



## EQUITY RESEARCH | April 4, 2022

Disseminated: Apr 4, 2022 00:20EDT; Produced: Apr 3, 2022 21:05EDT

## Table of Contents

|   |          |   |    |
|---|----------|---|----|
| <b>Introduction .....</b>                                       | <b>3</b> | DuPont de Nemours, Inc. (NYSE: DD).....         | 20 |
| <b>Top 30 Global Ideas for 2022 — Pricing Data.....</b>         | <b>4</b> | Intact Financial Corporation (TSX: IFC).....    | 21 |
| <b>Top 30 Global Ideas for 2022 — Changes This Quarter.....</b> | <b>5</b> | Intuitive Surgical, Inc. (NASDAQ: ISRG) .....   | 22 |
| <b>Top 30 Global Ideas — Performance Summary .....</b>          | <b>6</b> | Louisiana-Pacific Corporation (NYSE: LPX) ..... | 23 |
| <b>Investment Thesis .....</b>                                  | <b>7</b> | M&T Bank Corporation (NYSE: MTB) .....          | 24 |
| adidas AG (XETRA: ADS).....                                     | 8        | Mastercard Inc. (NYSE: MA) .....                | 25 |
| Alexandria Real Estate Equities, Inc. (NYSE: ARE) .....         | 9        | Palo Alto Networks, Inc. (NYSE: PANW).....      | 26 |
| Alimentation Couche-Tard Inc. (TSX: ATD).....                   | 10       | R1 RCM Inc. (NASDAQ: RCM) .....                 | 27 |
| AltaGas Ltd. (TSX: ALA).....                                    | 11       | S&P Global Inc. (NYSE: SPGI) .....              | 28 |
| Amazon.com, Inc. (NASDAQ: AMZN).....                            | 12       | Shell PLC (LSE: SHEL; NYSE: SHEL).....          | 29 |
| American International Group, Inc. (NYSE: AIG) .....            | 13       | Siemens AG (XETRA: SIE) .....                   | 30 |
| Anheuser-Busch InBev SA/NV (BRU: ABI; NYSE: BUD).....           | 14       | Stericycle, Inc. (NASDAQ: SRCL).....            | 31 |
| Brookfield Asset Management Inc. (NYSE: BAM; TSX: BAM.A) .....  | 15       | TELUS Corporation (TSX: T; NYSE: TU).....       | 32 |
| Canadian Natural Resources Limited (TSX: CNQ; NYSE: CNQ).....   | 16       | The Mosaic Company (NYSE: MOS).....             | 33 |
| Canadian Pacific Railway Limited (TSX: CP; NYSE: CP) .....      | 17       | TransDigm Group Inc. (NYSE: TDG) .....          | 34 |
| ConocoPhillips (NYSE: COP) .....                                | 18       | Twilio Inc. (NYSE: TWLO).....                   | 35 |
| CrowdStrike Holdings, Inc. (NASDAQ: CRWD).....                  | 19       | UnitedHealth Group Inc. (NYSE: UNH) .....       | 36 |
|   |          | WESCO International, Inc. (NYSE: WCC).....      | 37 |

*This report is priced as of market close on April 1, 2022 unless otherwise noted.*

## Introduction

**Graeme Pearson** – Global Head of Research

**Mark Odendahl** – Head of US Research

**André-Philippe Hardy** – Head of Canadian & APAC Research

**Michael Hall** – Head of European Research & Global Head of Research Product Management

In this note, we present our *Top 30 Global Ideas* for Q2 2022. The list has delivered a total return of +4.1% since January 4, 2022 (in USD terms), above our benchmark, the MSCI World Index, at -5.3%. The *Top 30* list remains one of high-conviction, long-term ideas, with quarterly updates that enable dynamic changes into names that we think offer higher-conviction upside potential.

From a bottom up perspective, the March US [RBC analyst survey](#) suggested that overall outlooks for performance over the next 6-12 months remain optimistic due to constructive views on valuations, fundamentals, margins, pricing power, and demand, balanced by concerns regarding impacts from the Russia/Ukraine crisis. Other key risks in focus include recession risk, rising rates, inflation, and potential margin pressures, while analysts largely view ongoing supply chain challenges as a moderate problem.

As of April 1, 2022, on a 6-12 month view, our US Equity Strategy team sees stock market leadership shifting away from Value and into Growth, lowering Energy from Overweight to Market Weight, reducing Value exposure, while maintaining Overweight recommendations on the Financials and Information Technology sectors. RBC's US analysts also tilt most positive on the Financials and Information Technology sectors, followed by Health Care and Energy, regarding outlook for stock performance over this timeframe.

On an equal-weighted basis, we add to the *Top 30* list's US Technology exposure, and maintain a slightly overweight position in Financials versus the MSCI World Index. The list remains notably overweight Energy and Materials, and we increase Industrials exposure to overweight from market

weight, driven by the inclusion of individual high-conviction names under coverage.

In **Information Technology**, we add **Palo Alto Networks (PANW US)**, which we believe is well-positioned to deliver consistent revenue growth/upside with expanding margins, supported by our expectations that security spending remains a top priority in 2022 and vendor consolidation could increase in focus.

In **Financials**, we replace **Element Fleet (EFN CN)** with **Intact Financial (IFC CN)**. Within Canadian Diversified Financials, while EFN remains one of our best ideas, IFC is our #1 best idea for 2022, reflecting positive fundamentals, potential catalysts (including possible divestitures/asset swaps), strong defensive attributes and attractive valuation, in our view. We remove **Banco Bilbao Vizcaya Argentaria (BBVA SM)** due to its exposure as a European bank to potential impacts from the Russia/Ukraine crisis, while maintaining an Outperform rating.

Within **Health Care**, we add **Intuitive Surgical (ISRG US)**, a global leader in robotic-assisted surgery, which we see as uniquely positioned for a multi-year runway of growth given market expansion, ability to drive penetration through technological leadership, diversified platform offerings, a well-entrenched ecosystem, and no major competition. We switch out of **Genmab (GMAB US)** while maintaining an Outperform rating on the name, and remove **Vertex (VRTX US)** given our recent downgrade to Sector Perform.

In **Industrials**, the addition of Healthcare Services company **Stericycle (SRCL US)** is driven by our conviction in sustained organic revenue growth and ramping benefits from inflation protection measures and operational initiatives, coupled with a recent pullback in the shares, also noting SRCL's defensiveness and improving ESG profile amidst an increasingly uncertain macro and geopolitical backdrop. We add **Siemens (SIE GR)**, where we see an opportunity for the P/E discount to peers to narrow as the company's simplification into a higher growth and margin business comes into focus.

## Top 30 Global Ideas for 2022 – Second-Quarter Update

In **Consumer Staples**, we add **Anheuser-Busch InBev (ABI BB)**. We think ABI's favourable competitive positioning in its largest markets positions the company to deliver on expectations, and expect the shares to re-rate higher as ROIC increases and leverage declines. We remove **British American Tobacco (BATS LN)** given our recent downgrade to Sector Perform following strong share price performance. In **Consumer Discretionary**, we add **adidas (ADS GR)**, which we think should benefit from accelerating revenue growth in a catalyst-driven 2022 for the wider sporting goods industry. Valuation relative to peers also appears attractive. We remove **ASOS (ASC LN)** and **H & M Hennes & Mauritz (HMB SS)** due to current macro headwinds/uncertainties, while maintaining Outperform ratings on valuation grounds.

This report contains further detail on our investment thesis for each of the names on the Q2/22 list beginning on page 7. We encourage you to reach out to our team to continue the dialogue regarding their investment ideas.

We see our fundamental work being increasingly augmented by our four flagship research products: [RBC Fusion](#)<sup>TM</sup>, [RBC Imagine](#)<sup>TM</sup>, [RBC Elements](#)<sup>TM</sup>, and [RBC ESG Stratify](#)<sup>TM</sup>. RBC Fusion offers peer-reviewed, unique reports on our highest-conviction, most-differentiated calls. RBC Imagine is a series of fundamental research reports focused on disruptive forces that we believe will transform the world. Our RBC Elements work features proprietary insights generated in collaboration with our internal data science team. With RBC ESG Stratify, we separate the signal from the noise on ESG matters with precise, analytical research.

### Top 30 Global Ideas for 2022 – Changes this Quarter

**Additions:** adidas (ADS GR), Anheuser-Busch InBev (ABI BB), Intact Financial (IFC CN), Intuitive Surgical (ISRG US), Palo Alto Networks (PANW US), Siemens (SIE GR), Stericycle (SRCL US)

**Deletions:** ASOS (ASC LN), Banco Bilbao Vizcaya Argentaria (BBVA SM), British American Tobacco (BATS LN), Element Fleet (EFN CN), Genmab (GMAB US), H & M Hennes & Mauritz (HMB SS), Vertex (VRTX US)



## Top 30 Global Ideas for 2022 — Pricing Data

| Company                                 | Pricing Symbol | Analyst              | Rating     | Trading Currency | Closing Price (04/01/2022) | Market Cap (MM) | Price Target | Div. Yield (%) | Implied All-in Return (%) |
|---|----------------|----------------------|------------|------------------|----------------------------|-----------------|--------------|----------------|---------------------------|
| adidas AG                               | ADS GR         | Piral Dadhania       | Outperform | EUR              | 210.70                     | 41,121          | 300.00       | 1.6            | 44.0                      |
| Alexandria Real Estate Equities, Inc.   | ARE US         | Michael Carroll      | Outperform | USD              | 205.97                     | 32,749          | 235.00       | 2.2            | 16.3                      |
| Alimentation Couche-Tard Inc.           | ATD CN         | Irene Nattel         | Outperform | CAD              | 55.56                      | 58,459          | 73.00        | 0.8            | 32.2                      |
| AltaGas Ltd.                            | ALA CN         | Robert Kwan          | Outperform | CAD              | 28.33                      | 7,944           | 31.00        | 3.7            | 13.2                      |
| Amazon.com, Inc.                        | AMZN US        | Brad Erickson        | Outperform | USD              | 3,271.20                   | 1,687,939       | 4,000.00     | 0.0            | 22.3                      |
| American International Group, Inc.      | AIG US         | Mark Dwelle          | Outperform | USD              | 63.79                      | 55,625          | 75.00        | 2.0            | 19.6                      |
| Anheuser-Busch InBev SA/NV <sup>1</sup> | ABI BB         | James Edwardes Jones | Outperform | EUR              | 54.95                      | 108,911         | 65.00        | 0.9            | 19.2                      |
| Brookfield Asset Management Inc.        | BAM US         | Geoffrey Kwan        | Outperform | USD              | 57.15                      | 89,657          | 73.00        | 1.0            | 28.7                      |
| Canadian Natural Resources Limited      | CNQ CN         | Greg Pardy           | Outperform | CAD              | 78.89                      | 92,175          | 85.00        | 3.8            | 11.6                      |
| Canadian Pacific Railway Limited        | CP CN          | Walter Spracklin     | Outperform | CAD              | 97.84                      | 91,246          | 115.00       | 0.8            | 18.3                      |
| ConocoPhillips                          | COP US         | Scott Hanold         | Outperform | USD              | 100.58                     | 130,706         | 120.00       | 4.4            | 23.7                      |
| CrowdStrike Holdings, Inc.              | CRWD US        | Matthew Hedberg      | Outperform | USD              | 227.85                     | 55,162          | 275.00       | 0.0            | 20.7                      |
| DuPont de Nemours, Inc.                 | DD US          | Arun Viswanathan     | Outperform | USD              | 74.75                      | 38,571          | 100.00       | 1.6            | 35.4                      |
| Intact Financial Corporation            | IFC CN         | Geoffrey Kwan        | Outperform | CAD              | 184.67                     | 32,520          | 216.00       | 2.2            | 19.1                      |
| Intuitive Surgical, Inc.                | ISRG US        | Shagun Singh         | Outperform | USD              | 305.54                     | 112,255         | 340.00       | 0.0            | 11.3                      |
| Louisiana-Pacific Corporation           | LPX US         | Paul Quinn           | Outperform | USD              | 61.72                      | 5,283           | 105.00       | 1.4            | 71.6                      |
| M&T Bank Corporation                    | MTB US         | Gerard Cassidy       | Outperform | USD              | 164.66                     | 21,192          | 190.00       | 2.9            | 18.3                      |
| Mastercard Incorporated                 | MA US          | Daniel R. Perlin     | Outperform | USD              | 363.97                     | 360,330         | 403.00       | 0.5            | 11.3                      |
| Palo Alto Networks, Inc.                | PANW US        | Matthew Hedberg      | Outperform | USD              | 611.11                     | 63,494          | 710.00       | 0.0            | 16.2                      |
| R1 RCM Inc.                             | RCM US         | Sean Dodge           | Outperform | USD              | 26.69                      | 8,578           | 35.00        | 0.0            | 31.1                      |
| S&P Global Inc.                         | SPGI US        | Ashish Sabadra       | Outperform | USD              | 407.88                     | 141,545         | 540.00       | 0.8            | 33.2                      |
| Shell PLC                               | SHEL LN        | Biraj Borkhataria    | Outperform | GBp              | 2,119.50                   | 212,572         | 2,750.00     | 3.6            | 33.4                      |
| Siemens Aktiengesellschaft              | SIE GR         | Mark Fielding        | Outperform | EUR              | 126.32                     | 103,077         | 150.00       | 2.8            | 21.6                      |
| Stericycle, Inc.                        | SRCL US        | Sean Dodge           | Outperform | USD              | 58.95                      | 5,435           | 82.00        | 0.0            | 39.1                      |
| TELUS Corporation                       | T CN           | Drew McReynolds      | Outperform | CAD              | 33.31                      | 45,568          | 36.00        | 3.9            | 12.0                      |
| The Mosaic Company                      | MOS US         | Andrew Wong          | Outperform | USD              | 65.88                      | 24,244          | 80.00        | 0.9            | 22.3                      |
| TransDigm Group Incorporated            | TDG US         | Ken Herbert          | Outperform | USD              | 667.04                     | 37,688          | 750.00       | 0.0            | 12.4                      |
| Twilio Inc.                             | TWLO US        | Rishi Jaluria        | Outperform | USD              | 169.50                     | 31,651          | 400.00       | 0.0            | 136.0                     |
| UnitedHealth Group Incorporated         | UNH US         | Ben Hendrix          | Outperform | USD              | 512.59                     | 492,599         | 563.00       | 1.0            | 10.8                      |
| WESCO International, Inc.               | WCC US         | Deane Dray           | Outperform | USD              | 132.00                     | 6,640           | 163.00       | 0.0            | 23.5                      |

### Notes:

<sup>1</sup> Subsequent to the April 1, 2022 pricing of the *Top 30 Global Ideas for 2022*, ABI's price target was raised to EUR 65.00 (from EUR 60.00) on April 4, 2022. See note [here](#).

Past performance is not necessarily indicative of future performance. Price performance does not take into account relevant costs, including commissions and interest charges or other applicable expenses that may be associated with transactions in these shares.

Source: Bloomberg and RBC Capital Markets

## Top 30 Global Ideas for 2022 — Changes This Quarter

| Company                                 | Pricing<br>Symbol | Analyst              | Rating     | Trading<br>Currency | Closing Price<br>(04/01/2022) | Market<br>Cap<br>(MM) | Price<br>Target | Div.<br>Yield<br>(%) | Implied<br>All-in<br>Return (%) |
|---|-------------------|----------------------|------------|---------------------|-------------------------------|-----------------------|-----------------|----------------------|---------------------------------|
| <b>Additions this quarter:</b>          |                   |                      |            |                     |                               |                       |                 |                      |                                 |
| adidas AG                               | ADS GR            | Piral Dadhania       | Outperform | EUR                 | 210.70                        | 41,121                | 300.00          | 1.6                  | 44.0                            |
| Anheuser-Busch InBev SA/NV <sup>1</sup> | ABI BB            | James Edwardes Jones | Outperform | EUR                 | 54.95                         | 108,911               | 65.00           | 0.9                  | 19.2                            |
| Intact Financial Corporation            | IFC CN            | Geoffrey Kwan        | Outperform | CAD                 | 184.67                        | 32,520                | 216.00          | 2.2                  | 19.1                            |
| Intuitive Surgical, Inc.                | ISRG US           | Shagun Singh         | Outperform | USD                 | 305.54                        | 112,255               | 340.00          | 0.0                  | 11.3                            |
| Palo Alto Networks, Inc.                | PANW US           | Matthew Hedberg      | Outperform | USD                 | 611.11                        | 63,494                | 710.00          | 0.0                  | 16.2                            |
| Siemens Aktiengesellschaft              | SIE GR            | Mark Fielding        | Outperform | EUR                 | 126.32                        | 103,077               | 150.00          | 2.8                  | 21.6                            |
| Stericycle, Inc.                        | SRCL US           | Sean Dodge           | Outperform | USD                 | 58.95                         | 5,435                 | 82.00           | 0.0                  | 39.1                            |

### Deletions this quarter:

|                                     |         |                      |                |     |          |         |          |     |       |
|-------------------------------------|---------|----------------------|----------------|-----|----------|---------|----------|-----|-------|
| ASOS plc                            | ASC LN  | Sherri Malek         | Outperform     | GBp | 1,608.00 | 1,607   | 7,200.00 | 0.0 | 347.8 |
| Banco Bilbao Vizcaya Argentaria SA  | BBVA SM | Benjamin Toms        | Outperform     | EUR | 5.29     | 35,274  | 5.90     | 6.0 | 17.5  |
| British American Tobacco p.l.c.     | BATS LN | James Edwardes Jones | Sector Perform | GBp | 3,226.00 | 73,661  | 3,100.00 | 7.0 | 3.1   |
| Element Fleet Management Corp.      | EFN CN  | Geoffrey Kwan        | Outperform     | CAD | 12.08    | 4,830   | 18.00    | 2.7 | 51.7  |
| Genmab A/S                          | GMAB US | Zoe Karamanoli       | Outperform     | USD | 36.64    | 2,422   | 51.00    | 0.0 | 39.2  |
| H & M Hennes & Mauritz AB           | HMB SS  | Richard Chamberlain  | Outperform     | SEK | 130.58   | 216,123 | 175.00   | 5.0 | 39.0  |
| Vertex Pharmaceuticals Incorporated | VRTX US | Brian Abrahams       | Sector Perform | USD | 266.15   | 69,470  | 269.00   | 0.0 | 1.1   |

### Notes:

<sup>1</sup> Subsequent to the April 1, 2022 pricing of the *Top 30 Global Ideas for 2022*, ABI's price target was raised to EUR 65.00 (from EUR 60.00) on April 4, 2022. See note [here](#).

Past performance is not necessarily indicative of future performance. Price performance does not take into account relevant costs, including commissions and interest charges or other applicable expenses that may be associated with transactions in these shares.

Source: Bloomberg and RBC Capital Markets

## Top 30 Global Ideas — Performance Summary

Although the *Top 30* is not intended to be a relative product, having been created to capture RBC Capital Markets' best ideas on an absolute basis, we compare the performance of the *Top 30* to the MSCI Developed World Index and regional indices to provide context for its returns. See the performance tables below for the Q1 2022 *Top 30* list (January 4, 2022 to April 1, 2022) and since inception (December 2019).

| Ticker   | Company                               | Total Return<br>Q1/2022<br>(in local currency) | Total Return<br>Q1/2022<br>(in USD) |
|--|---------------------------------------|--|-------------------------------------|
| MOS US   | The Mosaic Company                    | 64.3%  | 64.3%                               |
| CNQ CN   | Canadian Natural Resources Limited    | 49.0%  | 50.5%                               |
| COP US   | ConocoPhillips                        | 37.4%  | 37.4%                               |
| SHEL LN  | Shell PLC                             | 31.9%  | 27.7%                               |
| BATS LN  | British American Tobacco plc          | 20.0%  | 16.2%                               |
| VRTX US  | Vertex Pharmaceuticals Inc.           | 19.6%  | 19.6%                               |
| CRWD US  | CrowdStrike Holdings, Inc.            | 14.9%  | 14.9%                               |
| T CN   | TELUS Corporation                     | 12.9%  | 14.0%                               |
| AIG US   | American International Group, Inc.    | 11.7%  | 11.7%                               |
| CP CN  | Canadian Pacific Railway Limited      | 7.7%   | 8.8%                                |
| ATD CN   | Alimentation Couche-Tard Inc.         | 5.1%   | 6.1%                                |
| ALA CN   | AltaGas Ltd.                          | 4.7%   | 5.7%                                |
| MTB US   | M&T Bank Corporation                  | 4.7%   | 4.7%                                |
| TDG US   | TransDigm Group Inc.                  | 4.0%   | 4.0%                                |
| RCM US   | R1 RCM Inc.                           | 3.9%   | 3.9%                                |
| UNH US   | UnitedHealth Group Inc.               | 2.4%   | 2.4%                                |
| BBVA SM  | Banco Bilbao Vizcaya Argentaria SA    | 0.6%   | -1.6%                               |
| WCC US   | WESCO International, Inc.             | 0.4%   | 0.4%                                |
| MA US  | Mastercard Inc.                       | -1.8%  | -1.8%                               |
| AMZN US  | Amazon.com, Inc.                      | -4.0%  | -4.0%                               |
| BAM US   | Brookfield Asset Management Inc.      | -4.4%  | -4.4%                               |
| EFN CN   | Element Fleet Management Corp.        | -5.6%  | -4.7%                               |
| ARE US   | Alexandria Real Estate Equities, Inc. | -5.8%  | -5.8%                               |
| DD US  | DuPont de Nemours, Inc.               | -6.9%  | -6.9%                               |
| GMAB US  | Genmab A/S                            | -7.7%  | -7.7%                               |
| SPGI US  | S&P Global Inc.                       | -11.4%   | -11.4%                              |
| LPX US   | Louisiana-Pacific Corporation         | -20.6%   | -20.6%                              |
| HMB SS   | H & M Hennes & Mauritz AB             | -27.2%   | -29.1%                              |
| ASC LN   | ASOS plc                              | -32.7%   | -34.9%                              |
| TWLO US  | Twilio Inc.                           | -35.4%   | -35.4%                              |
| Average total return for RBC CM Top 30 Global Ideas in Q1 2022 |                                       | 4.4%   | 4.1%                                |

|              |                                | Total Return (in local currency)<br>Since Inception<br>(Not annualized) |       |
|--------------|--------------------------------|---|-------|
| Indices      |                                | Q1/2022   |       |
|              | RBC CM Top 30 Global Ideas     | 4.4%  | 45.8% |
| SPTSX Index  | S&P/TSX Composite Index        | 4.1%  | 37.6% |
| AS51 Index   | S&P/ASX 200 Index              | 2.7%  | 24.6% |
| SPX Index    | S&P 500 Index                  | -4.9%   | 45.8% |
| NDDUWI Index | MSCI World Net Total Return US | -5.3%   | 34.1% |
| SXXP Index   | STOXX Europe 600 Index         | -5.8%   | 17.4% |

|              |                                | Total Return (in USD)<br>Since Inception<br>(Not annualized) |       |
|--------------|--------------------------------|--|-------|
| Indices      |                                | Q1/2022  |       |
| AS51 Index   | S&P/ASX 200 Index              | 5.7%   | 32.8% |
| SPTSX Index  | S&P/TSX Composite Index        | 5.1%   | 42.6% |
|              | RBC CM Top 30 Global Ideas     | 4.1%   | 46.4% |
| SPX Index    | S&P 500 Index                  | -4.9%  | 45.8% |
| NDDUWI Index | MSCI World Net Total Return US | -5.3%  | 34.1% |
| SXXP Index   | STOXX Europe 600 Index         | -7.8%  | 15.4% |

**Notes:** Q1 2022 performance calculated from the time of publishing the *Top 30* Q1 2022 update before market open on January 4, 2022, to April 1, 2022. Past performance is not necessarily indicative of future performance. Price performance does not take into account relevant costs, including commissions and interest charges or other applicable expenses that may be associated with transactions in these shares.

Source: Bloomberg



---

## Investment Thesis

---

## adidas AG (XETRA: ADS)

RBC Europe Limited

Piral Dadhanian (Analyst) +44 0 20 7429 8644, [piral.dadhanian@rbccm.com](mailto:piral.dadhanian@rbccm.com)

**Rating: Outperform**

**Closing Price: EUR 210.70**

**Price Target: EUR 300.00**

**Implied All-in Return (%): 44.0**

### Investment summary

**We have an Outperform rating on adidas and €300 price target.**

adidas product momentum has not been strong enough relative to competitors in recent years (even if brand momentum has remained strong). We expect this to improve given management's confidence around its product pipeline for 2022, coupled with the upcoming Sportswear launch and expectations of a more normalized environment post 1Q22.

Depressed comparatives, low sentiment on China (and gradual recovery), pricing from mid-2022, and Qatar World Cup (late 2022) should all contribute to an accelerating revenue growth profile which would be supportive for the equity story in our view.

Valuation is supportive for ADS vs its sporting goods peers.

### Valuation

We use a DCF analysis to derive a 12-month price target of €300. The implied return to our price target supports our Outperform rating. At our price target, ADS would trade at 25x FY22E P/E which is slightly ahead of its historic average of 23x.

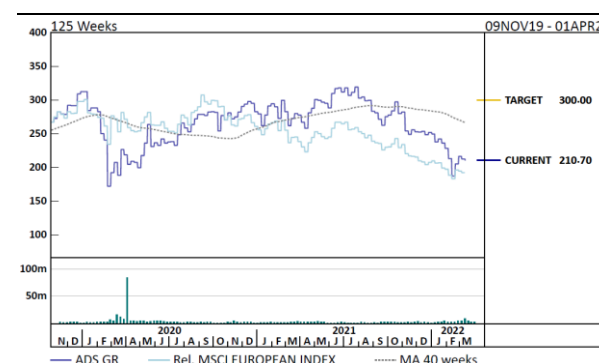
The core assumptions behind our DCF valuation are a WACC of 7.5% (incorporating a beta of 1.1, risk-free rate of 2.0%, equity risk premium of 5.0%, and pre-tax cost of debt of 2.0%), our explicit five-year forecasts, and +4% FCF CAGR in the medium term (years 5–10).

Our 2.5% terminal growth rate reflects both the sporting goods industry (healthy living, low-cost global brand participation, emerging market exposure) and adidas' #2 market-leading position.

### Risks to rating and price target

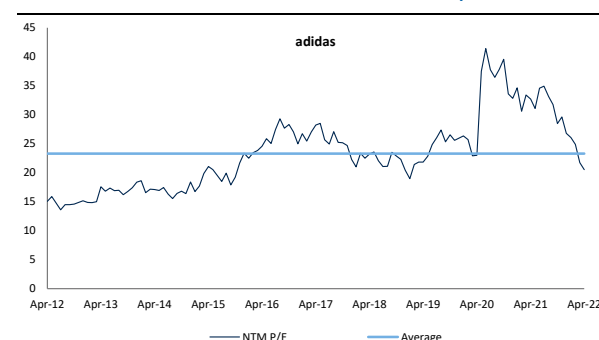
The main company-specific risks include: (1) US business does not reach scale to contribute meaningfully to group earnings; (2) competitors increase A&P spend; (3) product cycle is not successful; (4) consumer trends favour smaller and less well-known brands; and (5) structural dilution of high China segmental margins.

### Exhibit 1 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

### Exhibit 2 - Forward consensus P/E history



Source: Factset

**Most recent industry note: [link](#)**



## Alexandria Real Estate Equities, Inc. (NYSE: ARE)

RBC Capital Markets, LLC

Michael Carroll, CFA (Analyst) (440) 715-2649, [michael.carroll@rbccm.com](mailto:michael.carroll@rbccm.com)

Rating: Outperform

Closing Price: USD 205.97

Price Target: USD 235.00

Implied All-in Return (%): 16.3

### Investment summary

Alexandria Real Estate Equities, Inc. is the largest public life sciences REIT and one of the larger public REITs. We believe ARE will drive healthy organic and external growth with positive leasing trends in its in-service and development portfolios.

### Potential catalysts

**Macro trends appear healthy for tenants.** FDA drug approvals hit a lull in '16, but 48 novel drugs were approved in '19, 53 in '20, and 50 in '21. Tenants are more likely to make real estate decisions once they have an approved drug.

**COVID-19 could increase demand for space.** COVID-19 has increased awareness around the need for life science products and R&D. Management noted that biotech venture funding, equity indexes, IPOs, and follow-ons hit all-time highs in 2020. This could lead to incremental demand.

**Developments/redevelopments should drive growth.** ARE has made solid progress advancing the development pipeline and management has also identified more than ~27.7 million SF of near-term, intermediate-term, and future development projects that should add significant value.

### Valuation

Our \$235/sh price target reflects a ~10% premium (prev. 5%) to our YE22 NAV estimate of \$216.17/sh. We believe this slightly higher premium is warranted given the strength of the life science sector, proven operating platform, solid tenant base, and strong balance sheet. Our target reflects ~30.0x our 2023 AFFO estimate (in-line with the trailing 8-quarter average) and a

April 4, 2022

~\$1,000/SF valuation (below recent large private market transactions averaging ~\$1,300/SF). Our price target supports our Outperform rating.

**Net asset value:** Our in-place NAV estimate is \$192.29/sh assuming a 4.25% cap rate. We expect ARE to create value over time and therefore our NAV estimate of \$188.80/sh at YE21 (2022 est.) increases to \$216.17/sh at YE22 (2023 est.).

### Risks to rating and price target

The greatest risks to our estimates, recommendation, and price target relate to general economic trends including, but not limited to, job growth, health-care expenditures, new biotechnology office supply, and access to capital. ARE's tenants require significant funding for the research, development, and clinical testing of products. Tenant products are also subject to regulatory approvals. Higher raw material and labor costs related to development or redevelopment activities could also negatively impact investments. Additional risks, including the threat of terrorism, weather, and key personnel changes, are outlined in the company's filings with the Securities and Exchange Commission.

### Other company-specific risks

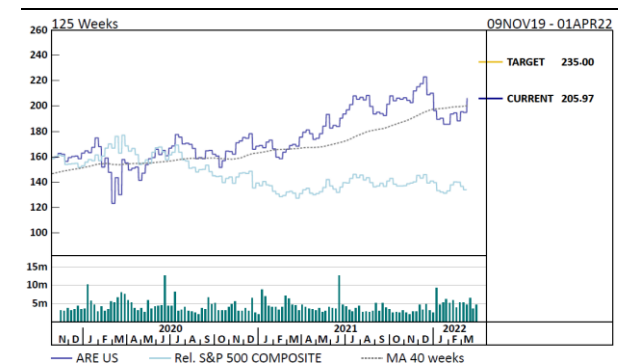
**Biotechnology sector could be binary.** The tenant sector can have binary events. For example, ARIA expanded its space with ARE and later announced safety concerns around its blockbuster drug, sending the shares down as much as 80%.

**Supply chain disruptions could slow development.** The pandemic has led to widespread supply chain disruption and management noted that some items used in their

developments are delayed. However, the team has been proactive mitigating any supply chain related issues.

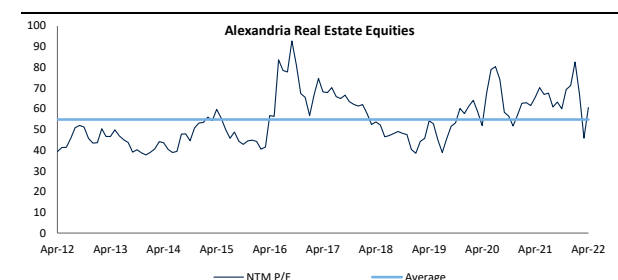
**COVID could impair traditional office demand.** The long-term impact of COVID on demand for office space remains to be seen. ARE generates ~17% of annual rents from tenants using more traditional office space.

### Exhibit 3 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

### Exhibit 4 - Forward consensus P/E history



Source: Factset

Most recent company note: [link](#)

## Alimentation Couche-Tard Inc. (TSX: ATD)

RBC Dominion Securities Inc.

Irene Nattel (Analyst) (514) 878-7262, [irene.nattel@rbccm.com](mailto:irene.nattel@rbccm.com)

Rating: Outperform

Price Target: CAD 73.00

Closing Price: CAD 55.56

Implied All-in Return (%): 32.2

### Investment summary

**Multiple avenues for growth**, underpinned by i) acquisition synergies both direct and reverse; ii) top-line momentum from a more focused, data-driven approach to merchandising/promotional strategies; iii) sharing of best practices among geographies to drive sales and optimize margin/productivity, an element that has proven extremely useful since the pandemic hit Europe earlier than North America; iv) focus on opex/scale benefits; and v) increased activity on new store openings, and of course, opportunistic acquisitions.

**Solid underlying operating performance** aided by global rebranding to Circle K, with Food at Scale and other fresh food and coffee initiatives generating traffic and basket growth.

**Industry performance in North America since the declaration of the pandemic reinforces defensive sector attributes.** High gas margins/low fuel prices should enable ATD to offset gallon weakness related to current dislocation.

**Attractive geographic diversification** with >85% of GP\$ generated outside Canada. Small, strategic acquisition in Asia is not yet meaningful to financial forecasts but establishes a platform for accelerating growth from new geography.

**Real-world EV R&D lab in Norway:** ATD is the only North American c-store player with a strong footprint in Norway, the global leader in EV sales. With the operation of charging stations on their sites in addition to home and office chargers, ATD is gaining valuable insight into consumer behaviour/revenue opportunities associated with top-up charging.

**Strong B/S + FCF profile** with forecasted FCF in the range of \$2B to fund dividend growth, debt repayment, and acquisitions. Adjusted net debt/EBITDAR now <1.5x, well below the post-SFR peak of 3.6x, with normalized estimated balance sheet capacity in excess of US\$15B.

### Valuation

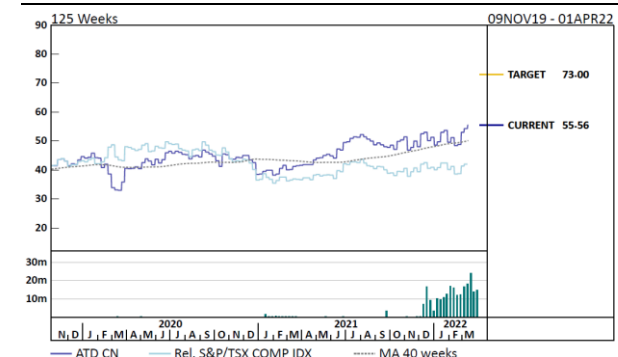
Taking the midpoint of 20x Q3/F24E (Jan C24E) TTM EPS and 11.5x Q3/F24E TTM EBITDA drives our price target of \$73, which supports our Outperform rating. The EBITDA multiple is consistent with the average of the five-year range, reflecting overall sector valuation trends, and supported by ongoing strong normalized underlying performance, relatively recession-resistant business model and benefits from prior-period M&A. We believe the multiples are also appropriate relative to our c-store coverage universe based on relative investment attributes.

### Risks to rating and price target

Normalization of gas margins without volume improvement would result in earnings below expectations. As well substantial dislocation in normal daily consumption/traffic patterns could cause sharply lower inside store traffic. Although c-stores typically are relatively recession-resistant, ~50% of US c-store customers have incomes ≤\$50k and could be hard-hit by a post-COVID recession if income support is lessened. With ATD's diversified geographic footprint, the risk profile of forecasts includes multiple geographies and currencies and economic and operating environments, each of which is being impacted at differing levels by COVID-19 and low oil prices. Although not included in our forecasts, potential M&A could fail to surface

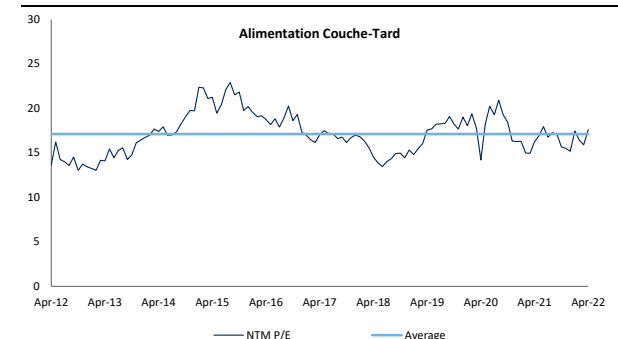
anticipated value creation, which could negatively impact earnings/share price.

### Exhibit 5 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

### Exhibit 6 - Forward consensus P/E history



Source: Factset

Most recent company note: [link](#)

## AltaGas Ltd. (TSX: ALA)

RBC Dominion Securities Inc.

Robert Kwan, CFA (Analyst) (604) 257-7611, [robert.kwan@rbccm.com](mailto:robert.kwan@rbccm.com)

Rating: Outperform

Price Target: CAD 31.00

Closing Price: CAD 28.33

Implied All-in Return (%): 13.2

### Investment summary

We expect the shares of AltaGas to outperform its peers for the following reasons:

**Is AltaGas a utility or a midstreamer? The market seems to be saying “neither.”** AltaGas’s guidance is for 55% of 2022E EBITDA to come from the US regulated gas distribution utilities (Maryland, Virginia, Michigan, Alaska, and Washington, D.C.) and the remainder from midstream assets (net of corporate costs). With relative balance, we find that utility investors, particularly those looking to play defence, are not enamoured with the higher-risk midstream business, while we find that WCSB-focused midstream investors have historically looked to pure-play stocks levered to industry trends.

**We believe asset monetizations could drive material upside in the stock.** While MVP was an obvious asset sale candidate given it was a non-operated minority interest that also benefitted from an ability to greatly reduce debt/EBITDA (given AltaGas would only book equity earnings), we still believe that the company has options to monetize an asset, or assets, that could reduce leverage and eliminate various risks for MVP (e.g., whether it happens at all, timing of a sale and/or asset sale valuations changing).

**Potential catalysts:** the sale of the Mountain Valley Pipeline; sale of utility assets; new long-term take-or-pay contracted infrastructure projects with strong

counterparties; additional tolling contracts for West Coast LPG exports; and higher-than-expected frac spreads and/or LPG export margins.

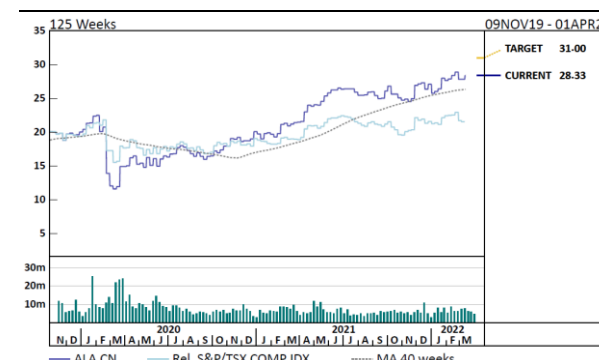
### Valuation

Our \$31.00/share price target is based on our sum-of-the-parts analysis that results in values of \$28–33/share. Our valuation includes an 18–20x 2023E P/E valuation for the former WGL utilities, which is close to the average for highly regulated names, with a slight adjustment higher for M&A valuations in the space with a 26–28x P/E M&A-type valuation for SEMCO and ENSTAR, as we believe the market will look to a potential sale of those assets. For Midstream, we use a 10–11x EV/EBITDA multiple, which is consistent with valuations for the Canadian midstream peers. We believe that the risk-adjusted expected total return to our price target supports our Outperform rating on the shares.

### Risks to rating and price target

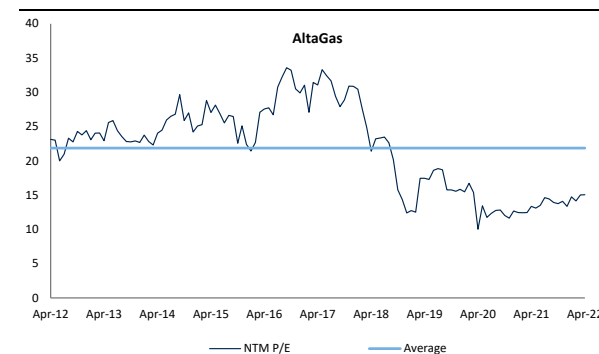
Risks to our price target and rating include negative regulatory decisions, the inability to complete and/or successfully monetize its stake in the Mountain Valley Pipeline, NGL spreads or gas volumes that meaningfully differ from our forecast, projects/acquisitions that fail to gain the confidence of investors, dilutive actions to maintain the BBB-credit rating, and natural gas prices and drilling trends in the WCSB.

### Exhibit 7 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

### Exhibit 8 - Forward consensus P/E history



Source: Factset

Most recent company note: [link](#)

## Amazon.com, Inc. (NASDAQ: AMZN)

**RBC Capital Markets, LLC**

**Brad Erickson (Analyst) (503) 830-9488, [brad.erickson@rbccm.com](mailto:brad.erickson@rbccm.com)**

## Investment summary

AMZN is one of the internet's largest true alpha dogs, in our view. The company's unmatched scale and advantage in verticalized E-commerce combined with its industry-leading cloud business gives it many shots on goal for future growth opportunities in new verticals. Our channel checks indicate the burgeoning advertising business in particular has a massive opportunity to drive accretive growth. Regulatory scrutiny is inevitable but carries relatively low risk to long-term equity value, in our view.

## Valuation

The stock trades at 15.2x EV/'23 EBITDA which is a discount to the group. Reasons for the discount are valid in some ways given the law of large numbers limiting growth rates and the multiple ascribed to the low-margin 1P retail business. That said, we believe an in-line multiple is fair given the e-commerce moat AMZN has developed combined with rising exposure to highly cash-generative segments like advertising and cloud. Our Outperform rating is justified by our \$4,000 PT which is based on 18.8x EV/our '23 EBITDA estimate.

## Risks to rating and price target

Challenging integration of ongoing capacity expansion (hiring over 125,000 employees upcoming). Less sticky E-commerce trends post-pandemic. Less successful Prime membership adoption in international markets leading to slowing growth and less margin expansion than expected. Inability to secure rights to meaningful sports content, particularly in Europe. A lack of improvement to the advertising platform's targeting algorithms and conversion leading to slowing growth. Intensifying competition in cloud. Global macroeconomic slowdown.

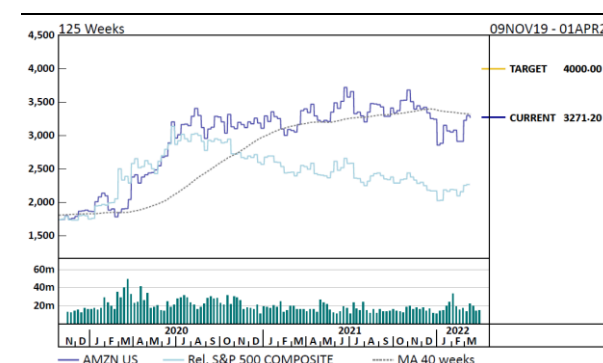
**Rating: Outperform**

**Closing Price: USD 3,271.20**

**Price Target: USD 4,000.00**

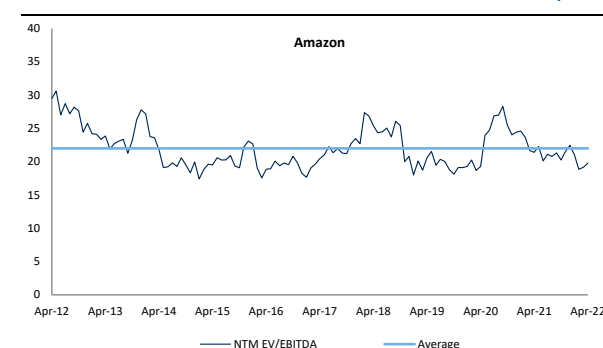
**Implied All-in Return (%): 22.3**

### Exhibit 9 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

Exhibit 10 - Forward consensus EV/EBITDA history



Source: Factset

Most recent company note: [link](#)

## American International Group, Inc. (NYSE: AIG)

RBC Capital Markets, LLC

Mark A. Dwelle, CFA (Analyst) (804) 782-4008, [mark.dwelle@rbccm.com](mailto:mark.dwelle@rbccm.com)

Rating: Outperform

Price Target: USD 75.00

Closing Price: USD 63.79

Implied All-in Return (%): 19.6

### Investment summary

We remain constructive on AIG and view the company as an attractive value idea in the insurance space at the current valuation. AIG's main focus is improving P&C insurance margins and repositioning the entire business for better ROEs with less earnings volatility and a more transparent business model. The company has made progress on improving core loss ratios, and we expect the trends to continue, along with a return to premium growth. In addition, the AIG 200 program is also expected to translate into further expense reduction opportunities. AIG's Life & Retirement segment has been performing well in recent quarters, and we expect further progress on its planned separation of a portion of the Life & Retirement segment. Our Outperform rating reflects the following points.

**Focused on underwriting margins improvement, reducing expenses:** AIG has aggressively reduced exposure to underperforming lines and countries where returns are below acceptable levels. This effort along with the greater use of reinsurance, analytics, and better risk management should put AIG on a path toward improving core margins further in the years ahead. The AIG 200 program should also make AIG a more efficient and leaner company.

**Favorable pricing supports growth and margin improvement:** A favorable P&C pricing environment along with an improved macro backdrop should support margin improvement. Given all the heavy lifting done in past year, we expect AIG to be in a position to return to premium growth in the quarters ahead.

**Life & Retirement positioning:** We expect the L&R unit to continue to produce solid results relative to peers even in this low interest rate environment. We expect additional repositioning actions to improve ROEs. Meanwhile, we expect management to focus on moving forward with its plans to separate the L&R unit from AIG (through the initial sale stake to Blackstone and anticipated sale stake via an IPO).

### Valuation

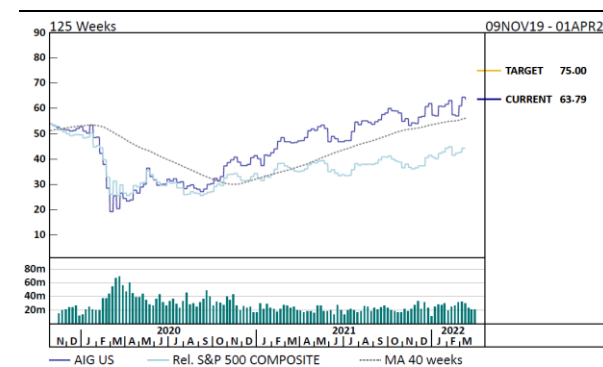
Our \$75 price target is based on 1.1x our ending 2022 adjusted ending book value per share estimate (or 0.9x stated book value). We think it is appropriate to use adjusted book value for valuation purposes, as this has been management's focus in setting its ROE targets. While we think a discount to peers is warranted, in our opinion the discount is too steep, and we think a valuation above tangible book is warranted now with past initiatives bearing fruit and a better margin outlook. We expect the current management team to continue making progress in terms of repositioning the business and rightsizing the related expense infrastructure. In our view, our price target is consistent with our Outperform rating.

### Risks to rating and price target

AIG is subject to many inherent risks including market risk (interest rate risk or equity risk) that could pressure investment spreads or put pressure on investment portfolio values. There is also inherent reserving and underwriting risk mainly through whether more recent accident years prove redundant relative to expected frequency and severity assumptions. Other risk factors include: 1) P&C insurance pricing risk; 2) international

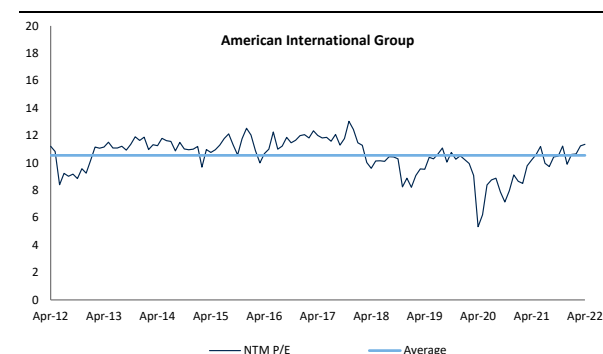
risk in operating in various countries; 3) macro risks tied to its business; and 4) risks that Covid continues to linger on.

### Exhibit 11 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

### Exhibit 12 - Forward consensus P/E history



Source: Factset

Most recent company note: [link](#)



## Anheuser-Busch InBev SA/NV (BRU: ABI; NYSE: BUD)

RBC Europe Limited

James Edwardes Jones (Analyst) +44 20 7002 2101, [james.edwardesjones@rbccm.com](mailto:james.edwardesjones@rbccm.com)

**Rating: Outperform**

**Closing Price: EUR 54.95**

**Price Target: EUR 65.00\***

**Implied All-in Return (%): 19.2**

\* Subsequent to the April 1, 2022 pricing of the *Top 30 Global Ideas for 2022*, ABI's price target was raised to EUR 65.00 (from EUR 60.00) on April 4, 2022. See note [here](#).

### Investment summary

AB InBev has underperformed the sector significantly over the last five years. Some of this has been due to elements out of its control, such as turbulent currency fluctuations in Latin America, but the organic performance has also been volatile. Both factors have also led to an unappealingly large debt pile.

Currencies remain the unknown but we think AB InBev's grip on the more controllable factors is tightening. The short-term performance has been more consistent, volume growth is improving and ABI's medium-term ambition of 4-8% EBITDA growth looks realistic to us. Its regional margins are underpinned by strong competitive positioning and there might even be some upside in South America. In addition, management seems to understand the negative implications of its debt load for shareholders and has hence made the decision to pass the interim dividend in both 2020 and 2021.

Adding to the long-term investment case are the potentially fruitful long-term prospects of AB InBev's digital platform: 'Bees' could drive further upside in our view. We think that there is (rightly) nothing in the share price to reflect this at the moment, but it's an interesting piece of optionality. We hold an Outperform rating for AB InBev.

### Valuation

We believe that consumer staples stocks lend themselves to a DCF valuation methodology owing to the relative strength and predictability of their cash flows together with, in some instances, a significant

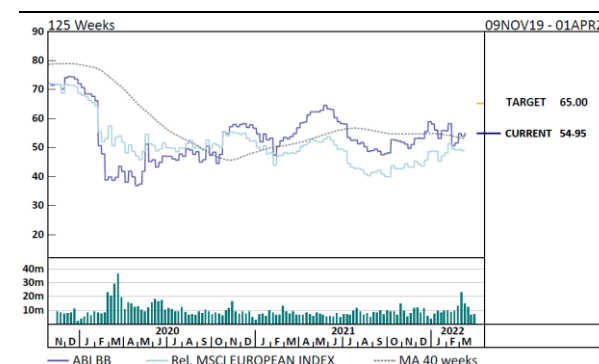
mismatch between capital expenditure and depreciation charged through the profit and loss account, meaning that P&L-based valuation metrics (PE ratio, EV/ EBITDA ratio) can be misleading. We use a derivative of a traditional DCF calculation called adjusted present value (APV) whereby the business's operating cash flows are discounted at its cost of equity (8% in this instance) and tax shield at the cost of debt (3.0%). We assume a terminal growth rate of 2.5% per annum from 2035. Under these assumptions, we derive a fair value of €61 per share. Discounting the APV forward by a year at the cost of equity and adding in our dividend forecast for 2021 yields a 12-month price target of €65. Our price target and the implied return support our Outperform rating.

### Risks to rating and price target

Further inflation and a significant deterioration in consumer confidence and employment following Russia's invasion of Ukraine would be detrimental to sales and margins. A resurgence of COVID-19 and revival of on-trade closures and lockdown in response to the outbreak of COVID-19 poses a significant threat to AB InBev. On-trade closures would affect its ability to brand-build and manage working capital. Almost all of ABI's debt is in developed market currencies (principally US\$ and €s). Any delay in paying down debt (for example, as a result of emerging market currency weakness) would be unhelpful for ABI's share price. The US is ABI's largest market and its largest mainstream brands have consistently lost market share; an acceleration in this market share loss, or slowdown in the US market overall, would not be good. ABI is heavily

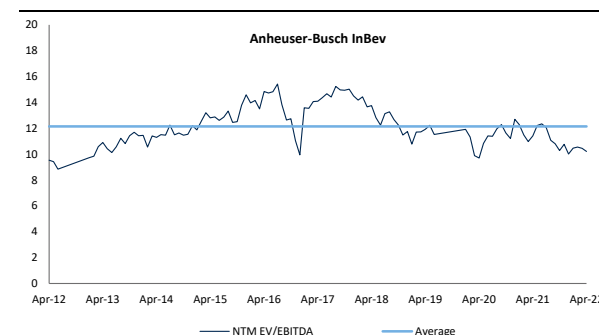
exposed to emerging markets, notably, Brazil, China, Colombia, Mexico and South Africa. A significant deterioration in consumption or market share in these markets would be a downside risk.

### Exhibit 13 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

### Exhibit 14 - Forward consensus EV/EBITDA history



Source: Factset

Most recent industry note: [link](#)

## Brookfield Asset Management Inc. (NYSE: BAM; TSX: BAM.A)

RBC Dominion Securities Inc.

Geoffrey Kwan, CFA (Analyst) (604) 257-7195, [geoffrey.kwan@rbccm.com](mailto:geoffrey.kwan@rbccm.com)

### Investment summary

**Why we rate Brookfield Asset Management shares**

**Outperform:** We think the combination of: (1) BAM's strong long-term investment track record; (2) significant liquidity available (US\$80B) to fund acquisitions and investments at potentially attractive prices in the current market environment and drive future NAV growth; and (3) a differentiated and diversified product shelf with demonstrated ability to fundraise and drive scale benefits could result in double-digit NAV growth over time. We continue to view the stock as a core holding.

**Potential catalysts:** (1) Material value-surfacing monetizations or transactions; (2) strong fundraising activity positively impacting future Fee Related Earnings and carried interest growth; and (3) active acquisition/investment activity to drive future NAV growth.

### Valuation

Our 12-month price target is US\$73/share. We value BAM using an NAV methodology, which we think is appropriate given the diverse nature of BAM's assets. To arrive at our price target, we separately value: (1) BAM's asset management business by applying a 22x multiple to our 2023 FRE forecast; and (2) we assume 25% growth in BAM's hard NAV (publicly traded subsidiaries, private investments, etc.). We also include a 5% (was 10%) premium to NAV. Our lower premium-to-NAV assumption reflects a more uncertain macroeconomic backdrop. Our price target and implied return support our Outperform rating.

### Risks to rating and price target

Risks to our price target and rating include: (1) Economic downturn, particularly in real estate; (2) a sudden and/or significant increase in interest rates; and (3) sustained capital markets volatility.

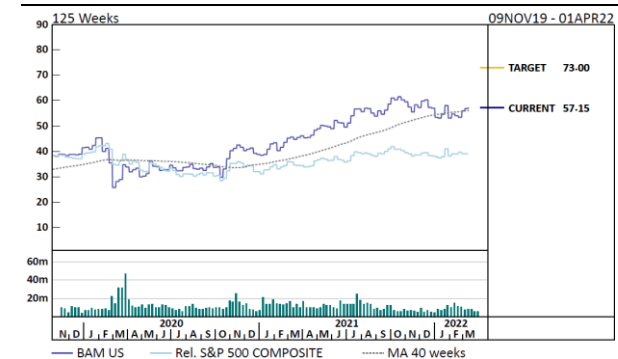
**Rating: Outperform**

**Price Target: USD 73.00**

**Closing Price: USD 57.15**

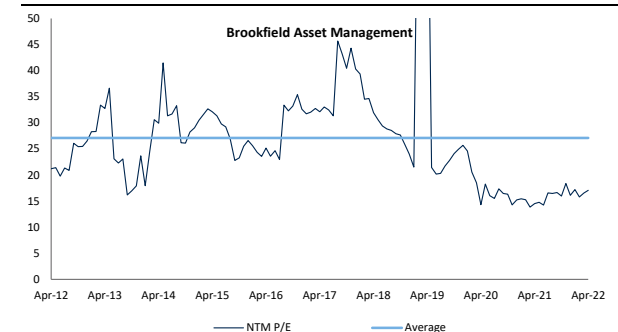
**Implied All-in Return (%): 28.7**

Exhibit 15 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

Exhibit 16 - Forward consensus P/E history



Source: Factset

**Most recent company note:** [link](#)

## Canadian Natural Resources Limited (TSX: CNQ; NYSE: CNQ)

RBC Dominion Securities Inc.

Greg Pardy, CFA (Head of Global Energy Research) (416) 842-7848, [greg.pardy@rbccm.com](mailto:greg.pardy@rbccm.com)

### Investment summary

We rate the common shares of Canadian Natural Resources Outperform for the following reasons:

**Globally Distinguished.** Canadian Natural Resources' management committee structure and shareholder alignment are unique factors which distinguish the company globally. CNQ's long-life, low-decline portfolio—anchored by moderate sustaining capital—affords the company superior free cash flow generative power.

**Management Committee Structure.** CNQ does not have a CEO. Instead, the company is stewarded by a management committee consisting of 18 people. This group meets weekly and oversees all matters spanning marketing, finance, ESG, operations, and technology, amongst others. Murray Edwards, Executive Chairman, Tim McKay, President, and Mark Stainthorpe, CFO, are all key members of the committee.

**Impressive Shareholder Returns.** CNQ's recent move to raise its dividend by 28% reflects underlying confidence in its operating/financial performance, sustainable free cash flow generation, and shareholder alignment. Not to be overlooked, our 2022 outlook also factors in share repurchases of \$6.2 billion.

### Valuation

Our price target of \$85 per share reflects an equal weighting toward a multiple of 1.4x our NAV and an implied 2022E debt-adjusted cash flow multiple of 9.5x (from 1.3x and 9.0x respectively) at mid-cycle commodity prices. The multiples we have chosen reflect CNQ's superior execution capability, long-life, low-decline asset base, and free cash flow generation potential. Our price target and implied return support our Outperform rating.

### Risks to rating and price target

The most significant risk to our price target and rating is unexpected changes in crude oil and natural gas prices. Specifically, to the extent that the COVID-19 pandemic and associated social distancing measures continue to negatively impact global oil demand, it may result in CNQ realizing lower-than-anticipated sales prices for its production volumes. Other risks include the impact of foreign exchange and government legislation as it relates to royalties, income taxes, and environmental policy.

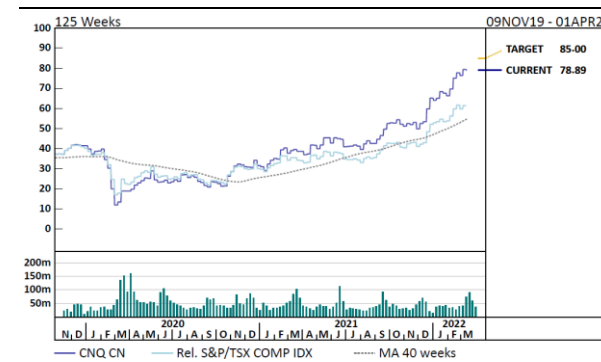
Rating: Outperform

Price Target: CAD 85.00

Closing Price: CAD 78.89

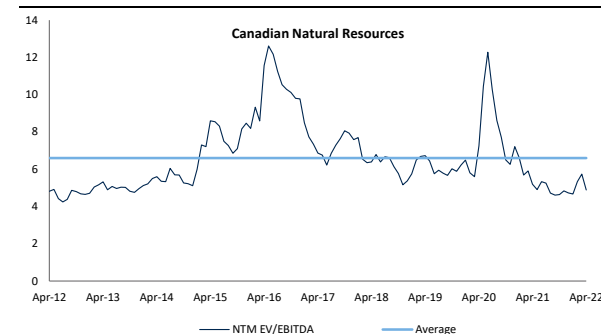
Implied All-in Return (%): 11.6

Exhibit 17 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

Exhibit 18 - Forward consensus EV/EBITDA history



Source: Factset

Most recent company note: [link](#)

## Canadian Pacific Railway Limited (TSX: CP; NYSE: CP)

RBC Dominion Securities Inc.

Walter Spracklin, CFA (Analyst) (416) 842-7877, [walter.spracklin@rbccm.com](mailto:walter.spracklin@rbccm.com)

Rating: Outperform

Closing Price: CAD 97.84

Price Target: CAD 115.00

Implied All-in Return (%): 18.3

### Investment summary

Our positive view on CP centers on a best-in-class railroad on the cusp of a transformative acquisition that, if approved, should set the stage for significant growth and a material upward valuation re-rate. Key points:

**CP's purchase of KSC significantly improves network reach.** The network advantage of the CP-KCS deal is the most compelling merit of the transaction in our view. The deal opens up new markets as well as gives CP a meaningful structural advantage versus peers. The transaction significantly increases the company's network reach from Vancouver to Saint John, and now via KCS, down to the ports of Lazaro Cardenas and Veracruz in Mexico. The new network connects six of the seven-largest metro regions in North America in a single-line connection, particularly between the Midwest US / Canada into the Gulf Coast / Mexico and a new third option between the Midwest US and Texas / Mexico.

**Diversification a big component of the value proposition in KCS deal.** Particularly favourable is the improvement in diversification that comes on both a business line and a geographic basis. Notable is the level of Merchandise exposure that KCS brings to CP, as well as the increased US and new Mexican revenue streams.

**US\$1B in potential synergies.** Of particular note is the revenue synergy opportunity (US\$820MM of the total) with expected share gains in Grain, Fertilizer, Intermodal, Auto, and Crude.

### Valuation

Our \$115 price target is based on applying a P/E multiple of 20x to our 2025 EPS estimate of \$6.73. Our 2025 EPS forecast reflects CP achieving full synergy run-rate on

the KSU acquisition in line with guidance provided when the deal was announced. The target multiple is a premium to peers, in our view warranted by CP's operations-focused management team as well as the increased network reach following the KSU acquisition. Our price target supports our Outperform rating.

### Risks to rating and price target

Key risks to our positive thesis relate to the acquisition of KSU. See below for further detail:

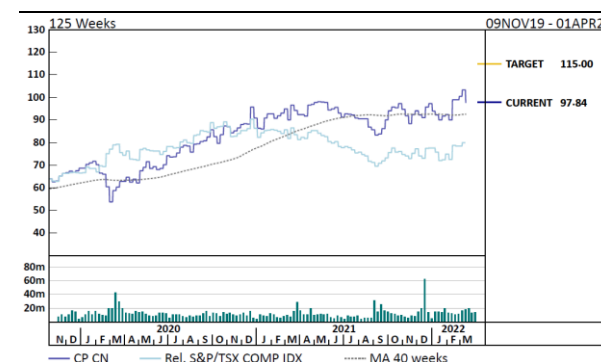
**Risk that merger does not get approved – we view as low.** Given the absence of any network overlap and the meaningfully higher weight in the revenue component of the forecast synergies, we see limited concern from a competition standpoint and a compelling case for a pro-competition argument. Nevertheless, the merger not getting approved is a potential risk.

**Mexico concession risk.** The two major rails in Mexico do not own their real estate and instead operate on concession from the Mexican government. The current concession expires in 2047; however, it is subject to an exclusivity review in 2027. Management teams at both entities are of the view that if CPKC provides a high-value service offering at a competitive price, there will be no need to make major changes to the concession arrangement.

**Integration risk.** We consider CP mgmt to be one of the top teams in North America and have strong confidence in the ability of this team to execute on the integration of this deal and achieve (or exceed) the targets announced. Moreover, we were encouraged by the concurrent announcement that CP's Board and CEO Keith Creel have agreed to contract amendments that

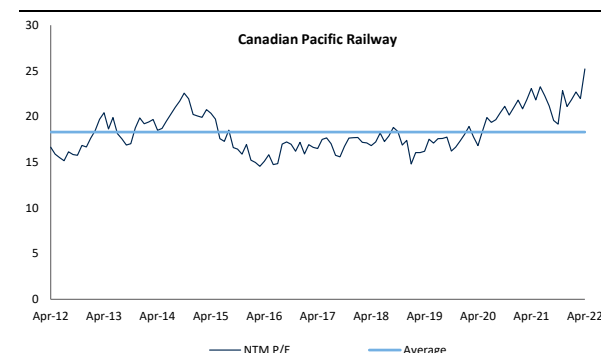
would see Mr. Creel lead the company out at least to 2026 (regardless of the deal going ahead or not). However, it is still possible that CP encounters unforeseen headwinds that could potentially impact forecasted synergies.

### Exhibit 19 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

### Exhibit 20 - Forward consensus P/E history



Source: Factset

Most recent industry note: [link](#)

## ConocoPhillips (NYSE: COP)

RBC Capital Markets, LLC

Scott Hanold (Analyst) (512) 708-6354, [scott.hanold@rbccm.com](mailto:scott.hanold@rbccm.com)

**Rating: Outperform**

**Closing Price: USD 100.58**

**Price Target: USD 120.00**

**Implied All-in Return (%): 23.7**

### Investment summary

**We believe COP shares should outperform large-cap E&P peers.** COP has a returns-focused value proposition, a strong balance sheet, and peer-leading distributions. The company appears well positioned to maintain competitive FCF generation through various commodity price cycles. The scaled Permian position enhances the outlook with greater FCF generation, asset diversity, and development flexibility.

**Management has one of the clearest and most defined investment propositions.** COP was an early leader in committing and demonstrating high returns of capital back to shareholders. COP's priorities are: (1) sustain production and pay its dividend; (2) annual dividend growth; (3) A-rated balance sheet; (4) 30+% CFO total shareholder payout; and (5) disciplined investment for CFO expansion.

**A global and diverse asset base across the commodity spectrum mitigates unsystematic risk.** This also allows spending flexibility to deliver industry-leading returns through the commodity price and economic cycles.

**COP has a low Break-Even Point where it can fund its production maintenance capital and dividends at below \$40/bbl (WTI).** This is supported by a peer-leading base decline rate that results in a 35% less capital requirement to sustain production than peers.

**COP is the fifth-largest natural gas marketer in the US.** This creates opportunities to enhance transportation and sales mechanisms for margin improvement.

**COP adopted a Paris-aligned climate risk framework.** The long-term ambition is for net-zero operational

(Scopes 1 and 2) emissions by 2050. There is a more defined medium-term target to reduce GHG emissions 40–50% by 2030.

### Valuation

Our \$120/share price target is derived from a combination of evaluating forward EBITDA multiples, relative FCF levels, and our Net Asset Value (NAV) and supports our Outperform rating. Our target reflects: 1) 6.0x multiple on our 2022 EBITDA estimate, a premium to the 5x large cap peer average; and 2) a ~50% premium to our \$79/share NAV, above the large cap 40% premium peer average due to peer-leading shareholder return commitment, solid FCF growth rates, a strong balance sheet, and asset diversity. Our NAV is a risk assessment of 3P reserves using the long-term RBC commodity price outlook of \$55/bbl (WTI), \$60/ bbl (Brent), and \$3.00/Mcf (HH).

### Risks to rating and price target

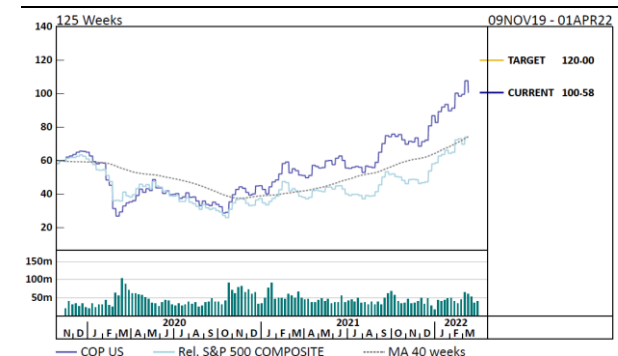
ConocoPhillips's returns-focused strategy is dependent on strong margins, cost control, and execution. Industry inflation or unforeseen cost overruns could limit the company's ability to deliver significant returns to shareholders and negatively impact the share price.

Regulatory changes could adversely impact the company's development opportunities and economics. COP has federal acreage on certain core assets in both the Permian Basin and Alaska that could be impacted by regulatory changes.

Energy producers battled unprecedented global oil & gas market conditions amid the COVID-19 pandemic that caused a historic reduction in demand. The industry has aggressively cut capital programs, operating costs,

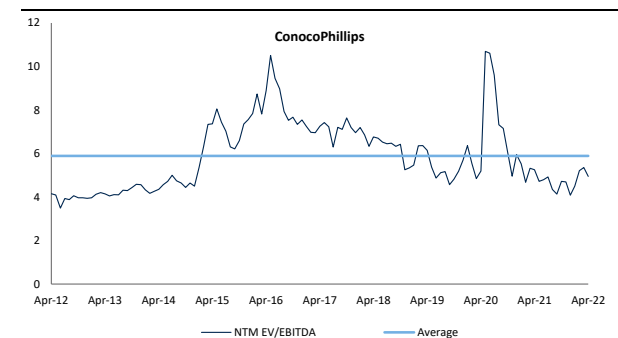
and in some cases, suspended dividends. These efforts are starting to bring the macro back in to balance, which we expect to occur by mid-2022. If demand related issues persist, our expectations for commodity prices and corporate cash flows could be reduced, thus challenging our share price outlook.

### Exhibit 21 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

### Exhibit 22 - Forward consensus EV/EBITDA history



Source: Factset

**Most recent company note:** [link](#)



## CrowdStrike Holdings, Inc. (NASDAQ: CRWD)

RBC Capital Markets, LLC

Matthew Hedberg (Analyst) (612) 313-1293, [matthew.hedberg@rbccm.com](mailto:matthew.hedberg@rbccm.com)

Rating: Outperform

Closing Price: USD 227.85

Price Target: USD 275.00

Implied All-in Return (%): 20.7

### Investment summary

#### High-level thesis of CrowdStrike

CrowdStrike was founded in 2011 with a mission of reinventing security for the cloud era. Co-founder George Kurtz previously worked at a gen-1 AV endpoint vendor and was motivated to build CrowdStrike after realizing that legacy security technology was incapable of protecting customers against modern attacks within a hybrid-cloud architecture.

The company developed a differentiated cloud-native security platform that leverages its lightweight intelligent agent and Threat Graph database across a multi-module portfolio of solutions. The company and its customers benefit from the network effect, as each additional endpoint added to the platform expands the crowd-sourced database, which in turn improves the quality of the algorithms.

We view CrowdStrike as a prime land-and-expand model benefiting from SaaS delivery and ability to rapidly add more modules with no extra configuration or consulting needed. The long-term power of the install base should lead to strong net expansion rates as the company cross-sells additional seats (endpoints) and modules.

**Potential catalysts include:** 1) ability to maintain net expansion rates by selling additional products into its growing customer base and maintaining low churn rates; 2) new product introduction and/or traction from recently introduced modules; specifically Cloud Workload protection; 3) accelerated customer additions leveraging its multi-pronged, go-to-market approach; 4) accelerated share-shift from legacy vendors; and 5) faster-than-expected progression toward profitability driven by top-line success.

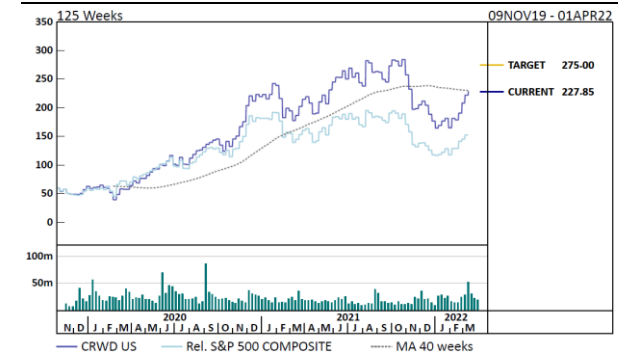
#### Valuation

To derive our \$275 price target, we apply a 22.5x EV/S multiple to CY/23E revenue of \$2,902 million, which is a slight discount to contracted leading growth security peers, in our view reasonable given that our growth outlook is likely biased higher. Our price target supports an Outperform rating.

#### Risks to rating and price target

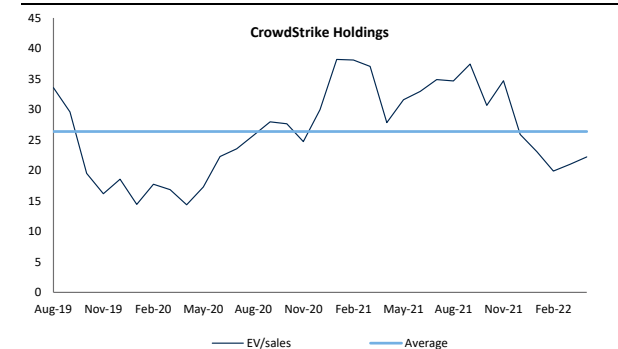
Risks to rating and price target include: 1) CrowdStrike operates in a market with competition from larger legacy competitors, like Symantec, as well as newer entrants; 2) potential pricing pressure given the crowded nature of the market; 3) CrowdStrike operates a land-and-expand model; failure to retain existing customers could be a detriment; 4) CrowdStrike has experienced rapid growth; failure to manage growth/expectations could cause operational challenges; and 5) COVID-19 could impact company operations or customer demand.

### Exhibit 23 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

### Exhibit 24 - Forward consensus EV/sales history



Source: Factset

Most recent company note: [link](#)

## DuPont de Nemours, Inc. (NYSE: DD)

RBC Capital Markets, LLC

Arun Viswanathan, CFA (Analyst) (212) 301-1611, [arun.viswanathan@rbccm.com](mailto:arun.viswanathan@rbccm.com)

Rating: Outperform

Closing Price: USD 74.75

Price Target: USD 100.00

Implied All-in Return (%): 35.4

### Investment summary

**Factors that support our Outperform rating.** Early cycle recovery in China will likely help DD achieve a faster recovery than peers, along with cost-action plans to help incremental margins. Additionally, we believe the N&B sale to IFF was a major first step in DD's portfolio transformation plan and DD still has further portfolio transformation plans in place. Lastly, the PFOA case brought by CC has now been dismissed, and we believe a settlement will help DD move past the PFOA uncertainty overhang.

**Multiple expansion opportunity as a multi-industrial company.** Given that DuPont's valuation multiples could increase 2–3x, should DuPont successfully market itself as a multi-industrial company, we believe valuation multiples could move higher. DuPont notes that when comparing against other multi-industrial companies (MMM, HON, and ITW), DuPont provides similar-in-class benchmarks.

**Further divestment plans post COVID-19.** Considering Chairman Ed Breen's successful divestment cases at Tyco when he was CEO of that company, we believe DuPont will continue assessing its portfolio to divest unaligned businesses in order to deliver shareholder value.

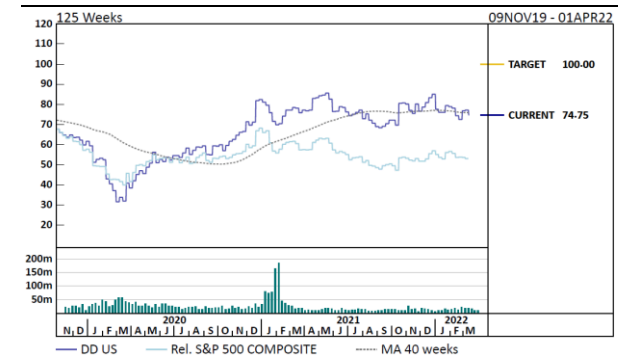
### Valuation

We value DuPont on a forward EV/EBITDA basis using 2022E. We apply a 14x multiple to our 2022E EBITDA of \$4.4B to arrive at a price target of \$100/share. Despite the raw materials pricing headwind, given the pending divestment of lower multiple business, portfolio transformations and buybacks, we believe DD should trade at the mid-to-high end of its historical 9–15x multiple range. Our price target supports our Outperform rating.

### Risks to rating and price target

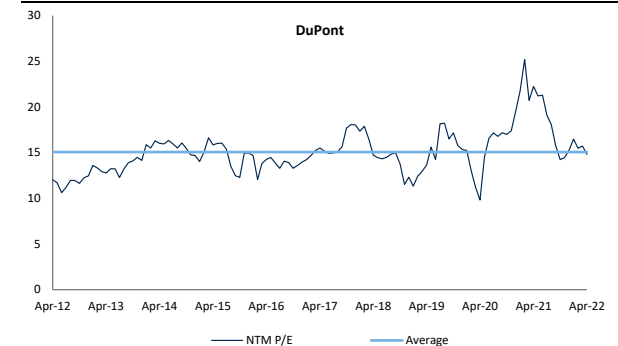
Risks to rating and price target include: 1) slower than expected cycle recovery in China and North America; 2) synergy/integration challenges; 3) further delays or failure to optimize spin strategy; and 4) further demand deterioration from COVID-19 impact.

### Exhibit 25 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

### Exhibit 26 - Forward consensus P/E history



Source: Factset

Most recent company note: [link](#)

## Intact Financial Corporation (TSX: IFC)

RBC Dominion Securities Inc.

Geoffrey Kwan, CFA (Analyst) (604) 257-7195, [geoffrey.kwan@rbccm.com](mailto:geoffrey.kwan@rbccm.com)

Rating: Outperform

Closing Price: CAD 184.67

Price Target: CAD 216.00

Implied All-in Return (%): 19.1

### Investment summary

**Why we rate IFC Outperform:** We believe IFC's risk-reward is particularly attractive, reflecting strong defensive attributes coupled with: (1) positive fundamentals within all of its business segments; (2) significant accretion potential from the acquisition of RSA; and (3) further valuation upside if IFC de-risks the RSA acquisition (e.g., further divestitures, asset swaps). We believe our 12-month price target and implied total return support our Outperform rating.

**Potential catalysts:** (1) IFC de-risking the RSA acquisition (e.g., divestitures, asset swaps); (2) improving combined ratios, especially in Personal Auto; (3) accretive acquisitions; (4) better-than-expected premium growth.

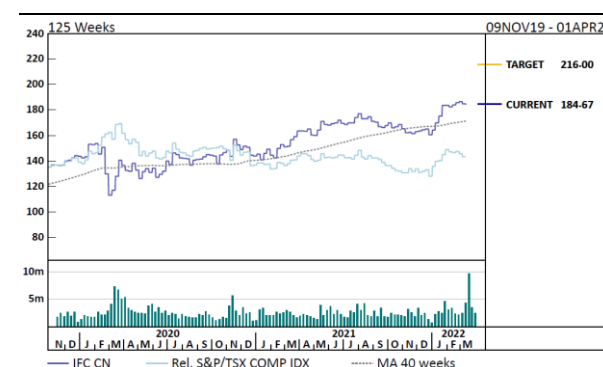
### Valuation

Our 12-month price target of \$216/share is based on applying a 2.5x (was 2.4x) P/BV multiple to our Q4/22 BVPS forecast of \$86.23. IFC's shares have traded at an average P/BV multiple of 2.2x over the last 10 years and currently trade in line with the 10-year average. Our higher valuation multiple is due to further evidence of stronger financial performance. We think that our target multiple is supported by our operating ROE and BVPS forecasts. Our price target and implied total return support our Outperform rating.

### Risks to rating and price target

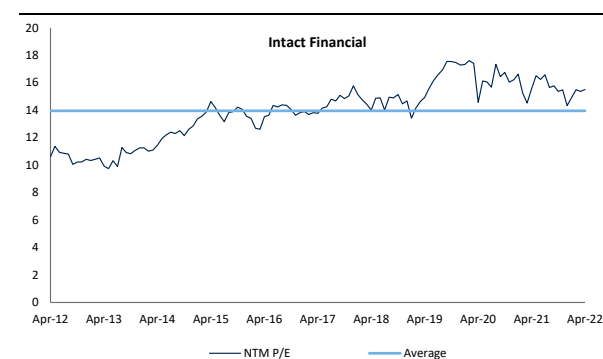
Risks to our price target and rating include: (1) negative regulatory developments; (2) significant increase in catastrophes; (3) deteriorating combined ratios; and (4) integration/execution risks regarding the recent acquisition of RSA.

### Exhibit 27 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

### Exhibit 28 - Forward consensus P/E history



Source: Factset

Most recent company note: [link](#)

## Intuitive Surgical, Inc. (NASDAQ: ISRG)

RBC Capital Markets, LLC

Shagun Singh (Analyst) (646) 618-6886, [shagun.singh@rbccm.com](mailto:shagun.singh@rbccm.com)

Rating: Outperform

Closing Price: USD 305.54

Price Target: USD 340.00

Implied All-in Return (%): 11.3

### Investment summary

ISRG is a global leader in surgical robotics with a well-entrenched ecosystem. ISRG is an established category leader in surgical robotics with a portfolio of diverse platform offerings for multi-port (*da Vinci*), single port (SP), and endoluminal (ION) surgery. The company has a well-entrenched ecosystem, and a substantial body of evidence as +10MM *da Vinci* procedures have been performed globally since 2010 alone. It is worth noting that the industry has high barriers to entry due to which there has been limited competition to date. Our checks suggest that ISRG has a fairly insulated market position even as newer competitors emerge given the substantial technological leadership (fourth generation versus first for competitors), and potential to benefit from accelerated market penetration due to greater awareness as other established Medical Device companies enter the market.

ISRG operates in a growing market that is underpenetrated. According to the World Health Organization (WHO), 200MM surgical procedures are performed globally each year, including 48MM in the US as per the National Center of Health Statistics. These procedures can be characterized into three major categories: Open Surgery, Traditional Minimally Invasive Surgery (MIS), and Robotic-Assisted Surgery (RAS). Open Surgery accounts for >60% of total procedures, and presents a US market opportunity of nearly \$9B growing in the low-single digits. Traditional MIS represents ~35% of procedures, with a US market opportunity of \$10B and growing in the mid-single digits. Finally, we believe that RAS has only 2% penetration, with a current US market of \$4B, growing double digits. We believe there is significant room for RAS market penetration driven by increased market access and utilization.

ISRG has a strong financial growth profile, delivering the highest growth among the RBC Large Cap Index. ISRG's global *da Vinci* installed base is 6,730 units as of YE-21, representing strong growth of 12% y/y despite the pandemic. It generates the majority of its sales (~54% of

2021 sales) from instruments and accessories (I&A) used on a per-procedure basis on the existing installed base, as well as sales from the placement of new systems (~30% of 2021 sales), and the remainder from service of systems in the field (~16% of 2021 sales). With a razor/razor-blade model and increasing placements under operating leases (~19% of global installed base, 37% of systems shipped in Q4'21), the company's sales have become more balanced quarter-to-quarter. ISRG stands to benefit from a strong capital environment emerging out of the pandemic as hospitals battle staffing shortages and seek more efficient surgery. We project ISRG to deliver the highest 2022-24E revenue CAGR among the RBC Large Cap Index at 13% vs. 8% for its peers.

### Valuation

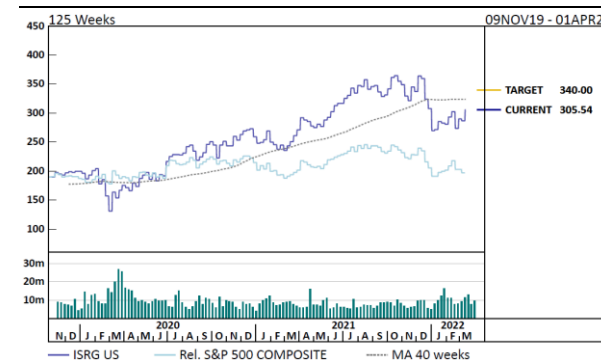
Our \$340 price target is an equal blend of: 1) EV-to-Sales, 2) EV-to-EBITDA and 3) P/E. Our EV-to-Sales analysis uses 2023E sales of \$7.2B against an EV-to-Sales multiple of 16.6x, which yields a value of \$338. Our EV-to-EBITDA analysis uses 2023E EBITDA of \$3.1B against an EV-to-EBITDA multiple of 39.5x, which yields a value of \$341. Finally, we apply a PE multiple of 58.5x, which is the upper end of the peer group range, and believe is warranted given ISRG's continued leadership position in an underpenetrated market with multi-year growth ahead. We apply this against our 2023E EPS of \$5.83, which yields a value of \$341. Our blended price target of \$340 implies 68x NTM P/E or at the upper end of the 5-year historical P/E range and supports our Outperform rating.

### Risks to rating and price target

ISRG's flagship product, the *da Vinci* system, competes with various traditional medical procedures such as open surgery, conventional minimally invasive surgery (MIS), interventional approaches, and pharmacological regimens. There is also growing competition within the field of robotic-assisted surgery (RAS) globally with many of them competing on price and potential for lower per procedure cost over time, e.g. Medtronic, CMR Surgical. Further, the

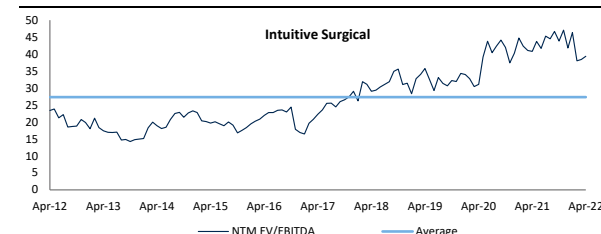
impact of the COVID-19 pandemic on supply chain, manufacturing, and elective procedures may continue to weigh on the industry, including ISRG. The company depends on certain single source suppliers to procure components. Other risks include failure to achieve market acceptance for its products such as SP and ION, risks associated with operations outside US if there is geopolitical fallout, risks associated with changes in economic environment in countries in which the company operates, and risks from changes in healthcare legislation and policy.

### Exhibit 29 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

### Exhibit 30 - Forward consensus EV/EBITDA history



Source: Factset

Most recent initiation note: [link](#)

## Louisiana-Pacific Corporation (NYSE: LPX)

RBC Dominion Securities Inc.

Paul C. Quinn (Analyst) (604) 257-7048, [paul.c.quinn@rbccm.com](mailto:paul.c.quinn@rbccm.com)

**Rating: Outperform**

**Price Target: USD 105.00**

**Closing Price: USD 61.72**

**Implied All-in Return (%): 71.6**

### Investment summary

Louisiana-Pacific Corporation (“Louisiana-Pacific” or “LP”) is a leading provider of high-performance building solutions that meet the demands of builders, remodelers, and homeowners worldwide. The company operates leading Siding, Oriented Strand Board (“OSB”), and Engineered Wood Product (“EWP”) businesses in North America, as well as a growing OSB business in South America. LP also owns a controlling interest in Entekra Holdings, LLC. We expect LP to benefit from its growing Siding and South American businesses as well as exposure to the growing US housing market through the OSB and EWP segments.

We expect LP to outperform based on the company’s continued growth in the US Siding market by adding new capacity, the rollout of its pre-finishing strategy, and the eventual re-rating to a multiple more reflective of the growth and earnings power of the Siding business.

Over the next few years, we expect LP’s OSB and EWP businesses to benefit from continued growth in the US housing market, providing incremental free cash flow that can be used to return capital to shareholders. The company’s South America and Entekra business units provide additional growth opportunities.

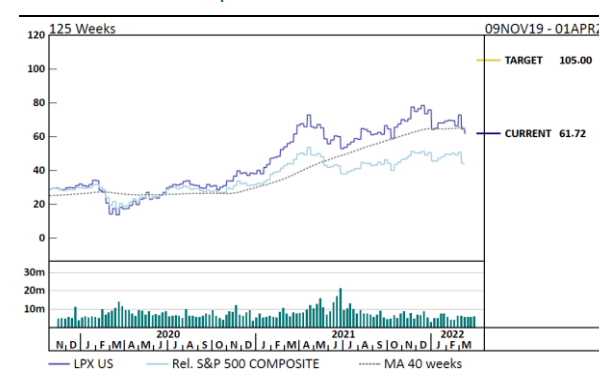
### Valuation

Our \$105 price target supports our Outperform rating and is based on a blended 11.0x EV/EBITDA multiple of our trend EBITDA estimate of \$700 million (85%) and our 2022 EBITDA estimate of \$1,633 million (15%). We believe Louisiana-Pacific should trade above the high end of the typical US Paper & Forest Products trading range (6.0x to 8.0x), reflecting the company’s high-quality Siding business, strong balance sheet, and accelerating return of cash to shareholders.

### Risks to rating and price target

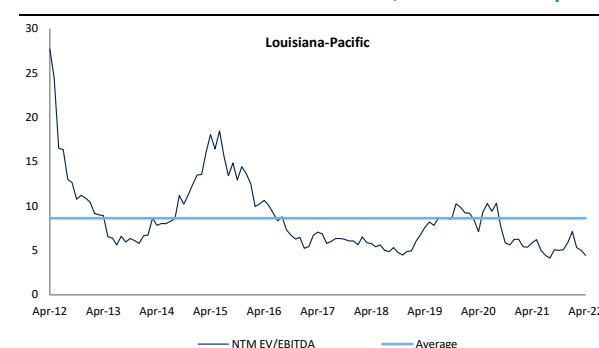
Risks to rating and price target: 1) downward changes in the level of North American new home construction and repair activity could adversely affect results; 2) weaker economic conditions could have a negative impact on demand for Louisiana-Pacific’s products; 3) economic cyclicity, changes in consumer preferences, or imbalances in supply and demand could negatively affect realized pricing; 4) the shortage or increase in pricing of wood fiber or resin would increase the cost of goods sold by LP, negatively impacting results; 5) given that the company offers product warranties, realized claims could be above management expectations, resulting in additional charges; and 6) increased competition in the North American siding market.

### Exhibit 31 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

### Exhibit 32 - Forward consensus EV/EBITDA history



Source: Factset

**Most recent company note: [link](#)**



## M&T Bank Corporation (NYSE: MTB)

RBC Capital Markets, LLC

Gerard Cassidy, CFA (Analyst) (207) 780-1554, [gerard.cassidy@rbccm.com](mailto:gerard.cassidy@rbccm.com)

Rating: Outperform

Closing Price: USD 164.66

Price Target: USD 190.00

Implied All-in Return (%): 18.3

### Investment summary

We rate MTB shares Outperform for the following key reasons:

**Best-in-class management team:** M&T Bank Corporation's management team has led the company through more than 15 years of consecutive quarters of profitability.

**Allocation of capital:** We continue to believe the company is one of the best managers of capital among the top 20 banks. M&T's estimated ratio of Common Equity Tier 1 (CET1) to risk-weighted assets under regulatory capital rules was 11.3% in the fourth quarter versus 11.1% in the prior quarter. M&T announced on January 20, 2021, that its Board of Directors authorized a stock repurchase program of up to \$800 million of shares of common stock, which has been put on hold until after its PBCT acquisition is completed. The company announced in November 2021 a ~9% increase to its quarterly common stock dividend to \$1.20 per share, beginning in 4Q21. Over time, we envision the company managing its CET1 ratio down to the lower end of its peer group or around 8.5–9.0%.

**Strong balance sheet:** M&T proved during the last recession and financial crisis that it has a very strong balance sheet. M&T was one of only two of the top 20 banks that did not cut or eliminate its dividends over the last 10 years.

**Superior underwriting standards:** The company's credit metrics, nonperforming asset (NPA), and net charge-off (NCO) ratios have consistently been below its peer group for the past 10 years. Today, however, given the impact of COVID-19 on the hospitality and leisure

industries, MTB is carrying an elevated level of NPAs relative to peers.

**Low-cost provider of bank products:** M&T recognizes that it operates in a commodity business and therefore strives to be the low-cost provider of bank products in its markets. Its efficiency ratio (total operating expenses divided by total revenues) has consistently been the lowest among the top 20 banks.

**People's United Financial, Inc. (PBCT) acquisition:** We anticipate M&T's pending acquisition of PBCT to deliver immediate tangible book value accretion combined with long-term solid earnings accretion, which should drive long-term shareholder value. Fully phased-in cost savings are estimated at \$330 million and the internal rate of return on the transaction is an estimated 18%. We expect MTB to meet or exceed its targets in this transaction.

**Long-term investors rewarded:** MTB's stock price has outperformed the S&P 500 and the S&P 500 bank indices in each of the last 10- and 20-year time periods. The outperformance can be attributed to the company's focus on growing tangible book value and dividends per share.

### Valuation

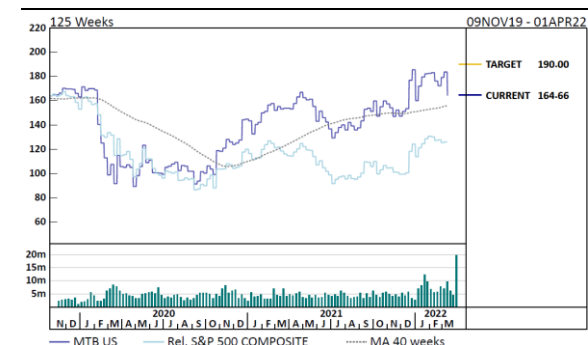
Our price target of \$190 is 13.5x our 2022 EPS estimate, 1.51x 4Q21 book value, and 2.12x 4Q21 tangible book value. Our price target primarily reflects our profitability and risk assessment of the company relative to a peer group of similar companies, as well as current market concerns over the impact from COVID-19. This multiple is consistent with the highest-quality banks in the peer group. We believe the premium is warranted by the company's consistent fundamental performance, strong

capital position, and clean asset quality. Our price target and implied return support an Outperform rating.

### Risks to rating and price target

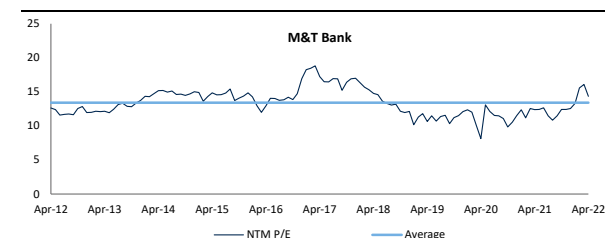
We believe that COVID-19 containment strategies are likely to cause a severe near-term economic downturn, amplifying risks that could affect the achievement of our rating, outlook, and price target objective. Interest rate risk causing additional margin pressure, as well as the deterioration of asset quality metrics from current levels, would represent two of these potential risks.

### Exhibit 33 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

### Exhibit 34 - Forward consensus P/E history



Source: Factset

Most recent industry note: [link](#)

## Mastercard Inc. (NYSE: MA)

RBC Capital Markets, LLC

Daniel R. Perlin, CFA (Analyst) (410) 625-6130, [daniel.perlin@rbccm.com](mailto:daniel.perlin@rbccm.com)

Rating: Outperform

Closing Price: USD 363.97

Price Target: USD 403.00

Implied All-in Return (%): 11.3

### Investment summary

We believe MA is a core long-term holding and an “indexed” way to play payments and benefit from three global secular mega-trends including 1) global consumption, 2) global digitization of payments, and 3) global innovation, which is creating new payment flows.

We note that ~67% of its TAM is from new payment flows, beyond the classic cash to card conversion, while we forecast service revenues to grow 2x the carded-market and are heavily focused on cyber-intelligence/security and data analytics/services, both long-term secular themes.

Assuming a more normalized macro spending environment, which includes a resumption of travel spending, we estimate ~\$1B of incremental revenues are embedded in the model.

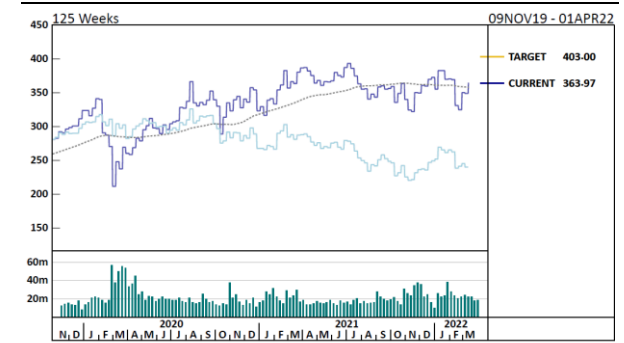
### Valuation

Our price target of \$403 is 32.5x our CY23 EPS estimate, generally in line with its historical average. Underlying our estimates are expectations for: 1) near-term pressure before a rebound to double-digit growth in purchase volumes, with modest pricing and secular growth; 2) double-digit increases in transaction revenues; 3) near-term pressure on cross-border revenue growth; and 4) relatively flat client incentives as a percentage of gross revenues. Our price target supports our Outperform rating.

### Risks to rating and price target

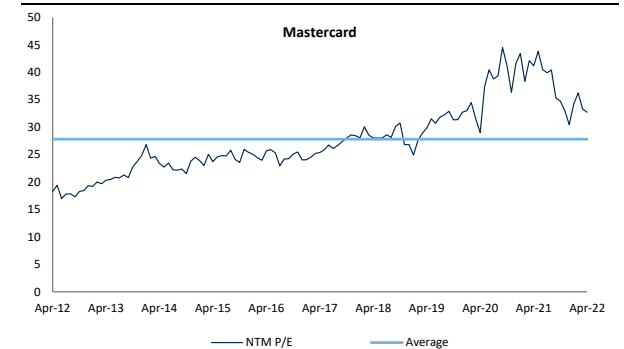
A slowdown in payment volumes and cross-border travel (from such things as the current pandemic), increased regulatory scrutiny or a pushback from large financial institutions on pricing could impede our price target and rating.

### Exhibit 35 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

### Exhibit 36 - Forward consensus P/E history



Source: Factset

Most recent company note: [link](#)

## Palo Alto Networks, Inc. (NYSE: PANW)

RBC Capital Markets, LLC

Matthew Hedberg (Analyst) (612) 313-1293, [matthew.hedberg@rbccm.com](mailto:matthew.hedberg@rbccm.com)
**Rating: Outperform**
**Closing Price: USD 611.11**
**Price Target: USD 710.00**
**Implied All-in Return (%): 16.2**

### Investment summary

Palo Alto Networks is a provider of next-generation network and endpoint security. The company should be able to grow into a growing network and endpoint security market by expanding within its customer base while increasing its reach to new customers through a larger portfolio, geographical expansion, and share shift. We view Palo Alto as well positioned to benefit from an increasingly complex security and threat landscape and as an industry leader in security.

**Growth drivers include:** 1) above-market growth opportunity by taking share from legacy security vendors; 2) land, expand, and retain strategy for maximizing value from existing install base; 3) potential market gains from a disruptive subscription business; 4) international growth opportunities; 5) opportunity for margin expansion through economies of scale; and 6) benefits from the increased focus on data security due to ongoing breaches and increased regulation.

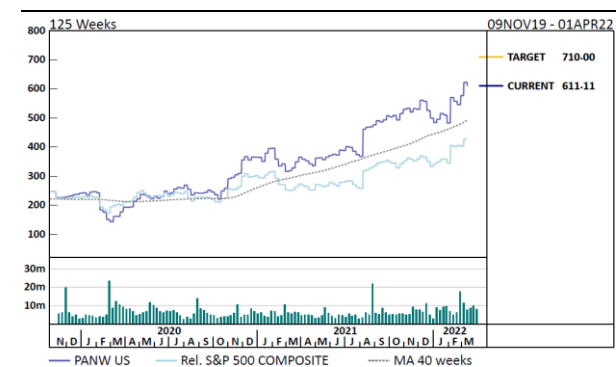
### Valuation

Our \$710 price target assumes that shares trade at an EV/FCF multiple of 31x our CY/23 estimate, a slight premium to contracted LC peers. Our price target and multiple reflect our confidence in the momentum of next-gen billings and durability of network security given improved consistency as well as new visibility provided for the strategic outlook. On an EV/recurring revenue basis, our \$710 price target reflects 12.6x our CY/23 estimate, in line with similarly growing peers. The implied return to our price target supports our Outperform rating.

### Risks to rating and price target

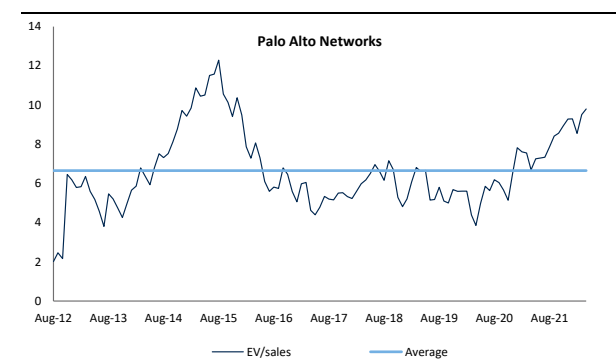
Risks to rating and price target include: 1) improvements around the product line and impact from sales incentives to drive product growth are taking longer than expected; 2) the macro environment remains uncertain; although the security market remains robust, a slowdown in global activity could hinder results; 3) dependency on channel partners is significant and concentrated among several large global distributors; 4) Palo Alto could face increased competition as it continues to take share either from legacy providers or new entrants to the security market; and 5) the company could encounter operational difficulties as it attempts to continue to rapidly increase in scale.

### Exhibit 37 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

### Exhibit 38 - Forward consensus EV/sales history



Source: Factset

**Most recent company note: [link](#)**

## R1 RCM Inc. (NASDAQ: RCM)

RBC Capital Markets, LLC

Sean Dodge, CFA (Analyst) (615) 372-1322, [sean.dodge@rbccm.com](mailto:sean.dodge@rbccm.com)

Rating: Outperform

Price Target: USD 35.00

Closing Price: USD 26.69

Implied All-in Return (%): 31.1

### Investment summary

R1 RCM, Inc. helps both acute-care and ambulatory providers better manage their revenue cycles—its offerings range from software modules that clients can install and run themselves to full outsourcing. RCM outsourcers, like R1, leverage their own operational expertise and shared resources to drive efficiencies and economies of scale. Healthcare providers benefit by offloading these increasingly expensive, non-core functions, freeing up time to focus on delivering higher-quality patient care. Increasingly complex regulations and rising costs are driving increased demand for these services. Notably, findings from our recent survey of hospital executives show 32% of respondents said they are planning to outsource more of their RCM processes over the next 3 years.

Currently, the majority of R1's revenue comes from its largest customer, Ascension. The company has spent the last few years onboarding Ascension's RCM operations, and in the process, has enhanced its product offering and operational expertise—both helping pave the way for future expansion. Over the course of FY19, R1 signed three new outsourcing contracts (representing over \$4B of NPR) and added an additional \$5B in FY20, demonstrating its ability to commercialize its offerings outside of its core client base.

### Potential catalysts

**More contract/NPR Wins.** As R1 continues to add new clients and contracts, it both helps further diversify its base and provides additional proof-points it is able to commercialize its offerings beyond its core customers. Management did recently announce it is expanding its annual new NPR deployment capacity to \$7B, from \$5B

previously, signaling its increasing confidence in both the LT demand environment as well as its relative competitiveness.

**Improving EBITDA margin via tech investments.** Management generated approximately \$20M of EBITDA in 2020 from implementing robotic process automation to automate redundant tasks. The company continues to invest in RPA and other technologies and expects them to contribute another incremental \$25M+ in 2022. Further demonstrating these solutions are working and generating savings could provide a lift to both margins and share price.

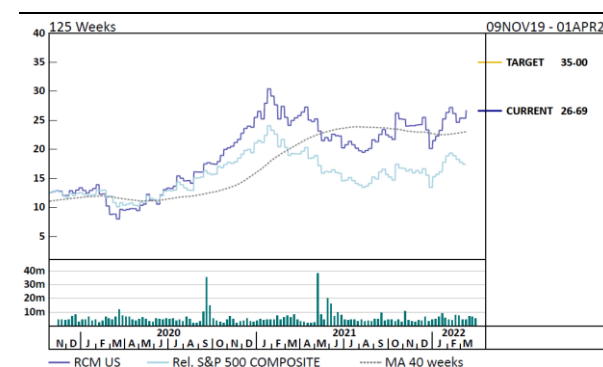
### Valuation

Compared to its HCIT and outsourced services peers, RCM: (1) features a more stable, defensive revenue and earnings stream; (2) should grow EBITDA/EPS at a rate nearly 2x the group average over the next 3 years; and (3) given the contracts/NPR it has recently signed, has better forward visibility on growth. For these reasons, we believe RCM should trade at a premium to the group average. Our \$35 price target is based on RCM trading 29x our 2022 EBITDA (or 7.0x revenue) estimate, which is equivalent to 23x our 2023 EBITDA (or 5.7x revenue) estimate. Our valuation work and price target support our Outperform rating.

### Risks to rating and price target

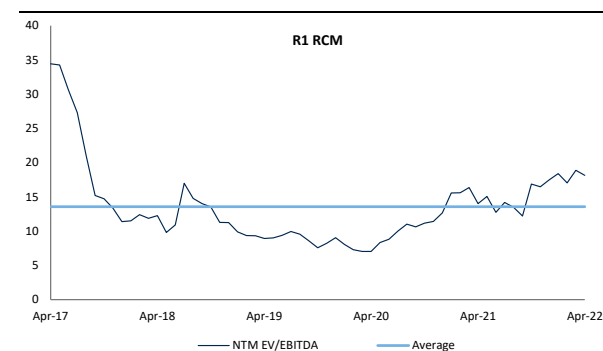
Risks to our Outperform rating and price target include significant customer concentration, prolonged impact from the COVID-19 pandemic, competition, product concentration, and a lingering negative reputation from prior lawsuits.

### Exhibit 39 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

### Exhibit 40 - Forward consensus EV/EBITDA history



Source: Factset

Most recent company note: [link](#)

## S&P Global Inc. (NYSE: SPGI)

RBC Capital Markets, LLC

Ashish Sabadra (Analyst) (415) 633-8659, [ashish.sabadra@rbccm.com](mailto:ashish.sabadra@rbccm.com)

### Investment summary

We believe the strategic INFO acquisition should accelerate normalized revenue growth profile and deliver double-digit earnings growth driven by upside to revenue and cost synergies. Complementary data assets powered by Cloud and AI/ML should enable predictive actionable insights from disparate data assets and distribution at scale. Importantly, the transformative acquisition should propel SPGI's ESG offerings and private company offerings. Separately, SPGI guided to \$12bn+ of share repurchases in FY22, along with near-term cost takeout initiatives that could drive upside to FY23 EPS.

### Valuation

Our price target of \$540, which supports our Outperform rating, is based on ~32x our FY23E EPS of \$17, a premium to the 2-year average of 28x given the acceleration in revenue and earnings growth as well as improved strategic positioning from the INFO acquisition.

### Risks to rating and price target

Risks to rating and price target include 1) a significant decline in credit issuance, 2) increased competition for market data, 3) slowdown in demand for Platts, 4) challenges in integrating acquisitions, and 5) decline in AUM linked to SPGI indices.

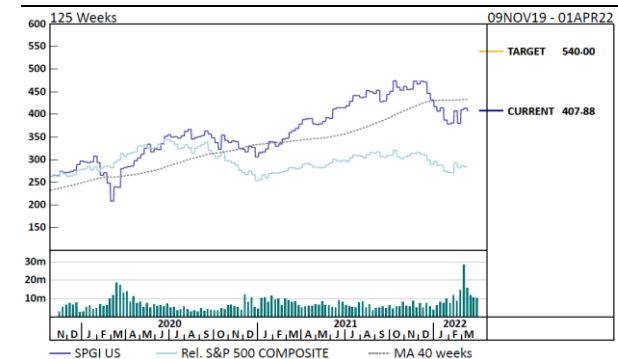
**Rating: Outperform**

**Closing Price: USD 407.88**

**Price Target: USD 540.00**

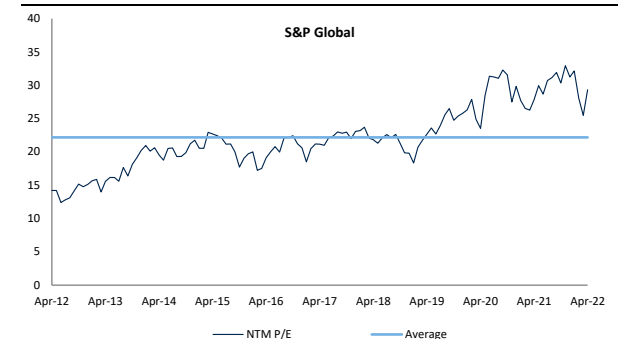
**Implied All-in Return (%): 33.2**

Exhibit 41 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

Exhibit 42 - Forward consensus P/E history



Source: Factset

**Most recent company note: [link](#)**



## Shell PLC (LSE: SHEL; NYSE: SHEL)

RBC Europe Limited

Biraj Borkhataria, CFA (Analyst) +44 20 7029 7556, [biraj.borkhataria@rbccm.com](mailto:biraj.borkhataria@rbccm.com)

### Investment summary

**Shell is our preferred Integrated Energy Major heading in 2022. Key reasons for our positive stance:**

**Cash Flow Machine.** On our bullish commodity forecast, Shell generates significant amounts of cash, supported by its oil leverage and #1 presence in an extremely strong LNG market.

**Re-rating Warranted?** Shell generates a superior FCF yield on average relative to the sector over 2022-25E but trades at a discount on a DACF multiple basis. We think increasing shareholder returns this year should help drive a re-rating, while continued de-leveraging sets Shell up to become a more stable business through the cycle.

**Sum of the Parts.** Shell has three franchise businesses within the group, all of which are #1 in their respective areas, which we believe is not reflected in the share price today. Activist investors recently engaged with the company and this could help unlock value.

### Valuation

We value SHEL based on a 2023E EV/DACF multiple of 6.5x for its core business along with a build-up of its low carbon portfolio, adjusted for debt. This leads to a price target of 2,750p, which supports our Outperform rating.

### Risks to rating and price target

Risks to our price target and rating include: overcapacity in LNG as Shell is involved in multiple growth projects whilst also being the largest supplier of LNG globally; sustained weakness in US gas prices constraining profitability of gas drilling in the US; security risk in key areas in the Middle East and North Africa where Shell is highly exposed; and fiscal risk and uncertainty surrounding regulation in the oil & gas industry. In general, all international integrated oil companies are exposed to resource price fluctuations, political/security risk, execution risk, and environmental/permitting risks.

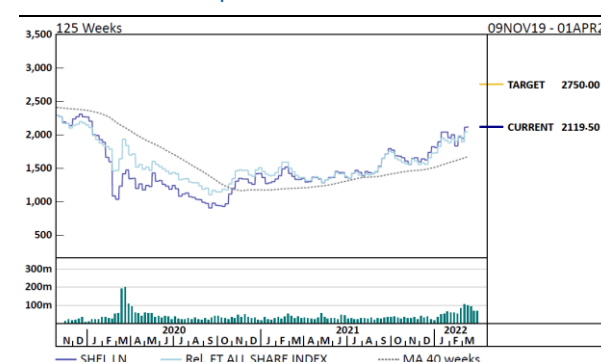
**Rating: Outperform**

**Closing Price: GBp 2,119.50**

**Price Target: GBp 2,750.00**

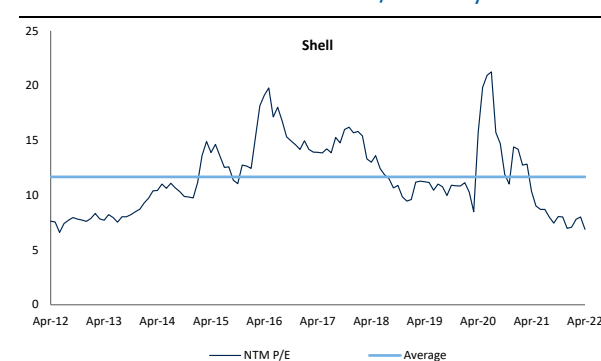
**Implied All-in Return (%): 33.4**

### Exhibit 43 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

### Exhibit 44 - Forward consensus P/E history



Source: Factset

**Most recent industry note: [link](#)**

## Siemens AG (XETRA: SIE)

RBC Europe Limited

Mark Fielding (Analyst) +44 20 7002 2128, [mark.fielding@rbccm.com](mailto:mark.fielding@rbccm.com)

Rating: Outperform

Closing Price: EUR 126.32

Price Target: EUR 150.00

Implied All-in Return (%): 21.6

### Investment summary

Siemens is delivering on simplification, which our work suggests makes it a more attractive prospect. One of the main questions we get from investors on Siemens is whether the changes over the last 5 years have made the business any simpler to understand and, more important, a better business. We conclude that it is based on a smaller number of businesses with a more attractive margin and growth profile. Over the last 5 years pre Covid we calculate that the organic sales CAGR of the new core is ~4%, approximately double that of the 2% reported by Siemens over that period. It is also higher than the ~3% CAGR recorded by the Pan-European Industrials sector. With the narrower focus on four well-positioned businesses we now see Siemens as capable of consistently outperforming the sector on growth for the first time. A 5-7% target range shows Siemens' ambition – we forecast a 5% CAGR to 2024E. Despite the changes, the shares remain valued at an ~15-20% discount to the peer group on consensus forward PE, towards the low end of the historical range. We see an opportunity for this discount to narrow as Siemens' continued simplification into a higher growth and margin business comes into focus.

### Valuation

We value Siemens on a target P/E of 18x22E in line with the sector average – this gives a valuation of €150 per share. Given Siemens is a conglomerate, we also sense check this with a sum-of-the-parts valuation of the business. We use listed peer multiples to value the Industrial core businesses and Siemens Financial Services, and then adjust for debt-like items. We apply a 10% conglomerate discount, also resulting in a similar

€151 per share valuation. Our price target supports our Outperform rating on the stock.

### Risks to rating and price target

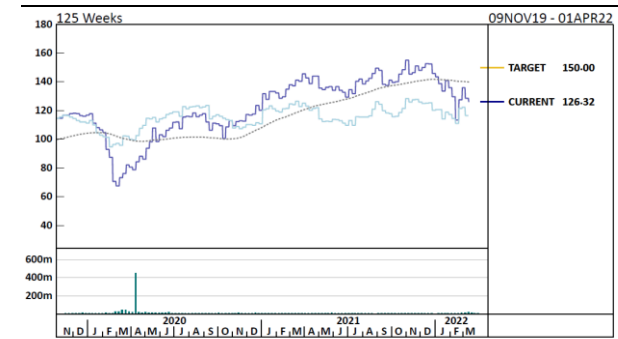
**Covid-19 impact:** The business is now recovering, but any renewed waves could be a further negative. Short-cycle businesses (DI and SI) have seen challenges, most notably in China, Germany and Italy, in the automotive and machine-building sectors. Near-term site access at Mobility continues to be impacted.

**Cost flexibility:** Siemens' size, complexity and board-level representation from labour unions mean that it has historically not been very agile with its cost basis. Siemens has been changing this, but it remains a factor.

**Sector de-rating:** Further concerns of a deep recession could precipitate a general sell-off and de-rating in the industrials sector, thus affecting Siemens' valuation.

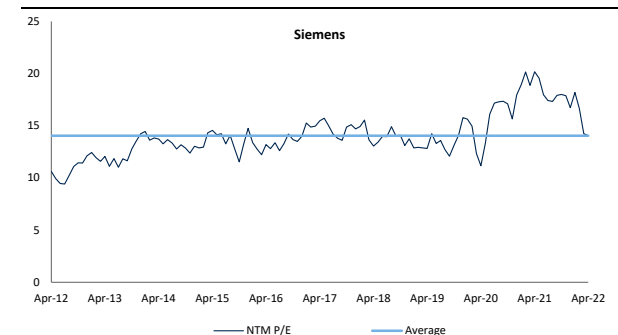
**Siemens could suffer indiscriminate buying/selling pressure:** Siemens is a highly liquid proxy for industrial Europe and could be bought or sold by portfolio managers wanting to increase or reduce European industrial or European cyclical exposure. The share is also a major component of Germany's DAX Index.

### Exhibit 45 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

### Exhibit 46 - Forward consensus P/E history



Source: Factset

Most recent industry note: [link](#)

## Stericycle, Inc. (NASDAQ: SRCL)

RBC Capital Markets, LLC

Sean Dodge, CFA (Analyst) (615) 372-1322, [sean.dodge@rbccm.com](mailto:sean.dodge@rbccm.com)
**Rating: Outperform**
**Closing Price: USD 58.95**
**Price Target: USD 82.00**
**Implied All-in Return (%): 39.1**

### Investment summary

The last 4–5 years have been rough for what once was a very consistent growing company and high-flying stock. Beginning in 3Q15, SRCL was hit by a confluence of challenging headwinds, and as some abated, others piled on. The impact on the stock has been significant—from its 5-year high to low, shares were off more than 75%. We believe things are changing, though, and we see more evidence that SRCL's turnaround is gaining traction. An entirely new management team (led by ex-UPS exec Cindy Miller) has made quick progress re-simplifying the business (i.e., divesting non-core assets) and overhauling operations, and the implementation of a global ERP system is now under way. Shares are up from recent lows, but valuation still looks attractive to us, relative to both peers and its longer-term historical trading range. We believe investors want to see: (1) continued execution on new operational/efficiency initiatives; (2) evidence that SRCL can adjust its pricing to offset the growing inflationary pressures; and (3) a successful implementation of its new ERP system. As organic revenue growth resumes, margins lift, and the balance sheet continues to de-lever, we believe the benefits of SRCL's anti-cyclical model should shine through and its multiple should grind higher.

### Potential catalysts

**Continued Execution on Operational Efficiency and Cost-Reduction Initiatives.** CEO Cindy Miller has very quickly put her operations background/expertise to use, working to enhance the quality of SRCL's revenue base, improving its commercialization efforts, and streamlining its operations. We believe the recent return of positive organic growth and improving margins reflect this. There is still a long way to go, however.

Continued execution on both fronts should continue pushing the stock higher.

**Restarting Tuck-In M&A.** After completing 10 divestitures, which eliminated a majority of the more volatile non-core parts of SRCL's portfolio, the company recently completed its first acquisition in three years, of a Midwest-based medwaste company. With management also now having successfully stabilized the company, we view tuck-in M&A as a very effective and accretive way to grow revenue and profitability, and we see the resumption of its M&A efforts as an encouraging sign that SRCL is (re)entering the next phase of growth.

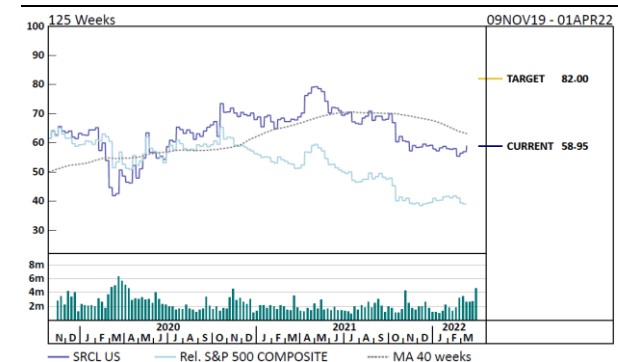
### Valuation

Our \$82 price target reflects our confidence that the near-term hiccups related to the ERP implementation will be short-lived. Our valuation is based on a 37x multiple of our 2022 EPS estimate. However, accounting for what we believe are temporary factors, our target multiple is closer to the peer average. Our price target supports an Outperform rating.

### Risks to rating and price target

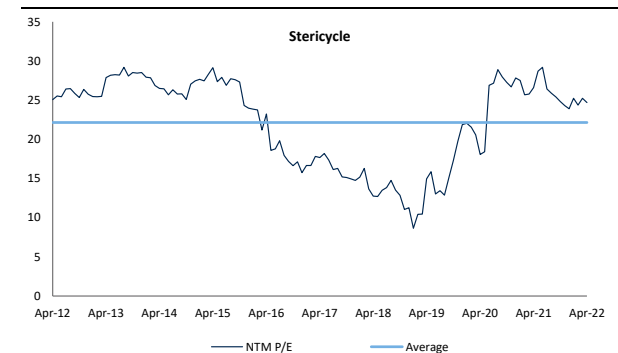
Risks include increasing competition and pricing pressures across its core markets, disruptions and/or elevated costs stemming from the COVID-19 pandemic, significant international exposure, an upcoming ERP implementation, a levered balance sheet, and fluctuating paper prices.

### Exhibit 47 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

### Exhibit 48 - Forward consensus P/E history



Source: Factset

**Most recent company note: [link](#)**

## TELUS Corporation (TSX: T; NYSE: TU)

RBC Dominion Securities Inc.

Drew McReynolds, CFA, CA, CPA (Analyst) (416) 842-3805, [drew.mcreeynolds@rbccm.com](mailto:drew.mcreeynolds@rbccm.com)

Rating: Outperform

Price Target: CAD 36.00

Closing Price: CAD 33.31

Implied All-in Return (%): 12.0

### Investment summary

In our view, there is no other company in our coverage that has as many potential sources of NAV upside than TELUS. We believe the key strategic benefit of the \$1.5B of accelerated investment in 2021 and 2022 is an even stronger competitive position and enhanced capex flexibility beginning in 2023 given substantial completion of the FTTH build, which should enable TELUS to capitalize on new 5G growth opportunities without meaningful capital constraints, opportunity costs, or FCF impairment. Relative to our current forecast, we still see multiple sources of potential NAV upside including: (i) incremental cost savings associated with FTTH migration and copper de-commissioning; (ii) additional wireline margin expansion driven by Internet flow-through, cloud-migration and/or improved B2B/TELUS Agriculture profitability; and (iii) the crystallization of TELUS Health and TELUS Agriculture. Longer term, given the company's unique asset mix and under certain operational and regulatory conditions, we see strong strategic and financial rationale for TELUS to explore a transformational re-organization that can fully unlock the value of the company's core infrastructure assets and core technology assets.

**Potential catalysts for the stock include:** 1) greater-than-expected wireline subscriber traction driven by FTTH expansion; 2) better-than-expected efficiencies and operating leverage resulting in higher margins; 3) an easing of Alberta headwinds resulting in improved business market performance; 4) stronger-than-expected improvement in wireless ARPU growth; and 5) greater-than-expected step-down in consolidated capex intensity over the medium term.

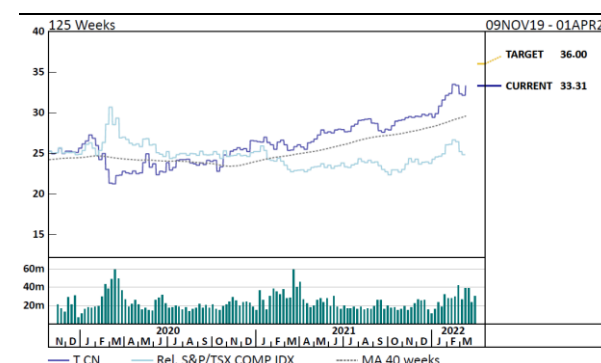
### Valuation

The implied total return to our \$36 price target supports our Outperform rating. To derive our target, we take the average of three approaches: (i) applying a 22.5x multiple to our blended two-year forward adjusted EPS estimates; (ii) applying a target EV/EBITDA multiple of 8.5x to our blended two-year forward EBITDA estimates for TELUS Technology Solutions and factoring in our one-year target for TELUS International; and (iii) discounted FCF through 2027E factoring in a WACC of 8.0% and a terminal growth rate of 1.75%. We believe our target multiples are consistent with the company's growth and risk profile relative to Canadian peers, and a low interest rate environment.

### Risks to rating and price target

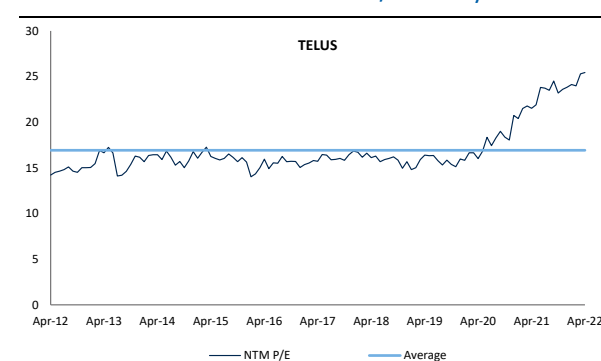
Risks to the shares reaching our one-year price target and Outperform rating are: (i) unforeseen direct and indirect COVID-19 impacts; (ii) a sustained increase in wireless competition and/or unexpected change in regulation resulting in higher churn and/or accelerated declines in postpaid ARPU; (iii) inability to realize additional cost savings to improve wireline margins; (iv) higher-than-forecast spectrum outlays; (v) emergence of irrational pricing in residential telephony, television, and/or Internet; and/or (vi) higher interest rates and/or a reversal in fund flows out of the sector.

### Exhibit 49 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

### Exhibit 50 - Forward consensus P/E history



Source: Factset

Most recent company note: [link](#)

## The Mosaic Company (NYSE: MOS)

RBC Dominion Securities Inc.

Andrew D. Wong (Analyst) (416) 842-7830, [andrew.d.wong@rbccm.com](mailto:andrew.d.wong@rbccm.com)

**Rating: Outperform**

**Price Target: USD 80.00**

**Closing Price: USD 65.88**

**Implied All-in Return (%): 22.3**

### Investment summary

Mosaic is a leading producer of potash and phosphate fertilizers and also has a production and distribution business in Brazil. The company has embarked on several transformation initiatives in the past several years that have resulted in improved operational efficiency, lower costs, and rising cash flow.

### Potential catalysts

The company expects to realize significant cost savings through 2023 with several company initiatives including the ramp-up of Esterhazy K3 mine, introduction of new advanced mining technologies (remote mining, automation), transformation initiatives at the Brazil Fertilizantes business, and growing value-add premium products.

We expect Mosaic to generate significant free cash flow due to strong prices, higher volumes, lower costs, and lower capex. We estimate \$7.5B excess FCF through 2024, which we think will be largely used for capital return to shareholders.

Mosaic acquired Vale's Brazil-based phosphate and potash assets in 2018 and realized run-rate synergies of >\$300M by end-2019. The company is targeting an additional \$200M EBITDA benefit from ongoing business transformation efforts by end-2022.

Mosaic is currently working on the Esterhazy K3 potash project. The project should remove production risk around brine inflow issues at K1 and K2 and reduce costs. We expect the project to ramp through mid-2022.

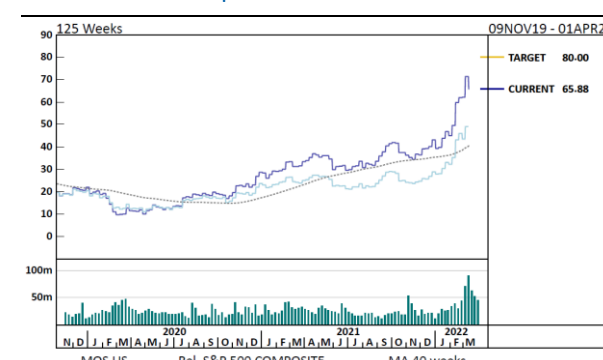
### Valuation

We derive our \$80 price target by attributing an equal weighting to our SOTP EV/EBITDA and DCF valuation. Our SOTP EV/EBITDA analysis applies a 7.0x multiple to 2025 EBITDA estimates for the Potash, Phosphate, and Fertilizantes segments. These multiples are in line with the multiples used to value Mosaic's peers. Our DCF analysis uses a 9% real discount rate. The implied return to our price target supports our Outperform rating.

### Risks to rating and price target

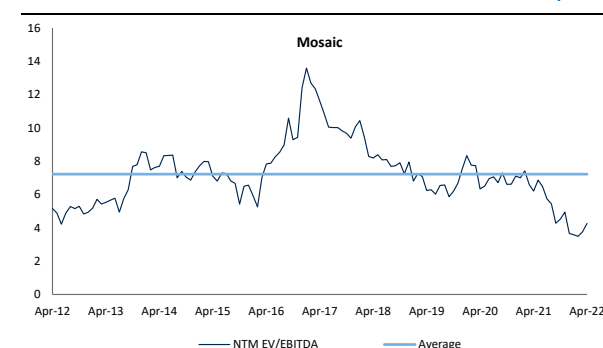
Risks to our price target and rating include: 1) unpredictable weather events in North America or international markets can have an adverse impact on demand for agricultural inputs; 2) Mosaic has operations in the US, Canada, and other foreign countries, so currency fluctuations can have an impact on earnings; 3) nutrient prices can be volatile and can have a significant impact on Mosaic's profitability; and 4) Mosaic uses natural gas, sulphur, and other inputs in producing its fertilizer products, so changes in the prices of these inputs can have an impact on its earnings.

### Exhibit 51 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

### Exhibit 52 - Forward consensus EV/EBITDA history



Source: Bloomberg, RBC Capital Markets

**Most recent industry note:** [link](#)



## TransDigm Group Inc. (NYSE: TDG)

RBC Capital Markets, LLC

Ken Herbert (Analyst) (415) 633-8583, [ken.herbert@rbccm.com](mailto:ken.herbert@rbccm.com)

Rating: Outperform

Closing Price: USD 667.04

Price Target: USD 750.00

Implied All-in Return (%): 12.4

### Investment summary

TDG is primarily a play on the commercial AM recovery, with optionality from capital allocation (M&A upside and capital return to shareholders). The company is known for its ability to successfully integrate acquisitions, so investors are generally supportive of M&A activity, even for larger transactions. For example, the acceleration on the EBITDA after the Esterline Technologies acquisition was faster than expected.

We believe that if TDG were to complete a larger acquisition, it would be a positive catalyst for the stock. There could be incremental acquisition opportunities if more diversified industrial companies look to break up, similar to GE's strategy. However, TDG is also focused on smaller transactions as it looks to build its EBITDA base.

In fiscal 1Q22 commercial AM growth was 49% (~10% sequentially). The company highlighted a book-to-bill of over 1x in the quarter. Continued strength in the commercial AM is the most important factor for continued EBITDA upside for TDG, and we like TDG for its AM exposure and leverage. The aviation fundamentals remain sound as airlines look to add capacity in calendar 2022. TDG would benefit from the volume increase, but also from an aggressive approach to pricing in the commercial AM. TDG also benefits from its exposure to business jets and helicopters (~15% of the commercial AM revenues) and cargo aircraft.

TDG has also created value through its aggressive use of leverage. The company has benefited from low interest rates, and it is comfortable with a balance sheet that typically ranges between 5x and 7x leveraged on a TTM EBITDA basis. The fear of rising rates can be a headwind for sentiment on the stock, but over the last 15 years this has not turned out to be a material risk for the company.

### Valuation

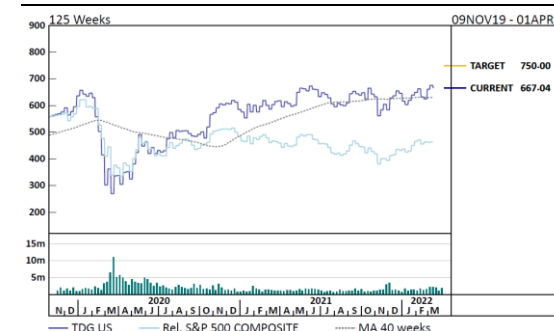
Our \$750 price target is based on 30x P/E and 22x EV/EBITDA on our 2023E. We believe multiples above the historical range are appropriate considering the expected acceleration in commercial AM growth in 2022 and the capital allocation optionality. We believe the stock provides investors exposure to the commercial AM recovery, with upside potential from capital allocation and margin expansion. In our view, our \$750 price target justifies an Outperform rating.

### Risks to rating and price target

The key risks to our investment thesis and price target objective include the following: airline and lessor financial health and their ability to take delivery of new aircraft; airline spending trends on the maintenance, repair, and overhaul of aircraft; the pace of the air travel recovery and the impact of COVID-19 variants on business and leisure air travel; airline and aircraft part distributor inventory levels; airline deferred maintenance plans and the availability and pricing of new and used space parts and material; the pace of aircraft retirements and the changes in the age of the active aircraft fleet; continued demand for dedicated cargo aircraft and the pace of passenger-to-freighter conversions; production schedules and successful rate breaks for key commercial transport programs; the management of COVID-related risks to end-market demand and the potential for further supply chain and logistics disruptions; the ability to hire and train the necessary human capital to achieve growth objectives; potential supply chain disruptions and extended lead-times that could impact company, customer, or supplier delivery schedules; raw material costs and availability; the M&A pipeline and the company's ability to

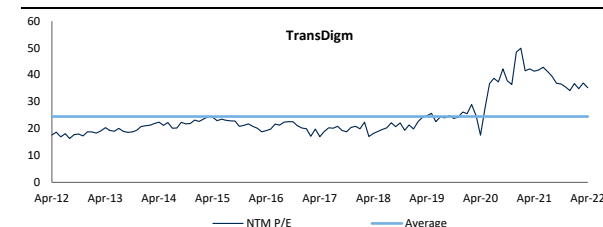
successfully execute and integrate subsequent acquisitions; the company's ability to access capital and financial liquidity to support its growth objectives; cost management and free cash flow generation; interest rates and the ability to access capital and to service current debt obligations; the top-line level of defense spending and funding for specific company programs; the timing of the FY22 defense budget completion and impact of the Continuing Resolution; the ongoing DoD OIG audit and potential fines or other penalties; the timing and opportunity for foreign military sales.

### Exhibit 53 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

### Exhibit 54 - Forward consensus P/E history



Source: Factset

Most recent company note: [link](#)

## Twilio Inc. (NYSE: TWLO)

RBC Capital Markets, LLC  
Rishi Jaluria (Analyst) (415) 633-8798, [rishi.jaluria@rbccm.com](mailto:rishi.jaluria@rbccm.com)

**Rating: Outperform**
**Closing Price: USD 169.50**
**Price Target: USD 400.00**
**Implied All-in Return (%): 136.0**

### Investment summary

Twilio is a leading provider of CPaaS (communications platform as a service) solutions, including text, voice, video, and email. We like Twilio for four primary reasons:

**Communications are at the center of digital experiences.** With the pandemic accelerating digital transformation, every company is increasingly realizing technology is tablestakes, serving as a strong tailwind to Twilio. We believe Twilio plays a crucial role in allowing companies to communicate with customers across all channels.

**Unique developer focus.** We continue to subscribe to the adage that “software is eating the world”, but increasingly, APIs are eating software. Twilio’s developer focus has enabled it to grow rather efficiently and created multiple growth vectors. Our due diligence suggests Twilio’s solutions are not only viewed positively by developers, but also are increasingly ubiquitous at technology-forward companies.

**Attractive expansion opportunities, particularly “up the stack.”** Much as AWS has grown into a massive software company by expanding beyond core storage and compute and moving “up the stack” into areas like database and data warehousing, Twilio continues to expand beyond core text and voice, including video, CCaaS, and marketing. We are also rather positive on Twilio’s recent acquisition of Segment, supported by our due diligence, as it meaningfully expands Twilio’s market opportunity while building on the core developer adoption that has served Twilio since its founding.

**Rapid growth at scale.** Twilio remains one of the fastest-growing companies in software, with ~50% organic growth, driven by best-in-class net expansion rates, cross-sell, and new use cases. Perhaps more impressively, this growth is happening at impressive scale with Twilio growing ~50% at ~\$2.4B in ARR.

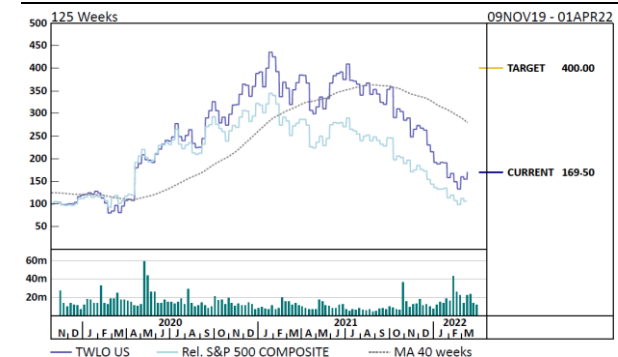
### Valuation

Our \$400 price target is based on 14x our CY23 EV/revenue estimate, in line with the peer group and justified by the company's above-average growth and large TAM, offset by its lower gross margin profile. Our price target supports our Outperform rating.

### Risks to rating and price target

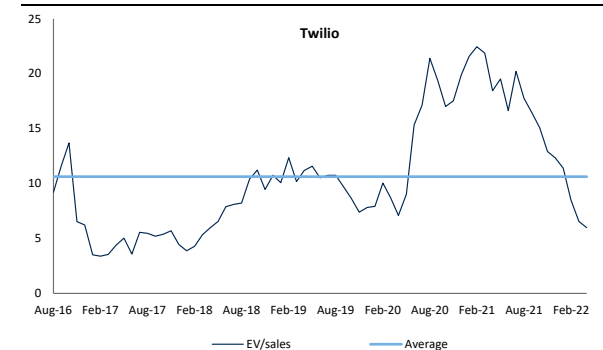
**Risks to rating and price target include:** 1) Twilio operates in a competitive environment, with pricing pressure; 2) a dual class share structure, with Class B shares controlling a majority of voting power; 3) Twilio has become increasingly acquisitive, which could distract from the core business; 4) Twilio is dependent on local carriers; and 5) customer concentration, with the top ten customers accounting for 12% of revenue; and 6) international risk, with non-US representing ~30% of total revenue.

### Exhibit 55 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

### Exhibit 56 - Forward consensus EV/sales history



Source: Factset

**Most recent company note:** [link](#)

## UnitedHealth Group Inc. (NYSE: UNH)

RBC Capital Markets, LLC

Ben Hendrix (Analyst) (615) 372-1323, [ben.hendrix@rbccm.com](mailto:ben.hendrix@rbccm.com)
**Rating: Outperform**
**Closing Price: USD 512.59**
**Price Target: USD 563.00**
**Implied All-in Return (%): 10.8**

### Investment summary

With the impressive scale of its enterprise and breadth of integrated service offerings, UnitedHealth Group touches virtually every segment of the US healthcare continuum. And yet despite its scale, we believe the company offers investors a strong growth profile and excellent visibility, with EPS increasing at a targeted 13–16% clip annually and significant room to run over the long term.

UNH has evolved in recent years such that Optum continues to grow in terms of importance and impact on the enterprise, now expected to generate just over half of earnings and representing a significant growth engine for the company as it executes on its integrated product offering—even as it just scratches the surface of its addressable market both domestically and globally.

In the legacy UnitedHealthcare medical benefits segment, the company is already the industry leader in nearly every business segment, but it continues to exceed market growth rates in Medicare and Medicaid, leveraging its significant scalability while remaining disciplined in pricing.

In addition, UNH continues to generate very strong cash flow, which along with the solid balance sheet provides significant flexibility to invest in growth opportunities and shareholder-friendly returns.

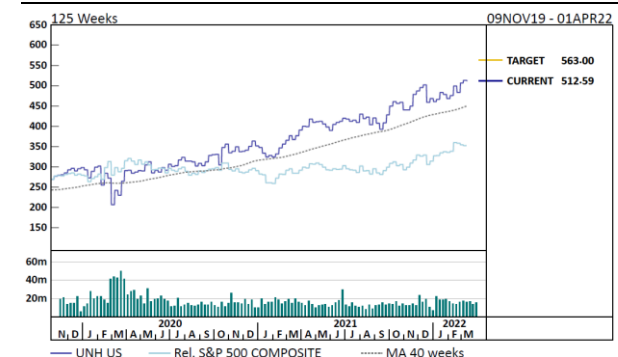
### Valuation

Our price target of \$563 is based on a P/E multiple of 25x the high end of management's initial (likely conservative) FY22E adjusted EPS range, plus \$0.90 to normalize for expected residual COVID headwinds. We continue to believe UNH deserves a premium valuation relative to the group given its diversified platform with the higher-growth Optum segment and the company's proven ability to execute operationally, leading to earnings estimate beat and raises. Our target multiple represents modest expansion beyond UNH's historical peak valuation at ~24x to account for the significant growth opportunity we see in the Optum platform through enhanced integration with UNH and advancement of value-based care models. Our price target supports our Outperform rating.

### Risks to rating and price target

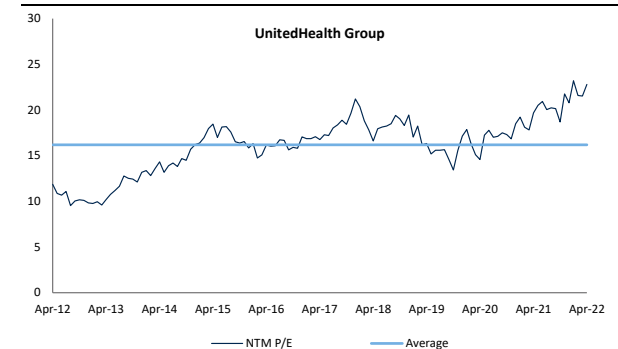
Risks to rating and price target include: 1) execution risk in predicting and managing medical cost trends; 2) execution risk in network contracting; 3) regulatory risk; 4) reimbursement risk in the government business; and 5) protracted economic downturn as a result of the COVID-19 outbreak could impact the earnings growth trajectory.

### Exhibit 57 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

### Exhibit 58 - Forward consensus P/E history



Source: Factset

**Most recent company note: [link](#)**

## WESCO International, Inc. (NYSE: WCC)

RBC Capital Markets, LLC

Deane Dray, CFA (Analyst) (212) 428-6465, [deane.dray@rbccm.com](mailto:deane.dray@rbccm.com)

Rating: Outperform

Closing Price: USD 132.00

Price Target: USD 163.00

Implied All-in Return (%): 23.5

### Investment summary

WESCO is the leading North America based electrical distributor in the +\$100 billion highly fragmented North American electrical products distribution market with an estimated 7% market share, and 13% post-Anixter deal. We admire the scrappy, no-frills attitude that runs throughout the organization, as well as the strong historical free cash flow and debt pay-down history. After it emerged victorious from the Anixter bidding war, we estimate compelling upside based on pro-forma EPS and historically low multiples. We also like the fundamental scale benefits that come with the deal, including greater bargaining power with customers and suppliers that should help the company battle the ongoing tough price/cost backdrop.

### Valuation

Our \$163 price target assumes WCC trades to an undemanding 35% discount to our 18.0x SMID-cap 2023 target group P/E multiple, or 11.7x. This is below the midpoint of WCC's historical (40%)-(10%) relative P/E range to discount the elevated leverage and integration risk following the Anixter deal balanced by its attractive leverage as a more cyclical name to an improving macro. Our price target supports our Outperform rating.

### Risks to rating and price target

#### Integration risk with Anixter.

**Economic conditions.** WESCO operates in cyclical industrial end markets and a slowdown in global activity could adversely impact sales and operating margins.

Macro trends including inflation/deflation, commodity costs, credit availability, currency fluctuations, and supply chain could all materially impact results.

**Competition and pricing.** WESCO operates in the highly fragmented and competitive electrical products distribution market. With limited access to credit, smaller competitors may potentially cut prices and pressure WESCO's disciplined business model. There is also a growing risk from online distributors such as Amazon Business.

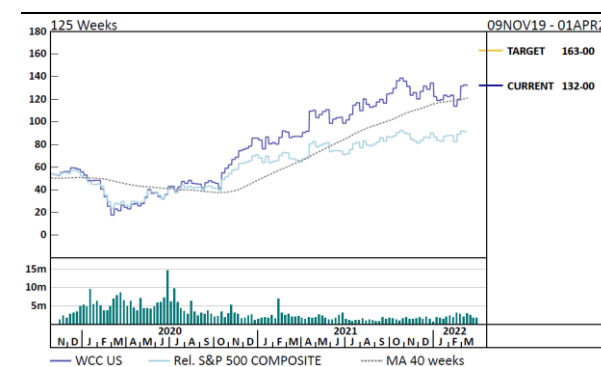
**Acquisitions.** WESCO has been active on the M&A front in this consolidating market and is exposed to overpaying for targets and integration headwinds. We remain confident in management's discipline on this front but acknowledge that large deals such as EECOL require considerable management attention and carry inherent integration risk.

**Financial risks.** Tightening credit standards and any disruption to credit markets could cause our estimates to be too optimistic.

**Nonresidential end market.** A slower-than-expected recovery in the nonresidential construction end-market could cause our estimates to be too optimistic.

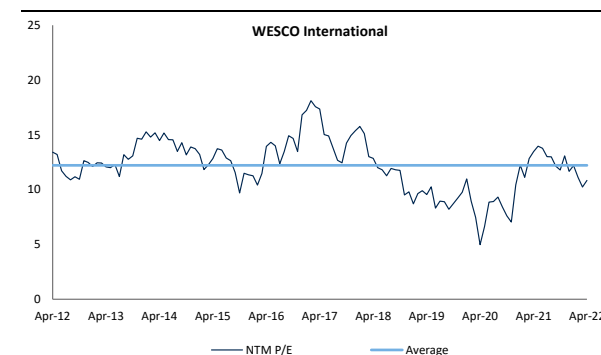
**COVID-19 impacts.** WESCO's operations have exposure to the COVID-19 pandemic.

### Exhibit 59 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

### Exhibit 60 - Forward consensus P/E history



Source: Factset

Most recent company note: [link](#)

## Required disclosures

### Non-U.S. analyst disclosure

One or more research analysts involved in the preparation of this report (i) may not be registered/qualified as research analysts with the NYSE and/or FINRA and (ii) may not be associated persons of the RBC Capital Markets, LLC and therefore may not be subject to FINRA Rule 2241 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

### Conflicts disclosures

This product constitutes a compendium report (covers six or more subject companies). As such, RBC Capital Markets chooses to provide specific disclosures for the subject companies by reference. To access conflict of interest and other disclosures for the subject companies, clients should refer to <https://www.rbccm.com/GLDisclosure/PublicWeb/DisclosureLookup.aspx?entityId=1>. These disclosures are also available by sending a written request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7 or an email to [rbcinsight@rbccm.com](mailto:rbcinsight@rbccm.com).

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of the member companies of RBC Capital Markets and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets and its affiliates.

### Distribution of ratings

For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy, Hold/Neutral, or Sell - regardless of a firm's own rating categories. Although RBC Capital Markets' ratings of Outperform (O), Sector Perform (SP), and Underperform (U) most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis.

| Distribution of ratings              |       |         |                    |         |
|--------------------------------------|-------|---------|--------------------|---------|
| RBC Capital Markets, Equity Research |       |         |                    |         |
| As of 31-Mar-2022                    |       |         |                    |         |
| Rating                               | Count | Percent | Investment Banking |         |
|                                      |       |         | Serv./Past 12 Mos. |         |
|                                      |       |         | Count              | Percent |
| BUY [Outperform]                     | 841   | 57.68   | 330                | 39.24   |
| HOLD [Sector Perform]                | 569   | 39.03   | 172                | 30.23   |
| SELL [Underperform]                  | 48    | 3.29    | 3                  | 6.25    |

### Conflicts policy

RBC Capital Markets Policy for Managing Conflicts of Interest in Relation to Investment Research is available from us on request. To access our current policy, clients should refer to <https://www.rbccm.com/global/file-414164.pdf> or send a request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7. We reserve the right to amend or supplement this policy at any time.



With regard to the MAR investment recommendation requirements in relation to relevant securities, a member company of Royal Bank of Canada, together with its affiliates, may have a net long or short financial interest in excess of 0.5% of the total issued share capital of the entities mentioned in the investment recommendation. Information relating to this is available upon request from your RBC investment advisor or institutional salesperson.

## Dissemination of research and short-term trade ideas

RBC Capital Markets endeavors to make all reasonable efforts to provide research content simultaneously to all eligible clients, having regard to local time zones in overseas jurisdictions. RBC Capital Markets provides eligible clients with access to Equity Research Reports and to SPARC on the Firm's proprietary INSIGHT website, via email and via third-party vendors. SPARC contains market color and commentary regarding subject companies on which the Firm currently provides equity research coverage. Research Analysts may, from time to time, include short-term trade ideas in Research Reports and / or in SPARC. A short-term trade idea offers a short-term view on how a security may trade, based on market and trading events, and the resulting trading opportunity that may be available. A short-term trade idea may differ from the price targets and recommendations in our published Research Reports reflecting the Research Analyst's views of the longer-term (one year) prospects of the subject company, as a result of the differing time horizons, methodologies and/or other factors. Thus, it is possible that a subject company's common equity that is considered a long-term 'Sector Perform' or even an 'Underperform' might present a short-term buying opportunity as a result of temporary selling pressure in the market; conversely, a subject company's common equity rated a long-term 'Outperform' could be considered susceptible to a short-term downward price correction. Short-term trade ideas are not ratings, nor are they part of any ratings system, and the firm generally does not intend, nor undertakes any obligation, to maintain or update short-term trade ideas. Short-term trade ideas may not be suitable for all investors and have not been tailored to individual investor circumstances and objectives, and investors should make their own independent decisions regarding any securities or strategies discussed herein. Please contact your investment advisor or institutional salesperson for more information regarding RBC Capital Markets' research.

For a list of all recommendations on the company that were disseminated during the prior 12-month period, please click on the following link:

<https://rbcnew.bluematrix.com/sellside/MAR.action>

The 12 month history of SPARCs can be viewed at <https://www.rbcinsightresearch.com/>.

## Analyst certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

## Third-party-disclaimers

The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property and a service mark of MSCI Inc. ("MSCI") and Standard & Poor's Financial Services LLC ("S&P") and is licensed for use by RBC. Neither MSCI, S&P, nor any other party involved in making or compiling the GICS or any GICS classifications makes any express or implied warranties or representations with respect to such standard or classification (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability and fitness for a particular purpose with respect to any of such standard or classification. Without limiting any of the foregoing, in no event shall MSCI, S&P, any of their affiliates or any third party involved in making or compiling the GICS or any GICS classifications have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

RBC Capital Markets disclaims all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any statements made to the media or via social media that are in turn quoted in this report, or otherwise reproduced graphically for informational purposes.

References herein to "LIBOR", "LIBO Rate", "L" or other LIBOR abbreviations means the London interbank offered rate as administered by ICE Benchmark Administration (or any other person that takes over the administration of such rate).

## Disclaimer

RBC Capital Markets is the business name used by certain branches and subsidiaries of the Royal Bank of Canada, including RBC Dominion Securities Inc., RBC Capital Markets, LLC, RBC Europe Limited, RBC Capital Markets (Europe) GmbH, Royal Bank of Canada, Hong Kong Branch and Royal Bank of Canada, Sydney Branch. The information contained in this report has been compiled by RBC Capital Markets from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC Capital Markets, its affiliates or any other person as to its accuracy, completeness or correctness. All opinions and estimates contained in this report constitute RBC Capital Markets' judgement as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. Nothing in this report constitutes legal, accounting or tax advice or individually tailored investment advice. This material is prepared for general circulation to clients and has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The investments or services contained in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about the suitability of such investments or services. This report is not an offer to sell or a solicitation of an offer to buy any securities. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. RBC Capital Markets research analyst compensation is based in part on the overall profitability of RBC Capital Markets, which includes profits attributable to investment banking revenues. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. RBC Capital Markets may be restricted from publishing research reports, from time to time, due to regulatory restrictions and/or internal compliance policies. If this is the case, the latest published research reports available to clients may not reflect recent material changes in the applicable industry and/or applicable subject companies. RBC Capital Markets research reports are current only as of the date set forth on the research reports. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. To the full extent permitted by law neither RBC Capital Markets nor any of its affiliates, nor any other person, accepts any liability whatsoever for any direct, indirect or consequential loss arising from, or in connection with, any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior written consent of RBC Capital Markets in each instance.

### Additional information is available on request.

**To U.S. Residents:** This publication has been approved by RBC Capital Markets, LLC (member FINRA, NYSE, SIPC), which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets, LLC.

**To Canadian Residents:** This publication has been approved by RBC Dominion Securities Inc. (member IIROC). Any Canadian recipient of this report that is not a Designated Institution in Ontario, an Accredited Investor in British Columbia or Alberta or a Sophisticated Purchaser in Quebec (or similar permitted purchaser in any other province) and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report should contact and place orders with RBC Dominion Securities Inc., which, without in any way limiting the foregoing, accepts responsibility for this report and its dissemination in Canada.

**To U.K. Residents:** This publication has been approved by RBC Europe Limited ('RBCEL') which is authorized by the Prudential Regulation Authority and regulated by the Financial Conduct Authority ('FCA') and the Prudential Regulation Authority, in connection with its distribution in the United Kingdom. This material is not for general distribution in the United Kingdom to retail clients, as defined under the rules of the FCA. RBCEL accepts responsibility for this report and its dissemination in the United Kingdom.

**To EEA Residents:** This material is distributed in the EU by either RBCEL on an authorised cross-border basis, or by RBC Capital Markets (Europe) GmbH (RBC EG) which is authorised and regulated in Germany by the Bundesanstalt für Finanzdienstleistungsaufsicht (German Federal Financial Supervisory Authority) (BaFin).

**To Persons Receiving This Advice in Australia:** This material has been distributed in Australia by Royal Bank of Canada, Sydney Branch (ABN 86 076 940 880, AFSL No. 246521). This material has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Accordingly, any recipient should, before acting on this material, consider the appropriateness of this material having regard to their objectives, financial situation and needs. If this material relates to the acquisition or possible acquisition of a particular financial product, a recipient in Australia should obtain any relevant disclosure document prepared in respect of that product and consider that document before making any decision about whether to acquire the product. This research report is not for retail investors as defined in section 761G of the Corporations Act.

**To Hong Kong Residents:** This publication is distributed in Hong Kong by Royal Bank of Canada, Hong Kong Branch, which is regulated by the Hong Kong Monetary Authority and the Securities and Futures Commission (SFC) in Hong Kong, RBC Investment Services (Asia) Limited and RBC Global Asset Management (Asia) Limited, both entities are regulated by the SFC. This material is not for general distribution in Hong Kong to persons who are not professional investors (as defined in the Securities and Futures Ordinance of Hong Kong (Cap. 571) and any rules made thereunder).

**To Singapore Residents:** This publication is distributed in Singapore by the Royal Bank of Canada, Singapore Branch, a registered entity licensed by the Monetary Authority of Singapore. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. You are advised to seek independent advice from a financial adviser before purchasing any product. If you do not obtain independent advice, you should consider whether the product is suitable for you. Past performance is not indicative of future performance. If you have any questions related to this publication, please contact the Royal Bank of Canada, Singapore Branch. Royal Bank of Canada, Singapore Branch accepts responsibility for this report and its dissemination in Singapore.

**To Japanese Residents:** Unless otherwise exempted by Japanese law, this publication is distributed in Japan by or through RBC Capital Markets (Japan) Ltd. which is a Financial Instruments Firm registered with the Kanto Local Financial Bureau (Registered number 203) and a member of the Japan Securities Dealers Association ("JSDA") and the Financial Futures Association of Japan ("FFAJ").

® Registered trademark of Royal Bank of Canada. RBC Capital Markets is a trademark of Royal Bank of Canada. Used under license.

Copyright © RBC Capital Markets, LLC 2022 - Member SIPC

Copyright © RBC Dominion Securities Inc. 2022 - Member Canadian Investor Protection Fund

Copyright © RBC Europe Limited 2022

Copyright © Royal Bank of Canada 2022

All rights reserved