury rates are moving higher.

The path of earnings is likely to be choppy. Our valuation estimate is based on our new earnings estimates for FY26 and FY27 and the expectation for DHI to earn about \$14.00 (down from \$15.25) in FY28. After that, we are still assuming that earnings will grow at our five-year growth rate forecast of 9% in FY29 and FY30, then transition to stable growth of 3%. Based on this analysis, DHI would be worth approximately \$167 (down from \$182) based on our dividend discount model.

We are using an 8.5% cost of equity and a 75% payout rate in the stable growth phase. We believe an 8.5 percent cost of equity is reasonable for a company with a BBB+ credit rating from S&P, an A3 credit rating from Moody's, and debt at approximately 20% of capital. To be sure, the sector is cyclical and credit sensitive, and the shares are volatile.

A risk to this valuation analysis is that high mortgage rates

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and the need for incentives may continue to hurt housing demand more than we expect.

DHI is trading at 1.7-times tangible book value. Toll Brothers Inc. trades at 1.6-times book value, and KB Home at 0.9-times. At 1.8-times (down from 1.9-times in our previous note) our book value estimate of \$92 (down from \$98) in about 12 months, DHI shares would be worth \$166. Over the last 10 years, P/B has ranged from 1.0-2.9. The average is 1.9 times. We are reducing our 12-month target price to \$165 from \$185.

ByLine

On July 24 at midday, BUY-rated DHI traded at \$145.03, up \$2.91. (Christopher Graja, CFA, 7/24/26)

Gentherm Inc (THRM)

Rating: **HOLD** 
Market Cap: **SMALL**
Sector: Consumer Discretionary

Waiting for a more favorable entry point

- ▶ Gentherm recently reported 2Q26 adjusted net income of \$33.3 million, or \$0.75 per share, up from \$24.0 million, or \$0.54 per share, in 2Q25. EPS results beat our estimate of \$0.65 and the Wall Street consensus estimate of \$0.59.
- ▶ The higher 2Q26 earnings largely reflected higher total company revenue (including an 11% increase in Automotive sales) and new business awards (\$690 million). Total operating expenses were up 30%.
- ▶ Gentherm raised its 2026 guidance following the release of 2Q26 operating results. The company now expects total revenue of \$1.55 billion-\$1.65 billion (versus \$1.50-\$1.60 billion previously) and adjusted EBITDA of \$185 million-\$200 million (versus \$175-\$195 million previously).
- ▶ We are raising our 2026 EPS estimate to \$2.75 from \$2.65 to reflect second quarter 2026 results, which exceeded our quarterly estimate by \$0.10 per share.

INVESTMENT THESIS

Our rating on Gentherm Inc. (NGM: THRM) is HOLD. The company is a worldwide leader in thermal management and pneumatic comfort technologies, catering to the Automotive and Medical industries.

Gentherm's product portfolio, heavily skewed in terms of revenue to its Automotive business, currently offers solutions for automotive passenger comfort, battery thermal management, and patient temperature control (Medical business), but the company has been on the wrong side of revenue and profit growth for the past several years, as global vehicle production rates have been on the downswing since the end of 2023. Original equipment manufacturers (OEMs) have been cutting back on production due to slower consumer demand, exacerbated by elevated interest rates and high rates of inflation, which have affected both the cost

of a new vehicle and associated financing options, thereby depressing demand.

Looking ahead, we are pleased to see that business conditions and opportunities are slowly headed in the right direction for Gentherm, as 2Q26 results were better than expected and full-year guidance was increased. In addition, the pending transaction with Modine Manufacturing is right on target for a 4Q26 closing. Following second quarter results, the shares finished the trading day up 25%. While we continue to believe that THRM is well positioned strategically in its key business markets, which should drive revenue growth and margin expansion over time, we will wait for additional confirmation that current performance is sustainable before taking a more proactive stance on the shares. As a result, we remain with a HOLD rating.

RECENT DEVELOPMENTS

Gentherm recently reported 2Q26 adjusted net income of \$33.3 million, or \$0.75 per share, up from \$24.0 million, or \$0.54 per share, in 2Q25. EPS results beat our estimate of \$0.65 and the Wall Street consensus estimate of \$0.59.

The higher 2Q26 earnings largely reflected higher total company revenue (including an 11% increase in Automotive sales) and new business awards (\$690 million). Total operating expenses were up 30%.

Revenue for 2Q26 increased 11% to \$416.2 million, compared with \$375.1 million in 2Q25. Sales results surpassed the quarterly Street consensus estimate of \$381.7 million. Sequentially, sales were up 18% versus \$394 million in 1Q26.

Gross margin for the second quarter contracted to 23.2% (from 23.9% in 2Q25 or 70 basis points), largely reflecting higher material costs, including higher warranty accruals in Automotive and Medical.

Gentherm currently conducts its operations in two business segments: Automotive (97% of 2Q26 revenue) and Medical (3%). A summary of results for the second quarter of 2026 are described below.

Automotive segment revenue in 2Q26 totaled \$404.8 million, compared to \$363.9 million in the year-ago quarter, an increase of 11%. During the quarter, strength in Climate & Comfort Electronics was partly offset by softness in Other Automotive.

Medical segment revenue increased 1% in the second quarter of 2026 to \$11.4 million, compared to \$11.2 million in the second quarter of 2025, largely reflecting the result of recent strategic asset dispositions and the unfavorable effect of currency translation.

As discussed previously, on January 29, 2026, Gentherm and Modine Manufacturing Co. (NYSE: MOD), a diversified

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global provider in thermal management technology and solutions, announced a definitive agreement whereby Modine will spin off its Performance Technologies business and simultaneously combine it with Gentherm in a Reverse Morris Trust transaction valued at \$1 billion that is intended to be tax-free for Modine and Modine shareholders for U.S. federal income tax purposes.

The transaction, still expected to close in 4Q26, is subject to THRM shareholder approval and other customary closing conditions, including required regulatory approvals and certain tax opinions. We see this transaction as a win-win for both shareholder groups, as in Gentherm's case, it accelerates sales growth (by building greater scale in thermal management solutions) and enables cross-selling opportunities, while in Modine's position, it provides for the streamlining of assets (now a pure-play climate solutions firm) and the redeployment of resources toward higher-return initiatives in data center cooling, commercial HVAC, and refrigeration technologies. In total, we see both companies benefiting from this agreement.

And last, on July 22, 2026, Gentherm acquired Innovative Medical Equipment, LLC (IME), provider of the ThermoZone thermal therapy device, the hot-and-cold thermal therapy system. Purchase price was not disclosed but we see the acquisition in a positive light, as it expands THRM's thermal management product portfolio and provides strong cross-selling opportunities by leveraging complementary customer bases across additional healthcare channels.

EARNINGS & GROWTH ANALYSIS

Gentherm raised its 2026 guidance following the release of 2Q26 operating results. The company now expects total revenue of \$1.55 billion-\$1.65 billion (versus \$1.50-\$1.60 billion previously) and adjusted EBITDA of \$185 million-\$200 million (versus \$175-\$195 million previously). Capital expenditures for the year are still expected to reach \$45 million-\$55 million.

We are raising our 2026 EPS estimate to \$2.75 from \$2.65 to reflect second quarter 2026 results, which exceeded our quarterly estimate by \$0.10 per share.

At the same time, we are increasing our 2027 EPS estimate to \$3.16 from \$3.05, highlighting our expectations for improving OEM production growth and higher product sales.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on Gentherm is Medium-High, the second-highest rating on our five-point scale. The company's debt is not rated by any of the major credit report agencies currently.

Cash and cash equivalents at the end of 2Q26 totaled \$213 million, compared to \$128 million at the end of 2Q25. In addition, this compares to \$177 million generated in 1Q26.

Net cash provided by operating activities in 2Q26 was \$2.2 million versus \$31.7 million in 2Q25. The variance in year-over-year results was largely the result of foreign exchange hedging losses.

Total liquidity reached \$502 million at the end of 2Q26, compared to \$416 million reported at the end of 2Q25. Liquidity currently consists of \$213 million in cash and \$289 million in a revolving line of credit facility.

Debt (total), which includes both short-term and long-term borrowings, was \$273.3 million at the end of 2Q26, up from total debt of \$209.2 million at the end of 2Q25. Debt levels appear highly manageable in the current environment.

The debt-to-capitalization ratio stands at 27.9% at the end of 2Q26, down from 28.1% at the end of 2Q25. The debt/cap ratio remains modestly below the current peer group average. The five-year average debt/cap ratio is 23.9%.

Share repurchases are part of Gentherm's strategy of returning cash to its shareholders. The company did not repurchase any shares in 2Q26 but repurchased a total of \$40.1 million of its shares in 2025.

Gentherm announced on July 23, 2026, that a new \$400 million repurchase program would replace the existing program and be in effect over the next 3-year period. As of June 30, 2026, the prior program had approximately \$110 million of stock repurchase authorization remaining. The company does not pay a dividend, and we do not expect it to initiate one.

MANAGEMENT & RISKS

On November 8, 2024, Gentherm announced that effective January 1, 2025, President and Chief Executive Officer Phillip Eyler would be succeeded by Bill Presley. Mr. Presley was also appointed by the board to fill the vacancy following Mr. Eyler's resignation from the board.

Jonathan Douyard joined the company's leadership team as executive VP, CFO, and treasurer, effective January 1, 2025. Mr. Douyard succeeds Matteo Anversa, who served as CFO until September, when he became CFO of Logitech International SA. Mr. Douyard joins Gentherm from Shyft Group, where he was CFO since March 2020.

Investors in THRM shares face risks related to supply chain issues, tax matters, and trade policies. The company may also face pressure from weak consumer spending and new regulatory requirements.

COMPANY DESCRIPTION

Gentherm is a global market leader of innovative thermal management and pneumatic comfort technologies for the automotive industry and a leader in medical patient temperature management systems. Automotive products include variable-temperature climate control seats, heated

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automotive interior systems (including heated seats, steering wheels, armrests, and other components), battery performance solutions, cable systems, lumbar and massage comfort solutions, valve system technologies, and other electronic devices. Medical products include patient temperature management systems. The company is also developing several new technologies and products that will help enable improvements to existing products and to create new product applications for existing and new markets. Gentherm has more than 14,000 employees and is a component of the S&P SmallCap 600 Index.

INDUSTRY

Our rating on the Consumer Discretionary sector is Under-Weight. The Consumer Discretionary sector accounted for 9.3% of the S&P 500 as of the end of June. We think diversified investors should have exposure to the sector, but at about 50-75% of the current sector weight.

The sector receives below-average marks on our six-part 'blind' sector rating criteria, which includes growth momentum, valuation, financial strength, and analyst conviction, among other factors.

The sector has underperformed the market year to date, with a loss of 1.1% as of the end of June. The sector underperformed in 2025, with a gain of 5.3%, compared to a gain of 16.4% for the S&P 500. The beta for the sector is 1.1.

Over the past five years, the sector's weighting has ranged from 8% to 12%. The sector's P/E ratio on projected 2027 EPS was 24, above the market multiple. The yield of 0.5% was below the market average. The sector's smoothed earnings growth rate of 10% was equal to the market average.

The Consumer Discretionary sector is a cyclical growth sector. The macroeconomic factors that may affect the performance of stocks in the Consumer Discretionary sector include Nonfarm Payrolls, Personal Income, Fuel Prices, Retail Sales, Auto Sales, Housing Starts, and New and Existing Home Sales, among others. Trends in the dollar can affect gross profit for companies in the sector.

Potential sell signals for stocks in the Consumer Discretionary sector can be a change in the direction or rate of a company's sales or earnings growth, a rapidly rising unemployment rate or signs of an impending recession.

At this stage of the market and economic cycle, our favored industries within the Consumer Discretionary Group include Broadline Retail, Homebuilding, and Home Furnishings.

VALUATION

Gentherm shares have traded between \$27.00 and \$48.35 over the past 52 weeks and are currently trading above the midpoint of this range. To value the stock on a fundamental basis, we use peer group and historical multiple

comparisons, as well as a dividend discount model.

On a price/earnings basis, the shares are trading at 15.5-times our 2026 EPS estimate and at 13.5-times our 2027 forecast, compared to a three-year annual average range of 8-20.

On other valuation measures, the shares are trading at a price/book multiple of 1.5, versus a range of 1.5-2.1; a price/sales multiple of 0.9, versus a range of 1.4-1.9; and a price/cash flow ratio of 9.1, versus a range of 7.9-13.9. They are also trading at a price/EBITDA multiple of 7.6, below the low end of the range of 9.1-12.9.

ByLine

On July 27 at midday, HOLD-rated THRM traded at \$41.65, down \$1.04. (Bill Selesky, 7/27/26)

Genuine Parts Co (GPC)

Rating: **BUY**
Market Cap: **LARGE**
Sector: Consumer Discretionary

Separation plans still on target

- ▶ Genuine Parts recently reported 2Q26 adjusted net income of \$296 million or \$2.15 per share, up 2% from \$292 million or \$2.10 per share in 2Q25. Earnings per share matched our estimate and beat the Street quarterly consensus estimate of \$2.10.
- ▶ The modestly higher second-quarter 2026 earnings largely reflected an increase in comparable sales, benefits from recent acquisitions, and the favorable impact from foreign currency translation.
- ▶ Genuine Parts recently announced its intention to separate the company into two independent, publicly traded companies -- one comprising its automotive parts group (Global Automotive) and the other comprising its industrial parts group (Global Industrial).
- ▶ The deal, targeted for completion in the first quarter of 2027, is expected to qualify as a tax-free transaction for U.S. federal tax purposes.

INVESTMENT THESIS

Our rating on Genuine Parts Co. (NYSE: GPC) is BUY and our price target is \$156 per share, suggesting a total return potential (including the dividend) of about 26% from current prices.

On February 17, Genuine Parts recently announced its intention to separate the company into two independent, publicly traded companies -- one comprising its automotive parts group (Global Automotive) and the other comprising its industrial parts group (Global Industrial). The transaction, targeted for completion in the first quarter of 2027, is expected to qualify as a tax-free transaction for U.S. federal tax purposes.

Value Stocks

We believe that the separation is a value-creating opportunity for GPC, as we think that the industrial parts (higher-growth) business is worth more than Wall Street is currently recognizing (inside the combined company). With the separation, we believe that the investor community will assign a higher valuation to the industrial parts piece, and that the automotive business will be valued on its own durable cash flow, and leading NAPA franchise.

RECENT DEVELOPMENTS

Genuine Parts recently reported 2Q26 adjusted net income of \$296 million or \$2.15 per share, up 2% from \$292 million or \$2.10 per share in 2Q25. Earnings per share matched our estimate and beat the Street quarterly consensus estimate of \$2.10.

The modestly higher second-quarter 2026 earnings largely reflected an increase in comparable sales, benefits from recent acquisitions, and the favorable impact from foreign currency translation.

Revenue for the second quarter of 2026 increased 6% to \$6.537 billion from \$6.164 billion in 2Q25 and beat the Street consensus estimate of \$6.390 billion. On a sequential basis, sales increased 4% from \$6.265 billion in 1Q26.

Gross margin for the quarter increased 20 basis points to 37.9% from 37.7% in the prior-year quarter. The improvement was largely the result of higher sales. Adjusted EBITDA totaled \$567 million, up 4% from \$547 million in 2Q25.

Genuine Parts currently conducts operations in two business segments: Global Automotive (63% of 2Q26 sales) and Global Industrial (37%). For all of 2025, North America accounted for approximately 74% of GPC's revenues, with 16% from Europe and 10% from Australasia.

In 4Q25, GPC realigned its Global Automotive group segment into two separate reportable segments: North American Automotive (contains the company's automotive operations in the U.S. and Canada) and International Automotive (which contains GPC's automotive operations in Europe and Australasia).

North America Automotive sales were \$2.54 billion, up 4.1% from the same period in 2025. The improvement is attributable to a 2.6% increase in comparable sales, a 1.3% benefit from acquisitions, and a 0.2% benefit from foreign currency translation. Segment EBITDA of \$208 million increased 6%, with segment EBITDA margin of 8.2%, up 20 basis points from 2Q25.

International Automotive sales were \$1.59 billion, up 8.2% from the same period in 2025. The improvement is attributable to a 4.9% favorable impact of foreign currency, a 2.7% benefit from acquisitions, and a 0.6% improvement in

comparable sales. Segment EBITDA of \$150 million increased 6%, with segment EBITDA margin of 9.4%, down 20 basis points from 2Q25.

Global Industrial sales were \$2.41 billion, up 7.1% from the same period in 2025. The improvement is attributable to a 6.1% increase in comparable sales, a 0.2% benefit from acquisitions, and a 0.8% favorable impact of foreign currency. Segment EBITDA of \$317 million increased 10%, with segment EBITDA margin of 13.1%, up 30 basis points from the same period of the prior year.

As detailed above, GPC announced its intention to separate the company into two independent, publicly traded companies. Details about the legal names for the new companies, the executive teams, and the two boards have not yet been announced. The transaction is subject to satisfaction of customary conditions, including final approval from the GPC board and filing and effectiveness of a Form 10 registration statement with the U.S. Securities and Exchange Commission. The separation does not require shareholder approval.

We believe the deal is a positive development, as it allows each business to pursue distinct growth strategies, capital allocation priorities, and valuation multiples -- helping investors better recognize the stronger standalone value of each operation. We believe that valuation multiples will improve, providing the opportunity for greater stock-price appreciation in the future.

EARNINGS & GROWTH ANALYSIS

Genuine Parts reaffirmed guidance for 2026 following the release of 2Q26 financial results. The company anticipates consolidated revenue growth of 3.0%-5.5% and adjusted EPS of \$7.50-\$8.00 (\$7.75 at the midpoint). Capital expenditures are anticipated to be \$450-\$500 million for the year, compared to \$1.4 billion in 2025.

Based on the second-quarter operating performance, GPC now expects North American Automotive sales growth of at least 3.5% for the year, down from at least 4.0% previously, but anticipates International Automotive sales growth of at least 6.5% for the year, up from at least 4.5% previously.

We are reaffirming our 2026 EPS estimate of \$7.75, which is currently the midpoint of the financial guidance that GPC provided for diluted earnings per share following 2Q26 earnings results.

At the same time, we are raising our 2027 EPS estimate to \$8.43 from \$8.14 per share to reflect our forecast for modestly higher sales growth and modestly expanding gross margins (for GPC as a standalone company).

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on Genuine Parts is Medium-High, the second-highest rating on our five-point

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program. The company's debt is currently rated by Moody's as Baa1/negative, S&P Global rates their debt as BBB-/negative and Fitch Ratings rates it at BBB-/stable.

The company generates average scores on our most important financial strength criteria of fixed-cost coverage, earnings growth, cash flow generation, and debt/cap profile, and has an above-average rating on dividend growth, as the company has a history of 70 consecutive years of dividend increases.

Debt (total) amounted to \$4.730 billion at the end of the second quarter of 2026, compared to \$6.422 billion at the end of the second quarter of 2025. The company has pledged to lower its debt profile in the coming 12 months.

Debt-to-capitalization ratio stands at 56.2% at the end of 2Q26, up from 53.5% at the end of 2Q25. The debt/cap ratio remains modestly above the current peer-group average. The five-year average total debt/cap ratio is 53.3%.

Cash and cash equivalents totaled \$559 million at the end of 2Q26 versus \$458 million at the end of 2Q25. In addition, the company also has \$1.1 billion in undrawn capacity on the company's revolving credit agreement.

Net merchandise inventories at the end of 2Q26 was \$6.288 billion, up 9% from \$5.774 billion at the end of the second quarter of 2025. The increase was due to lower-than-planned growth within the North America Automotive segment.

Dividends are part of GPC's capital allocation strategy to return cash to shareholders. On February 17, 2026, the company raised its quarterly dividend 3.2% to \$1.0625 or \$4.25 annually, which is the current rate. The yield is about 3.5%.

Genuine Parts has paid a cash dividend every year since going public in 1948 and 2026 marks the 70th consecutive year of increased dividends paid to shareholders.

Share repurchases are also part of GPC's capital allocation strategy. Genuine Parts did not repurchase any shares in 2Q26 or in 2025. In 2024, the company repurchased \$150 million. The company is currently authorized to repurchase about 7-8 million additional shares.

MANAGEMENT & RISKS

William P. Stengel II is CEO and chairman, having moved into those roles in June of 2024. Mr. Stengel joined the company in 2019 as executive vice president and chief transformation officer with nearly two decades of leadership and professional experience. The CFO of the company is Bert Nappier, who has held the position since May 2022.

The auto parts industry generally benefits from an older fleet of American cars (both retail and commercial), with cars over six years old being off warranty and needing an increased

level of repairs. Auto parts retailers also benefit if consumers are driving more miles. Higher gas prices could crimp driving and reduce the wear and tear that boosts the need for auto parts. Weather is another factor. Companies don't benefit from mild weather as car parts aren't subjected to difficult conditions, nor do they benefit from harsh weather when people stay home. The same dynamic applies to the economy. In depressed economies, many consumers can't afford to make repairs, but when economic conditions are healthy, many buy or lease new cars. Demand for auto repairs also depends on the quality of cars (which we believe to be improving) and the length of factory warranties.

Investors in GPC shares face risks. The countercyclical nature of the auto parts industry suggests that when new auto sales are strong, sales at parts retailers will typically be weak, as the need for repairs declines. Although do-it-yourself (DIY) sales have fallen due to the increasing complexity of new vehicles and the improved quality of cars and parts, repair and maintenance work by DIYers will often increase during periods of economic hardship. Nevertheless, the DIFM (do-it-for-me) side of the auto parts industry continues to grow twice as fast as the DIY segment, reflecting the impact of increased vehicle complexity and customer loyalty programs, as well as consumers' interest in quick repairs.

Amazon is building relationships with parts suppliers and is likely to become a bigger player in the market. While Amazon is a formidable competitor and will probably grab some initial share from very sophisticated DIYers, parts stores should continue to play a valuable role for less knowledgeable DIYers and for professionals who need the massive inventory and intraday delivery offered by GPC's NAPA stores.

The company could also be hurt by currency fluctuations that overshadow the underlying performance of the business. In addition, GPC may have difficulty passing on higher commodity costs to customers. Finally, although GPC has historically grown through M&A, it may have difficulty integrating acquired businesses and may not be able to find attractive acquisition candidates in the future.

COMPANY DESCRIPTION

Genuine Parts, established in 1928 and based in Atlanta, is a distributor of automotive replacement parts (under the NAPA brand) and accessories in the U.S., Canada, Mexico, and Australasia. The Automotive Parts Group has over 6,600 stores operates across the U.S., Canada, Mexico, Australasia, France, the U.K., Ireland, Germany, Poland, the Netherlands, Belgium, Spain and Portugal, while the Industrial Parts Group serves customers in the U.S., Canada, Mexico and Australasia. The company has about 65,000 employees and the common shares are a component of the S&P 500 index.

VALUATION

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The GPC shares have traded between \$90.78 and \$151.57 over the past 52 weeks and are currently trading near the midpoint of this range. To value the stock on a fundamental basis, we use peer group and historical multiple comparisons, as well as a dividend discount model.

Using a price/earnings (P/E) multiple as our starting point, the common shares of Genuine Parts are currently trading at 16.0-times our 2026 EPS estimate and at 14.7-times our 2027 forecast, compared to a four-year historical annual average range of 14-19.

On other valuation measures, the shares are trading at a price/book multiple of 4.1, versus a range of 4.1-5.0; a price/sales multiple of 0.8, versus a range of 0.8-0.9; and a price/cash flow ratio of 13.4, versus a range of 13.5-17.3. They also are trading at a price/EBITDA multiple of 11.5, above the midpoint of the range of 9.3-11.7.

We believe that the shares offer meaningful value, on both an historical basis and compared to the peer group. Additionally, the dividend yield typically outperforms the S&P 500 yield, providing investors with a better-than-average income component. We maintain our BUY rating on the GPC shares, with a target price of \$156.

ByLine

On July 24, BUY-rated GPC closed at \$124.21, up \$4.16. (Bill Selesky, 7/24/26)

Halliburton Co (HAL)

Rating:	BUY
Market Cap:	LARGE
Sector:	Energy

Price weakness offers a buying opportunity

- ▶ Halliburton recently reported 2Q26 adjusted net income of \$461 million or \$0.55 per share, comparable with \$472 million or \$0.55 per share in 2Q25. EPS matched our estimate but beat the StreetAccount Consensus estimate of \$0.54.
- ▶ The comparable 2Q26 earnings reflected lower year-over-year operating income in the C&P division (lower service activity in the Middle East region), offset by higher income in the D&E segment (North America land strength).
- ▶ Halliburton does not provide full-year financial guidance, but CEO Jeff Miller highlighted on the July 21 2Q26 conference call that he was 'pleased with second-quarter results.'
- ▶ Additionally, CEO Miller believed that the global outlook for Halliburton was strong, and he expected the company's differentiated technology and value proposition would set the stage for revenue growth and margin expansion moving forward.

INVESTMENT THESIS

Our rating on Halliburton Co. (NYSE: HAL), a global energy leader in the oilfield services and equipment (OFSE) industry, is BUY. Halliburton, in business since 1919, historically generates robust earnings growth when crude oil prices are rising or when E&P companies increase their capital spending budgets. The higher capital budgets provide Halliburton with the chance to generate higher sales and earnings from the well-drilling services they provide.

We believe that HAL is well positioned in key energy markets, including Latin America, the Middle East, and West Africa, where we see improving activity and the strongest long-term outlook, in spite of the continuing U.S./Iran conflict. Not including the Middle East, Halliburton sees international sales growth in the low double digits year over year, while North America rig activity is seeing tightening frac capacity, stronger demand, and more supportive pricing. At the same time, our EPS estimates reflect a modestly softer revenue and margin outlook as well as slower near-term drill rig activity in the Middle East. We reaffirm our BUY rating, but are reducing our price target to \$40 from \$45.

RECENT DEVELOPMENTS

Halliburton recently reported 2Q26 adjusted net income of \$461 million or \$0.55 per share, comparable with \$472 million or \$0.55 per share in 2Q25. EPS matched our estimate but beat the StreetAccount consensus estimate of \$0.54.

The comparable 2Q26 earnings reflected lower year-over-year operating income in the C&P division, offset by higher income in the D&E segment.

Revenue for 2Q26 increased 4% from the prior-year quarter to \$5.714 billion and beat the StreetAccount consensus forecast of \$5.501 billion. On a sequential basis, sales grew 6% from \$5.402 billion in the first quarter of 2026.

By business segment, Completion & Production (C&P) revenue increased 1% to \$3.202 billion, while operating income decreased 8% to \$474 million (from \$513 million in 2Q25). The sales increase was primarily driven by increased stimulation activity in the Western Hemisphere and improved well intervention services in Asia, while the decline in operating income was mostly driven by lower specialty chemicals activity in North America and lower activity across multiple product service lines in the Middle East, largely the result of the US/Iran conflict.

Drilling & Evaluation (D&E) revenue increased 7% to \$2.512 billion, while operating income improved 8% to \$338 million. The revenue improvement was driven by increased drilling-related services and higher wireline activity in North America and Europe/Africa, and increased drilling-related services in Asia. Partly offsetting these increases were lower software sales globally, decreased project management activity in Latin America, and lower wireline activity in the Middle East. Segment operating income increased largely

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due to positive pricing action and higher margins.

For the second quarter of 2026, Halliburton generated 40% of 2Q26 revenue from North America, 23% from the Middle East/Asia, 20% from Latin America, and 17% from Europe/Africa/CIS.

EARNINGS & GROWTH ANALYSIS

Halliburton does not provide full-year financial guidance, but CEO Jeff Miller highlighted on the July 21 2Q26 conference call that he was 'pleased with second-quarter results.' Additionally, CEO Miller believed that the global outlook for Halliburton was strong, and he expected the company's differentiated technology and value proposition would set the stage for revenue growth and margin expansion moving forward.

We are lowering our 2026 EPS estimate to \$2.34 from \$2.78 per share to reflect our forecast calling for modestly lower 3Q26 revenue and margin growth and slower (near-term) activity in the Middle East region.

We are reducing our 2027 EPS estimate to \$3.05 from \$3.32 per share to largely reflect our expectations for continuing uneven levels of E&P capital (capex) spending together with slower drill activity in Middle East regions.

FINANCIAL STRENGTH & DIVIDEND

We rate Halliburton's financial strength as Medium-High, the second highest rating on our five-point scale. HAL receives above-average scores on our financial strength criteria for fixed-cost coverage and profitability and receives average scores for debt/cap levels, dividend coverage, and cash flow.

Halliburton's credit profile is currently rated BBB+/stable by Standard & Poor's, BBB+/stable by Fitch Ratings and Baa1/stable by Moody's. All three credit ratings are considered investment-grade, providing what we believe to be a competitive advantage for the company.

Debt, consisting of mostly long-term obligations, reached \$7.071 billion at the end of 2Q26, down from \$8.561 billion at the end of 2Q25. The company has an undrawn \$3.5 billion revolving credit facility.

The debt-to-capitalization ratio was 43.5% at the end of 2Q26 compared to 46.2% in the year-ago quarter. The debt/cap ratio is modestly above the peer average and has averaged 53.5% over the past five years.

Halliburton has repaid \$2.95 billion in debt since the beginning of 2020 and has made debt repayment a top priority in the company's business strategy. More recently, in 4Q25, HAL retired \$382 million of senior notes due November 2025.

Cash and cash equivalents were \$2.048 billion at the end of 2Q26, up from \$2.038 billion a year earlier. This also

compares to \$2.003 billion generated in the first quarter of 2026.

Cash from operations totaled \$824 million in 2Q26, down from \$896 million in the second quarter of 2025. In addition, this compares to \$273 million generated in the first quarter of 2026.

Dividends are part of HAL's capital allocation strategy. On January 23, 2024, Halliburton announced a 6% increase in its quarterly dividend to \$0.17 per share, or \$0.68 annually, which is the current rate. The yield is 2.05%. Our dividend estimates are \$0.74 for 2026 and \$0.76 for 2027.

Share repurchases are also part of Halliburton's strategy of capital allocation. In 2Q26, HAL repurchased \$200 million of its shares (with a total of \$1.0 billion spent for FY25). It has about \$2.2 billion remaining on its current authorization and we expect it to buy back about \$1 billion of stock annually until the authorization is completed.

MANAGEMENT & RISKS

Jeff Miller, the company's president since 2014 and CEO since 2017, became chairman in 2019. He joined Halliburton in 1997 and has extensive experience in international oilfield operations. Eric Carre is the company's CFO and joined Halliburton in 1991.

Regarding risk, the energy services industry is one of the most volatile and unpredictable in the 'old economy.' The main investment risk is the overall health of the global economy, though services companies also face significant geopolitical risks. In North America, E&P spending is subject to changes in oil and natural gas prices -- more so in the near term than any other region due to the dominance of the spot market and independent producers.

COMPANY DESCRIPTION

Founded in 1919 (by Erle P. Halliburton as the New Method Oil Well Cementing Co.), Halliburton today is one of the world's largest energy services companies, with operations in more than 70 countries. The company helps customers maximize value throughout the lifecycle of the reservoir -- from locating hydrocarbons and managing geological data, to drilling and formation evaluation, well construction and completion, and the optimization of production. Halliburton employs 46,000 people and the shares are a component of the S&P 500 index.

INDUSTRY

Our rating on the Energy sector is Market-Weight. The Energy sector accounted for 3.0% of the S&P 500 as of the end of June. We think diversified investors should have exposure to the sector, in line with the current sector weight.

The sector receives average marks on our six-part 'blind' sector rating criteria, which includes growth momentum, valuation, financial strength, and analyst conviction, among

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other factors.

The sector has outperformed the market year to date with a gain of 18.0% as of the end of June. The sector underperformed the market in 2025, with a gain of 5.0%, compared to a gain of 16.4% for the S&P 500. The beta for the sector is 0.0.

Over the past five years, the sector's weighting has ranged from 2% to 10%. The sector's P/E ratio on projected 2027 EPS was 13, below the market multiple. The yield of 2.2% was above the market average. The sector's smoothed earnings growth rate of 6% was below the market average of 10%.

The Energy sector is primarily a defensive, counter-cyclical sector. The macroeconomic factors that may affect the performance of stocks in the Energy sector include the Price of Oil, Global GDP, and Crude Oil Inventories.

Potential sell signals for stocks in the Energy sector can be extremely high prices of oil - say, above \$120 per barrel of the benchmark West Texas Intermediate crude oil - which tend to signal a cyclical peak and often precede an extended downward move. At the same time, if prices fall below \$50 per barrel, the fixed costs that are part of the infrastructure supporting the Energy industry make profitability challenging.

At this stage of the market and economic cycle, our favored industry within the Energy sector is Integrated Oil.

VALUATION

Halliburton common shares have traded between \$20.39 and \$43.59 over the past 52 weeks and currently are trading above the midpoint of this range. To value the stock on a fundamental basis, we use peer-group and historical multiple comparisons, as well as a dividend discount model.

Using a price/earnings (P/E) multiple as our starting point, the common shares of Halliburton are currently trading at 14.1-times our 2026 EPS estimate and at 10.8-times our 2027 forecast, compared to a 14-year annual historical average range of 12-25.

On other valuation metrics, the shares are trading at a price/book multiple of 2.1, versus a range of 6.6-22.1; a price/sales multiple of 1.2, versus a range of 2.8-7.9; and a price/cash flow ratio of 5.8, versus a range of 15.0-24.1. They also are trading at a price/EBITDA multiple of 4.9, below the low end of the range of 58.2-95.0.

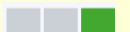
Summarizing valuation metrics, we believe that Halliburton shares are attractive at current prices, and we like the company's leading industry position, financial strength, and dividend program. We further believe that the recent restructuring plan will help in lowering the company's cost structure, helping it to generate profit growth faster than prior years, once industry fundamentals (and commodity price)

show sustainable improvement.

ByLine

On July 22, BUY-rated HAL closed at \$33.03, down \$0.16. (Bill Selesky, 7/22/26)

Harley-Davidson Inc (HOG)

Rating: **BUY** 
Market Cap: **MID**
Sector: Consumer Discretionary

Guidance raised

- ▶ Harley-Davidson recently reported a 2Q26 adjusted net profit of \$80 million or \$0.75 per share, compared to a net profit of \$108 million or \$0.88 per share in 2Q25. EPS beat our quarterly estimate of \$0.67 and the Street estimate of \$0.62.
- ▶ The lower 2Q26 earnings reflected lower (consolidated) company revenue, driven largely by an HDFS revenue decrease of 55%, which more than offset higher global motorcycle shipments (+9%) and continuing cost reduction efforts.
- ▶ Harley-Davidson has raised its 2026 financial guidance. The company now expects HDMC global motorcycle retail sales in the range of 133,500-138,500 units and operating income in the range of \$10 million to \$50 million.
- ▶ We are raising our 2026 EPS estimate to \$2.51 from \$0.42 to reflect second-quarter results, which surpassed our quarterly estimate, and upwardly revised financial guidance provided by the company.

INVESTMENT THESIS

Our rating on the shares of Harley-Davidson Inc. (NYSE: HOG) is BUY and our price target is \$30 per share, suggesting a total return potential of about 21% from current prices, including the dividend.

In addition to its instantly recognizable brand name, the company supports an extremely loyal customer base and normally strong pricing power, a power that continues to support premium margins and significant free cash flow generation, even during cyclical downturns.

Despite the company's recent execution problems (inventory management, supply-chain inefficiencies, subpar North America retail sales, and the continuing challenge of attracting younger riders), we believe that operational performance has slowly turned the corner. HOG's recent restructuring efforts should generate stronger operating and financial performance. This includes disciplined capital returns, revamped Parts, Apparel, and Financial Services offerings, and the strategies of a new management team, led by CEO Artie Starrs. We see a significantly better risk/reward profile for investors versus just 12 months ago. We reaffirm our BUY rating.

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RECENT DEVELOPMENTS

Harley-Davidson recently reported a 2Q26 adjusted net profit of \$80 million or \$0.75 per share, compared to a net profit of \$108 million or \$0.88 per share in 2Q25. EPS beat our quarterly estimate of \$0.67 and the Street estimate of \$0.62.

The lower 2Q26 earnings reflected lower company revenue, driven largely by an HDFS revenue decrease of 55%, which more than offset higher global motorcycle shipments (+9%) and continuing cost-reduction efforts.

Revenue in the second quarter was \$1.230 billion, down 6% from \$1.307 billion a year ago. Sales results exceeded the Street consensus estimate \$1.120 billion. Sequentially, sales were up from \$1.173 billion in 1Q26.

Global motorcycle shipments in the second quarter of 2026 increased by 9% to 39,209 units, compared to 35,837 units shipped in the second quarter of 2025. The improvement was attributable to stronger North America retail demand.

Harley-Davidson reports revenue in three business segments: HDMC, which include the design, manufacturing, and marketing of Harley-Davidson motorcycles and related products; Harley-Davidson Financial Services (HDFS), and LiveWire, which includes the design and marketing of LiveWire electric motorcycles and related products. A summary of 2Q26 performance is below.

At Harley-Davidson Motor Company (HDMC), second-quarter 2026 revenue increased 6% to \$1.104 billion, compared to \$1.044 billion in the second quarter of 2025, largely the result of higher shipments. Parts & Accessories revenue was down 5% to \$177 million, while Apparel sales were higher by 2% when compared to the prior year at \$62 million. For the second quarter, Retail Motorcycle Sales were up 1% year over year, as sales in North America increased 3%. EMEA revenue fell 9% while results in Asia Pacific were comparable to the prior year. Latin America sales were up 4%.

At Harley-Davidson Financial Services (HDFS), second-quarter 2026 sales decreased 55% year over year to \$117 million, while the division reported an operating profit of \$22 million for the quarter, down from \$70 million in the prior-year quarter. The lower sales were the result of lower retail and wholesale finance receivables at lower yields. The lower year-over-year operating income was the result of lower net interest income and higher operating expense. On the expense side, both interest expense and the provision for credit loss expense were lower, which was due to the decreased size of the retail loan portfolio and related debt.

LiveWire revenue for the second quarter of 2026 increased 52% to \$9 million, while the division posted an operating loss of \$18 million, narrower than the \$19 million loss reported in the year-ago quarter. The revenue improvement was mostly attributable to increased unit sales of electric motorcycles

and electric bike units, partially offset by impacts from electric motorcycle pricing and incentives during the quarter. Management once again acknowledged that no further capital expenditures will be dedicated to the unit until EV bike sales pick up materially.

Tariff costs during the second quarter of 2026 were \$22 million and the company reaffirmed its projection that for full year 2026, they expect tariff costs to be in the range of \$75-\$90 million, down from their earlier projection of \$75-\$105 million.

As discussed previously, along with their 2Q25 earnings release, Harley-Davidson announced a partnership with KKR and PIMCO. The partnership transformed HDFS into a capital-light financing business through the sale of existing and future retail loans, while maintaining its strategic value to Harley-Davidson, its dealers, customers, and investors. The sale of more than \$5 billion of existing retail loan receivables is valued at a premium to par.

Under the terms of the agreement, HDFS sold a 4.9% common equity interest to investment vehicles managed by KKR and PIMCO (total of 9.8% stake) at an implied valuation of about 1.75-times price to post-transaction book value. Harley-Davidson has retained control of HDFS, which will continue to originate and service existing and new consumer loans. The company expects HDFS operating income to grow back toward pre-transaction levels over time. Harley-Davidson used the approximately \$1.25 billion of cash unlocked through the transaction to reinvest to support demand-driven investments, reducing \$450 million of HDI debt, and returned approximately \$500 million to shareholders.

Our view of this transaction was positive, as it reduced HOG's exposure to credit and liquidity risk. Additionally, it freed up \$1.25 billion in cash and off-loads future loan risk to external investors without giving up operational control. All-in all, we viewed it as a positive development for HOG.

EARNINGS & GROWTH ANALYSIS

Harley-Davidson raised 2026 financial guidance following the release of second quarter 2026 results. The company now expects HDMC global motorcycle retail sales in the range of 133,500-138,500 units (previously 130,000-135,000 units) and operating income in the range of \$10 million to \$50 million (previously a \$40 million loss to a \$10 million profit). Capital expenditures are expected to remain in the range of \$175-\$200 million.

We are raising our 2026 EPS estimate to \$2.51 from \$0.42 to reflect both second-quarter results, which surpassed our quarterly estimate and upwardly revised financial guidance provided by the company.

At the same time, we are increasing our 2027 EPS estimate to \$2.79 from \$1.92 to reflect our expectations for a modestly

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better sales environment, while also highlighting better sourcing, moderating tariffs, and cost improvements.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on Harley-Davidson is currently Medium-Low. Harley's debt is rated Baa3/stable by Moody's and BBB-/stable by S&P. (Keep in mind that a large portion of debt sits inside the HDFS business segment).

Harley-Davidson currently scores below average on our key financial strength criteria of debt levels, fixed-cost coverage, profitability, and cash flow generation. We consider dividend coverage as average at present.

Cash and cash equivalents amounted to \$1.896 billion at the end of 2Q26, compared to \$1.588 billion at the end of 2Q25. In addition, this compares to \$1.805 billion posted at the end of the first quarter of 2026.

Cash from operating activities (cash flow) was negative \$266.7 million for the first six months of 2026 (ended June 30, 2026) compared to negative \$89.9 million for the first six months of 2025 (ended June 30, 2025).

Dividends are part of HOG's capital allocation strategy. HOG raised its quarterly dividend by 4.2% on February 13, 2026, to \$0.1875 per share, or \$0.75 annually, which is the current rate. The yield is about 2.88%. Our dividend estimates are \$0.75 per share for both 2026 and 2027.

Share repurchases are also part of HOG's capital allocation strategy. In 2Q26, the company repurchased \$1.3 million of its shares (and 7.9 million shares year-to-date) and has approximately \$244 million left on the program.

MANAGEMENT & RISKS

On August 4, 2025, Harley-Davidson announced the appointment of Artie Starrs as the company's new president and chief executive officer, effective October 1, 2025. Mr. Starrs succeeded Jochen Zeitz, who had been the CEO, president, and chairman of Harley-Davidson since February 2020. Mr. Starrs previously served as the CEO of Topgolf and has extensive experience in brand management and global operations.

Jonathan Root was named CFO in June 2023. Chief Administrative Officer Julie Anding became VP, Inclusive Stakeholder Management, on January 1, 2022; her former position of CAO has been eliminated. In place of the CAO, the company created the new position of chief human resources officer and named Tori Termaat to the post. In June 2022, the company named Tralisa Maraj as CFO at LiveWire.

Harley-Davidson and its peers are highly sensitive to economic weakness, which can limit consumer credit and have an outsized impact on discretionary spending. The company also has exposure to loan losses, which tend to

rise during times of economic uncertainty. In addition, Harley faces risks from aggressive price competition. Motorcycle manufacturers are also subject to regulatory changes over which they have limited control.

COMPANY DESCRIPTION

Founded in 1903 and based in Milwaukee, Harley-Davidson became a public company in 1986. The company sells Harley-Davidson motorcycles, as well as motorcycle parts, accessories, general merchandise, and related services. Harley-Davidson Financial Services (HDFS) provides wholesale and retail financing and insurance to Harley-Davidson dealers and their retail customers in the United States, Canada and other international markets. The company's products are sold to retail customers through a network of independent dealers. The common shares are a component of the S&P MidCap 400 index, and the company employs approximately 5,500 people.

INDUSTRY

Our rating on the Consumer Discretionary sector is Under-Weight. The Consumer Discretionary sector accounted for 9.3% of the S&P 500 as of the end of June. We think diversified investors should have exposure to the sector, but at about 50-75% of the current sector weight.

The sector receives below-average marks on our six-part 'blind' sector rating criteria, which includes growth momentum, valuation, financial strength, and analyst conviction, among other factors.

The sector has underperformed the market year to date, with a loss of 1.1% as of the end of June. The sector underperformed in 2025, with a gain of 5.3%, compared to a gain of 16.4% for the S&P 500. The beta for the sector is 1.1.

Over the past five years, the sector's weighting has ranged from 8% to 12%. The sector's P/E ratio on projected 2027 EPS was 24, above the market multiple. The yield of 0.5% was below the market average. The sector's smoothed earnings growth rate of 10% was equal to the market average.

The Consumer Discretionary sector is a cyclical growth sector. The macroeconomic factors that may affect the performance of stocks in the Consumer Discretionary sector include Nonfarm Payrolls, Personal Income, Fuel Prices, Retail Sales, Auto Sales, Housing Starts, and New and Existing Home Sales, among others. Trends in the dollar can affect gross profit for companies in the sector.

Potential sell signals for stocks in the Consumer Discretionary sector can be a change in the direction or rate of a company's sales or earnings growth, a rapidly rising unemployment rate or signs of an impending recession.

At this stage of the market and economic cycle, our favored industries within the Consumer Discretionary Group include

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Broadline Retail, Homebuilding, and Home Furnishings.

VALUATION

HOG common shares have traded between \$17.09 and \$31.25 over the past 52 weeks and are currently trading above the midpoint of this range. To value the stock on a fundamental basis, we use both peer group and historical multiple comparisons, as well as a dividend discount model.

On a price/earnings basis, the common shares are trading at 10.2-times our 2026 EPS estimate and at 9.1-times our 2027 forecast, compared to a 4-year annual average range of 7-16.

Using other valuation measures, the shares are trading at a price/book multiple of 0.9, versus a range of 1.2-1.7; a price/sales multiple of 0.7, versus a range of 1.1-1.6; and a price/cash flow ratio of 15.0, versus a range of 5.7-12.4. They are also trading at a price/EBITDA multiple of 6.5, below the low end of the range of 8.1-11.5.

Summarizing valuation metrics, we view the HOG shares as compelling, and we expect Harley Davidson to show an ongoing trend of improving retail sales. We have a supportive view the new CEO, Artie Starrs, and like his approach of concentrating on improving inventory management, strengthening cost efficiencies, and increasing 'speed-to-market' product deliveries. We believe that a BUY rating is warranted for longer-term, risk-tolerant investors.

ByLine

On July 27 at midday, BUY-rated HOG traded at \$24.67, down \$0.82. (Bill Selesky, 7/27/26)

Hasbro Inc (HAS)

Rating: **BUY** 
Market Cap: **LARGE**
Sector: Consumer Discretionary

Raising price target

- ▶ HAS lifted guidance for its full fiscal year and has now shown 10 consecutive quarters of earnings growth.
- ▶ The popular Magic: The Gathering line is a bright spot. In 2Q, the franchise was helped by the record-breaking release of Marvel Super Heroes.

INVESTMENT THESIS

Our rating on Hasbro Inc. (NYSE: HAS) is BUY. The HAS shares have underperformed over the past three months, and we see this as a buying opportunity. Hasbro continues to prove its recovery is on track with 10 consecutive quarters of earnings growth. The popular Magic: The Gathering franchise has been a bright spot, with a record year in 2025. It continues to outperform in 2026. In 2Q, the franchise drove results, delivering revenue growth of 27%, helped especially by the record-breaking release of Marvel Super Heroes. Last quarter, the company said it hit another goal early, with one

billion customers, ahead of its target to do so by 2027. Second-quarter earnings again topped expectations on revenue growth of 16%. In addition, the company lifted full-year guidance.

Management also gave an update on a recent cyber-attack and gave a monetary impact of about \$40 million so far. It confirmed that business is operating as normal following the breach.

HAS shares appear attractively valued at current prices around \$89, towards the middle of their 52-week range of \$70-\$107. From a technical standpoint, the shares have been in a bullish pattern of higher highs and higher lows since November 2023.

Based on recent trends, raised guidance, and the continued strength of the Magic: The Gathering franchise, our rating remains BUY. We are boosting our 12-month target price to \$105 from \$90, implying a return of 15% from current levels.

RECENT DEVELOPMENTS

In the past three months, HAS shares underperformed, losing 2% compared to a gain of 6% for the S&P 500. Over the past year, the shares outperformed, up 15%, compared to gains of 19% for the index and a decline of 2% for the Consumer Discretionary sector ETF IYC. The stock has underperformed both benchmarks over the past five years. The beta on HAS is 0.89.

On July 21, Hasbro reported results for 2Q26 and raised its full-year guidance. For 2Q, the company reported adjusted net earnings per diluted share of \$1.28, down 1% from the prior-year quarter, but well above the consensus estimate of \$1.13. Revenue grew 16% to \$1.1 billion. Gross margin narrowed 90 basis points to 76.1%, while adjusted operating margin decreased 40 basis points to 24.8%. The adjusted operating profit was \$282 million. In the first six months, HAS earned \$2.76 per share versus \$2.35 in the same period the year before.

Management gave an update on the security breach discovered on March 28 and said they had some disruptions through 2Q but have now returned to routine practices. The company pins the direct, monetary impact at \$11 million for the period ended June 28. It estimates the revenue impact at \$25 million. It does expect to incur more costs related to the breach in future periods.

Hasbro raised its guidance for full-year 2026. It now sees revenue up 5%-7% versus the prior view of 3%-5% growth in constant currency. It now expects adjusted operating margin of 25%-26%, up from 24%-25% and adjusted EBITDA of \$1.45 billion, up from \$1.40 billion-\$1.45 billion.

EARNINGS & GROWTH ANALYSIS

Hasbro has two major business segments: Wizards of the Coast and Digital Gaming (58% of 2Q revenue) and

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Consumer Products (41%). A third segment, Entertainment (1%), is much smaller and less material. Results and outlooks for these businesses are detailed below.

For 2Q, Wizards of the Coast and Digital Gaming grew 27% on revenue of \$664 million. This segment was driven by growth in Magic: The Gathering, which was up 32%. The segment got a boost from the record-breaking release of Marvel Super Heroes as well as Secrets of Strixhaven. In 2Q, the Consumer Products segment saw revenue increase 5% to \$463 million, while Entertainment revenue declined 20%.

Management keeps an eye on costs. Gross margin narrowed 90 basis points to 76.1%, while adjusted operating margin decreased 40 basis points to 24.8%. Management continues to work to mitigate the impact of tariffs. Currently, approximately 50% of the company's U.S. toy and game volume originates from China. Hasbro has plans in place to bring that exposure down to less than 40% by 2027 through accelerated geographic diversification.

Turning to our estimates, based on recent results, and management's new improved guidance, we are maintaining our 2026 adjusted EPS estimate of \$5.95 and our 2027 adjusted EPS estimate of \$6.40.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on Hasbro is Medium, the midpoint of our five-point scale.

Cash and cash equivalents totaled \$621 million at the end of 2025, up from the \$695 million at the end of 2024. Long-term debt totaled \$2.8 billion, down from \$3.4 billion a year earlier. The long-term debt/capitalization ratio jumped to 83.0% versus 74.0% in the prior-year quarter. In 2026, the company continues to plan to invest in core businesses, return cash to shareholders through dividends and share repurchases, and to pay down debt.

Hasbro pays a dividend. The current rate is \$0.70 per share or \$2.80 annually, which yields about 3.4%. Our dividend estimates are \$2.80 for both 2026 and 2027.

MANAGEMENT & RISKS

Chris Cocks has served as Hasbro's CEO since February 2022. He joined the company in 2021 and previously served as president and COO. Gina Goetter is CFO and COO. Richard S. Stoddart serves as chairman of the board.

On March 28, Hasbro suffered a security breach that disrupted the company's systems. On April 23, management said the unauthorized attack was contained and they were working to get all systems back up safely and securely.

In February 2025, Hasbro launched its new strategy for growth called 'Playing to Win.' In 1Q26, management said that the plan had helped Hasbro reach one billion customers,

ahead of their target to do so by 2027. This was from a level of 500 million customers in early 2025. The strategy's financial goals are to realize mid-single revenue growth and 50-100 basis points of annual operating profit margin expansion. It also targets \$1 billion in gross cost savings and a capital allocation with a gross debt to adjusted EBITDA ratio of 2.5-times.

Mr. Cocks introduced the new strategy by saying it focuses on Hasbro's long-standing strengths -- Play and Partners. Playing to Win hopes to achieve its financial goals through five building blocks: 1) Profitable Franchises, which builds out the fundamentals of profitable, play-focused brands; 2) Aging Up, which intends to increase the appeal of play for fans aged 13 and above across Hasbro's brands; 3) Everyone Plays, which expands the company's reach in areas it identifies as opportunities, including girls and emerging markets; 4) Digital & Direct, which builds out video games, services, and e-commerce capabilities; and 5) Partner-Scaled, which drives profitable reach through outstanding retail and licensing partnerships.

Investors in HAS shares face risks. Macro threats include tariff impact, economic downturns, and changing geopolitical relationships, including with China, where Hasbro both manufactures and sells products. Hasbro is also subject to consumer spending, as toys are considered discretionary. Consumers are also fickle in their preferences, and toys can be hot or cold in a flash. Hasbro's three major shareholders own 32% of total shares outstanding, which could make it difficult for minority shareholders to implement change.

COMPANY DESCRIPTION

Hasbro is a major producer of toys and games, including digital games. Its leading brands include Nerf, Peppa Pig, Monopoly, Play-Doh, Magic: The Gathering, Dungeons & Dragons, and Transformers. The company also is licensed to manufacture Star Wars, Jurassic Park, and Marvel toys. It is long been based in Pawtucket, Rhode Island, but announced in September that it will move its headquarters to Boston and expects 700 people to relocate there. Overall, it has 5,000 employees.

INDUSTRY

Our rating on the Consumer Discretionary sector is Under-Weight. The Consumer Discretionary sector accounted for 9.3% of the S&P 500 as of the end of June. We think diversified investors should have exposure to the sector, but at about 50-75% of the current sector weight.

The sector receives below-average marks on our six-part 'blind' sector rating criteria, which includes growth momentum, valuation, financial strength, and analyst conviction, among other factors.

The sector has underperformed the market year to date, with a loss of 1.1% as of the end of June. The sector underperformed in 2025, with a gain of 5.3%, compared to a

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gain of 16.4% for the S&P 500. The beta for the sector is 1.1.

Over the past five years, the sector's weighting has ranged from 8% to 12%. The sector's P/E ratio on projected 2027 EPS was 24, above the market multiple. The yield of 0.5% was below the market average. The sector's smoothed earnings growth rate of 10% was equal to the market average.

The Consumer Discretionary sector is a cyclical growth sector. The macroeconomic factors that may affect the performance of stocks in the Consumer Discretionary sector include Nonfarm Payrolls, Personal Income, Fuel Prices, Retail Sales, Auto Sales, Housing Starts, and New and Existing Home Sales, among others. Trends in the dollar can affect gross profit for companies in the sector.

Potential sell signals for stocks in the Consumer Discretionary sector can be a change in the direction or rate of a company's sales or earnings growth, a rapidly rising unemployment rate or signs of an impending recession.

At this stage of the market and economic cycle, our favored industries within the Consumer Discretionary Group include Broadline Retail, Homebuilding, and Home Furnishings.

VALUATION

HAS shares appear attractively valued at current prices around \$89.50, towards the middle of their 52-week range of \$70-\$107. From a technical standpoint, the shares have been in a bullish pattern of higher highs and higher lows since November 2023.

On the fundamentals, at the current share price, HAS is trading at 14-times our projected 2027 earnings, also towards the bottom of its historical range of 11-18 and above Mattel. In the U.S., Mattel is the one big competitor to Hasbro, with smaller competition from Funko Inc. There are other competitors from Asia. Hasbro's dividend currently yields 3.2%, while competitors don't pay a dividend. On price/sales, the shares are trading at 2.6, towards the high end of its five-year range of 1.2-2.8. Based on recent trends, management's raised guidance, and the continued strength of the Magic: The Gathering franchise, our rating remains BUY. We are boosting our 12-month target price to \$105 from \$90, implying a return of 15% from current levels.

ByLine

On July 22, BUY-rated HAS closed at \$89.04, up \$0.26. (Christine Dooley, 7/22/26)

International Business Machine (IBM)

Rating: **BUY** 
Market Cap: **LARGE**
Sector: Information Technology

Results meet lowered expectations

- ▶ IBM delivered adjusted 2Q26 revenue and non-GAAP EPS in line with its revised outlook, after the company in mid-July lowered its quarterly guidance. Revenue rose 1% in GAAP (1% in constant currency) and non-GAAP EPS rose 5% year over year.
- ▶ The adjusted pretax margin of 19.2% for 2Q26 expanded from 18.8% in 2Q25. Management lowered revenue growth expectations for 2026 slightly while maintaining its free cash flow (FCF) growth guidance for 2026.
- ▶ While there may be some overhang from the factors that impacted 2Q26, we continue to view IBM as well-positioned for the age of AI.
- ▶ We are reiterating our BUY rating and our 12-month target price of \$280.

INVESTMENT THESIS

BUY-rated International Business Machines Corp. (NYSE: IBM) was little changed in a deeply down market on July 23, after Big Blue reported 2Q26 revenue and non-GAAP EPS that was about in line with its recently revised outlook. During 2Q26, Software revenue rose 5%, while Infrastructure revenue declined 7% year over year in both GAAP and in constant currency; Consulting revenue was about flat in GAAP and up 1% in constant currency.

In April, IBM warned of a decline in Infrastructure revenue in 2Q26 given comparisons against the very strong z17 launch in 2Q25. The company, however, determined by mid-July that actual 2Q26 Infrastructure performance was worse than expected. Late in 2Q26, customers shifted purchases away from mainframe computer and related software toward non-IBM servers and storage to lock in purchases ahead of anticipated price increases. While IBM was aware of the trend in component and particularly memory pricing, the company did not fully anticipate the magnitude of this shift. CEO Arvind Krishna acknowledged that the company failed to execute in 2Q26, and IBM is accelerating existing cost-alignment and restructuring programs, as well as undertaking new initiatives in response to this performance.

Despite the business falloff in 2Q26 and some likely overhang through the second half of 2026, the company's underlying fundamentals remain sound. Demand for generative AI and hybrid cloud solutions reflects the improving enterprise environment. AI is instrumental to IBM's future, as the company's vast roster of enterprise clients across the tech universe seeks to upgrade their IT infrastructures with a trusted partner. In our view, IBM is positioned well for the age of AI, given its incumbent client base comprised of the world's largest enterprises and its growing expertise in developing generative AI applications. The company is also moving down-market and exploring opportunities in the mid-sized enterprise space.

The company closed the Confluent acquisition in March 2026, while the 2025 acquisition of HashiCorp enhances

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infrastructure and security automation for hybrid cloud and AI solutions. Both performed well and drove solid software growth outside of the transaction processing space most impacted by 2Q26 cross-currents.

IBM's free cash flow (FCF) was \$14.7 billion in 2025. The company as of April 2026 guided for FCF of \$15.7 billion for 2026, or up about \$1 billion from 2025 levels. Despite the 2Q26 stumble, the company continues to model FCF for full-year 2026 of \$15.7 billion. The company now also looks for 4%-5% annual revenue growth in constant currency, down from a prior forecast of at least 5% growth.

IBM is increasingly confident in its ability to drive sustainable mid-single-digit revenue growth while improving overall margins. For the long term, we believe IBM deserves to trade at a premium to its own historical price-based multiples, as it emerges from a long period of declining sales and earnings and into an era of profitable growth fueled by hybrid cloud and generative AI. We are reiterating our BUY rating and our 12-month target price of \$280.

RECENT DEVELOPMENTS

IBM is down 30% year to date in 2026, while immediate peers are up 59%. IBM advanced 35% in 2025, compared with a 46% gain for the peer group of Argus-covered information processing, computing, and data storage companies. IBM rose 42% in 2024, compared with a 20% gain for peers.

For 2Q26, IBM posted revenue of \$17.16 billion, which was up 1% year over year in GAAP and 1% in constant currency. Revenue approximately matched the revised consensus estimate of \$17.17 billion. Non-GAAP diluted EPS for 2Q26 were \$2.93 per diluted share, up 5% from \$2.80 in 2Q25. Non-GAAP EPS matched the revised consensus estimate of \$2.93. IBM does not guide on quarterly revenue and EPS.

In mid-July 2026, the company posted a letter to investors from CEO Arvind Krishna. In the letter, the CEO disclosed IBM's modified outlook for 2Q26. The company at the time forecast revenue of about \$17.2 billion, implying growth of 1%; prior to this letter, the consensus estimate had been about \$17.85 billion. Management warned that Software revenue would be up about 5%, while Infrastructure revenue would decline about 7% year over year. Prior to the CEO's letter, Argus had been modeling a 10% increase in the high-margined Software segment as well as a single-digit percentage annual decline in Infrastructure.

In April 2026, IBM management noted that the company would be reporting 2Q26 results for the Infrastructure segment that compared with the first full quarter of the z17 mainframe launch in 2Q25. Given that z17 had the strongest start of any mainframe program in IBM history, the company forecast a low-single-digit decline in Infrastructure revenue for 2026 beginning in 2Q26. Actual 2Q26 performance in Infrastructure was 'worse than our expectations,' according to

CEO Arvind Krishna, resulting in a shortfall in z17 performance and the associated software stack, primarily in Transaction Processing.

Late in the calendar second quarter of 2026, the CEO stated, customers meaningfully shifted purchases toward industry standard servers, storage, and memory to secure supply-constrained IT hardware ahead of anticipated price increases. This dynamic impacted client buying patterns, particularly in the back half of 2Q26. IBM was aware of the trend in component and particularly memory pricing and included some supply-chain impacts in its planning, but the company did not fully anticipate the 'magnitude of capex re-prioritization.' Management also believes clients were distracted by industry-wide and evolving cybersecurity concerns in the quarter.

Rapidly changing market conditions such as those in 2Q26 require that IBM teams execute perfectly. The CEO acknowledges that IBM 'faltered' in 2Q26, while failing to adapt and react with speed. Multiple large deals failed to close on expected timelines, and that drove the majority of the shortfall. To remedy challenges in the quarter, IBM is accelerating existing restructuring programs and undertaking new initiatives.

Commenting one week later on actual performance in 2Q26, the CEO skipped reiterating the circumstances that impacted 2Q26 performance and instead focused on why IBM was positioned to rebound from a challenging quarter. Specifically, he focused on the positioning of IBM's business, growth opportunities ahead, and actions taken to address the second-quarter stumble. As clients seek to deploy AI, IBM believes its portfolio is well positioned to help them realize value 'in a secure, cost-effective, and scalable way.'

For 2Q26, Software revenue of \$7.76 billion (45% of total) increased 5% in GAAP and 5% in constant currency. Confluent began its full-quarter contribution in 1Q26, and HashiCorp has contributed on a full-quarter basis since 2Q25. Software pretax income of \$2.50 billion was up 9% annually. Software operating margin of 32.2% for 2Q26 widened by 110 basis points (bps) year over year from 31.1% in 2Q25.

IBM is providing additional granularity into its software business (all comparisons are in constant currency). Within Software in 2Q26, Automation revenue rose 3%; Data revenue rose 18%; and Hybrid Cloud (including Red Hat) revenue grew 11% year over year, up from 10% in 1Q26 and 8% in 4Q25.

IBM has repositioned its Software business to higher growth markets across hybrid cloud, data, and automation. In these niches, which represent about 80% of software sales, revenue is recurring in nature and offered on a subscription basis. Software recurring revenue reached an annualized \$26 billion rate as of 2Q26, up 8% annually and representing

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about 90% of forecast 2026 software revenue. Red Hat OpenShift annualized recurring revenue is now in the \$2 billion range.

Within Software, Transaction Processing revenue fell 19%. IBM provides mission-critical transaction processing software principally running on mainframe. As much as 70% of all bank transactions worldwide run on mainframes from IBM using its transaction processing software. The second-quarter shortfall was limited to this capex-sensitive are of the software portfolio, which comprises 20% of Software revenue.

The shift in spending priorities triggered by an unprecedented surge in memory costs, according to CFO Jim Kavanaugh, caused '10's of large deals to fail to close' on anticipated timelines. The company is now getting some of those deals to close, but the third-quarter outlook for Transaction Processing software remains uncertain.

M&A is an important driver of IBM Software growth and AI innovation. In 2023, IBM acquired Apptio Inc., a leader in helping enterprises monitor and manage their IT spending. In February 2025, IBM completed the acquisition of HashiCorp., whose products automate and secure the infrastructure that underpins hybrid cloud applications and generative AI. In March 2026, IBM closed the acquisition of Confluent, which provides a leading open-source enterprise data-streaming platform that the company sees as foundational for deployment of AI.

Consulting revenue of \$5.33 billion (31% of total) for 2Q26 was unchanged annually on a GAAP basis and up 1% adjusted for constant currency and M&A. IBM's Consulting business in 2Q25 returned to GAAP growth for the first time since 4Q23. Revenue recovery has been slow and uneven, but the business is becoming more profitable. For 2Q26, Consulting pretax income of \$647 million was up 15% from the prior year. The Consulting margin of 12.1% for 2Q26 broadened by 150 basis points (bps) from 10.6% a year earlier.

Within Consulting, revenue at both Strategy & Technology and Intelligent Operations was up 1% year over year in constant currency. Consulting contracts are shorter in nature than Software contracts and are perceived as more economically sensitive. With AI urgency building, large transformational contracts with hyperscaler customers are driving growth.

Trailing-12-month Consulting signings of \$5.0 billion were up 6% year over year as signings continue to recover after a down 2025 year. According to CFO Jim Kavanaugh, signings are now higher quality and higher value in the age of AI. Consulting bookings, which had been dominated by large clients with long time frames (upwards of 40 months), are now seeing a return of midsize clients with contract time frames of less than two years, which is a reversion to norm.

Gen AI bookings in Consulting represented nearly half of bookings in the trailing 12-month timeframe and have come to comprise more than 30% of the total consulting backlog.

In IBM's Consulting business, federal consulting contracts, many with the General Services Administration, represent around 1% of backlog. Most of IBM's federal services are regarded as indispensable, including Veterans Affairs disability claim filing, Internal Revenue Service tax filing, Social Security payments processing, and mainframe modernization. And in an offset to softer demand, the cost basis for Consulting tends to be realized in local dollars and lines up well with local-currency revenue.

Infrastructure revenue of \$3.84 billion (22% of total) was down 7% in GAAP and down 7% in local currency. Infrastructure pretax income of \$835 million declined 13% from \$965 million a year earlier, which was the second quarter of z17 availability. Infrastructure segment margin of 21.8% for 2Q26 tightened from 23.3% for 2Q25.

In June 2025, IBM launched the z17 mainframe, which is off to the fastest start of any product in the z series, according to management. Against a tough comparison, even without the 2Q26 IT spending reprioritization, Hybrid Infrastructure revenue declined 10% in constant currency. Within Hybrid Infrastructure, z sales (including z17 and z16) fell 42% annually after rising 48% annually in 1Q26. Management believes the three-year cycle for z16 should be a blueprint for the z17 cycle, with ongoing strength before a rapid wind down one or two quarters ahead of the upcoming z18 generation in mid-2028.

Distributed Infrastructure (including storage, UNIX, and Linux servers) surged by 37% in constant currency. Power 11 adoption is now being complemented by storage cycle dynamics fueled by AI memory needs. IBM has launched its all-flash offering to strong customer reaction. Infrastructure support revenue was down 1% year over year in local currency. IBM exited 2Q26 with a \$500 million backlog in Distributed Infrastructure, its highest on record.

In the wake of a challenging 2Q26, IBM reset its segment goals but continues to anticipate solid overall growth momentum. The company is modeling 2026 constant currency revenue growth of 6%-8% in Software, revised from constant currency growth in high-single-digit to low-double-digits. The high end of that range is conditional on getting all or most of those deals that did not close in 2Q26 to close by year-end.

Management initially guided for Infrastructure to be down about 1% in constant currency in 2026, but is now forecasting growth in low-single-digit percentages mainly on strength in Distributed Infrastructure. In Consulting, management continues to anticipate low- to mid-single-digit constant-currency revenue growth in 2026, with a stronger second-half contribution.

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IBM in our view is well positioned in the emerging market for AI services by enterprises and by foreign governments. IBM is one of the two leading software providers (along with Microsoft Corp.) to the enterprise market, with leading penetration among Fortune 500 and Global 2000 companies. The company has now pledged to explore opportunities to become AI partner of choice for mid-sized enterprises as well.

The first wave of AI was hyperscalers (i.e., the largest cloud service providers such as Amazon Web Services, Google, Meta Platforms, etc.) building massive compute clusters in AI data centers. The next waves of AI are expected to be in large enterprises (Visa, Eli Lilly, Nestle, RBC, etc.) and sovereign (i.e., multiple foreign governments). With IBM embedded in the world's largest companies and with governments worldwide, its consulting business can help these companies plan their AI journeys and help IBM enhance its offerings across multiple verticals in the enterprise space.

EARNINGS & GROWTH ANALYSIS

For 2Q26, IBM posted revenue of \$17.16 billion, which was up 1% year over year in GAAP and 1% in constant currency. Revenue approximately matched the revised consensus estimate of \$17.17 billion.

The non-GAAP gross margin was 59.4% for 2Q26, versus 60.1% a year earlier. The non-GAAP pretax margin was 19.2% in 1Q26, versus 18.8% a year earlier.

Non-GAAP diluted EPS for 2Q26 were \$2.93 per diluted share, up 5% from \$2.80 in 2Q25. Non-GAAP EPS matched the revised consensus estimate of \$2.93. IBM does not guide on quarterly revenue and EPS.

For 2025, revenue of \$67.5 billion was up 12% in GAAP from \$62.8 billion in 2024. Non-GAAP diluted EPS for 2025 totaled \$11.59, up 12% from \$10.33 in 2024.

For 3Q26, management forecast constant currency revenue growth consistent with full-year 2026 guidance of 4%-5%, along with a 150 bps currency headwind given recent strengthening in the U.S. dollar.

For 2026, IBM guided for constant-currency revenue growth of 4%-5%, down from prior guidance of more than 5%. Currency is expected to be neutral for all of 2026. The company continues to model FCF increasing by about \$1 billion, to about \$15.7 billion. IBM expects a one-percentage-point expansion in non-GAAP pretax margin from the 18.8% recorded in 2025.

We are raising our 2026 non-GAAP EPS estimate to \$12.08 per diluted share from \$11.98. We are reducing our non-GAAP EPS forecast for 2027 to \$13.30 per diluted share from \$13.22. We regard our estimates as fluid and subject to

change based on management's guidance revisions as well as geopolitics, currency, tariffs, and other factors for this global company.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on IBM is Medium-High. IBM added to its debt balance in 2023 and again in 2024, giving it firepower for M&A such as HashiCorp and AI development and other uses. The HashiCorp purchase added both debt and cash to the balance sheet.

Cash was \$8.18 billion at the end of 2Q26. Cash was \$14.9 billion at the end of 2025, and \$14.8 billion at the end of 2024.

Total debt was \$62.0 billion at the end of 2Q26. Total debt was \$61.3 billion at the end of 2025, and \$55.0 billion at the end of 2024. IBM eliminated over \$20 billion in debt related to the Red Hat acquisition; total debt has since bounced higher due to the HashiCorp and Confluent deals.

Global financing debt was \$15.1 billion at the end of 2025, and \$12.1 billion at the end of 2024. Core debt was \$46.2 billion at the end of 2025, and \$42.9 billion at the end of 2024. The peak was \$48 billion in mid-2019. Core debt was about \$15 billion pre-Red Hat.

IBM discontinued stock buybacks in 2020 and has maintained that policy. The company is keeping its powder dry while it focuses on M&A and multiyear debt reduction and develops Red Hat-related growth opportunities.

Cash flow from operations was \$13.2 billion in 2025. Cash flow from operations was \$13.5 billion in 2024, and \$13.8 billion in 2023.

FCF was \$14.7 billion in 2025. FCF was \$12.7 billion in 2024, and \$11.2 billion in 2023. IBM expects to generate about \$15.7 billion in free cash flow in 2026.

IBM in April 2026 raised its quarterly dividend to \$1.69 per share from a prior \$1.68. IBM has raised its dividend for 31 consecutive years and has paid consecutive quarterly dividends every year since 1916.

Our dividend estimates remain \$6.79 for 2026 and \$6.85 for 2027.

MANAGEMENT & RISKS

Arvind Krishna has been CEO since April 2020 and chairman since year-end 2020. James J. Kavanaugh is CFO. Robert Thomas is SVP of software and chief commercial officer. IBM has a deep bench of internally developed talent. We think the reputation of IBM helps to attract highly qualified individuals, assuring a deep and talented management pool at every level of the business.

The company's need to revise its 2Q26 outlook reflects the

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sometimes unpredictable dynamics of the rapidly evolving AI economy. Based on the company's ability to pivot in past periods of crisis, we are guardedly optimistic that IBM will be able to restore its momentum in key margins while sustaining margins and delivering free cash flow growth.

The \$6.4 billion acquisition of HashiCorp carries risks if it fails to justify its high price. IBM has successfully integrated and profited from earlier acquisitions, most recently including Aptio and the much larger Red Hat deal. We believe the company has a rigorous business development process that will enable IBM to successfully leverage HashiCorp.

We regard the Kyndryl spin-off as positive for IBM. The IT outsourcing assets in the old Global Technology Services (GTS) business were slow growth and low margin. IBM has retained a small core of services assets associated with its own business.

The disposition of the managed infrastructure business, coupled with the Red Hat deal, is a sound strategic move, in our view. The IT outsourcing services provided by GTS have become commodity-like. This business faces growth and margin challenges going forward, and IBM will be stronger without it.

More broadly, IBM's risks include competition in its hardware, software, and services businesses, as well as legal issues and the possibility of further declines in IT spending. These risks are mitigated by the company's unimpeachable reputation and financial strength, which position it for net market-share gains coming out of difficult economic periods.

COMPANY DESCRIPTION

IBM is a leading U.S.-based provider of enterprise IT hardware, software and services. In November 2021, IBM spun off the managed infrastructure assets of its former GTS business into Kyndryl (NYSE: KD). To align with its platform-centric approach, IBM has revised its segment reporting into four major categories: Consulting, Software, Infrastructure, and Global Financing.

INDUSTRY

Our rating on the Information Technology sector is Over-Weight. The Information Technology sector accounted for a substantial 38.0% of the S&P 500 market cap as of the end of June. We think diversified investors should have meaningful exposure to the sector, at least in line with the current sector weight.

The sector receives above-average marks on our six-part 'blind' sector rating criteria, which includes growth momentum, valuation, financial strength, and analyst conviction, among other factors.

The sector has outperformed the market year to date with a gain of 19.4% as of the end of June. The sector outperformed in 2025, with a gain of 23.3%, compared to a

gain of 16.4% for the S&P 500. The beta for the sector is 1.4.

Over the past five years, the sector's weighting has ranged from 16% to 39%. The sector's P/E ratio on projected 2027 EPS was 20-times on a GAAP basis, above the market multiple. The yield of 0.1% was below the market average. The sector's smoothed earnings growth rate of 16% was above the market average.

The Information Technology sector is primarily a secular growth sector. The macroeconomic factors that may affect the performance of stocks in the Information Technology sector include Global and Domestic GDP Growth, Global and Domestic Wage Growth, and Employment Trends, among others. Trends in the dollar can affect factors such as Cost of Goods Sold.

Potential sell signals for stocks in the Information Technology sector can be a change in the direction or rate of a company's sales or earnings growth, a pronounced slowdown in new product announcements, or changes in the regulatory environment.

At this stage of the market and economic cycle, our favored industries within the Information Technology sector include Semiconductors and Application Software.

VALUATION

IBM is trading at 17.3-times our 2026 non-GAAP EPS estimate and at 15.5-times our 2027 forecast. The two-year forward P/E of 16.4 is below the five-year (2021-2025) average P/E of 17.6. The shares, which have traded at 84% of the market multiple on average for the past five years, now trade at 80% of the market multiple on a two-year-forward basis. We believe IBM deserves to trade at a premium to its own historical price-based multiples, as it emerges from a long period of declining sales and earnings and into an era of profitable growth fueled by hybrid cloud and generative AI. The calculated comparable historical valuation in the \$220s is about in line with current prices.

Reflecting the multiyear stock underperformance, IBM trades at substantial discounts to peers on absolute and relative P/E, price/sales, enterprise value/EBITDA, and price to earnings growth and yield ratio. Peer-indicated value in the \$400s is in a rising trend and is above the current share price. Our discounted FCF model renders a fair value around \$410, in a now-stable trend. Our blended fair value estimate in the low \$400s is in a stable trend and is above current prices.

With its clear focus on hybrid cloud and AI, IBM appears to have turned an important corner. IBM stock has long traded at discounts to historical valuation multiples. We believe that those discounts now represent opportunity.

Appreciation to our target price of \$280, along with the approximately 3.2% current dividend yield, is consistent with

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outperformance relative to our benchmark on a risk-adjusted basis. We are reiterating our BUY rating on IBM.

ByLine

On July 23 at midday, BUY-rated IBM traded at \$205.37, down \$0.40. (Jim Kelleher, CFA, 7/23/26)

Invesco Ltd (IVZ)

Rating: **HOLD** 
Market Cap: **LARGE**
Sector: **Financial**

Maintaining HOLD as new Nasdaq 100 offerings launch

- ▶ On June 28, Invesco reported adjusted 2Q26 EPS of \$0.71, up from \$0.36 in the prior-year quarter and above the consensus of \$0.66.
- ▶ Net long-term inflows were \$45.1 billion in 2Q26, well above the \$21.8 billion in 1Q, and demonstrating the twelve consecutive quarter of positive inflows.
- ▶ The Nasdaq has licensed new ETFs tracking the popular Nasdaq 100 index, which would end Invesco's QQQ product as the primary tracking vehicle for that index. Two very well-run ETF providers, State Street and Blackrock, launched Nasdaq 100 tracking ETFs in June and July, respectively.
- ▶ We believe recent share strength has narrowed the valuation gap with peers, and expect considerable competition from new ETF entrants for IVZ's flagship QQQ vehicle, which accounts for about 21% of the company's assets under management.

INVESTMENT THESIS

We are maintaining our HOLD rating on Invesco Ltd. (NYSE: IVZ) following the company's second-quarter results, which were highlighted by the twelve consecutive quarter of net inflows, despite volatile markets, as well as improvements in the net revenue yield. We expect competition for the company's flagship QQQ product, an ETF that tracks the popular Nasdaq 100 index, one of the world's most actively traded ETFs. In June and July 2026, two very well-run ETF providers, State Street and Blackrock, launched Nasdaq 100 tracking ETFs, ending Invesco's QQQ product as the primary tracking vehicle. Both firms have considerable marketing budgets and are likely to be aggressive in trying to attract new assets to these products.

We note that Invesco called out several salient points regarding its competitive positioning with QQQ in light of the additional Nasdaq 100 licensing: strong brand recognition, liquidity, tight bid/ask spreads, and a deep derivatives market. Management also pointed out that new entrants will not be able to compete on price, with Nasdaq setting a minimum expense ratio of eight basis points on Nasdaq 100 tracking products, and that switching costs, which include capital gains considerations, could be formidable. Still, we expect headwinds for new assets and will be closely

watching the success of competing products.

On the positive side, we note that IVZ has continued to strengthen its balance sheet while returning capital to shareholders, with share repurchases accelerating in 1Q26. In our view, Invesco has made progress with respect to leveraging prior acquisitions, maintaining net inflows for long-term products, and controlling costs.

Invesco continues to focus on expanding its ETF offerings and private markets platform to better meet client needs and contend with continued pressure on fee rates. The company plans to enter the 401k market with private market products.

Management continues to highlight its joint venture in China. Invesco launched the JV in 2003 as Invesco Great Wall, with a 49% ownership interest. The company noted Equity in earnings of unconsolidated affiliates earned primarily from its China JV.

IVZ trades below industry-average levels on P/E and price/book. We believe controlling costs and boosting operating margins toward the level of industry leaders are needed prerequisites to achieve closer to peer-average valuation multiples. Despite a continued discount, we view the IVZ shares as fairly valued in light of expected competition for its flagship product. Our long-term rating remains BUY.

RECENT DEVELOPMENTS

Over the past year, IVZ shares have increased 34%, versus a 16% increase for the broad market.

On June 28, Invesco reported adjusted 2Q26 EPS of \$0.71, up from \$0.36 in the prior-year quarter and above the consensus of \$0.66. Results in the current period exclude \$0.05 per share of non-recurring charges.

Adjusted net revenues were up 20% year over year to \$1.33 billion, driven by higher average AUM. The adjusted operating margin expanded to 37.5% from 31.2%. Adjusted net income rose 95% year over year to \$322.3 million.

In December 2025, Invesco completed the conversion of its flagship technology ETF, the Invesco QQQ Trust Series 1, from a unit investment trust (UIT) to an open-end ETF structure. A UIT is considered a somewhat outdated fund structure with limited flexibility, as it cannot engage in securities lending or reinvest dividends. The change allows the company to generate additional revenue and potential profits from the fund. The net assets of the QQQ are more than \$490 billion, accounting for about 21% of the company's average AUM.

During 2Q25, the company announced a realignment of its fundamental equities platform and made changes to its developing markets, global and international investment teams to better serve customer interests.

Value Stocks

In May 2019, Invesco acquired the Oppenheimer Funds asset management affiliate of MassMutual. Under the terms of the deal, Oppenheimer Funds employee shareholders received 81.9 million IVZ common shares and \$4 billion in preferred equity (with a fixed interest rate of 5.9%). MassMutual became a 15.5% stakeholder in Invesco.

In April 2018, Invesco acquired the ETF business of Guggenheim Investments, with \$38.1 billion in assets under management, for \$1.2 billion in cash. Management noted the acquisition would expand the company's active, passive, and alternative investment capabilities.

EARNINGS & GROWTH ANALYSIS

Invesco reported assets under management of \$2.5 trillion at the end of 2Q26, up 23% from a year earlier and up 14% sequentially. Average AUM was up 25% year over year and up 7% sequentially.

The company had a record \$45.1 billion of net long-term inflows in 2Q26, up from the \$21.8 billion pace in 1Q26. The company has now had long-term inflows in the last 12 consecutive quarters.

Most of the company's actively managed funds have performed in the top half of their peer group range over the past five years -- generally a good sign that the company can attract and retain investment assets. But industry trends favoring passive investments have negatively impacted fund flows.

The net revenue yield (investment revenues divided by average AUM) was 0.062% in 2Q, up from 0.058% a year earlier. The yield generally has trended down since 2020, when it stood at 0.099%, so the more recent improvement is encouraging, but it still depends on the future direction of asset mix shift.

Based on the better-than-expected 2Q results, we are raising our 2026 EPS estimate to \$2.82 from \$2.78. Our 2027 forecast moves to \$3.23 from \$3.03.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on Invesco is Medium, the midpoint on our five-point scale. The company scores well on our three-point test of debt levels, fixed-cost coverage, and profitability. The adjusted operating margin has historically run in the mid- to high-30s but was a strong 41.5% in 2021 as cost synergies kicked in from the Oppenheimer acquisition. It then retreated to 34.8% in 2022 and to 28.2% in 2023, before rebounding to 31.1% in 2024 and 33.4% in 2025.

Cash and cash equivalents totaled \$915 million at the end of 2Q26, and long-term debt totaled \$1.62 billion.

Effective in 2Q26, Invesco increased its dividend by 2% to

\$0.215 per share, or \$0.86 annually. Our dividend estimates are \$0.86 for 2026 and \$0.88 for 2027. Our dividend forecasts imply payout ratios of 30% for 2026 and 27% for 2027. We believe that these payout ratios are sustainable. The company has a payout ratio goal for shareholder returns (dividends and share buybacks) of 60%, noting the need to reinvest in its franchise due to intense competition.

The company repurchased 1.9 million shares for \$50 million in 2Q26. In February 2026, directors authorized a new \$1.0 billion common share repurchase program. Management has noted that in terms of returning excess capital to shareholders, it plans to focus on steady dividend increases first and share buybacks second. The company repurchased \$1.0 billion of outstanding Series A Preferred Stock held by MassMutual in May 2025.

MANAGEMENT & RISKS

Andrew Schlossberg was named president and CEO effective June 2023, following the retirement of Martin Flanagan. Allison Dukes has been the company's CFO since August 2020.

Investors in IVZ shares face numerous risks, including the fact that most of the company's revenues are tied to the value of assets under management.

Management is under constant pressure to provide the right products to meet investors' evolving needs. As the industry consolidates, management will face more pressure to have the right products to maintain market share.

The company's results are also dependent on product performance, and a prolonged downturn in investment results could hurt sales, earnings, and the share price.

COMPANY DESCRIPTION

Invesco is an independent global investment manager; it provides a variety of investment alternatives to high-net-worth and retail investors, as well as to institutions worldwide. Headquartered in Atlanta and incorporated in Bermuda, it offers investors equity, fixed-income, and alternative investment funds. IVZ shares are a component of the S&P 500.

The company's operations date back to England and Wales in 1935, and the original Invesco was founded in the United States in 1978. After a series of smaller mergers in the 1980s, the company merged with AIM in 1997 to form AMVESCAP and was then rebranded as Invesco in 2007.

INDUSTRY

Our rating on the Financial sector is Over-Weight. The Financial sector accounted for 11.8% of the S&P 500 as of the end of June. We think diversified investors should have meaningful exposure to the sector, at about 125-150% of the current sector weight.

Value Stocks

The sector receives above-average marks on our six-part 'blind' sector rating criteria, which includes growth momentum, valuation, financial strength, and analyst conviction, among other factors.

The sector has underperformed the market year to date with a loss of 2.1% as of the end of June. The sector underperformed in 2025, with a gain of 13.3%, compared to a gain of 16.4% for the S&P 500. The beta for the sector is 0.9.

Over the past five years, the sector's weighting has ranged from 10% to 15%. The sector's P/E ratio on projected 2027 EPS was 14, below the market multiple. The yield of 1.6% was above the market average. The sector's smoothed earnings growth rate of 9% was below the market average.

The Financial sector is a cyclical and often value-oriented sector. The macroeconomic factors that may affect the performance of stocks in the Financial sector include the Unemployment Rate (which can influence the debt repaying capability of consumers and therefore credit costs), Interest Rates (which can determine lending profitability), and GDP or growth in the economy (which influence loan growth). The industry is also highly regulated, so changes in the regulatory environment can influence capital set-aside requirements and thus profitability.

At this stage of the market and economic cycle, our favored industries within the Financial sector include Diversified Banks, Financial Exchanges & Data, and Investment Banking & Brokerage.

VALUATION

Over the past 12 months, IVZ shares have traded in a range of \$20-\$31. They are currently above the midpoint of that range. IVZ trades at about 9.2-times our 2027 EPS estimate, below peers such as BLK's 17-times but more in line with TROW's 12-times.

IVZ shares are up more than 30% over the past year, which we attribute to rising equity market values, a string of quarterly net inflows into long-term products, and improving net revenue yields. After that rise, the shares are close to our fair value estimate. Meanwhile, we remain concerned by the recent entry of new players tracking the popular Nasdaq 100 index, which are likely to offer considerable competition for new asset flows into Invesco's flagship QQQ product.

ByLine

On July 28, BUY-rated IVZ closed at \$29.43, down \$0.68. (Stephen Biggar and Gordon Walsh, 7/28/26)

KeyCorp (KEY)

Rating: **BUY**
Market Cap: **LARGE**
Sector: **Financial**

Maintaining BUY following 2Q EPS

- ▶ On July 21, KeyCorp reported adjusted 2Q26 earnings of \$0.44 per diluted share, up from \$0.35 a year earlier and above the consensus of \$0.42.
- ▶ Management offered updated 2026 guidance calling for average loans to be up 4%-5% (up from prior guidance of 2%-4%) and net interest income to be up 9%-11% (9%-10%).
- ▶ Though average loan growth has been tepid, net interest margins have benefited from a significant securities re-positioning effort.
- ▶ Our target price of \$25 implies a multiple of 14-times our 2026 EPS estimate. The stock also carries an attractive dividend yield of about 3.6%.

INVESTMENT THESIS

We are maintaining our BUY rating on KeyCorp. (NYSE: KEY) and target price of \$25, with our favorable view reflecting notable continued improvement in the net interest margin (NIM). Lending balances are likely to remain under pressure, reflecting still weak client demand for loans, flat utilization rates, and an intentional runoff of low-yielding consumer loans as they pay down and mature. However, balance sheet re-positioning efforts are expected to show ongoing benefits in 2026 and beyond.

We think the company is in a relatively good position with respect to regulatory oversight for regional banks. At its asset-size of \$189 billion, the company is a Category IV bank and only subject to biennial Federal Reserve stress tests.

KEY trades at 12.5-times our 2026 EPS estimate, below the historical average. We believe that this discount is unwarranted based on the company's favorable ROE and efficiency metrics and strong credit quality. Our target price of \$25 implies a multiple of 14-times our 2026 EPS estimate.

RECENT DEVELOPMENTS

Over the past year, KEY shares have risen 21%, compared to a 16% gain for the broad market.

On July 21, KeyCorp reported adjusted 2Q26 earnings of \$0.44 per diluted share, up from \$0.35 a year earlier and above the consensus of \$0.42.

Net interest income in the quarter rose 9%, as a 2% increase in average earning assets was helped by a much wider net interest margin of 2.89%, up from 2.66% in 2Q25, reflecting lower deposit costs, the reinvestment of proceeds from maturing lower-yielding investment securities, and a shift to a more favorable mix of higher-yielding commercial and industrial loans.

Net charge-offs were \$115 million in 2Q26 (0.42% of average loans), down from \$102 million (0.39%) a year earlier. Over the past four quarters, net charge-offs of \$434 million

Value Stocks

compared to loan loss provisions of \$413 million, indicating some reserve usage.

In December 2024, KeyCorp announced that The Bank of Nova Scotia (Scotiabank) completed its \$2.8 billion investment in KeyCorp's common stock (at \$17.17 per share), resulting in a 14.9% minority ownership.

EARNINGS & GROWTH ANALYSIS

Along with 2Q results, management offered updated 2026 guidance calling for average loans to be up 4%-5% (up from prior guidance of 2%-4%) and net interest income to be up 9%-11% (9%-10%). The net interest margin is expected to reach 3.00%-3.05% by 4Q26, up from 2.82% in 4Q25, and 3.25% by 4Q27. Noninterest income is expected to be up 3%-4%, while noninterest expense is also forecasted to increase 5%-6%. It also expected net charge-offs to be 0.40%-0.45% of average loans. Management's long-term targets include a return on tangible common equity of 16%-19% and a 9.5% to 10% common equity tier 1 ratio.

Overall, we see revenues up 10% in 2026 after a 36% rise in 2025 due to balance sheet securities re-positioning efforts, which have significantly improved the net interest margin.

We are inching up our 2026 EPS estimate to \$1.80 from \$1.79, while maintaining our 2027 forecast of \$2.07.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on KeyCorp is Medium-High.

KeyCorp estimates a Basel III Tier 1 common equity ratio of 11.4% as of March 31, 2026, down from 11.7% a year earlier.

The company last raised its quarterly dividend by 5% to \$0.205 in 4Q22, or \$0.82 annually. Our dividend estimates are \$0.84 for 2026 and \$0.86 for 2027. The company has a long-term target payout ratio of 40%-50%. The current yield is about 3.6%.

In 2Q26, the company repurchased \$341 million of common shares and indicated that it planned to repurchase at least \$300 million per quarter in 2H26, implying at least \$1.3 billion of repurchases for 2026. The board of directors recently authorized \$3 billion of common share repurchases.

MANAGEMENT & RISKS

KeyCorp is led by chairman and CEO Chris Gorman, who assumed those roles in May 2020 following the retirement of Beth E. Mooney. Mr. Gorman was previously president and COO. Clark H. I. Khayat is the CFO.

Management provides detailed financial guidance with respect to revenues, loan growth, net interest margin trends, and net charge-offs.

The company has a diversified business model. The Key

Community Bank segment includes branch-based deposit and investment products; personal finance services; and loans, including residential mortgages, home equity, credit card, and various types of installment loans. The Key Corporate Bank segment includes syndicated finance, debt and equity capital markets, commercial payments, equipment finance, commercial mortgage banking, derivatives, foreign exchange, and financial advisory, and public finance.

Among mid-cap regional banks, KeyCorp competes primarily with Fifth Third Bank and Regions Financial.

COMPANY DESCRIPTION

Cleveland-based KeyCorp is one of the largest bank-based financial services companies in the U.S., with about 1,000 branches in 15 states and assets of \$189 billion. The company also operates a national consumer bank and a national corporate bank.

INDUSTRY

Our rating on the Financial sector is Over-Weight. The Financial sector accounted for 11.8% of the S&P 500 as of the end of June. We think diversified investors should have meaningful exposure to the sector, at about 125-150% of the current sector weight.

The sector receives above-average marks on our six-part 'blind' sector rating criteria, which includes growth momentum, valuation, financial strength, and analyst conviction, among other factors.

The sector has underperformed the market year to date with a loss of 2.1% as of the end of June. The sector underperformed in 2025, with a gain of 13.3%, compared to a gain of 16.4% for the S&P 500. The beta for the sector is 0.9.

Over the past five years, the sector's weighting has ranged from 10% to 15%. The sector's P/E ratio on projected 2027 EPS was 14, below the market multiple. The yield of 1.6% was above the market average. The sector's smoothed earnings growth rate of 9% was below the market average.

The Financial sector is a cyclical and often value-oriented sector. The macroeconomic factors that may affect the performance of stocks in the Financial sector include the Unemployment Rate (which can influence the debt repaying capability of consumers and therefore credit costs), Interest Rates (which can determine lending profitability), and GDP or growth in the economy (which influence loan growth). The industry is also highly regulated, so changes in the regulatory environment can influence capital set-aside requirements and thus profitability.

At this stage of the market and economic cycle, our favored industries within the Financial sector include Diversified Banks, Financial Exchanges & Data, and Investment Banking & Brokerage.

Value Stocks

VALUATION

KeyCorp's tangible book value was \$13.62 per share as of June 30. At current prices near \$22.50, KEY trades at approximately 1.6-times tangible book value and at 12.4-times our 2026 EPS estimate, a discount to regional bank peers. We believe that these discounts are unwarranted, given the company's favorable ROE and efficiency metrics and strong credit quality. Our target price of \$25 implies a multiple of 14-times our 2026 EPS estimate.

ByLine

On July 28, BUY-rated KEY closed at \$22.63, up \$0.12. (Kevin Heal and Julianna Perri, 7/28/26)

Lazard Inc (LAZ)

Rating:	BUY	
Market Cap:		MID
Sector:		Financial

M&A deal closure expected to ramp up

- ▶ On July 23, Lazard reported 2Q26 EPS of \$0.12, down from \$0.52 a year earlier and below the consensus of \$0.35.
- ▶ A much higher-than-expected tax rate, related to the vesting of equity, was largely responsible for the earnings miss.
- ▶ We continue to look for a ramp up of Lazard's advisory revenues in the second half of 2026 and into 2027 reflecting healthy credit availability, good CEO confidence levels, and a better regulatory environment for deal approvals.
- ▶ Our target price of \$52 implies a multiple of 13-times our EPS estimate for 2027.

INVESTMENT THESIS

We are maintaining our BUY rating on Lazard Ltd. (NYSE: LAZ) following the 2Q earnings report. Results showed a modest revenue decline in the financial advisory segment from delayed deal closures, though a healthy 17% rise in AUM in the Asset Management segment. We continue to expect that greater M&A activity will aid Lazard's advisory segment in the second half of 2026 and 2027, reflecting good CEO confidence levels, well-functioning markets for equity/debt financing, and a regulatory environment that offers a window for easier deal approval under the current administration through at least the end of 2027.

In September 2023, CEO Peter Orszag outlined an initiative named 'Lazard 2030' that includes doubling the company's revenue base by 2030 while achieving average total shareholder returns of 10%-15%. The strategy also includes several 'building block targets' such as Financial Advisory segment annual revenue per managing director (MD) of \$8.9 million in 2025 and growing to \$10 million in 2028, the net growth of 10-15 MDs each year, and Asset Management

revenues of which 30% are expected to come from alternative/private investment and wealth management. The Asset Management and Advisory businesses are expected to contribute about evenly to the projected growth in revenue. We note that the seven-year initiative implies compound annual growth of about 11%, a not-so-easy task given challenges throughout the lifecycle of the Advisory and Asset Management businesses.

In Asset Management, revenue growth is expected to come from improving global distribution, investment performance, and the company's entry into adjacent markets. In Advisory, management stated it would rely on U.S. and Europe for increased activity, while also citing the potential for growth in the Middle East and North Africa.

The company converted to C-Corp. status as of January 1, 2024, a move designed to simplify shareholder tax reporting and enhance liquidity for the shares. Newly eligible shareholders could include those unable to invest in partnerships. We note that several companies in our coverage, including Apollo Global, Blackstone Inc., and KKR & Co., have experienced higher valuations following conversion to C-Corp. status.

In our view, Lazard remains a compelling secular growth story with a clean balance sheet and a focused business model.

Our target price of \$52 implies a multiple of about 13-times our EPS estimate for 2027. The current dividend also yields a healthy 4.5%.

RECENT DEVELOPMENTS

LAZ shares are down 22% over the past year, compared to a 16% increase for the broad market.

On July 23, Lazard reported 2Q26 EPS of \$0.12, down from \$0.52 a year earlier and below the consensus of \$0.35. Revenues were up 2% to \$786 million, as a 23% rise in asset management fees was offset by a 9% decline in financial advisory fees. Following a 17% increase in compensation costs and 16% higher non-compensation expense, along with a 69.7% effective tax rate (versus 36.5%), adjusted net income was down 71% to \$13.0 million.

The Financial Advisory segment was hurt by a lower level of M&A deal closures, while the Asset Management segment saw a 17% increase in average AUM (to \$279 billion), as well as an improvement in the fee-rate.

M&A activity represents about 60% of Lazard's Financial Advisory revenue, while 40% is non-M&A activity. Lazard has advised on several notable recent deals including NextEra Energy's combination with Dominion Energy; Vertex on its \$10 billion acquisition of Crinetics Pharmaceuticals; and Vaccine Company on its \$1.6 billion sale to Eli Lilly.

Value Stocks

In April 2026, Lazard announced it entered into an agreement to acquire Campbell Lutyens, a global private markets advisor focused on fund placement, secondary advisory, and GP capital advisory services. The company said the combined businesses will form a third major unit known as Lazard CL, creating a private capital advisory platform globally. Lazard said the combined businesses will have about \$500 million in 2027 revenue, some 280 advisory professionals across 18 offices globally, \$100 billion in secondary transaction volume over the past two years, and \$190 billion of capital raised for clients over the past two years. Total consideration was about \$575 million, payable in part at closing and in part two years following closing. The transaction is expected to close in calendar 2026 and be accretive to Lazard's earnings in 2027.

EARNINGS & GROWTH ANALYSIS

On the 2Q earnings call, management said its typical pattern of greater financial advisory revenues in the second half of the year is likely to be more pronounced this year, noting that its weighted backlog of deal activity is building more rapidly than last year, while its weighted pipeline for 2027 is already more than twice the level it was for 2026. Meanwhile, Lazard also said it was on track to achieve its 2030 goal of increasing productivity per managing director to \$10 million by 2028, from \$6.4 million in 2023.

We continue to believe that Lazard's broad and deep coverage -- by geography and industry -- distinguishes it from boutiques, while its focus on advisory distinguishes it from large banks. Building on a 5% rise in 2025, we look for Advisory segment revenues to rise 7% in 2026 as healthy credit availability, CEO confidence levels, and a better regulatory environment for deal approvals offer an improved M&A backdrop.

In the Asset Management business, the company had a 17% rise in average AUM in 2Q. Fee rates had been under some pressure, but new strategies and product extensions have helped reverse this trend. Management has referenced three areas of growth for its Asset Management segment: demand for existing core and specialty offerings as central banks lower rates and the stock market rally broadens; the development of additional specialty products and strategies, such as a new U.S. small-cap equity fund and the Lazard Global Listed Infrastructure Active ETF in Australia; and advancing opportunities outside of public markets, including growth through acquisition or partnerships into new products and strategies. Lastly, we note that the company has hired a new head of the Asset Management business, Chris Hogbin, who joined in December 2025.

Compensation was 69.9% of adjusted net revenue in 2Q26, up from 65.5% in 2Q25 and above management's target compensation ratio below 60.0%. Management expects the figure to trend down over time as annual revenues from new managing directors outruns lost revenues from departed MDs, and once the Campbell Lutyens transaction closes.

Non-compensation expense was 21.8% of revenue in 2Q, up from 20.4% a year earlier. The company's goal is to keep this ratio between 16% and 20%, dependent on market conditions.

We are lowering our 2026 EPS estimate to \$2.27 from \$2.88, largely reflecting a higher-than-expected (but non-recurring) tax rate in 2Q. Our 2027 forecast move to \$4.04 from \$4.38.

FINANCIAL STRENGTH & DIVIDEND

Our Financial Strength rating on the company is High. It has a low long-term debt/cap ratio and high liquidity, with cash and cash equivalents of \$1.10 billion at June 30, 2026. Lazard acts mainly as an advisor; it does not provide financing for transactions or otherwise commit its own capital to complete transactions.

Lazard raised its quarterly dividend by 6% in July 2022 to \$0.50. The previous increase was in April 2019, to \$0.47 per share. Lazard expects to increase the dividend gradually over time. The current dividend yield is 4.5%. We project dividends of \$2.00 in 2026 and \$2.00 in 2027. The company declared a special \$0.50 per share common stock dividend in January 2019. Special dividends have included \$1.30 per share in January 2018, \$1.20 per share in both January 2017 and February 2016, and \$1.00 per share in February 2015. Special dividends have provided a healthy boost to total returns.

Lazard repurchased \$50 million of its shares in 2Q26. In July 2026, directors authorized additional share repurchases of \$200 million through December 2028, with total authorization remaining at \$257 million at the end of 2Q26. Historically, share buybacks have primarily offset dilution from share issuance related to compensation.

MANAGEMENT & RISKS

Lazard is currently led by CEO Peter Orszag, who took over from Kenneth M. Jacobs in October 2023. Mr. Orszag previously headed the firm's advisory business. Tracy Farr is the CFO.

While Lazard has diversified its revenue in recent years, revenue is still highly dependent on fees earned from advising clients on financial transactions and fees earned on assets under management. Lazard also earns fees if its investment funds exceed return hurdles, but these typically account for only 5%-10% of asset management revenues. Thus, Lazard's revenues can be volatile and tough to predict from quarter to quarter.

Advisory revenues are dependent on levels of CEO confidence as well as on stock valuations and conditions in the financing/credit markets. Large companies currently remain flush with cash, and financing markets are functioning well.

Value Stocks

Regarding risks related to financial regulatory reform, we note that Lazard does not have a proprietary trading desk or commit its own capital to private equity or real estate funds.

In the near-term, LAZ faces risks from expense-management pressure (both compensation and non-compensation), asset-management headwinds with fee pressure and lower AUM, client concentration risks (with less advisory clients generating over \$1 million in fees), and geopolitical uncertainty that affects M&A. Long-term, headwinds include asset-management margin compression, talent retention, technology disruption, and regulatory pressure.

COMPANY DESCRIPTION

Lazard Ltd., one of the world's leading financial advisory and asset management firms, provides advice on mergers and acquisitions, strategic matters, restructuring and capital structure, capital raising and corporate finance, as well as asset management services to corporations, partnerships, institutions, governments, and individuals. It is headquartered in New York City, has more than 3,200 employees, and operates in more than 40 cities across more than 25 countries, including major financial hubs like Paris, London, Tokyo, and Sao Paulo.

INDUSTRY

Our rating on the Financial sector is Over-Weight. The Financial sector accounted for 11.8% of the S&P 500 as of the end of June. We think diversified investors should have meaningful exposure to the sector, at about 125-150% of the current sector weight.

The sector receives above-average marks on our six-part 'blind' sector rating criteria, which includes growth momentum, valuation, financial strength, and analyst conviction, among other factors.

The sector has underperformed the market year to date with a loss of 2.1% as of the end of June. The sector underperformed in 2025, with a gain of 13.3%, compared to a gain of 16.4% for the S&P 500. The beta for the sector is 0.9.

Over the past five years, the sector's weighting has ranged from 10% to 15%. The sector's P/E ratio on projected 2027 EPS was 14, below the market multiple. The yield of 1.6% was above the market average. The sector's smoothed earnings growth rate of 9% was below the market average.

The Financial sector is a cyclical and often value-oriented sector. The macroeconomic factors that may affect the performance of stocks in the Financial sector include the Unemployment Rate (which can influence the debt repaying capability of consumers and therefore credit costs), Interest Rates (which can determine lending profitability), and GDP or growth in the economy (which influence loan growth). The industry is also highly regulated, so changes in the regulatory environment can influence capital set-aside requirements

and thus profitability.

At this stage of the market and economic cycle, our favored industries within the Financial sector include Diversified Banks, Financial Exchanges & Data, and Investment Banking & Brokerage.

VALUATION

We continue to expect a rebound in the Financial Advisory business as 2026 unfolds given healthy credit availability, good CEO confidence levels, and an improved regulatory environment for deal approvals offering a better M&A backdrop. The Asset Management segment is also showing good improvement with year-over-year and sequential AUM growth.

LAZ has traded between \$38 and \$59 over the past year and is currently toward the bottom of that range. With prices near \$43, LAZ shares trade at 10.6-times our 2027 EPS estimate. Our target price of \$52 implies a multiple of about 13-times our EPS estimate for 2027. We expect much-improved EPS in 2027 as M&A deal closure ramps up. We look for Lazard to continue to benefit from its leading market position in financial advisory and look for growth in asset management.

ByLine

On July 27, BUY-rated LAZ closed at \$42.99, down \$1.36. (Stephen Biggar, 7/27/26)

Lockheed Martin Corp (LMT)

Rating:	BUY
Market Cap:	LARGE
Sector:	Industrial

Strong demand and product innovations fuel growth

- ▶ LMT will accelerate the production of certain advanced technologies for the U.S. government and is expected to play a role in the Golden Dome initiative.
- ▶ We also expect Lockheed to benefit from its record backlog and existing contracts.
- ▶ On the fundamentals, the shares are trading within their five-year historical range and at a discount to the peer group on P/E and price/sales.
- ▶ Management has raised its guidance, and we are raising our 2026 and 2027 GAAP EPS estimates.

INVESTMENT THESIS

Our rating on Lockheed Martin Corp. (NYSE: LMT) is BUY. Lockheed is a leading company in one of the U.S. economy's core competency industries: Aerospace & Defense. We have a favorable view of the company's focus on international revenue diversification (now more than 25% of sales) and expect ongoing geopolitical tensions to boost sales and earnings going forward. In 2025, as in 2024, there were some setbacks to earnings as the company recorded over a \$1 billion loss on future earnings pertaining to certain legacy

Value Stocks

projects that were agreed upon without regard to the costs associated with the technically challenging requirements. Management has since revamped its requirements for bid proposals and project management to help avoid costly adjustments like these in the future.

With the adjustments behind it, we believe demand and earnings potential for Lockheed's products remains strong. Following the performance of its jets in the 2025 and 2026 bombings in Iran, and the subsequent success of its missile defense network to intercept threats in the Middle East, the company will be accelerating the production of certain advanced missile technologies for the U.S. government. The move suggests that Lockheed will play a role in the development of the U.S. Golden Dome missile defense project. In fact, it was selected to develop prototypes for space-based interceptors that will be critical for the Golden Dome. While LMT lost its bid for the sixth-generation fighter jet to Boeing, it believes its F-35 will dominate the skies for the next decade with future growth opportunities from software upgrades to existing earlier model jets that will provide 80% of the sixth-generation capabilities at half the cost. Indeed, the U.S. government has increased its budget for the F-35 by nearly 50% from last year.

In all, we have a positive view of the company. Lockheed expects strong cash flow this year despite expanding capacity to meet its record backlog, which will provide years of future revenue. The dividend currently yields 2.4% and is above the broad market average. On the fundamentals, the shares are trading within their five-year historical range and at a discount to the peer group on P/E and price/sales. Our rating remains BUY, with a target price of \$735.

RECENT DEVELOPMENTS

LMT shares outperformed the market over the past quarter, advancing 14% compared to a 3% gain for the S&P 500. Over the past year, the shares have risen 38% compared to a gain of 16% for the index and 11% the Industrial sector ETF IYJ. Over the past five years, the shares have returned nearly 70%, compared to gains of 57% for the index and 48% for the industry. The beta on LMT is 0.51.

Lockheed reports earnings on a GAAP basis and recently reported 2Q26 GAAP results that exceeded analyst expectations. Revenue of \$20 billion grew 11% from the prior year and was above the Street estimate. EPS came to \$7.94 (up 9%), compared to \$1.46 a year earlier and topped the consensus of \$6.70. Segment operating profit of \$2.2 billion compared to \$0.6 billion a year earlier, while the segment operating margin of 10.8% compared to 3.1%. The prior year's results were negatively impacted by \$1.6 billion in program losses. Excluding these losses, revenue grew 7% and operating profit was in line with the prior year.

We have a favorable view of Lockheed's pursuit of drone technology. In April, Lockheed invested \$25 million in Fortem Technologies, a leader in counter aerial threats. The deal will

enable Fortem to accelerate production of drone technology for countering swarming drones. In July, Lockheed announced a definitive agreement to acquire Ultra Maritime Solutions, a global defense company specializing in autonomous sea drones, for \$3.5 billion. As part of Lockheed's Rotary and Mission Systems segment, the acquisition will enhance Lockheed's autonomous sea drone capabilities.

In January, the White House issued an Executive Order stating that defense contractors were not permitted to pay dividends or buy back stock until they are able to produce 'a superior product on time and within budget.' The order is intended to shift defense priorities from dividends and buybacks to capacity expansion projects to accelerate weapons production. The order stated that the Pentagon would notify underperforming defense contractors and provide a 15-day window for them to develop remediation plans. If the plans are deemed unacceptable by the Pentagon, 'enforcement actions' would take place. Future government awards will specifically prohibit stock buybacks if a company is not meeting its contractual obligations.

The order also addressed executive pay at defense companies. Future government awards will curtail executive incentive compensation when a company is not delivering its products on time. The Pentagon may also cap executive pay regardless of performance.

Lockheed Martin periodically recognizes program adjustments to reflect changes in projected costs required to meet contract requirements. In 2Q25, the company performed a detailed review of all programs that identified risks in meeting its contractual obligations within budget. As a result, earnings were negatively impacted by \$5.83 per share, reflecting losses pertaining to three legacy programs and other adjustments. Management stated that going forward, technical experts will be assigned to approve the performance and provide oversight for technically challenging programs. Booking adjustments negatively impacted total 2025 earnings by \$1.6 billion, or \$7.03 per share and by \$1.5 billion, or \$6.16 per share in 2024.

Along with the results, Lockheed raised its 2026 guidance to reflect higher than anticipated growth in all segments with strength in the Aeronautics and Mission & Fire Control segments. It now looks for sales of \$79.8-\$81.8 billion, reflecting over 7% growth at the midpoint from 2025. For EPS, it forecasts \$29.95-\$30.65 compared to \$21.49 in 2025. Previously, management estimated sales of \$77.5-\$80.0 billion and full-year EPS of \$29.35-\$30.25. The company raised its projection for free cash flow to \$7.0-\$7.2 billion up from \$6.5-\$6.8 billion, reflecting lower capital expenditures. Free cash flow in 2025 was \$6.9 billion.

EARNINGS & GROWTH ANALYSIS

Revenue and operating profit rose in all segments in the first quarter, reflecting strong demand and unfavorable booking

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adjustments in the prior year. The total backlog climbed 38% from 2Q25 to a record \$230 billion representing growth in all business segments. Lockheed has four segments: Aeronautics (40% of 2Q sales), Missiles and Fire Control (20%), Rotary and Mission Systems (22%), and Space Systems (18%).

The Aeronautics division's revenue grew 9% year over year due to higher volume on the F-35 program and favorable comps from write-downs in the prior-year period. Operating profit grew to \$760 million from a \$98 million loss in the prior year. The operating margin expanded to 9.4% compared to negative 1.3% a year earlier.

In Missiles and Fire Control, sales rose 19%, from higher volume in several missile programs following production ramps. Operating profit increased by 24%, also due to higher volume. The operating margin came to 14.5% compared to 14% a year earlier.

Revenue increased 9% in the Rotary and Mission Systems segment from higher helicopter volume. Operating profit grew to \$437 million from a \$172 million loss in the prior year. The operating margin came to 10.0% compared to 4.2% in 2Q25, reflecting prior year write-downs.

Space Systems revenue increased 6%, with help from higher volumes on several missile and interceptor programs. The segment's operating profit rose by 2%, while the segment-operating margin came to 10.6% compared to 10.9% in the prior-year period.

Based on management's outlook including potential opportunities with the Golden Dome initiative and other high growth programs, we are raising our 2026 GAAP EPS estimate to \$30.55 from \$29.93. Our estimate is above the midpoint of management's guidance range. We look for growth in 2027 and are boosting our estimate to \$33.00 from \$32.11.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on Lockheed Martin is Medium-High. The company scores average or above average on our main components of financial strength. S&P assigns an A- rating to the company's debt.

Lockheed held \$3.8 billion in cash at the end of the quarter, down from \$4.1 billion at the end of the prior year. Cash from operations for the first half rose over 100% to \$3.5 billion reflecting the timing of customer receipts and lower tax payments. LMT had debt of \$25 billion, down in line sequentially after a scheduled debt repayment last quarter. Including pension liabilities, the debt-to-cap ratio was a high 77%, though the lowest level in over two years.

LMT pays a dividend and has raised it for 23 consecutive years. In October 2025, it raised its quarterly payout by 4.5% to \$3.45 per share, or \$13.80 annually, for an

above-industry-average yield of 2.4%. Our dividend estimates are \$13.80 for both 2026 and 2027 amid the recent Executive Order (EO). The possibility that the dividend could be suspended is unknown.

The company has a stock buyback plan. In October 2025, the board approved an additional \$2 billion authorization, bringing the total amount available under the program to \$9.1 billion with no expiration date. In 2025, Lockheed purchased a total of \$3.0 billion shares. In 2024, it spent \$3.7 billion to buy back its stock. The company has not purchased any stock in 2026 amid the EO.

MANAGEMENT & RISKS

James D. Taiclet became the company's CEO in 2020. He was formerly the CEO of American Tower Corp. In April 2025, Evan Scott became the company's new CFO, replacing Jesus Malave who departed the company after three years in the role. Mr. Scott is a 26-year veteran at Lockheed and has served as its treasurer and the CFO of two segments. Thomas J. Falk was appointed to lead independent director in May 2024.

CEO Taiclet conducted a strategic review and concluded that the long-term outlook for Lockheed remains positive. Long-term opportunities include the company's hypersonic portfolio; classified activities; and programs of record, including the CH-53K heavy lift helicopter, F-35 sustainment activity, increased PAC-3 production, and enhancements to the fleet ballistic missile.

Lockheed management, led by Mr. Taiclet, is also implementing its 21st Century Security Strategy. The goal is to drive anti-fragility into the Defense Industrial base by integrating systems operating across all warfighting domains via resilient, high-capacity networks. To that end, Lockheed has strengthened its backlog with JADO/JADC2 awards for satellites and services. LMT is also expanding international collaboration and commercial partnerships.

Investors in LMT shares face risks. Lockheed is a key supplier to the U.S. military -approximately 70% of total net sales - and thus vulnerable to debates over and potential cuts in domestic and international defense spending. The company also faces risks such as the ongoing impact of high inflation and extended delivery timelines across the supply chain, as well as shifts in customer priorities. Lockheed is subject to multiple procurement laws and regulations, and evolving U.S. government procurement policies and increased emphasis on cost over performance could adversely affect its business. The Defense industry is competitive, with other deep-pocketed players. Lockheed is the prime contractor on most of its contracts and is also dependent on subcontractors and suppliers.

COMPANY DESCRIPTION

Lockheed Martin provides advanced technology systems, products, and services to the U.S. government and

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international defense customers. The company is organized into four businesses: Aeronautics, Missiles and Fire Control, Rotary & Mission Systems, and Space Systems. The shares are a component of the S&P 500. Headquartered in Maryland, the company has about 122,000 employees.

INDUSTRIAL

Our rating on the Industrial sector is Over-Weight. The sector accounted for 8.9% of the S&P 500 as of the end of June. The recent surge in energy prices likely will drive increased domestic oil and gas production, benefiting Industrial companies that serve the oil patch. The worsening geopolitical situation in the Middle East also is likely to drive growth in aerospace/defense companies.

The sector has outperformed the market year to date with a gain of 19.5% as of the end of June. The sector outperformed in 2025, with a gain of 17.7%, compared to a gain of 16.4% for the S&P 500. The beta for the sector is 1.1.

Over the past five years, the sector's weighting has ranged from 8% to 12%. The sector's P/E ratio on projected 2027 EPS was 24, above the market multiple. The yield of 0.8% was below the market average. The sector's smoothed earnings growth rate of 8% was below the market average.

The Industrial sector is primarily a cyclical sector. The macroeconomic factors that may affect the performance of stocks in the Industrial sector include Interest Rates, New Housing Starts, Data Center Growth, Trade Policy, and U.S. Government Defense Spending. Trends in the dollar can affect factors such as Cost of Goods Sold.

Potential sell signals for stocks in the Industrial sector can be a change in the direction or rate of a company's sales or earnings growth, a high dividend payout ratio above 70%, a rapidly rising unemployment rate or signs of an impending recession.

At this stage of the market and economic cycle, our favored industries within the Industrial sector include Aerospace & Defense, Building Products, and Electrical Components & Equipment.

VALUATION

LMT shares appear attractively valued at current prices near \$582, around the midpoint of their 52-week range of \$413-\$692. On a technical basis, the shares had been in bullish pattern of higher highs and higher lows that dated back to October 2023. They fell sharply a year later amid program delays and lower-than-expected revenue, reaching a near-term low in July 2025. The LMT shares have risen considerably since that time.

On the fundamentals, the shares are trading at 19-times our 2026 GAAP EPS compared to the five-year historical range of 13-22, and 25 for a group of peers that includes RTX,

NOC, and LHX. On price/sales, LMT trades at a multiple of 1.6, within its five-year historical range of 1.5 to 2.0 and below 2.5 for the peer group. We believe that current multiples are attractive based on ongoing political tensions, the company's record backlog, and future growth prospects. Our target price is \$735.

ByLine

On July 27, BUY-rated LMT closed at \$580.00, down \$2.60. (Kristina Ruggeri, 7/27/26)

Northrop Grumman Corp (NOC)

Rating: **BUY** 
Market Cap: **LARGE**
Sector: **Industrial**

Positioned for future growth

- ▶ We anticipate strong cash flow and margin expansion, with help from upcoming B-21 orders, international sales, material availability, and productivity in 2026.
- ▶ The company's record backlog, along with rising global geopolitical tensions, should accelerate growth into the future.
- ▶ We have raised our EPS estimates for 2026 and 2027.
- ▶ NOC's shares are trading at 19-times our 2026 EPS estimate, within their five-year average range and below a peer group on P/E and price/sales.

INVESTMENT THESIS

Our rating on Northrop Grumman Corp. (NYSE: NOC) is BUY. Northrop Grumman is a leading company in one of the U.S. economy's core competency industries: aerospace & defense. It is uniquely positioned in the industry, with strengths in both hardware and software, which has provided competitive differentiation for the company and enabled it to be a leader in aircraft autonomy, satellites, and weapon systems.

We have a favorable view of NOC's international revenue diversification, which is growing at a double-digit rate amid rising geopolitical tensions and commitments from NATO countries to increase spending on defense. Management expects to receive awards in 2026 for existing programs and believes it will play a crucial role in future programs such as the Golden Dome, a proposed missile-defense system for the United States.

We expect an increase in investment spending in 2026 amid higher capacity needs for several defense programs and demand for the company's missile defense systems in the Middle East. We anticipate strong cash flow and margin expansion, with help from supply-chain improvement, cost savings, and productivity. We also expect upcoming defense awards for the B-21 program, orders for much-needed solid rocket motors (where the company will be a secondary

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source), and additional international sales.

The company's backlog is at record levels. The book-to-bill ratio has averaged 1.1 over the last five years and management expects that to rise to 1.25 this year amid increased government spending. Northrop has a history of delivering positive earnings surprises to the Street, regardless of whether defense spending is rising or falling. On tariffs, the majority of the company's supply chain is domestic. NOC is taking steps to ensure component availability where there are risks. The company also has two microelectronic foundries in the U.S. that manufacture microchips for NOC. It recently opened the facilities to other customers who are looking for a domestic chip source. Northrop's shares are trading at 19-times our 2026 EPS estimate, within its five-year average range and below a peer group on P/E and price/sales. Our target price is \$700.

RECENT DEVELOPMENTS

NOC shares have underperformed the market over the past three months, falling 9% while the S&P 500 has risen 4%. In the last year, the shares have declined 5% compared to gains of 18% for the index, and 13% for the Industrials sector ETF, IYJ. Over the past five years, the stock has risen about 50% versus 68% for the index, and 45% for the industry. The beta on NOC is 0.50.

The company recently posted 2Q26 results that exceeded analyst estimates. Revenue of \$10.9 billion rose 5% from the prior year and was above the consensus. Segment operating income fell 5%, while the segment operating margin of 10.6% compared to 11.8% in 2Q25. EPS came to \$7.68, compared to \$8.15 a year earlier but above the Street estimate of \$6.82. There were several items that impacted the EPS comparison. Normalizing for these impacts, EPS declined about 4% year over year.

In January, the White House issued an executive order stating that defense contractors were not permitted to pay dividends or buy back stock until they are able to produce 'a superior product on time and within budget.' The order is intended to shift defense priorities from dividends and buybacks to capacity expansion projects that will accelerate weapons production. The order stated that the Pentagon would notify underperforming defense contractors and provide a 15-day window for them to develop remediation plans. If the plans are deemed unacceptable by the Pentagon, 'enforcement actions' would take place. Future government awards will specifically prohibit stock buybacks if a company is not meeting its contractual obligations.

The order also addressed executive pay at defense companies. Future government awards will curtail executive incentive compensation if a company is not delivering its products on time. The Pentagon may also cap executive pay regardless of performance.

Along with the 2Q results, management raised its 2026

revenue and adjusted EPS guidance. It now looks for sales of \$43.8-\$44.3 billion, up nearly 7% at the midpoint from 2025. The company's adjusted EPS forecast is now \$28.60-\$29.10, reflecting over 9% growth at the midpoint from the prior year. Previous guidance had called for revenue of \$43.5-\$44.0 billion and adjusted EPS of \$27.40-\$27.90. Unchanged are expectations for segment operating income of \$4.9-\$5.0 billion and adjusted free cash flow of \$3.1 billion-\$3.5 billion, versus \$3.3 billion in 2025. Capital investments remain \$1.85 billion, an increase to support capacity. Guidance is conservative and does not yet include an accelerated B-21 production rate or awards that are not yet under contract.

EARNINGS & GROWTH ANALYSIS

Northrop Grumman has four reporting segments: Aeronautics Systems (30% of sales), which includes military aircraft and aircraft components; Mission Systems (18%), such as control rooms and cyber solutions; Defense Systems (28%), such as logistics, systems security, and fraud detection; and Space Systems (24%).

Quarterly results benefited from higher sales in all four segments, helped by high demand and material availability. Operating margins expanded in just two segments. Second quarter net awards totaled \$20 billion. The backlog came to a record \$105 billion, up nearly 10% from the prior year with a book-to-bill ratio of 1.8-times. Higher-margin international growth was 20%.

In the Aeronautics Systems segment, revenue rose 13% helped by higher sales of the B-21 and other programs. The segment operating margin of 10.3% was in line with in the prior year. Management expects strong growth in the B-21 program this year.

Revenue in the Defense Systems segment grew 5%, reflecting the Sentinel program ramp and increased volume on several Battle Command System programs. Organic sales were up 7%. Second quarter operating income declined 38%, while the segment operating margin narrowed by 520 basis points to 7.5%, reflecting investments in the business and net unfavorable program adjustments in the quarter compared to favorable adjustments a year earlier. NOC forecasts improved margins for this segment in the second half of this year.

For the Mission Systems segment, sales increased 3% due to material availability and program ramps in certain restricted marine and radar programs, offset by lower volume in other programs. Operating income for the segment gained 14%, while the operating margin widened by 140 basis points to 15.4%, helped by positive program adjustments. Management expects margin improvement for the segment in 2026.

In the Space Systems segment, sales rose 4% primarily due to higher volume that was partially offset by the impacts of an

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unfavorable adjustment. Segment operating income declined 16%, while the operating margin narrowed by 200 basis points to 8.6% due to unfavorable program adjustments. Margins are expected to be greater than 11% for the year.

On the expense side, the total company operating margin in the quarter was 10.1%, lower by 140 basis points compared to adjusted operating income in the prior period. We note that most defense prime contractors typically report 'reasonable' profit margins in the 10%-12% range, but results can be lumpy. NOC reported an operating margin of 10.8% in 2025 and 10.6% in 2024 after removing over \$200 million in costs from the business. G&A expenses were 1% lower than the prior year and were 9% of sales compared to 10% of sales a year earlier.

Turning to our estimates, based on management's guidance, we are boosting our adjusted 2026 EPS estimate to \$28.96 from \$27.97. Our estimate is above the midpoint of management's guidance range and implies EPS growth of about 10% this year. We look for growth to continue in 2027 and are raising our estimate of to \$30.35 from \$30.22.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on Northrop Grumman is Medium, the midpoint on our five-point scale. The company receives average scores on our main financial strength criteria: debt levels, fixed-cost coverage, cash flow generation, and profitability. S&P Global and Fitch assign a BBB+ rating to the company's debt.

The company had \$2.3 billion in cash and equivalents at the end of 2Q26, compared to \$4.4 billion at the end of the prior fiscal year. Cash used in operations was \$0.4 billion in the quarter, compared to \$0.7 billion a year earlier. Total debt remained \$15 billion. Including operating lease liabilities, the total debt/capitalization ratio was 49%, down from 51% in 4Q25.

NOC pays a dividend. In May 2026, it boosted the payout by 6% to the current quarterly rate of \$2.47 per share, or \$9.88 annually, marking 23 years of consecutive annual increases. The yield is about 1.9%. In 2025, the company increased the dividend by 12%. Our dividend estimates are now \$9.56 for 2026 and \$10.15 for 2027, reflecting lower-than-expected increases amid the January executive order.

NOC has a share buyback program. The company did not buy back shares this quarter, though in 1Q26 it repurchased \$68 million shares. It bought back about \$1.6 billion of its shares in 2025. For 2024, the company met its target of \$2.5 billion in share repurchases. We expect future share repurchases this year to be limited to offsetting dilution amid the executive order.

MANAGEMENT & RISKS

Kathy J. Warden became the company's CEO, president, and chair in 2019. She had previously been COO. John

Greene replaced Kenneth Crews as the CFO in January 2026. Mr. Greene joins the company from Discover Financial Services Inc., where he was CFO for six years. Mr. Crews helped transition the new CFO in the role for three months before leaving the company in April.

Investors in NOC shares face risks. Northrop Grumman is a key supplier to the U.S. military (we estimate approximately 80% of total sales) and thus vulnerable to debates over and potential cuts in domestic and international defense spending, as well as congressional disagreements over the U.S. debt ceiling. The company is subject to a number of procurement laws and regulations, and evolving U.S. government procurement policies, as well as an emphasis on cost over performance, could adversely affect Northrop Grumman's business.

The defense industry is competitive, with other deep-pocketed players. Northrop Grumman is the prime contractor on most of its contracts and thus is dependent on subcontractors and suppliers. The company's international business exposes it to additional risks, including risks related to geopolitical and economic factors, laws, and regulations. The company is in constant need to build its backlog.

COMPANY DESCRIPTION

Northrop Grumman is a leading global defense contractor, providing systems integration, defense electronics, and information technology as well as advanced aircraft and space technology. The shares are a component of the S&P 500. Headquartered in Virginia, the company has about 101,000 employees.

INDUSTRY

Our rating on the Industrial sector is Over-Weight. The sector accounted for 8.9% of the S&P 500 as of the end of June. The recent surge in energy prices likely will drive increased domestic oil and gas production, benefiting Industrial companies that serve the oil patch. The worsening geopolitical situation in the Middle East also is likely to drive growth in aerospace/defense companies.

The sector has outperformed the market year to date with a gain of 19.5% as of the end of June. The sector outperformed in 2025, with a gain of 17.7%, compared to a gain of 16.4% for the S&P 500. The beta for the sector is 1.1.

Over the past five years, the sector's weighting has ranged from 8% to 12%. The sector's P/E ratio on projected 2027 EPS was 24, above the market multiple. The yield of 0.8% was below the market average. The sector's smoothed earnings growth rate of 8% was below the market average.

The Industrial sector is primarily a cyclical sector. The macroeconomic factors that may affect the performance of stocks in the Industrial sector include Interest Rates, New Housing Starts, Data Center Growth, Trade Policy, and U.S. Government Defense Spending. Trends in the dollar can

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affect factors such as Cost of Goods Sold.

Potential sell signals for stocks in the Industrial sector can be a change in the direction or rate of a company's sales or earnings growth, a high dividend payout ratio above 70%, a rapidly rising unemployment rate or signs of an impending recession.

At this stage of the market and economic cycle, our favored industries within the Industrial sector include Aerospace & Defense, Building Products, and Electrical Components & Equipment.

VALUATION

NOC shares appear attractively valued at current prices near \$540, below the midpoint of their 52-week range of \$479-\$774. They had been in a bullish pattern of higher highs and higher lows since May 2025, but turned bearish in March amid program write-downs and de-escalation in the Middle East.

On the fundamentals, the shares are trading at 19-times our 2026 EPS estimate, near the top of their five-year average range of 14-20 but below 23 for a peer group that includes RTX, LMT, and GD. On price/sales, NOC trades at a multiple of 1.7, at the bottom of its historical range and at a discount compared to the peer group. We believe that current multiples are attractive based on our expectations for significant demand and higher margins. Our target price is \$700.

ByLine

On July 23, BUY-rated NOC closed at \$533.48, up \$8.20. (Kristina Ruggeri and Julianna Perri, 7/23/26)

Packaging Corp of America (PKG)

Rating:	BUY
Market Cap:	LARGE
Sector:	Materials

Raising target price

- ▶ PKG shares have outperformed over the past three months, rising 15% compared to a 4% gain for the S&P 500.
- ▶ We expect earnings to benefit from recovering demand and strategic acquisitions in the coming quarters.
- ▶ PKG's results are linked to trends in paper production and pricing, with corrugated paperboard and solid fiber box prices generally at the top of the historical range.
- ▶ We see room for market-share gains as earnings rebound for the cyclical company, driven by long-term demand for paper and shipping products as e-commerce continues to grow.

INVESTMENT THESIS

Our rating on Packaging Corp. of America (NYSE: PKG) is

BUY. The company has a strong track record in its industry, and we consider it well managed. In our view, it is positioned to benefit from long-term growth in e-commerce. The cyclical business is showing signs of perseverance in a challenging environment, signaled by sales in the latest quarter that are up 15% year over year. PKG also has a solid balance sheet and an attractive dividend yield of about 2.3%.

Despite recent inflationary pressure and an uncertain regulatory environment, the long-term industry outlook is positive, and we expect the company to benefit from its leading position in the industry. We also expect earnings to benefit from recovering demand and strategic acquisitions in the coming quarters.

On a technical basis, the shares are in a bullish trend of higher highs and higher lows that dates to May 2023. We see room for market-share gains as earnings rebound for the cyclical company, driven by long-term demand for paper and shipping products as e-commerce continues to grow.

Our target price is now \$274, revised from \$251.

RECENT DEVELOPMENTS

PKG shares have outperformed over the past three months, rising 15% compared to a 4% gain for the S&P 500. Over the past year, the shares have also outperformed, rising 23% compared to a 16% gain for the S&P 500. The shares have outperformed the Materials sector ETF IYM over the past year and over the last five years. The beta on PKG is 0.74.

PKG recently reported 2Q26 adjusted EPS that fell 5% year over year but beat consensus expectations. Adjusted net income was \$2.35 per share, down from \$2.48 a year earlier but above the company's guidance of \$2.33. Results were also above the consensus forecast of \$2.31. In 2Q26, net sales rose 15%, to \$2.5 billion. The adjusted EBITDA margin narrowed by 130 basis points year over year to 19.5%

For the first half of 2026, adjusted EPS came to \$4.75, down from \$4.79 in the first half of 2025. Net sales came to \$4.9 billion, up from \$4.3 billion in the first half of 2025, and adjusted EBITDA came to \$971.2 million, compared to \$871.8 million in the prior-year period.

Along with the results, management provided outlook for 3Q26. The company expects continued strong demand in packaging and corrugated products volume to increase, with higher pricing as previously announced price increases are implemented. Management expects higher pricing in both segments from previously announced price increases. The company expects third-quarter adjusted earnings of \$2.91 per share.

PKG grows through strategic acquisitions. In July 2025, management announced that they have entered into a definitive agreement to purchase the containerboard business of Greif Inc. for \$1.8 billion in cash. Going forward,

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this acquisition will help to increase the company's market share, adding two containerboard mills with approximately 800,000 in production capacity. Synergies are expected to generate pre-tax benefits of approximately \$60 million. The acquisition will be accretive to earnings immediately and benefits will be fully realized within two years of closing. The deal closed in early September 2025.

The company's results are linked in part to trends in paper production and pricing. Corrugated paperboard and solid fiber box prices generally are near the top of the historical range. According to the U.S. Bureau of Labor Statistics, the current producer price index for Pulp, Paper & Allied Prices (which we use as a proxy for the industry) is approximately \$355, with a five-year range of \$332-\$355. Though prices are at the top of the range, the trend has been relatively flat over the last year. Prices were up 1% through 2025.

EARNINGS & GROWTH ANALYSIS

Packaging Corp. has two operating segments: Packaging (93% of 2Q sales) and Paper (6%).

In the Packaging segment, 2Q revenue rose 15% year over year, reflecting higher shipments from the acquired business. The quarterly segment adjusted EBITDA margin narrowed approximately 150 basis points from the prior year to 21.1%. Containerboard production was 1,415,000 tons, and containerboard inventory was down 25,000 tons from 1Q26 and up 40,000 tons from the prior year. We expect domestic pricing to rise in 3Q26 as a result of the implementation of previously announced price increases and we expect demand improvements.

In the Paper segment, 2Q revenue rose 8% year over year, while the segment adjusted EBITDA margin widened 410 basis points year over year to 21.8%. Volume rose 6% year over year. We expect the Paper segment to see lower volume and higher prices in 3Q26 driven by scheduled maintenance outage at the International Falls mill and the continued implementation of previously announced price increases. We expect the paper segment to continue to be impacted by high input costs in 3Q26.

Based on current demand, pricing, and cost trends, as well as our outlook for paper prices and management's guidance, we are maintaining our 2026 adjusted EPS estimate of \$10.50. Our estimate implies growth of 7% year over year. We expect growth to continue in 2027, and with our expectations for recovering demand, we are raising our adjusted EPS estimate for 2027 to \$12.45 from \$12.00.

FINANCIAL STRENGTH & DIVIDEND

We rate the financial strength of Packaging Corp. as Medium, the midpoint on our five-point scale. The company receives average scores on our key financial strength criteria of debt levels, fixed-cost coverage, profitability, cash flow generation, and earnings quality. Its long-term debt is rated Baa1/stable by Moody's and BBB/positive by Standard &

Poor's.

The company ended 2025 with \$529 million in cash. The total debt/total capitalization ratio was 46% at the end of 2025.

PKG pays a dividend. On May 12, 2026, the company raised its quarterly payout by 20% to \$1.50, or \$6.00 annually, for a yield of about 2.3%. We think the dividend is secure. Our dividend estimates are \$5.75 per share for 2026 and \$6.00 for 2027.

The company also has a share repurchase program. In early 2025, PKG's board authorized a new share repurchase program for up to \$150 million of its common stock to be executed over an 18-month period.

MANAGEMENT & RISKS

Mark W. Kowlzan has served as the company's CEO since July 2010 and as chairman since 2016. From 1998 through June 2010, Mr. Kowlzan managed the company's containerboard mill system. Thomas A. Hassfurth has served as president since February 2025. He was formerly the EVP of Corrugated Products since 2009. Kent Pflederer was made the CFO and EVP in May 2025. Mr. Pflederer previously served as General Counsel and Secretary. Prior to joining PCA in 2007, Mr. Pflederer served as Senior Counsel, Corporate and Securities at Hospira, Inc. from 2004 to 2007.

Investors in PKG shares face risks. PKG requires a healthy global economy to sustain price increases and drive revenue growth. Other risk factors include industry overcapacity and unexpected plant outages. The company's performance is also dependent on its ability to set pricing in the containerboard and box segments. On the other hand, it must accept market prices for the wood fiber, energy, and chemicals used in the production process.

COMPANY DESCRIPTION

Packaging Corp. of America is a manufacturer of containerboard and corrugated products. It is the third-largest producer of containerboard products and corrugated packaging, as well as a leading producer of uncoated freesheet paper in North America. The company produces various corrugated packaging products, including conventional shipping containers used to protect and transport manufactured goods. PKG also produces multicolor boxes and displays for packaged retail products and meat boxes and wax-coated boxes for agricultural suppliers.

Packaging Corp. of America was founded in 1867. It operates ten mills and 91 corrugated products plants and related facilities. The company has approximately 16,800 employees and is headquartered in Lake Forest, Illinois. The shares are a component of the S&P 500.

INDUSTRY

Our rating on the Materials sector is Over-Weight. The sector

Value Stocks

accounted for 1.8% of the S&P 500 as of the end of June. Despite the energy price shock rippling through the global economy, demand for commodities remains solid, and commodity-producing nations have some of the strongest stock markets worldwide. Additionally, U.S. dollar weakness is positive for commodity prices, given that most commodities are priced in dollars and given the inverse relationship between commodity prices and the direction of the dollar.

The sector receives above-average marks on our six-part 'blind' sector rating criteria, which includes growth momentum, valuation, financial strength, and analyst conviction, among other factors.

The sector has outperformed the market year to date with a gain of 11.1% as of the end of June. The sector underperformed in 2025, with a gain of 8.4%, compared to a gain of 16.4% for the S&P 500. The beta for the sector is 0.9.

Over the past five years, the sector's weighting has ranged from 1% to 4%. The sector's P/E ratio on projected 2027 EPS was 16, below the market multiple. The yield of 1.3% was above the market average. The sector's smoothed earnings growth rate of 4% was below the market average.

The Materials sector is primarily a cyclical, value-oriented sector. The macroeconomic factors that may affect the performance of stocks in the Materials sector include Tariffs, Input Costs, Interest Rates, and Trade Policy, among others. Trends in the dollar can affect factors such as Gross Profits.

Many Materials companies return capital to shareholders in the form of dividends. High yields may be attractive, but investors also need to look closely at financial strength factors such as dividend coverage and debt levels.

Potential sell signals for stocks in the Materials sector can be an impending recession, a supply glut for a specific commodity, or a weakened balance sheet that threatens the dividend payout.

At this stage of the market and economic cycle, our favored industries within the Materials sector include: Specialty Chemicals, Steel, and Industrial Gases.

VALUATION

We think that PKG shares are attractively valued given the long-term industry outlook as e-commerce takes over for brick-and-mortar retail. At current prices near \$253, the shares are trading near the top of their 52-week range of \$189-\$259. On a technical basis, the shares are in a bullish trend of higher highs and higher lows that dates to May 2023.

On the fundamentals, the shares are trading at 20-times our 2027 EPS forecast, above the midpoint of the historical range of 13-24. They are trading at a price/sales ratio of 2.38, with a range of 1.4-2.5. They are also trading at a price-to-book ratio of 4.94, at the top of the historical range

2.9-4.9. We see signs of further market gains, and anticipate continued earnings rebound driven by long-term demand for paper and shipping products. Our target price is now \$274, up from \$251.

ByLine

On July 28, BUY-rated PKG closed at \$253.24, up \$0.87. (Alexandra Yates, 7/28/26)

PayPal Holdings Inc (PYPL)

Rating:	BUY
Market Cap:	LARGE
Sector:	Financial

Raising target price amid improved EPS guidance

- ▶ On July 28, PayPal reported adjusted 2Q26 EPS of \$1.38, down from \$1.40 a year earlier but above the \$1.28 consensus. Payment volume growth was 10% in 2Q, nearly matching 11% in 1Q (aided by Venmo).
- ▶ Management offered updated guidance for 2026 guidance calling for EPS of \$5.38, above the current \$5.31 consensus.
- ▶ Management also addressed reports that surfaced in mid-July of a \$53 billion takeover bid from Stripe and Advent International that valued PayPal at \$60.50 per share, though only noting it remained open to evaluating opportunities.
- ▶ We are raising our target price to \$70 (from \$65) and view the shares as undervalued in light of improving payment volume growth, with catalysts as the new CEO looks to accelerate the company's turnaround.

INVESTMENT THESIS

We are maintaining our BUY rating on PayPal Holdings Inc. (NYSE: PYPL) following 2Q26 results, which saw 10% growth in total payment volume growth and the company offering updated EPS guidance for 2026 that was above the consensus. In mid-July, reports surfaced that payments company Stripe and private equity firm Advent International had made a \$53 billion takeover bid, valuing PayPal at \$60.50 per share. Management addressed the speculation on the 2Q earnings call, noting the valuation creation expected under its current transformation strategy, while remaining open to evaluating opportunities. The shares rallied on the buyout report and again on the improved guidance along with 2Q results. We believe the company is in a considerably better position than six months ago, with efforts beginning to show progress as evidenced by a surge in first half 2026 payment volume growth relative to 2025. We expect share price performance to benefit from either organic improvement, or a potentially higher external offer.

In February 2026, the company announced a new CEO, Enrique Lores, arriving from HP Inc. where he was CEO. In April, Mr. Lores expanded on an announcement of a reorganization centered around three market opportunities

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for PayPal that it intends to drive its medium-term investments and growth: Checkout Solutions & PayPal, Consumer Financial Services & Venmo, and Payment Services & Crypto. Executives were named for leading each segment. Within Checkout Solutions, the company sees consumer demand for flexible payment options, including 'buy now, pay later' solutions, which are becoming an important driver of consumer acquisition while delivering benefits to merchants. Within Consumer Financial Services, Lores noted consumers increasingly turning to digital platforms to handle everyday financial activities, and a market opportunity worth some \$200 billion annually in its top six markets (one that offers a lifetime value opportunity for the company). In Payment Processing (including value-added services), the company intends to take advantage of the continued shift to digital channels and greater complexity of global payments.

With regards to online branded checkout, PayPal has previously noted recent difficulties in driving adoption across its user base. Causes included retail spending weakness among the company's large proportion of lower- and middle-income customers; international headwinds due to macroeconomic factors (particularly in Germany); deceleration in previous high-growth verticals including travel, ticketing, crypto, and gaming; and operational/deployment issues as merchants have not adopted at expected scale. The company also has been experiencing increasing competition in online payments from Apple Pay and others. In addition, its PSP (payment service provider) business including Braintree, which is a mobile payments product, has been looking to expand transaction margins, but with lower volume and revenue growth. Lastly, services like Venmo and Buy-Now-Pay-Later have had strong engagement, but these are smaller transaction platforms that have not meaningfully countered slowdowns elsewhere.

We expect that the company will continue to make progress on recent initiatives for more-profitable growth, which have included altering its marketing strategy to focus less on new users and more on greater utilization by existing users, as well as growing higher-margin transactions. PayPal has announced a partnership with OpenAI to facilitate transactions with conversational artificial intelligence (AI) model (or chatbot) ChatGPT. Users shopping with ChatGPT are able to access PayPal's payment processing tools. PayPal is working similarly with Perplexity and Google, giving the company what we believe is a head start as e-commerce via artificial intelligence grows in popularity.

Active accounts were 439 million at the end of 2Q26, up from 438 million a year earlier. PayPal added a substantial 122 million net new active accounts to its platform in 2020-2021. Although many of these likely were pulled forward from future years due to the pandemic, the sharply higher base of accounts continues to lead to increased payment volumes.

The company remains innovative in the fintech space. In July 2025, PayPal announced it will allow businesses to accept payments in more than 100 types of cryptocurrencies, including bitcoin and Ethereum. The new service, called 'Pay with Crypto,' will provide additional payment opportunities to its customers. PayPal has its own stablecoin called PayPal USD or PYUSD, which is backed by the U.S. dollar. Management believes that the new service will simplify cross-border commerce, increase merchant profit margins and reduce transaction fees associated with international credit card processing.

Unlike MasterCard and Visa, PayPal's network enables account holders to both pay and be paid for merchandise or services. PayPal is accepted at more than 75 of the top 100 retailers in the U.S., and we expect even greater penetration in the next year.

We believe the company has competitive strengths and ample opportunities to re-ignite payment volume growth. These include a strong international presence, with 100 million non-U.S. users in more than 200 countries. The company also provides merchants with end-to-end payment authorization and settlement capabilities, as well as instant access to funds.

We also see potential catalysts for the shares, including additional actions likely to be taken by the new CEO, who has led previously successful transformations. In addition, we note a commitment to a buyback program for 2026 totaling \$6 billion, an amount that now represents 12% of market capitalization. Adjusted free cash flow should exceed that amount for the year. The company also has \$11 billion in balance sheet cash and investments, which is about 21% of market cap. Our long-term rating remains BUY.

RECENT DEVELOPMENTS

Over the past year, PYPL shares are down 25% versus a 17% increase for the S&P 500.

On July 28, PayPal reported adjusted 2Q26 EPS of \$1.38, down from \$1.40 a year earlier but above the \$1.28 consensus. Revenues rose 5% to \$8.7 billion (3% on an FX-adjusted basis). Adjusted net income was down 11% to \$1.22 billion. Adjusted EPS declined 1% following a 10% decline in average shares outstanding.

Total 1Q transaction payment volume (TPV) rose 10% from the prior year (9% FX-adjusted) to \$486.4 billion and was primarily responsible for the revenue gain. PayPal had 439 million active accounts June 30, up from 438 million a year earlier. The number of payment transactions was up 8% to 6.75 billion.

EARNINGS & GROWTH ANALYSIS

Along with 2Q26 earnings, management updated 2026 guidance, now calling for non-GAAP EPS of \$5.38, versus prior guidance for a low-single-digit percentage decline to a

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slightly positive percentage increase in adjusted EPS for the year.

Total payment volume growth was 10% in 2Q, versus 11% in 1Q, and up from 7% for all of 2025, an encouraging first half in our view. Venmo posted a 14% rise in payment volumes (FX-adjusted) in 2Q26 and 1Q26 but remains under 20% of total payment volumes.

More broadly, we continue to expect revenue growth at PayPal will benefit from increased merchant acceptance of the company's services, growth in the number of mobile devices using mobile payment apps, and an increase in average transactions per active account. We also expect PayPal to benefit over time from secular trends that have boosted growth for credit card processors, such as the increasing use of digital payments over checks and cash for convenience and security. The company continues to have opportunities to leverage its platforms globally and take advantage of its strong brand recognition and growth in merchant acceptance.

After the company posted a 4% rise in 2025, we also look for revenue growth of 4% in 2026. Based on better-than-expected 2Q trends and update management guidance, we are raising our 2026 EPS estimate to \$5.41 from \$5.31. Our 2027 forecast moves down slightly to \$5.81 from \$5.83.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on PayPal is High. Balance-sheet metrics are favorable, with cash and short-term investments of \$11.3 billion and total debt of \$10.9 billion as of June 30, 2026.

PayPal repurchased 33 million common shares for \$1.5 billion in 2Q26. The company plans \$6 billion of repurchases in 2026.

Along with 3Q25 earnings, the company announced it was implementing its first-ever quarterly dividend in 4Q25 at a rate of \$0.14 per share. Our dividend estimates are \$0.56 for both 2026 and 2027. The yield is about 1.0%. The company said the targeted payout ratio was 10% of adjusted net income.

MANAGEMENT & RISKS

In February 2026, PayPal named Enrique Lores as its new president & CEO, effective March 1, replacing Alex Chriss, who had been in the positions since September 2023. Mr. Lores joins from HP Inc., where he was CEO. Jamie Miller was named as CFO in November 2023.

PayPal faces considerable competition in the payments market from well-established brands, including Apple's ApplePay, Visa's Checkout, MasterCard's MasterPass, and American Express's Later Pay services, as well as other digital products from Facebook and Google. Customers

generally have a range of payment options in addition to PayPal at the point of sale, and the company must compete on convenience and transaction price. It must also respond quickly to changing customer preferences, including the increasing demand for mobile payment services.

COMPANY DESCRIPTION

Spun off from eBay in July 2015, PayPal is a technology platform company that enables digital and mobile payments on behalf of consumers and merchants worldwide. It accepts payments from merchant websites, mobile devices and applications, and at offline retail locations through its PayPal, PayPal Credit, Venmo, and Braintree products.

PayPal processes transactions in more than 200 markets and in more than 100 currencies. It also allows customers to withdraw funds from bank accounts in 56 currencies and hold balances in PayPal accounts in 25 currencies.

INDUSTRY

Our rating on the Financial sector is Over-Weight. The Financial sector accounted for 11.8% of the S&P 500 as of the end of June. We think diversified investors should have meaningful exposure to the sector, at about 125-150% of the current sector weight.

The sector receives above-average marks on our six-part 'blind' sector rating criteria, which includes growth momentum, valuation, financial strength, and analyst conviction, among other factors.

The sector has underperformed the market year to date with a loss of 2.1% as of the end of June. The sector underperformed in 2025, with a gain of 13.3%, compared to a gain of 16.4% for the S&P 500. The beta for the sector is 0.9.

Over the past five years, the sector's weighting has ranged from 10% to 15%. The sector's P/E ratio on projected 2027 EPS was 14, below the market multiple. The yield of 1.6% was above the market average. The sector's smoothed earnings growth rate of 9% was below the market average.

The Financial sector is a cyclical and often value-oriented sector. The macroeconomic factors that may affect the performance of stocks in the Financial sector include the Unemployment Rate (which can influence the debt repaying capability of consumers and therefore credit costs), Interest Rates (which can determine lending profitability), and GDP or growth in the economy (which influence loan growth). The industry is also highly regulated, so changes in the regulatory environment can influence capital set-aside requirements and thus profitability.

At this stage of the market and economic cycle, our favored industries within the Financial sector include Diversified Banks, Financial Exchanges & Data, and Investment Banking & Brokerage.

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VALUATION

PayPal shares are trading right at the midpoint of their 52-week range of \$38-\$79, rallying in mid-July after a report that Stripe and Advent International had made a \$53 billion takeover bid, valuing the company at \$60.50 per share, and again in late July after raising 2026 guidance along with 2Q results.

We acknowledge PayPal's need to restore confidence in its growth trajectory, and believe the shares offer value for investors as new management undertakes transformation efforts designed to correct execution issues and drive more profitable growth. We note the company's annual \$6 billion buyback program, which is about 14% of its market capitalization, as well as \$11 billion in balance sheet cash and investments that is 21% of market cap.

Our target price of \$70 (raised from \$65) reflects a modest 12-times our 2027 EPS estimate.

ByLine

On July 28, BUY-rated PYPL closed at \$58.32, up \$2.25. (Stephen Biggar, 7/28/26)

Quest Diagnostics Inc (DGX)

Rating:	BUY
Market Cap:	LARGE
Sector:	Healthcare

Raising target to \$260

- ▶ Quest lifted 2026 guidance while delivering strong growth in 2Q26.
- ▶ Demand for specialty testing in brain health, including Alzheimer's, oncology, cardiovascular, and advanced metabolics, are driving growth.
- ▶ Quest recently raised the dividend 7.5%, marking the 15th consecutive year of dividend hikes. DGX has delivered 34% return year-to-date in 2026, outpacing the S&P 500 and the Healthcare sector.

INVESTMENT THESIS

Our rating on Quest Diagnostics Inc. (NYSE: DGX) is BUY. Strong results in 2Q26 reinforce our conviction in the company. Quest, a leading provider in lab diagnostics and specialty testing, is expanding its testing solutions in areas such as Alzheimer's disease, autoimmune conditions, and the early detection of cancers.

The company is focused on lifting the operating margin through greater productivity from its recent acquisitions and the expansion of its menu of specialty and advanced diagnostics testing. Quest is a leader of the diagnostics industry, serving hospitals, clinics, and other healthcare providers.

DGX has outperformed (+36% total return) in 2026

year-to-date, advancing ahead of the S&P 500 and the Healthcare sector.

RECENT DEVELOPMENTS

Higher test volumes from the hospital channel and strong demand for specialty tests in oncology, brain health, and advanced cardiometabolic helped to drive the results for 2Q26.

Quest reported strong results for 2Q26 on July 23 and raised guidance for 2026. Adjusted EPS was \$3.12, increasing 19.1%. GAAP net income was \$320 million or \$2.84 per share, compared to \$282 million or \$2.47 per share a year earlier.

Revenue was \$3.043 billion, increasing 10.3%. Organic revenue growth was 10.0%, improving sequentially from 9.0%.

The company raised 2026 guidance. It now expects adjusted EPS of \$11.05-\$11.25, raised from \$10.63-\$10.83. It raised its revenue guidance to \$11.95 billion-\$12.05 billion (growth of 8.3%-9.2%), from \$11.78 billion-\$11.90 billion (6.8%-7.8%).

By measures of profitability, the adjusted operating margin was 16.5%, down 40 bps. The decrease in adjusted operating margin was driven by investments in Project Nova, lower margin associated with the integration of the Corewell co-lab business, and higher deferred compensation expenses.

By way of illustration, Project Nova is Quest's multi-year IT initiative to modernize its core system architecture, streamline the entire order-to-cash business, and reduce operating costs. At its foundation, Project Nova is a collaboration with Epic to scale Epic's Diagnostic Enterprise system across Quest's national operations.

The company achieved these key milestones:

-- New York State approved Quest's Haystack MRD test, enabling the rollout of Haystack test to several large health systems in the state.

-- Quest extended the access to the Haystack MRD test through Flatiron Health's OncoEMR molecular profiling integration platform. It plans to roll out Haystack to Flatiron Health's 4,700 clinicians and other providers nationwide.

EARNINGS & GROWTH ANALYSIS

Quest lifted 2026 guidance. It now expects adjusted EPS of \$11.05-\$11.25, raised from \$10.63-\$10.83. It raised its revenue guidance to \$11.95 billion-\$12.05 billion (growth of 8.3%-9.2%), from \$11.78 billion-\$11.90 billion (6.8%-7.8%).

Cash flow from operations is expected to be approximately \$1.80 billion, increased from \$1.75 billion.

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We are increasing our estimates for adjusted EPS to \$11.15 from \$10.76 for 2026 and to \$12.00 from \$11.65 for 2027

Our five-year EPS growth forecast is 10%.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on Quest is Medium-High. Cash flow from operations for the first half of 2026 was \$875 million, compared to \$858 million a year ago.

Quest recently raised its dividend 7.5% to an annualized rate of \$3.34. The dividend yield is about 1.48%. The first payment on the new rate was in April. This marks the 15th consecutive year of dividend hikes. Our dividend estimates are \$3.34 for 2026 and \$3.54 for 2027.

MANAGEMENT & RISKS

James Davis is the company's chairman and CEO. Sam Samad is the CFO.

Risks for Quest include changes in the U.S. healthcare landscape, including changes in reimbursement for diagnostic testing set by insurers and Medicare. Tests for both primary care and specialties are subject to regulations from the FDA and other regulators.

Quest has a pipeline of M&A that it expects to complete in the near future. There are integration risks in acquiring businesses.

The clinical testing business is fragmented and highly competitive. Quest competes with other commercial clinical laboratories, hospital-affiliated laboratories, and physician-office laboratories. One large commercial competitor is Laboratory Corp. of America.

COMPANY DESCRIPTION

Quest Diagnostics is a provider of clinical diagnostic services that help to identify and treat disease and improve healthcare management. The company is based in Secaucus, New Jersey; the stock is a component of the S&P 500.

INDUSTRY

Our rating on the Healthcare sector is Market-Weight. The sector accounts for 9.5% of the S&P 500. We think diversified investors should have exposure to the sector, in line with the current market weight.

The sector receives above-average marks on our six-part 'blind' sector rating criteria, which includes growth momentum, valuation, financial strength, and analyst conviction, among other factors.

After underperforming in 2025, the Healthcare sector has made up lost ground. It has nearly matched the performance of the broader market. YTD, the sector has returned 8.1% (compared to 8.7% for the S&P 500). The beta for the sector

is 0.7.

Over the past five years, the sector's weighting has ranged from 8% to 15%. The sector's P/E ratio on projected 2026 EPS was 18, below the market multiple. The yield of 1.2% was equal to the market average. The sector's smoothed earnings growth rate of 8% was below the market average.

The Healthcare sector is primarily a defensive, counter-cyclical sector. The largest macroeconomic factor that will affect the performance of stocks in the Healthcare sector is the aging population, both in the U.S. and in other developed countries, including China. Other factors include GDP Growth, Interest Rates, Inflation, Government Policy and Regulation, Trade, Pandemics or Health Crises, and Employment/Unemployment Rates. Trends in the dollar can affect factors such as Cost of Goods Sold.

Healthcare stocks are often favored during periods of economic weakness. Sell signals for stocks in the sector can be material changes in regulatory decisions that alter business models, pending patent cliffs for pharma companies or a weakened balance sheet that threatens a dividend.

At this stage of the market and economic cycle, our favored industries within the Healthcare sector include Healthcare Equipment and Healthcare Distributors.

VALUATION

DGX trades at 19.3-times our 2027 adjusted EPS estimate, above the average of 15.3 for peers in our coverage universe of diagnostics companies. We believe the company has solid growth opportunities in its base business and from new test offerings.

ByLine

On July 28, BUY-rated DGX closed at \$235.94, up \$4.10. (David Toung, 7/28/26)

Sanmina Corp (SANM)

Rating: **BUY**
Market Cap: **LARGE**
Sector: Information Technology

Exceptional AI momentum, reiterating \$260 target price

- ▶ Sanmina posted fiscal 3Q26 (calendar 2Q26) non-GAAP EPS and revenue that exceeded consensus estimates and management's guidance.
- ▶ Sanmina in October 2025 acquired the data center infrastructure manufacturing business of ZT Systems from Advanced Micro Devices Inc. (AMD). The acquisition increases the company's scale and end-market exposure to Cloud & Artificial Intelligence (AI) Infrastructure.

Value Stocks

- ▶ Fiscal 4Q26 top-line guidance reflects a large increment from the ZT Systems addition, strong demand from Communications Networks & Cloud & AI Infrastructure (CN&CI) customers, and strength across legacy Sanmina's Industrial, Medical, and Aerospace/Defense (A/D) markets.
- ▶ Sanmina has an extensive manufacturing presence in the Americas (home to about 55% of its manufacturing), EMEA, and Asia-Pacific. Tariffs have not been material to Sanmina, and the company appears well positioned based on its agile manufacturing infrastructure and global footprint.

INVESTMENT THESIS

BUY-rated Sanmina Corp. (NGS: SANM), an electronic manufacturing services (EMS) company, posted above-consensus fiscal 3Q26 (calendar 2Q26) results. Revenue of \$3.46 billion for 3Q26 topped the consensus by \$60 million, while non-GAAP EPS of \$3.31 shot past consensus estimates by \$0.52. Revenue rose 70% year over year, and non-GAAP EPS were up 116%, reflecting volume leverage on robust sales growth.

The stock slipped due to fiscal 4Q26 and full-year FY26 sales and non-GAAP profits guidance that was perceived as not sufficiently above the prereporting consensus, along with a steeper-than-anticipated sequential decline in Cloud & AI Infrastructure. Fiscal 4Q26 guidance reflected a third full-quarter contribution from the acquired manufacturing operations of ZT Systems, along with solid demand growth at legacy Sanmina.

Sanmina in October 2025 acquired the data center infrastructure manufacturing business of ZT Systems from AMD. Management believes this transformational acquisition will increase Sanmina's scale and end-market exposure to Cloud & AI Infrastructure, at a time when demand for this equipment is exploding due to the AI revolution. The deal could double Sanmina's revenue within three years, according to management.

Sanmina followed a challenging fiscal 2024 with a growth year in fiscal 2025, reflecting steadily building momentum in its diversified businesses. Beyond the ZT Systems infrastructure deal, Sanmina has made significant investments to support new programs, further diversify end markets, and expand capabilities. These investments should pay off as markets recover and industry inventories normalize across calendar 2026, despite Iran war impacts.

Based on organic investments and the addition of ZT Systems, Sanmina is seeing gathering momentum in growth areas such as generative AI networking. The company is supporting hyperscale customers in multiple ways, including with liquid-cooled racks, and the ZT acquisition should supercharge these offerings. In nontechnology end markets, the formerly strong Automotive market is likely to remain soft, Medical is steady, and A/D is likely to remain strong amid the

dynamic situation in the Middle East.

Sanmina has an extensive manufacturing presence in the Americas (home to about 55% of manufacturing), EMEA, and Asia-Pacific. Although tariffs have not yet been material to Sanmina, the company appears well positioned should tariffs begin to bite, based on its agile manufacturing infrastructure and ability to serve customers locally via its global footprint.

The company in April 2026 announced a new \$600 million share repurchase authorization. Overall, Sanmina appears to be successfully navigating tariffs and the uneven global demand environment while maintaining operating leverage and positioning for margin expansion. Based on new program wins and solid execution, as well as its significant new asset, the company appears well positioned to accelerate growth in a normalizing operating environment. On that basis, we believe that a BUY rating remains appropriate. We are reiterating our BUY rating and our 12-month target price of \$260.

RECENT DEVELOPMENTS

SANM is up 39% year-to-date in 2026, while immediate peers are up 44%. SANM rose 98% in 2025, while the peer group of EMS companies advanced 109%. SANM rose 47% in 2024, while the peer group was up 84%; declined 10% in 2023, while the peer group soared 70%; rose 38% in 2022, while the peer group rose 13%; and advanced 30% in 2021, while the peer group was up 34%.

For fiscal 3Q26 (calendar 2Q26), Sanmina reported revenue of \$3.46 billion, which was up 70% year over year and down 9% sequentially from \$4.0 billion in fiscal 2Q26 - which included the first full three-month contribution from ZT Systems' manufacturing operations. Revenue was at the upper end of management's \$3.2 billion-\$3.5 billion guidance range and exceeded the \$3.40 billion consensus estimate. Non-GAAP earnings of \$3.31 per diluted share for fiscal 3Q26 were up 116% from \$1.53 in fiscal 3Q25 and up \$0.15 sequentially from \$3.16 in fiscal 2Q26. Non-GAAP EPS came in well above the high end of management's \$2.55-\$2.85 guidance range and also bested the consensus estimate of \$2.79.

CEO Jure Sola noted that Sanmina delivered strong results for fiscal 3Q26 and is prepared to carry that strength into the year's final quarter. Revenue, non-GAAP operating margin, and non-GAAP EPS all exceeded internal and consensus expectations.

Revenue from ZT Systems' Infrastructure business, which made its second full-quarter contribution, totaled \$1.1 billion; fiscal 3Q26 ZT revenue also came in at the midpoint of management's range. ZT Systems' Infrastructure revenue was down from \$1.8 billion in fiscal 2Q26. The sequential decline reflected compute shipments planned for fiscal 2H26 that shifted out of 3Q26 and into fiscal 2Q. Core Sanmina, excluding ZT revenue of \$1.70 billion, grew 17% year over

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year, also in line with company expectations.

EPS growth again exceeded revenue growth in a sign of disciplined execution in a component-constrained environment. Strong EPS growth also suggests that the acquired business is delivering profits at least in line with core Sanmina margins. Integration of ZT Systems' manufacturing operations is in line with or even ahead of internal expectations. Beyond ZT, all parts of CN&CI remain strong as a result of ongoing demand for AI-related hardware.

On a segment basis for fiscal 3Q26, Integrated Manufacturing Solutions (IMS) posted revenue of \$2.96 billion (85% of the total), which was up 79% year over year and down 17% sequentially. IMS revenue grew 8% in FY25. In the IMS business, more than \$1.9 billion in revenue came from core Sanmina, while the full \$1.1 billion from ZT was recognized in IMS.

The fiscal 3Q26 IMS gross margin of 10.5% was up annually from 7.5% in fiscal 3Q25 and up sequentially from 8.5% in fiscal 2Q26. The business benefited from a more favorable mix and operating efficiency in both core Sanmina and the acquired ZT Systems business. CFO Jon Faust also called out nonrecurring engineering services, which are associated with new program launches, as being contributive to volume leverage and overall margin progress.

Sanmina's Components, Products, and Services (CPS) segment posted fiscal 3Q26 revenue of \$546 million (15% of revenue), which was up 29% annually and up 18% sequentially from fiscal 2Q26. CPS revenue increased 6% for all of FY25.

The CPS gross margin widened sequentially to 12.8% in fiscal 2Q26 from 11.6% in fiscal 2Q25 and narrowed from 14.7% a year earlier. In that year-earlier quarter, Sanmina had yet to launch the investments in key markets that weighed on CPS margins year over year. CFO Faust attributed sequential margin improvement in CPS to some easing of component shortages and absence of the hit to profitability from a product business that impacted fiscal 2Q26 margins.

Sanmina continues to invest to add new capacity and support multiple new programs that have come online or are scheduled to come online. The company expects CPS margins to expand in coming quarters as it resolves component shortages, as new programs contribute, and with fewer program ramp-related costs in the near term.

The ZT Systems business is reported in the IMS business. CPS provides metal formation services and enclosures for data center racks, along with cabling, storage, and other high-margin products and services. Specifically, CPS is providing enclosures, cooling racks, cooling manifolds, custom memory and custom optical modules, and other

products for AI data centers.

As CEO Sola has said, ZT is a systems business, while core Sanmina exposure to data center and AI has historically been at the component, printed circuit board (PCB), and subsystems level. ZT has in the past partially sourced those building-block products from Sanmina. Over time, the existing components and subsystems business will be a natural lift into ZT's systems and a natural fit for the vertically integrated CPS unit. Once that integration occurs, we look for additional scale and efficiency in both CPS and IMS.

On an end-markets basis for fiscal 3Q26, CN&CI revenue of \$2.15 billion (62% of the total) was up 173% year over year and down 22% sequentially, reflecting the pull forward of ZT business from 3Q26 into fiscal 2Q. CN&CI revenue grew 17% for all of FY25. In addition to AI infrastructure buildouts by ZT Systems, core Sanmina participates in markets such as advanced networking for hyperscale cloud data centers, optical networking, wireless local area network, and enterprise markets, while 5G exposure is modest.

In the Industrial, Medical, A/D & Automotive (IMDA) segment, 3Q26 revenue of \$1.32 billion (38% of the total) was up 5% annually and up 6% sequentially. IMDA has experienced uneven near-term demand in markets including Medical (about 20% of company revenue) and Automotive, which is being impacted by reduced unit volumes due to high sticker prices and high financing costs. Medical is stabilizing, according to CEO Jura, on demand for consumables and manufacturing of surgery robotics and digital imaging devices.

Industrial & Energy represents mid-20% of company revenue, while Aerospace & Defense (A/D) is more than 10% of revenue. Although nearly all of ZT Systems is included in the CN&CI business, the energy and power unit in IMDA is leveraged to the same AI data center trends driving CN&CI. Sanmina has dedicated a new site in Houston, Texas, to build medium-voltage transformers that are used to take power off the grid and into data centers. In A/D, demand in traditional defense is strengthening for Sanmina's PCB solutions; this business is also leveraged to explosive growth in low-Earth-orbit satellites.

We would also call attention to Sanmina's relentless focus on reducing debt over the years, which enabled the company to acquire ZT Systems' manufacturing operations without blowing up its balance sheet. Debt peaked over 20 years ago at \$2.2 billion and first fell below \$1 billion in 2012. The company brought total debt below \$350 million in fiscal 2021 and closed FY25 with \$300 million in debt. Based on the ZT acquisition, total debt is back above \$2 billion. But Sanmina is now a significantly bigger company than it was when its debt previously exceeded \$2 billion. Sanmina is on track for revenue of \$13 billion-plus in FY26 and \$16 billion-plus in FY27.

Value Stocks

We see ZT Systems' manufacturing business as a game changer for Sanmina. ZT Systems' manufacturing arm is a leading provider of end-to-end systems integration from components to complete rack for the Cloud & AI Infrastructure market. With ZT's manufacturing business, Sanmina is now better able to accelerate customers' at-scale deployments of cutting-edge AI systems for the hyperscale data center.

ZT Systems offers industry-leading power and liquid cooling capabilities, has extensive experience with next-generation platforms, and has become a trusted partner to the world's largest hyperscalers. The three-phase program for integrating this asset, according to Mr. Jura, includes immediate post transaction integration actions, which are largely complete. In the second phase, which is underway, Sanmina is focused on securing customer business and on deliverables continuity. The third phase is designed to drive symbiotic growth, expansion, and crossover capacities between ZT and core Sanmina.

AMD retained ZT Systems' AI systems design business and is working with Sanmina as a U.S.-based new product introduction (NPI) manufacturing partner of choice. This NPI partnership is designed to accelerate quality and time to deployment of AMD rack and cluster-scale AI solutions. From Sanmina's perspective, this relationship will enhance the company's ability to partner more closely with both hyperscaler and original equipment manufacturer (OEM) customers across industry platforms and technologies.

Amid uncertain and ever-changing tariff policy from the Trump administration, Sanmina believes it is well positioned to navigate any final tariff agenda. Given Sanmina's role as a contract manufacturer, the importer of record for finished goods (such as routers and switches) would be the OEM. For certain products, such as storage arrays made by the Viking original design manufacturer business, Sanmina is the importer of record, but this is a small portion of overall sales.

Infrastructure gear produced by ZT and produced overseas falls into this category, but most production is in the U.S. Northeast and Southwest. ZT Systems has an established manufacturing footprint, with manufacturing sites in New Jersey, Texas, and the Netherlands. It thus can serve U.S. and European data center infrastructure customers with locally sourced products.

Sanmina has an extensive manufacturing presence in the Americas, including over 18 sites mainly spread across the U.S. and Mexico. U.S. facilities manufacture about 20% of Sanmina's output; that includes hyperscale and cloud data center products mainly made in Fremont, California. Mexico is home to about 35% of Sanmina's manufacturing, so the combined Americas footprint exceeds 55% of manufacturing.

The company also has sites across EMEA and Asia-Pacific. Goods made in China represent a low-single-digit

percentage of total sales. The company appears well positioned should tariffs begin to bite, based on its agile manufacturing infrastructure and ability to serve customers locally via its global footprint.

CEO Sola reiterated company expectations that the ZT Systems business would continue to grow strongly and that core Sanmina would grow in high-single-digit percentages in FY26. Overall, Sanmina appears to be stepping up the AI infrastructure opportunity with ZT Systems while also growing its core business. Based on new program wins and solid execution, as well as its significant new asset, the company appears well positioned to increase growth in an accelerating operating environment.

EARNINGS & GROWTH ANALYSIS

For fiscal 3Q26 (calendar 2Q26), Sanmina reported revenue of \$3.46 billion, which was up 70% year over year and down 9% sequentially from \$4.0 billion in fiscal 2Q26 - which included the first full three-month contribution from ZT Systems' manufacturing operations. Revenue was at the upper end of management's \$3.2 billion-\$3.5 billion guidance range and exceeded the \$3.40 billion consensus estimate.

The non-GAAP gross margin was 10.7% for fiscal 3Q26, compared to 9.0% for fiscal 2Q26 and 9.1% a year earlier. The non-GAAP operating margin was 8.0% in fiscal 3Q26, versus 6.4% in fiscal 2Q26 and 5.7% a year earlier.

Non-GAAP earnings of \$3.31 per diluted share for fiscal 3Q26 were up 116% from \$1.53 in fiscal 3Q25 and up \$0.15 sequentially from \$3.16 in fiscal 2Q26. Non-GAAP EPS came in well above the high end of management's \$2.55-\$2.85 guidance range and also bested the consensus estimate of \$2.79.

For fiscal 4Q26, Sanmina provided revenue guidance of \$3.3 billion-\$3.6 billion, for a \$3.45 billion midpoint. Core Sanmina revenue is forecast at \$2.55 billion, while ZT revenue is forecast down sequentially to \$950 million (both at midpoint) due to the pull forward of compute shipments into 2Q26. Non-GAAP EPS was forecast in a range of \$3.05-\$3.35, for a \$3.20 midpoint. At their respective midpoints, revenue would be up 65% annually and non-GAAP EPS would be up 92%.

For all of the September 2026 fiscal year, Sanmina expects revenue of \$13.7 billion-\$14.2 billion, a non-GAAP operating margin of 6.3%-6.6%, and non-GAAP EPS of \$10.75-\$11.35. At the \$14 billion midpoint, revenue would be up 72% from FY25 levels. And at the \$11.05 midpoint, non-GAAP EPS would be up 84% year over year.

Based on favorable demand tailwinds and prospects for additional margin expansion, we are raising our non-GAAP EPS projection for FY26 to \$12.05 per diluted share from \$11.04. We are raising our non-GAAP EPS forecast for FY27 to \$16.24 per diluted share from \$13.28. We regard our estimates as highly fluid based on integration execution of

Value Stocks

the transformative ZT asset, continued strong AI-related demand, and acceleration to high-single-digit top-line growth for legacy Sanmina.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating for SANM is Medium-High. Sanmina is unmatched in our coverage for its long-term commitment to debt reduction. The company's debt peaked at \$2.2 billion in FY02 right after buying SCI Corp. but was \$1.2 billion a decade ago and was around \$300 million immediately prior to acquiring ZT Systems' manufacturing operations. This long-term policy of debt reduction enabled Sanmina to acquire ZT without too much strain on the balance sheet.

Sanmina had cash of \$2.12 billion at the end of fiscal 3Q26. Cash was \$927 million at the end of FY25, \$626 million at the end of FY24, \$668 million at the end of FY23, and \$530 million at the end of FY22.

Debt was \$2.17 billion at the end of fiscal 3Q26. Prior to acquiring ZT Systems' infrastructure business, Sanmina's debt was \$300 million at the end of FY25, \$317 million at the end of FY24, \$338 million at the end of FY23, and \$347 million at the end of FY22. The company is targeting a net leverage ratio of 1.0-1.2 over time, with a goal of achieving an investment-grade credit rating. The current leverage ratio of 0.65 is better than anticipated but could rise to the target range as the company invests in ZT integration and other new program ramps.

Cash flow from operations was \$620 million for FY25. Cash flow from operations was \$340 million for FY24, \$235 million for FY23, and \$331 million for FY22.

Sanmina has repurchased more than \$1.5 billion of its stock since FY14. We expect the company to slow buybacks in the year following the ZT deal.

Concurrent with fiscal 2Q26 results, Sanmina's board announced a new \$600 million share repurchase authorization. This program has no expiration date. The company exhausted its prior repurchase program as of March 28, 2026.

We do not expect the company to pay a dividend in FY26 or FY27.

MANAGEMENT & RISKS

Cofounder and Chairman Jure Sola, who ran the company from inception until he stepped down in fall 2017, twice took over for short-tenure CEOs. He resumed the CEO role in mid-August 2020 and intends to remain in this role indefinitely. Jon Faust became CFO in December 2023. Mr. Faust has deep industry experience in key enterprise verticals that positions the company for the age of AI.

Acquisition of the data center infrastructure manufacturing

business of ZT Systems carries some risks. We believe the NPI partnership with AMD alleviates some of those risks, as Sanmina will now be aligned with the No. 2 provider of graphics processing unit server technology. Additionally, Sanmina has deep business development experience and has long operated successfully as a vertically integrated provider of products, solutions, and services that go far beyond PCB assembly and EMS.

We believe operational metrics rather than management change is likely to drive the stock price. The presence of Mr. Sola is likely reassuring to customers, vendors, employees, and investors.

Sanmina operates in a low-margin business with high operating leverage; the steep hit to EPS relative to the change in revenue outlook was to be expected. Still, we will be monitoring Sanmina carefully for signs of additional revenue weakness, which might indicate a deeper industry decline in demand for communications and optical products. The company now derives about half of its revenue from nontechnology markets, which is highly positive for the long term.

COMPANY DESCRIPTION

Sanmina is an EMS company formed from the combination of Sanmina and SCI in 2001. Key markets include Communications, Enterprise Networking & Storage, Automotive, Industrial, Medical, Consumer, A/D, and Multimedia. In addition to providing traditional EMS services such as PCB assembly and final product assembly and testing, Sanmina also participates in higher-margin vertical businesses.

INDUSTRY

Our rating on the Information Technology sector is Over-Weight. The Information Technology sector accounted for a substantial 38.0% of the S&P 500 market cap as of the end of June. We think diversified investors should have meaningful exposure to the sector, at least in line with the current sector weight.

The sector receives above-average marks on our six-part 'blind' sector rating criteria, which includes growth momentum, valuation, financial strength, and analyst conviction, among other factors.

The sector has outperformed the market year to date with a gain of 19.4% as of the end of June. The sector outperformed in 2025, with a gain of 23.3%, compared to a gain of 16.4% for the S&P 500. The beta for the sector is 1.4.

Over the past five years, the sector's weighting has ranged from 16% to 39%. The sector's P/E ratio on projected 2027 EPS was 20-times on a GAAP basis, above the market multiple. The yield of 0.1% was below the market average. The sector's smoothed earnings growth rate of 16% was above the market average.

Value Stocks

The Information Technology sector is primarily a secular growth sector. The macroeconomic factors that may affect the performance of stocks in the Information Technology sector include Global and Domestic GDP Growth, Global and Domestic Wage Growth, and Employment Trends, among others. Trends in the dollar can affect factors such as Cost of Goods Sold.

Potential sell signals for stocks in the Information Technology sector can be a change in the direction or rate of a company's sales or earnings growth, a pronounced slowdown in new product announcements, or changes in the regulatory environment.

At this stage of the market and economic cycle, our favored industries within the Information Technology sector include Semiconductors and Application Software.

VALUATION

SANM shares are trading at 17.3-times our FY26 non-GAAP EPS estimate and at 12.9-times our aggressive FY27 estimate. The two-year forward average P/E of 15.1 is above the five-year (FY21-FY25) average of 11.4. The two-year forward relative P/E of 0.62 is above the five-year average of 0.55 and less than two-thirds of the market multiple. Our historical comparable valuation analysis points to a value in the \$140s, in a rising trend, though below current prices.

Peer group analysis indicates a value in the \$400s, rising mainly on SANM's improving fundamentals, as well as on tech sector momentum. Our discounted free cash flow model suggests a long-term value in the mid-\$400s, in a rising trend. Our blended fair value estimate in the \$400s is in a rising trend and well above the stock price.

Appreciation on a risk-adjusted basis to our target price of \$260 is greater than our total return forecast for the broad market and thus consistent with a near-term BUY rating.

ByLine

On July 28 at midday, BUY-rated SANM traded at \$168.27, down \$40.63. (Jim Kelleher, CFA, 7/28/26)

SLB Ltd (SLB)

Rating: **BUY** 
Market Cap: **LARGE**
Sector: **Energy**

Current price presents a buying opportunity

- ▶ SLB recently reported 2Q26 adjusted net income of \$833 million, or \$0.55 per share, down from \$1.016 billion, or \$0.74 per share, in 2Q25. EPS beat our quarterly estimate of \$0.52 and the StreetAccount consensus estimate of \$0.51.

- ▶ The lower 2Q26 earnings largely reflected weaker year-over-year sales in two out of the four business segments (Reservoir Performance and Well Construction), with softer sales results in the Middle East & Asia (-14%).
- ▶ SLB did not provide financial guidance for the remainder of 2026 but did note that it believed a resolution would be coming shortly with respect to the Middle East conflict.
- ▶ In addition, SLB highlighted that strengthening offshore momentum led by exploration and deepwater, together with a recovering North America land market, should provide a strong foundation for higher earnings growth in 2027.

INVESTMENT THESIS

Our rating on SLB Ltd. (NYSE: SLB), doing business as SLB, is BUY. SLB is a global multinational oilfield services and equipment firm, founded in France in 1926. It is also the world's largest offshore drilling company and the world's largest offshore drilling contractor by revenue. The company supplies the petroleum industry with services such as seismic data processing, formation evaluation, well testing and directional drilling, well cementing and stimulation, artificial lift, well completions, flow assurance and consulting, and software and information management. The company is also involved in the groundwater extraction and carbon capture and storage industries.

Today, SLB conducts its business in the Energy industry known as Oilfield Services and Equipment, which is currently enjoying a resurgence in investor interest following both the removal of President Nicolas Maduro in Venezuela on January 3 and the start of the U.S./Iran conflict on February 28. We believe that both events will likely increase long-term non-OPEC oil supply while also elevating near-term geopolitical risk. As a result, with the likelihood of higher-trending crude oil prices amid tighter global supply, we see a likely boost to upstream spending, driving higher international drilling and infrastructure activity that would directly increase demand for SLB's services.

In addition, we continue to view SLB's business portfolio as more resilient than its peers, with higher upside sales and profit potential, based on its exposure to faster-growing and higher-margin offshore and international markets. Also, we view the recent acquisition of ChampionX Corp. as a major strategic addition, as it adds both earnings and free cash flow durability and longevity to its current portfolio. Our rating remains BUY and our target price remains \$66.

RECENT DEVELOPMENTS

SLB recently reported 2Q26 adjusted net income of \$833 million, or \$0.55 per share, down from \$1.016 billion, or \$0.74 per share, in 2Q25. EPS beat our quarterly estimate of \$0.52 and the StreetAccount consensus estimate of \$0.51.

The lower 2Q26 earnings largely reflected weaker

Value Stocks

year-over-year sales in two out of the four business segments (Reservoir Performance and Well Construction), with softer sales results in the Middle East & Asia (-14%).

Revenue in 2Q26 totaled \$8.972 billion, up 5% from \$8.546 billion in 2Q25. The StreetAccount consensus estimate for 2Q was \$8.670 billion. International sales represented 74% of 2Q26 revenue, while North America accounted for 26%.

In 3Q25, SLB began reporting its Digital business as a standalone division while maintaining its four-business segment alignment. Prior periods have been recast to conform to the current period presentation. Second-quarter 2026 results by division are summarized below.

Pro forma Digital (includes software, data, analytics, and digital-services solutions) segment revenue increased 18% from the prior year to \$697 million, with 76% of the total generated in international markets. Pretax operating income reached \$194 million in the quarter, compared to \$153 million a year ago, while the segment pretax operating margin expanded to 27.8% from 25.9%. The pretax operating margin grew year over year due to higher sales of exploration data licenses and transfer fees.

Pro forma Reservoir Performance (includes wireline, testing, well stimulation, slickline, and coiled tubing services) revenue declined 8% from the prior year to \$1.556 billion, with 91% generated in international markets. Pretax operating income decreased to \$232 million from \$314 million in the second quarter of 2025, while the operating margin declined to 14.9% from 18.6% in the year-ago quarter, primarily the result of lower profitability in evaluation and stimulation activity and project start-up costs.

Pro forma Well Construction (includes drilling fluids, drill bits, drilling tools, integrated drilling services, cementing, rotary drilling equipment, and land rigs) revenue declined 7% to \$2.742 billion, with 79% of sales generated in international markets. Pretax operating income decreased 24% from the prior year to \$417 million, while the pretax operating margin contracted by 340 basis points to 15.2% from 18.6% a year ago. The weaker pretax operating margin was primarily the result of lower profitability in the Middle East, partly offset by improved profitability in North America and Latin America.

Pro forma Production Systems (includes artificial lift, surface systems, valves and process systems, completion equipment, production facilities, and OneSubsea) revenue rose 29% in the quarter to \$3.771 billion, with 66% of sales generated in international markets. Pretax operating income rose 19% from the prior year to \$586 million, and the pretax operating margin declined to 15.5% from 16.7% in the prior year. The year-over-year decrease in margin rate was mostly attributable to lower profitability in surface production systems and completions.

As discussed in earlier notes, on April 2, 2024, SLB and

ChampionX (NASDAQ: CHX) announced a definitive agreement for SLB to acquire ChampionX in an all-stock transaction. ChampionX is a global leader in chemistry solutions, artificial lift systems, and highly engineered equipment and technologies that help companies drill for and produce oil and gas safely in some of the less cyclical parts of the oil and gas life cycle (production and reservoir recovery). The acquisition was completed on July 16, 2025, and following the closing, ChampionX shareholders now own approximately 9% of SLB's outstanding shares.

Looking ahead, SLB expects to realize annual pretax synergies of about \$400 million within the first three years after the closing through incremental revenue and cost savings. We see upside of \$450 million from enhanced sales opportunities. We are supportive of the transaction, as the deal not only strengthens SLB's operations by adding both production chemicals and new artificial lift technologies to its portfolio but also by providing the company with enhanced profit opportunities. SLB management noted that since the acquisition of ChampionX in 3Q25, all integration plans are proceeding as expected.

EARNINGS & GROWTH ANALYSIS

SLB did not provide financial guidance for the remainder of 2026 but did note that it believed a resolution would be coming shortly with respect to the Middle East conflict. In addition, SLB highlighted that strengthening offshore momentum led by exploration and deepwater, together with a recovering North America land market, should provide a strong foundation for higher earnings growth in 2027.

We are raising our 2026 EPS estimate to \$2.71 from \$2.68, in part to reflect 2Q26 results, which beat our estimate by \$0.03, as well as our expectations for continued Middle East disruption, offset by better performance in North America and international markets.

At the same time, we are increasing our 2027 EPS estimate to \$3.33 from \$3.30 to reflect a volatile commodity price environment but also reflecting the revenue and margin benefits from SLB's outsized international exposure, where we see improved oilfield services and equipment demand trends.

FINANCIAL STRENGTH & DIVIDEND

We rate SLB's financial strength as High, the highest rating on our five-point scale. SLB receives above-average scores on our financial strength criteria of debt/cap levels, fixed cost coverage, dividend coverage, cash flow, and profit.

SLB's credit profile is currently rated A/positive by S&P and A2/stable by Moody's. Both credit ratings are considered investment grade, suggesting a relatively low risk of default. Additionally, we consider these ratings to be strategic competitive advantages for the company.

Debt-to-capitalization at the end of 2Q26 was 40.6%, up from

Value Stocks

38.1% a year earlier. The debt/cap ratio is slightly below the peer group average, and SLB has prioritized accelerated debt repayment in the near term. Over the past five years, the debt/cap ratio has averaged 45.8%.

Total debt, consisting of both short-term and long-term borrowings, was \$11.140 billion at the end of 2Q26, up from \$10.891 billion at the end of 2Q25. In 2025, the company repaid \$1.8 billion in total debt borrowings. SLB repaid \$1.1 billion in total debt borrowings in 2024.

Cash and cash equivalents totaled \$4.071 billion at the end of 2Q26, up from \$3.747 billion at the end of 2Q25. This compares to \$3.387 billion in 1Q26. The company has a \$6.5 billion revolving credit facility, with \$6.3 billion currently available.

Cash from operating activities (cash flow) for the second quarter of 2026 totaled \$1.359 billion, up from \$1.142 billion reported in the second quarter of 2025. In addition, this compares to \$487 million recorded at the end of 1Q26.

Dividends are part of SLB's capital allocation strategy. On January 22, 2026, the company increased its quarterly dividend by 3.5% to \$0.295 per share, or \$1.18 annually. The yield is about 2.3%. Our dividend forecasts are \$1.18 for 2026 and \$1.20 for 2027.

Share repurchases are also part of this capital allocation plan. The company repurchased 12 million shares in 2Q26 for \$648 million and repurchased 60 million shares for \$2.41 billion in full-year 2025. SLB has reaffirmed its plan to spend a minimum of \$4 billion in 2026 on dividends and repurchases.

MANAGEMENT & RISKS

Olivier Le Peuch has served as the company's CEO and as a member of the board since August 2019. Mr. Le Peuch succeeded Paal Kibsgaard, who retired after a 22-year career with the company, including eight years as CEO. Jim Hackett has been chairman since July 2023.

SLB shareholders face risks. The company's business depends on activity levels in the oil and gas industry, which can be volatile. Demand for its services is largely dependent on the number of oil rigs in operation, the number of oil and gas wells being drilled, the depth and condition of those wells, production volumes, and well completions. In addition, it is dependent on operator capital spending, which is in turn dependent on commodity prices.

The company has operations in politically unstable countries heavily dependent on oil exports. Although these operations are not large, the company may at some point be forced to close them because of sanctions or political instability.

We note that it is cheaper and far less risky for companies to produce on land than in deepwater. The shale revolution has

also had a significant impact on deepwater rig builders as many E&P companies have pursued shale-based production rather than costly deepwater plays. If oil and natural gas can be found on land, E&P companies will focus on those plays first. SLB has substantial exposure to deepwater exploration, and major shale or other onshore discoveries could negatively impact the stock.

COMPANY DESCRIPTION

SLB is one of the world's leading oilfield services companies, supplying technology, information solutions, and integrated project management services that optimize reservoir performance. It employs approximately 109,000 people in more than 100 countries. SLB supplies a wide range of products and services, including seismic testing; formation evaluation; well testing and directional drilling; well cementing and stimulation; artificial lift and well completions; and consulting, software, and information management. It operates in nearly all major oilfield services markets and typically generates higher returns on investment than peers. In 2024, the company generated 19% of its revenue from the U.S. and 81% from international markets. Additionally, the company is a component of the S&P 500.

VALUATION

SLB shares have traded between \$31.64 and \$58.82 over the past 52 weeks and are currently trading above the midpoint of this range. To value the stock on a fundamental basis, we use peer group and historical multiple comparisons, as well as a dividend discount model.

On a price/earnings basis, the common shares are trading at 19.3-times our 2026 EPS estimate and at 15.7-times our 2027 forecast, compared to a 12-year annual average range of 19-36.

On other valuation metrics, the shares are trading at a price/book multiple of 2.1, versus an average annual range of 2.3-3.5; a price/sales multiple of 1.3, versus a range of 1.9-2.9; and a price/cash flow ratio of 6.8, versus a range of 9.8-15.9. They are also trading at a price/EBITDA multiple of 6.1, below the low end of the range of 9.9-18.1.

Summarizing valuation measures, we believe that SLB shares are attractive at current prices and that the dividend is safe and sustainable in the current energy environment, despite the current volatile energy market. In addition, with its 2Q26 earnings release, SLB pointed out that during 2026, it still plans to return at least \$4 billion in cash to its shareholders through the combination of dividends and share repurchases. We see that as a supportive development for shareholders and reaffirm our BUY rating.

ByLine

On July 28 at midday, BUY-rated SLB traded at \$50.57, down \$1.02. (Bill Selesky, 7/28/26)

Value Stocks

Tractor Supply Co (TSCO)

Rating: **BUY** 
Market Cap: **LARGE**
Sector: Consumer Discretionary

Reducing 12-month target

- ▶ On July 23, Tractor Supply reported second-quarter earnings that missed our estimate and consensus. We like the company's long-term prospects, but the company's customers are struggling with high gas prices, which unfortunately peaked in May - the most important month of 2Q.
- ▶ Second-quarter EPS of \$0.69 were down from \$0.81 in the prior year. GAAP earnings reflected impairment and acquisition costs related to restructuring the Petsense Business and the VIP Petcare Acquisition. The company earned \$0.81 per share on an adjusted basis in 2Q. Our estimate was \$0.83. Consensus was \$0.82.
- ▶ In the 2Q26 earnings release the company withdrew its long-term earnings guidance. The company said that it 'remains confident in its long-term market opportunity.' Management will provide an update in the 4Q26 earnings release.
- ▶ We are reducing our five-year growth rate to 8% from 11%. We are reducing our 2026 EPS estimate to \$1.94 from \$2.13. This is now on an adjusted basis. We are reducing our 2027 EPS estimate to \$2.25 from \$2.38. We believe the shares are worth approximately \$41, down from \$52, based on our revised estimates in our dividend discount model.

INVESTMENT THESIS

We are maintaining our BUY rating on Tractor Supply Co. (NGS: TSCO). The company has a record of consistent growth, an experienced management team, and financial strength that we assess at Medium-High. The company has increased its dividend for 17 consecutive years. TSCO's customers are often home, land, pet, and livestock owners. They generally have an above-average income and a below-average cost of living.

Over the last several years, the company has worked to reduce its exposure to weather-sensitive products. More than half of the company's business comes from consumable products, such as animal food, propane, and wood pellets. Over 90% of customers have pets or other animals.

The shares have significantly underperformed this year. The company's rural customers who often drive pick-up trucks and have long drives between destinations are struggling disproportionately with the high cost of gasoline and the even higher cost of diesel fuel.

We have reduced our earnings estimates and our five-year growth rate because the company withdrew the multi-year

guidance it provided in December 2024. We also raised our cost of equity, reflecting greater risk in the outlook.

Our analysis suggests that there is upside to the shares based on continuing growth potential and solid financial strength. The risk to our outlook is that high fuel prices persist so long that they affect the company's financial strength or that the company's new guidance is disappointing when the company provides it in the 4Q earnings call.

TSCO is the biggest seller of animal feed in the U.S., with a more than 20% market share. On the 3Q24 earnings call, the company announced the acquisition of Allivet, a leading online pet pharmacy. Allivet had sales of approximately \$100 million in 2025.

At a recent investor conference, CEO Hal Lawton said that in past economic downturns, the company has seen that people typically feed their pets, animals, and children before they do anything else. As a sign of how seriously the company takes the pet business, in a recent earnings call, TSCO said that customers' dogs weigh about 20 pounds more than the U.S. average. On the 1Q25 call, Mr. Lawton said that nearly one in five TSCO customers have chickens. He added that the company's sale of baby chicks is a nice annuity business, since chickens live five to seven years and a single chicken can eat more than 75 pounds of feed in a year.

Perhaps it is not surprising that the majority of the company's business comes from consumable products, which have historically added stability to sales and earnings. The company has delivered positive comparable sales in 31 out of 33 years. The down year was a decline of 1.1% in 2009, which was in recession for several months. Comps were 'flat' in 2023. They returned to 0.2% growth in 2024 and 1.2% in 2025. It is possible that 2026 comps will be flat-to-lower.

The company benefits from its Neighbor's Club program, a rewards program where customers can earn points on their purchases and obtain a private-label credit card. The Neighbor's Club currently exceeds 40 million members and accounts for over 80% of company sales. In 4Q25, the company tallied an all-time high in customer satisfaction.

We are reducing our 12-month target price to \$40 from \$50.

RECENT DEVELOPMENTS

TSCO shares have underperformed the market on a year-to-date basis, declining 37% while the S&P 500 gained 8.3%. Over the past year, they have lost 47% compared to a gain of 16.5% for the index. The State Street SPDR S&P Retail ETF XRT has returned 7.6% over the last year. Over the past five years, the shares have slipped 10%, compared to a gain of 68% for the index and a gain of 10.7% for the ETF. The shares are trading below their 200-day moving average.

Value Stocks

On July 23, Tractor Supply reported second-quarter earnings that missed our estimate and consensus. We like the company's long-term prospects, but the company's customers are struggling with high gas prices, which unfortunately peaked in May - the most important month of 2Q.

The shares actually gained after the earnings report. Concerns about the effect of gas prices may have been anticipated and priced in. Investors may have also been pleased that the company is closing 75 underperforming Petsense stores that we believe were cashflow negative on a per store basis. TSCO plans to direct resources to faster growing and more profitable projects.

Second-quarter EPS of \$0.69 were down from \$0.81 in the prior year. GAAP earnings reflected impairment and acquisition costs related to restructuring the Petsense Business and the VIP Petcare Acquisition. The company earned \$0.81 per share on an adjusted basis. Our estimate was \$0.83. Consensus was \$0.82.

Revenue of \$4.54 billion was up 2.3% but below the consensus of \$4.58 billion. Our estimate was \$3.64 billion. The company opened 28 Tractor Supply stores in the quarter. Comparable sales decreased 1.5% on a 0.2% increase in the average ticket, offset by a 1.7% decrease in average transaction count as consumers consolidated trips.

Mr. Lawton said, 'Fuel prices peaked during the height of our spring selling season, putting meaningful pressure on our customers' discretionary spending at the most important time of the quarter. Our customers often drive longer distances to shop, frequently in pickup trucks, many of which are diesel-powered, making them especially sensitive to higher fuel cost. At the same time, persistent drought conditions across several key Southeastern markets limited normal seasonal activity and reduced demand for lawn care and other outdoor-related purchases.' He added that 'we believe the underlying business remains healthy.'

Comparable sales were positive in April and June, but negative in May because fuel prices peaked during the most important time of the quarter. Sales of consumable, usable, and edible products were positive in 2Q. Big ticket, hardlines and sporting goods hurt 2Q comps by approximately 2 percentage points. Mr. Lawton also called out slower industry conditions in the pet business and soft growth in home improvement categories because of soft housing turnover.

Tractor Supply reduced its full-year EPS guidance for 2026. In addition, we are changing the basis of our full-year estimate from GAAP to adjusted, which excludes impairment and acquisition costs in 2Q.

We will start with the GAAP comparison to put the guidance in context. The new GAAP guidance is \$1.78-\$1.88 down from \$2.13-\$2.23. The adjusted guidance is \$1.90-\$2.00

which is down \$0.23 from the previous GAAP guidance excluding the charges. Our estimate was \$2.13.

The company now expects comp sales to be flat to down 1%. The previous guidance was for an increase of 1%-3% this year.

The company expects total sales to be up 2.5%-3.5% compared with 4%-6%. The guidance range for adjusted operating margin is 8.5%-8.8% compared to guidance of 9.3%-9.6%. The StreetAccount consensus was 9.4%. Our estimate was 9.4%.

The 2Q26 adjusted operating margin slipped by about 90 basis points (bps) to 12.1% from the prior year's GAAP margin. Our estimate was 12.7%. Consensus was 12.4%. Adjusted operating income decreased 5.2% from the prior year's GAAP margin to \$548 million. Our estimate was \$547 million.

The 2Q26 adjusted gross margin increased by about 24 basis points 37.2% from the prior year's GAAP margin. The adjusted gross margin in 2Q26 was 13 basis points higher than the GAAP margin in 2Q26. Our estimate was 36.8%. The company benefitted from tariff refunds and cost management partially offset by higher freight expenses and some price reductions.

Adjusted SG&A dollars, including depreciation and amortization, increased 7.3% to \$1.14 billion. The adjusted expense rate increased by 118 bps to 25.1% from the prior year's GAAP result. Our estimate was 27.7%. Adjusted expense dollars were consistent with the company's expectations, but the expense rate was hurt by soft growth in comparable sales.

TSCO generated \$653 million in cash from operations in 1H26, down from \$1 billion in the prior-year period. Net income was lower this year. Inventories were a larger use of cash.

EARNINGS & GROWTH ANALYSIS

We are reducing our five-year growth rate to 8% from 11%. The company's rural customers are feeling the effects of high gas prices. The important pet business is seeing industry-wide pressure, and TSCO customers are spending more cautiously on their pets. The company withdrew its multi-year guidance at the time of the 2Q26 earnings release. Management plans to provide an update in the 4Q26 earnings release, but that won't come until early 2027. That said, in the 2Q26 earnings call, CFO Kurt Barton said, 'We remain confident in our ability to grow market share, generate attractive returns on our strategic initiatives and create long-term shareholder value.'

We are reducing our 2026 EPS estimate to \$1.94 from \$2.13. This is now on an adjusted basis. We expect sales growth of approximately 2.7%, down from about 4% and

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operating margin of 8.6% down from 9.4%. As a reminder the guidance for operating margin is 8.5%-8.8% and adjusted EPS guidance is \$1.90-2.00.

We are reducing our 2027 EPS estimate to \$2.25 from \$2.38. We are modeling 4.0% sales growth down from 5.4% and a reduced operating margin of 9.7% down from 10%. Consensus is \$2.27.

In the 2Q26 earnings release the company withdrew its long-term earnings guidance. The company said that it 'remains confident in its long-term market opportunity.' Management will provide an update in the 4Q26 earnings release.

For historical perspective, the company updated its financial targets at a Life Out Here 2032 meeting back in December 2024. Important strategic initiatives include localization, pet and animal pharmacy, delivery, advertising and data sales, and private brands. TSCO also raised its addressable market to \$225 billion from \$180 billion.

The company's 2030 target was to deliver comparable sales growth of 3%-5% per year. Total sales were expected to grow by 6%-8%, helped by store openings. Operating margin is expected to be 10.0%-10.5%, up from 9.9% in 2024. TSCO was targeting 8%-11% annual growth in EPS.

We are reducing our 5-year growth rate to 8% from 11%.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on TSCO is Medium-High, the second-highest rank on our five-point scale. The company has investment-grade credit ratings. S&P's rating is BBB. The outlook is stable.

The company's leverage is well within our Medium-High range and within the range we expect for companies with solid BBB ratings. Debt was approximately 2.1-times earnings before interest, taxes, depreciation, amortization, and rent (EBITDAR) at the end of 2024. The company's target leverage ratio is 2-times. Debt of \$5.9 billion was 2.3-times EBITDAR at the end of 2025. Our estimate for 2027 is approximately 2.3-times EBITDAR. An increase above 2.5 could lead us to reduce our financial strength assessment. This is something we will be monitoring.

Interest coverage is similarly strong. EBITDA was approximately 50-times interest expense in 2023, 46-times in 2024, and 38-times in 2025. Our estimate for 2026 is about 27 times.

These ratios put the company in our Medium-High range for financial strength. If debt creeps above 2.5-times our EBITDAR estimate 2027, we may reduce our assessment to Medium. We will be watching the balance sheet effect of the sale-and-leaseback transactions that the company has been using to support openings of new stores. TSCO had cash

and cash equivalents of \$232 million and \$6.5 billion in total debt (including leases) at the end of 2Q26. Its debt/capitalization ratio was 70% at the end of 2025, about the same as the two previous years. Debt was 71.3% of capital at the end of 2Q26.

The company leases approximately 97% of its stores, based on the annual report for 2025. The company sold and leased back 20 retail locations in 2024 and 41 locations in 2025. We expect the transactions to continue when the company opens new stores.

The company had a \$1.2 billion revolving credit facility. There was \$378 million of borrowing under the facility at the end of 2022 and \$200 million outstanding at the end of 2023. The company was in compliance with all covenants at the end of 2022, 2023, and 2024. There was \$300 million of outstanding borrowing at the end of 4Q24. There was \$230 million outstanding on the revolver at the end of 4Q25 and \$590 million at the end of 2Q.

The company repurchased \$361 million of shares in 2025 and \$561 million of shares in 2024. It initially planned to repurchase \$375 million-\$450 million of shares in 2026, reducing the share count by 1%-1.5%. We do not know the company's plan for 2H26. TSCO repurchased \$254 million of shares in 1H26.

The company pays an annual dividend of \$0.96 for a current yield of about 2.6%. Our 2026 dividend estimate is \$0.96 per share. Our 2027 dividend estimate is \$1.00 per share. Over the last five years, the company has grown the dividend at a compound annual rate of 25%. TSCO's goal is to maintain a dividend payout of approximately 45%. Our 2026 dividend estimate is approximately 49% of our EPS estimate for the year.

MANAGEMENT & RISKS

Hal Lawton has served as Tractor Supply's president and CEO since January 2020. Mr. Lawton previously served as president of Macy's Inc. Kurt Barton has served as CFO since February 2019.

Tractor Supply continues to integrate its physical stores with its e-commerce business, which has led to higher customer spending. Customers continue to respond positively to the company's Buy Online, Pick Up in Store program, which offers curbside service, and to its Neighbor's Club program, which has grown to over 40 million members.

The company is less subject to changing consumer trends than most retailers, given the nature of its product line, but is still vulnerable to overall shifts in the farm, garden supply, and animal care markets. As such, the company would likely experience lower sales from any extended or severe changes in those markets (such as widespread animal disease or prolonged drought). The company appears to be feeling changes in consumers' preferences for pets and how

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to feed them. Lowe's Companies Inc., the big-box building supply store, is adjusting the assortment in its rural stores. This represents a risk for Tractor Supply, because there is overlap in categories such as power tools. Lowe's is also encroaching on Tractor Supply with the addition of Carhartt Inc. apparel to about 1,000 stores. Lowe's does not have a supply chain that is geared for 40-pound bags of animal food, but it could take some market share from TSCO.

The U.S. economy remains resilient. The unemployment rate is low and layoffs are similarly low but workers who have lost a job or are entering the labor force are having a hard time. Wealthier Americans (particularly those with incomes above \$150,000) have been the leading force in consumer spending, which should bode well for TSCO. High gas prices are hurting customers who operate farm equipment, drive large vehicles, or who must do a lot of driving because they live in remote locations. Customers who have diesel vehicles are feeling additional pressure.

The company has seen some pressure on higher-priced discretionary products. Discretionary products represent approximately 15% of sales. Many of the company's customers have large pieces of property. TSCO is one of the largest sellers of riding lawn mowers in the U.S. Additionally, volatility from unseasonable weather is a risk, as are adverse weather events such as hurricanes, tornados, or blizzards, which weaken demand for seasonal products.

Tractor Supply is expanding both its store count and its geographic reach. The company could experience much-lower-than-anticipated returns from new operations if its product mix is not properly tailored to new markets.

The company works with approximately 1,000 vendors, with no single vendor representing more than 10% of purchases in 2024.

The company is involved in some litigation but believes these matters will be resolved without any material adverse effect on the company's financial position. However, management noted that there is always an element of uncertainty with legal matters.

On June 27, 2024, the company said, according to Barron's, that it would eliminate its diversity, equity, and inclusion (DEI) roles and retire its current DEI goals; it also will no longer submit data to the Human Rights Campaign, which scores companies on factors like workforce protections and inclusive benefits. The company eliminated its carbon emissions goals and will focus on land and water conservation efforts.

'We work hard to live up to our mission and values every day and represent the values of the communities and customers we serve,' the company said in a news release. 'We have heard from customers that we have disappointed them.'

Ernst & Young has been the company's auditor since 2001.

COMPANY DESCRIPTION

Tractor Supply Co., with 2025 sales of \$15.5 billion, offers a broad range of items for home, land, pet, and livestock owners who generally have above-average income and a below-average cost of living. TSCO, based in Brentwood, Tennessee, has five product categories: Livestock, Equine & Agriculture; Companion Animal (pet); Seasonal & Recreation Products; Hardware, Tools, and Truck; and Clothing, Gift & Decorating. More than 90% of the company's customers have pets or other animals. The company ended 4Q25 with 2,602 stores in 49 states: 2,395 under the Tractor Supply banner and 207 Petsense stores. More than 2,300 stores are in 'rural America.' The stores are typically an hour, or more, outside of major cities. Digital sales are about 8% of the company's total. The goal has been 10%-12%.

Formed in 1982 from the assets of a catalog company that had been selling farm supplies since 1938, Tractor Supply is converting its older stores to larger formats (17,000-19,000 square feet) and opening new smaller-format stores and distribution centers beyond its core Southern and Midwestern markets. The company has more than 52,000 employees. TSCO shares are a component of the S&P 500. The company's IPO was in May 1994. TSCO's year ends on the last Saturday of December, which is December 26 in 2026.

INDUSTRY

Our rating on the Consumer Discretionary sector is Under-Weight. The Consumer Discretionary sector accounted for 9.3% of the S&P 500 as of the end of June. We think diversified investors should have exposure to the sector, but at about 50-75% of the current sector weight.

The sector receives below-average marks on our six-part 'blind' sector rating criteria, which includes growth momentum, valuation, financial strength, and analyst conviction, among other factors.

The sector has underperformed the market year to date, with a loss of 1.1% as of the end of June. The sector underperformed in 2025, with a gain of 5.3%, compared to a gain of 16.4% for the S&P 500. The beta for the sector is 1.1.

Over the past five years, the sector's weighting has ranged from 8% to 12%. The sector's P/E ratio on projected 2027 EPS was 24, above the market multiple. The yield of 0.5% was below the market average. The sector's smoothed earnings growth rate of 10% was equal to the market average.

The Consumer Discretionary sector is a cyclical growth sector. The macroeconomic factors that may affect the performance of stocks in the Consumer Discretionary sector include Nonfarm Payrolls, Personal Income, Fuel Prices, Retail Sales, Auto Sales, Housing Starts, and New and Existing Home Sales, among others. Trends in the dollar can

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affect gross profit for companies in the sector.

Potential sell signals for stocks in the Consumer Discretionary sector can be a change in the direction or rate of a company's sales or earnings growth, a rapidly rising unemployment rate or signs of an impending recession.

At this stage of the market and economic cycle, our favored industries within the Consumer Discretionary Group include Broadline Retail, Homebuilding, and Home Furnishings.

VALUATION

The shares are trading at 16-times our 2026 estimate and 13.8-times our 2027 estimate. The S&P 500 is trading at 21.8-times our 2026 EPS estimate for the index.

We made some changes to the estimates that drive our valuation analysis. We reduced our EPS estimates for 2026 and 2027, we cut our 5-year growth rate to 8% from 11% because the company withdrew its planning assumptions amid difficult market conditions, and we raised our estimate for the cost of equity because of the current macro conditions and because the company's earnings have been less resilient and more variable than we had expected.

We believe the shares are worth approximately \$41, down from \$52, based on our revised estimates in our dividend discount model. We are using our new estimates of \$1.94 for 2026 and \$2.25 for 2027. We are modeling an additional three years of 8% growth (down from 11%) after 2027. Based on the recent sales weakness and the withdraw of the multi-year growth plan, we are raising our estimate of the cost of equity to 8.0% from 7.5%, followed by a five-year transition period where our growth rate declines to a steady-state 3%, with a cost of equity of 8.0% (up from 7.5%).

We are reducing our 12-month target price to \$40 from \$50.

ByLine

On July 27, BUY-rated TSCO closed at \$31.80, up \$0.78. (Christopher Graja, CFA, 7/27/26)

Travelers Cos Inc/The (TRV)

Rating:	BUY
Market Cap:	LARGE
Sector:	Financial

Raising target price

- ▶ Travelers, a leading multiline insurer, reported 2Q26 core earnings of \$2.1 billion, or \$10.04 per share, up from \$1.5 billion, or \$6.51 per share, a year ago -- primarily due to lower catastrophes, higher net investment income, and a higher underwriting gain.

- ▶ In 1Q26, the company raised its quarterly dividend by 13% to \$1.25 per share, or \$5.00 annually, for a yield of about 1.4%. TRV has raised its dividend for 22 consecutive years.
- ▶ The trailing-12-month ROE stood at 24.2% on June 30, with underwriting gains contributing 15.1% and investment income contributing 9.1%.
- ▶ TRV reported written premiums of \$11.5 billion, with growth in the Bond & Specialty Insurance and Business segments, offset by a decline in Personal Insurance.

INVESTMENT THESIS

We are reiterating our BUY rating on Travelers Cos. Inc. (NYSE: TRV) and raising our target price to \$400 (up from \$330). Second-quarter 2026 earnings at this leading multiline insurer were higher than expected due to lower catastrophe losses and higher net investment income. TRV reported written premiums of \$11.5 billion, with growth in the Bond & Specialty Insurance and Business segments, offset by a decline in Personal Insurance.

We expect margins to improve as the company increases prices on auto and homeowner insurance while maintaining current retention rates. Travelers also is expanding its data analytics and digital initiatives by utilizing an expanding suite of artificial intelligence (AI) tools. We believe the company can generate a higher return on capital. In 1Q26, the quarterly dividend was raised to \$1.25 per share, marking 22 consecutive years of increases. In 4Q25, TRV also announced a new \$5.0 billion share repurchase authorization, which would allow the company to repurchase over 8.0% of its outstanding shares.

RECENT DEVELOPMENTS

The TRV shares have outperformed the broad market over the last year, rising 38%, compared to a gain of 19% for the S&P 500 and a gain of 13% for the iShares U.S. Insurance ETF, IAK. Approximately 23% of the shares are held in various ETFs. The beta on TRV is 0.56.

Travelers reported 2Q26 core earnings of \$2.1 billion, or \$10.04 per share, up from \$1.5 billion, or \$6.51 per share, a year ago -- primarily due to lower catastrophes, higher net investment income, and a higher underwriting gain. Total revenue rose 0.3% to \$12.1 billion, and net written premiums fell slightly to \$11.5 billion. Core ROE was 24.9%, up from 18.8% in the prior year.

In May 2025, TRV announced the sale of the personal insurance and the majority of the commercial insurance of Travelers Canada to Definity Financial Corp. for approximately \$2.4 billion. Travelers will retain its Canadian surety business. Travelers will use approximately \$700 million for share repurchases in 2026. The deal closed in 1Q26.

In January 2024, the company completed its acquisition of

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Corvus Insurance Holdings Inc., a leading cyber insurance underwriter. The acquisition allows TRV to expand its capabilities in cyber insurance by utilizing the proprietary technology developed by Corvus. The platform also delivers solutions to insurance agents and brokers.

EARNINGS & GROWTH ANALYSIS

Current trends and outlooks by business segment are summarized below.

-- Business Insurance, Travelers' largest segment, generated income of \$1.2 billion in 2Q26, up from \$813 million a year earlier. The results reflected lower catastrophe losses and higher investment income, as well as a higher underlying underwriting gain. On the top line, net written premiums rose 5% to \$6 billion. The underlying combined ratio remained flat at 88.2%. (A combined ratio of 88 means that TRV keeps \$0.12 of each dollar in premiums earned.) The retention rate was flat at 86%.

-- The Bond & Specialty Insurance segment generated income of \$234 million, down from \$244 million a year earlier, due to a lower underlying underwriting gain, partially offset by higher net investment income. Net written premiums rose 14% to \$1.2 billion. The underlying combined ratio rose to 89.6% from 88.9%. The retention rate rose to 88% from 87% in the prior year.

-- The Personal Insurance segment generated income of \$827 million, up from \$534 million in 2Q25. The results reflected significantly lower catastrophe losses in both the Homeowners and Auto segments. Net written premiums of \$4.3 billion were down 8% from the prior year. The underlying combined ratio declined to 77.3% from 79.3%. The Auto retention rate was flat at 82%, and the Homeowners retention rate remained at 85%.

The overall underlying combined ratio declined to 84.1% from 84.7%.

The investment portfolio generated pretax net investment income of \$883 million in 2Q26, up 14% from the prior year, primarily due to higher average yields on securities and growth in average invested assets. At the end of the quarter, fixed-income securities made up 94% of the \$103 billion investment portfolio. Approximately 98.9% of these were investment grade, and the average duration was 5.0 years. The remaining 4% of the portfolio consisted of common stock, private equity, hedge funds, and real estate.

To generate our EPS estimates for the insurance industry, we focus on ROE, which is smoother and more predictable than catastrophe losses and net prior-year reserve development. The trailing-12-month ROE stood at 24.2% on June 30, with underwriting gains contributing 15.1% and investment income contributing 9.1%. TRV posted operating ROE of 13.7% in 2021, 11.3% in 2022, 11.5% in 2023, 17.2% in 2024, and 19.4% in 2025.

We think the company has managed its risk exposure particularly well in the face of insurance losses from hurricanes, wildfires, and other catastrophes. Although insurance is TRV's primary business, its investment returns contribute significantly to ROE. In addition, the company has been selectively raising its home and auto insurance premiums and not renewing lower-margin policies. Still, we expect overall premium increases to level off in the next couple of quarters. Dividend increases and share buybacks should also boost shareholder returns.

Based on 2Q results, expectations for strategic growth in net premiums written, higher net investment income, and consistent share repurchases, we are raising our 2026 EPS estimate to \$33.98 from \$28.36 and our 2027 EPS estimate to \$33.06 from \$29.78. Our estimates assume premium growth in all three business segments and lower catastrophe losses year over year. Our five-year earnings growth rate forecast is 7%.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on Travelers is High. At the end of 2Q26, the debt/capital ratio was 20.5%, within management's target range of 15%-25%. Ratings on the company's senior debt remain investment grade at Aa2/AA. Adjusted book value was \$168.20 per share at the end of 2Q26, up from \$144.57 at June 30, 2025.

In 1Q26, the company raised its quarterly dividend by 13% to \$1.25 per share, or \$5.00 annually, for a yield of about 1.4%. Our dividend estimates are \$5.00 for 2026 and \$5.40 for 2027. TRV has raised its dividend for 22 consecutive years.

In 2Q26, the company repurchased \$1.3 billion of its stock, leaving approximately \$3.9 billion under the current authorization.

MANAGEMENT & RISKS

Alan D. Schnitzer has served as CEO since December 2015 after joining Travelers in 2007 as chief legal officer. He previously served as outside counsel to Travelers. Mr. Schnitzer led multiple Travelers businesses before becoming CEO. Dan Frey became the CFO in 2018 after joining Travelers in 2003.

Management's long-term goal is to produce a superior ROE in the mid-teens. This means that management may sacrifice growth in parts of the underwriting cycle in order to maintain profitability.

Travelers faces macroeconomic risks related to the impact of slow economic growth and volatile equity markets on its balance sheet, capital levels, credit ratings, revenues, and income. Extreme weather events exposure would hamper results. Other critical metrics to monitor include the company's exposure to commercial real estate and private markets.

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COMPANY DESCRIPTION

Travelers is a leading provider of auto, home, and business property/casualty insurance. The company is organized into three units: Business Insurance, Bond & Specialty Insurance, and Personal Insurance. The TRV shares are a component of both the S&P 500 and the Dow Jones Industrial Average.

INDUSTRY

Our rating on the Financial sector is Over-Weight. The Financial sector accounted for 11.8% of the S&P 500 as of the end of June. We think diversified investors should have meaningful exposure to the sector, at about 125-150% of the current sector weight.

The sector receives above-average marks on our six-part 'blind' sector rating criteria, which includes growth momentum, valuation, financial strength, and analyst conviction, among other factors.

The sector has underperformed the market year to date with a loss of 2.1% as of the end of June. The sector underperformed in 2025, with a gain of 13.3%, compared to a gain of 16.4% for the S&P 500. The beta for the sector is 0.9.

Over the past five years, the sector's weighting has ranged from 10% to 15%. The sector's P/E ratio on projected 2027 EPS was 14, below the market multiple. The yield of 1.6% was above the market average. The sector's smoothed earnings growth rate of 9% was below the market average.

The Financial sector is a cyclical and often value-oriented sector. The macroeconomic factors that may affect the performance of stocks in the Financial sector include the Unemployment Rate (which can influence the debt repaying capability of consumers and therefore credit costs), Interest Rates (which can determine lending profitability), and GDP or growth in the economy (which influence loan growth). The industry is also highly regulated, so changes in the regulatory environment can influence capital set-aside requirements and thus profitability.

At this stage of the market and economic cycle, our favored industries within the Financial sector include Diversified Banks, Financial Exchanges & Data, and Investment Banking & Brokerage.

VALUATION

At current prices around \$370, TRV shares are trading near the high point of their 52-week range of \$252-\$372. On a technical basis, the shares are in a pattern of higher highs and lower lows. We expect TRV to remain disciplined in its underwriting practices and not chase growth for growth's sake. Investment in AI tools should also provide a higher margin in underwriting. We also expect to see continued balanced returns from the investment portfolio as maturing bonds are reinvested at higher levels. ROE measures are above other peers. We are reiterating our BUY rating and

raising our target price to \$400.

ByLine

On July 22 at midday, BUY-rated TRV traded at \$372.11, up \$2.48. (Kevin Heal and Gordon Walsh, 7/22/26)

W R Berkley Corp (WRB)

Rating:	HOLD
Market Cap:	LARGE
Sector:	Financial

Premium price pressures continue

- ▶ Net income was \$452 million, and net income per diluted share increased 15% over the prior-year period to \$1.27, with an annualized ROE of 18.6% in 2Q26.
- ▶ In 2Q26, the company repurchased shares totaling \$111.5 million.
- ▶ While WRB continues to benefit from continued healthy demand for P&C insurance, the company is facing pressure from larger insurers coming downstream.
- ▶ On June 9, 2026, the company announced the passing of its founder and executive chairman, William R. Berkley at the age of 80. Mr. Berkley founded the company in 1967.

INVESTMENT THESIS

We are maintaining our HOLD rating on W.R. Berkley Corp. (NYSE: WRB). While WRB continues to benefit from continued healthy demand for P&C insurance, the company is facing pressure from larger insurers coming downstream. In addition, we expect WRB to maintain its prudent growth strategy; the company is not willing to underwrite marginal policies just to grow the top line. We would look to add WRB back to the BUY list if premium price pressures abate.

RECENT DEVELOPMENTS

WRB shares have risen 7% over the past year, compared to a 17% advance for the S&P 500 and a 12% increase for the iShares U.S. Insurance ETF IAK. Approximately 16% of the shares are held in various ETFs. The beta is a low 0.50.

W.R. Berkley recently reported an increase of 1.2% in 2Q26 revenue to \$3.71 billion. Net income was \$452 million, and net income per diluted share increased 15% over the prior-year period to \$1.27, with an annualized ROE of 18.6% in 2Q26. Operating earnings were \$497 million, or \$1.27 per share, up from \$1.05 in 2Q25. The adjusted combined ratio (claims plus costs/premiums excluding catastrophes) was 88.1%. The GAAP combined ratio was 90.0%.

On June 9, 2026, the company announced the passing of its founder and executive chairman, William R. Berkley at the age of 80. Mr. Berkley founded the company in 1967. The board of directors appointed W. Robert Berkley Jr. as chairman. Looking forward, we expected the company to be managed in a similar manner with no major shifts in strategy.

Value Stocks

In August 2025, WRB announced the formation of Berkley Edge. The new business will focus on providing professional liability and casualty insurance for small to midsize businesses.

In 1Q25, WRB announced that it had been informed by Mitsui Sumitomo Insurance Ltd. that the company had acquired ownership of 15% of WRB common stock from members of the Berkley family and trusts.

EARNINGS & GROWTH ANALYSIS

We expect revenue to increase to \$15.1 billion in 2026 and \$15.5 billion in 2027. Our estimates assume stable interest income and lower combined ratios, offset by lower single-digit premium growth.

The company reported \$3.4 billion in net premiums written, with insurance segment growth of 5% and an 8% decline in reinsurance and monoline excess segment growth. Net premiums earned rose 3% to \$3.2 billion. Net investment income was up 10%, to \$419 million, benefiting from the ongoing growth in assets invested and higher rates on fixed maturity securities. The expense ratio remained at 28.3%.

Based on higher-than-expected 2Q earnings, expectations for stable interest income and significant share repurchases offset by lower premium growth, we are raising our 2026 EPS estimate to \$4.84 from \$4.65 and our 2027 EPS estimate to \$4.88 from \$4.81.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on W.R. Berkley is Medium-High. We typically measure a company's financial strength by reviewing its total assets, shareholders' equity, return on equity, and interest coverage.

As of March 31, the company had total assets of \$45.68 billion, up from \$43.93 billion at the end of 2025. Shareholders' equity rose to a record \$9.83 billion, up from \$9.70 billion at the end of 2025. At the end of 2Q26, adjusted operating income was 15.6-times interest expense, up from 13.2-times in the prior-year period.

In 2Q26, the company repurchased shares totaling \$111.5 million. In 2025, the company repurchased shares totaling \$270.2 million. In January, WRB announced an increase in the share repurchase authorization to 25 million shares, up from 15 million.

W.R. Berkley pays regular and special dividends. In July, WRB raised its quarterly dividend by 11.1% to \$0.10 from \$0.09, for a yield of approximately 0.55%. Additionally, the board of directors declared a special cash dividend of \$0.50 per share paid on July 2, 2026. Our regular dividend estimates are \$0.40 for 2026 and \$0.44 for 2027.

MANAGEMENT & RISKS

W. Robert Berkley Jr. is the company's executive chairman,

president, and CEO. He has been at the company for 24 years. Mr. Berkley Jr. was appointed chairman in June 2026 after the passing of the company's founder, William R. Berkley. Richard M. Baio serves as CFO.

Investors in W.R. Berkley face risks from high catastrophe losses and potentially inadequate loss reserves, as well as from rising costs.

COMPANY DESCRIPTION

Founded in 1967 and based in Greenwich, Connecticut, W.R. Berkley Corp. is among the largest commercial line P&C insurers in the U.S. The company offers a variety of insurance services from reinsurance to workers' compensation third-party administration. It has two segments - Insurance and Reinsurance. The Insurance segment offers coverage in the U.S., the U.K., Continental Europe, South America, Canada, Asia, and Australia. It also provides a variety of fee-based services, including claims, administrative, and consulting services. The Reinsurance segment, which helps other insurance companies and self-insured entities to manage risks through reinsurance, provides services in the U.S., the U.K., Continental Europe, Australia, the Asia-Pacific region, and South Africa.

INDUSTRY

Our rating on the Financial sector is Over-Weight. The Financial sector accounted for 11.8% of the S&P 500 as of the end of June. We think diversified investors should have meaningful exposure to the sector, at about 125-150% of the current sector weight.

The sector receives above-average marks on our six-part 'blind' sector rating criteria, which includes growth momentum, valuation, financial strength, and analyst conviction, among other factors.

The sector has underperformed the market year to date with a loss of 2.1% as of the end of June. The sector underperformed in 2025, with a gain of 13.3%, compared to a gain of 16.4% for the S&P 500. The beta for the sector is 0.9.

Over the past five years, the sector's weighting has ranged from 10% to 15%. The sector's P/E ratio on projected 2027 EPS was 14, below the market multiple. The yield of 1.6% was above the market average. The sector's smoothed earnings growth rate of 9% was below the market average.

The Financial sector is a cyclical and often value-oriented sector. The macroeconomic factors that may affect the performance of stocks in the Financial sector include the Unemployment Rate (which can influence the debt repaying capability of consumers and therefore credit costs), Interest Rates (which can determine lending profitability), and GDP or growth in the economy (which influence loan growth). The industry is also highly regulated, so changes in the regulatory environment can influence capital set-aside requirements

Value Stocks

and thus profitability.

At this stage of the market and economic cycle, our favored industries within the Financial sector include Diversified Banks, Financial Exchanges & Data, and Investment Banking & Brokerage.

VALUATION

At current prices around \$75, the shares are trading above the midpoint of their 52-week range of \$63-\$79. We believe that WRB shares remain fairly valued in the current environment, at 15-times our revised 2026 EPS estimate. While the company maintains a strong position in the P&C market, we feel that competition from larger insurers coming downstream will hamper premium growth. We believe a HOLD rating remains appropriate.

ByLine

On July 27 at midday, HOLD-rated WRB traded at \$75.96, up \$0.17. (Kevin Heal and Gordon Walsh, 7/27/26)

UtilityScope Stocks

*There are no companies updated in this category
this week.*

Stocks to Avoid

*There are no companies updated in this category
this week.*

KEY ECONOMIC FORECASTS

- The \$32 trillion U.S. economy remains on course for productive long term growth, powered by corporate investments in Artificial Intelligence. Nvidia CFO Colette Kress estimated, on May 20, that AI infrastructure spending is on track to reach \$3 - \$4 trillion annually by the end of this decade.
- Real Potential GDP – the sustainable speed limit of the US economy is poised to increase to 2.1%, on average, through 2030 according to the Congressional Budget Office. AI is likely to raise productivity, offsetting slower growth in the labor force from an aging population and reduced immigration.
- Our 2026 gross domestic product growth forecast is 2.3%. Our 2027 forecast is 2.4% In the Monetary Policy Report to Congress, the Federal Reserve said, “Overall, economic activity is expanding at a solid pace despite elevated uncertainty that owes, in part, to the conflict in the Middle East.”
- National gasoline prices once again exceed \$4.00 a gallon as fighting between the U.S. and Iran has resumed. Gas prices below \$4.00 are important to consumers with back-to-school shopping underway and the holidays around the corner. Inflation is likely to be a key issue in fall elections for control of the House and Senate.
- The Misery Index, which is the Consumer Price Index (CPI) inflation rate plus the unemployment rate is below the average of 9.2% since 1949, but it has risen to 7.7% from 6.9% in January. Unemployment is low at 4.2%. CPI eased to 3.5% in June from 4.2% in May but could be pressured with higher oil.
- We are monitoring financial conditions and high-frequency indicators. They show ongoing economic resilience and financial system stability that accommodates saving, borrowing, and investing.
- Argus expects S&P 500 EPS to rise almost 25% to \$340 in 2026 and increase about 15% to \$390 in 2027. EPS is helped by an increase in operating margins to about 19% this year, well above 13.9% in pre-pandemic 2019. Growing tech giants such as MSFT and NVDA have operating margins of 47% and 64% respectively while Dow stalwarts Walmart and Caterpillar earn 4% and 17%. Argus expects the S&P 500 to trade in a range of 6,730-8,225 over the next 12 months. Our year-end 2026 price target for the S&P 500 is 8,000 based on a multiple of 20.5-times our 2027 EPS estimate.
- We expect the dollar to be slightly stronger in 2026 driven by foreign demand for shares of innovative U.S. companies, continuing economic growth, and elevated interest rates.
- Gold is likely to remain at elevated levels amid global uncertainty. The safe-haven asset topped \$5,000 an ounce in 1Q, but it has declined to approximately \$4,100. Prices may have declined because the Fed has stressed its resolve to fight inflation.
- What could go right? Low unemployment, spending by wealthy consumers, strong S&P earnings, strong capital investment in Artificial Intelligence, productivity gains, and ongoing innovation.
- Risks: Strains on affordability from years of elevated inflation, uncertainty related to hostilities with Iran, a lower 10-year Treasury yield could depend on deficit reduction, a weak housing market, low income consumers are struggling, spending by affluent may depend on stock market gains.

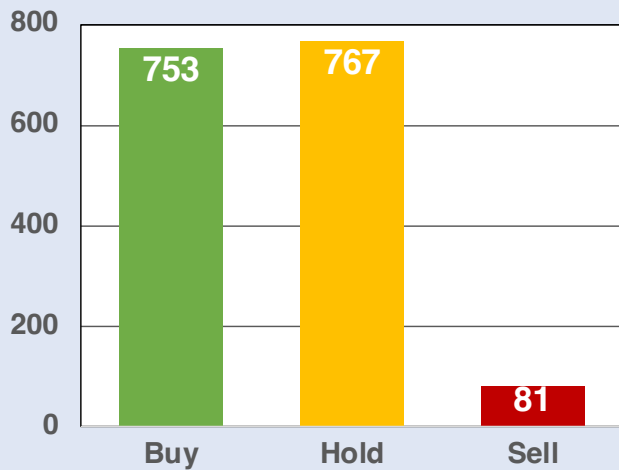
CURRENT ECONOMIC RELEASES

Current Economic Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
24-Jul	New Home Sales	June	618K	625K	600K	628K
27-Jul	Durable Goods Orders	June	-4.4%	8.5%	NA	8.9%
28-Jul	Consumer Confidence	July	92.2	91.0	NA	90.8
30-Jul	GDP Annualized QoQ	2Q "Advance"	2.1%	2.0%	2.1%	NA
	GDP Price Index	2Q "Advance"	3.6%	3.8%	3.7%	NA
	PCE Deflator	June	4.1%	3.7%	3.7%	NA
	PCE Core Deflator	June	3.4%	3.3%	3.3%	NA
	Personal Income	June	3.8%	3.9%	NA	NA
	Personal Spending	June	6.3%	6.1%	NA	NA
3-Aug	ISM Manufacturing	July	53.3	54.4	54.0%	NA
	ISM New Orders	July	56.0	56.2	NA	NA
	ISM Prices	July	73.0	76.0	NA	NA
	Construction Spending	June	-1.5%	-2.0%	NA	NA
4-Aug	Trade Balance	June	-\$77.6 Bln.	-\$72.5 Bln.	NA	NA
	Factory Orders	June	2.3%	7.2%	NA	NA
5-Aug	ISM Services Index	July	54.0	54.5	54.3	NA
6-Aug	Nonfarm Productivity	2Q	0.3%	0.7%	NA	NA
	Unit Labor Costs	2Q	1.8%	1.4%	NA	NA
	Total Vehicle Sales	July	16.5 Mln.	16.7 Mln.	NA	NA
7-Aug	Nonfarm Payrolls	July	57K	80K	110K	NA
	Unemployment Rate	July	4.2%	4.2%	4.3%	NA
	Average Weekly Hours	July	34.3	34.3	NA	NA
	Average Hourly Earnings	July	3.5%	3.5%	NA	NA
	Wholesale Inventories	June	4.0%	4.4%	NA	NA

SPECIAL SITUATIONS & SCREENS

ARGUS QUANTITATIVE RATING DISTRIBUTION



ARGUS RATING SYSTEM

Argus uses three ratings for stocks: BUY, HOLD and SELL. Stocks are rated relative to a benchmark, the S&P 500.

A BUY-rated stock is expected to outperform the S&P 500 on a risk-adjusted basis over a 12-month period. To make this determination, Argus Analysts set target prices, use beta as the measure of risk, and compare risk-adjusted stock returns to the S&P 500 forecasts set by the Argus Market Strategist.

A HOLD-rated stock is expected to perform in line with the S&P 500.

A SELL-rated stock is expected to underperform the S&P 500.

FUNDAMENTAL MASTER LIST CHANGES

Stock	Rating		Date Change
	From	To	
None			

RECENT FUNDAMENTAL BUY UPGRADES

	Stock Symbol	Raised to BUY On this date
None		

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