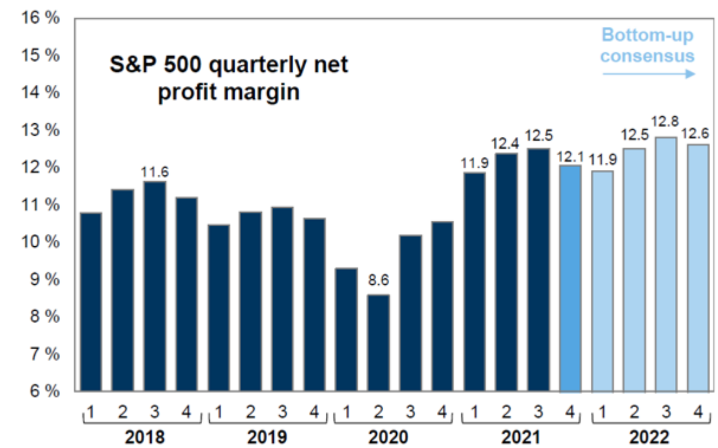
APTUS CAPITAL ADVISORS

Earnings Season – Q4 2021

The culmination of the NFL season tends to coincide with another ending – Q4 earnings season, as 82% of the S&P 500 constituents have now reported. Fourth-quarter earnings have come in high versus historical norms, albeit slightly below previous quarters. We knew that there would be growth, in fact, year-over-year sales growth was +26%. Furthermore, earnings growth was +27.5% - Q1 earnings growth is only expected to be +5.4%, as the "base effect" in earnings starts to take hold. Throughout earnings, we were focusing on two items: 1) management commentary surrounding growth in '22 2) S&P 500 profitability moving forward.

1. *Management Commentary* – In our opinion, management commentary, specifically within the Technology and Energy sectors, was quite bullish. In fact, the combination of reported Q4 results and management guidance has led to a very modest upward revision to consensus earnings expectations for full-year 2022.
2. *S&P 500 Profitability* - S&P 500 net profit margins in Q4 2021 were better than expected (12.1% vs. 11.5%) but dipped from the record high of 12.5% reached in last quarter. The margin decline in Q4 was partly attributable to seasonality among consumer stocks as well as some idiosyncratic losses – think PYPL, NFLX, and FB. Looking forward, consensus expects profit margins will decline slightly in Q1 2022 but rise to a new record high in 2H 2022.



Source: Goldman Sachs, Data as of 2/14/2022

<u>How Did Companies React?</u>

Companies that have missed earnings estimates have fared very poorly this earnings season, as the market has proven far less tolerant versus the third quarter. The market has given companies that beat estimates a modest reward with the median company trading up 1.1% after reporting. The median company that missed estimates have traded down 3.2% on reporting day. We think this dynamic will be in play for much of the 1H of the year. As growth slows, we believe that the market is likely to favor high-quality companies with earnings stability and a strong ability to execute.

<u>What Can Support Earnings Growth for the Remainder of the Year?</u>

In the face of record-high inflation and wage pressures, market consensus regarding profit margins remains bullish, at the index level, in 2H 2022. Why? Energy. Although the Energy sector has earned roughly $100B dollars over the last 12-months, this remains well below its peak earnings potential that was achieved late 2008. Over the last 14 years, profitability has steadily declined - bottoming during the shutdowns of 2020. At a time when oil prices are rising and energy demand is soaring, profitability could easily surge past previous levels. This has the ability to support earnings in 2022 for the S&P 500 as a whole and even into 2023, if prices remain high.

Current vs. Peak Trailing 12-Month Earnings By Sector

	Current Earnings ($bn)	Peak Earnings ($bn)	Pct. Difference From Peak (sorted)
Energy	$96.5	$163.3	-$66.8
Financials	$336.7	$386.6	-$49.9
Industrials	$119.8	$135.7	-$15.9
Discretionary	$126.2	$134.0	-$7.8
Communication	$188.5	$191.0	-$2.5
Utilities	$44.0	$46.2	-$2.2
Technology	$382.0	$382.0	$0.0
Real Estate	$25.6	$25.6	$0.0
Staples	$104.2	$104.2	$0.0
Materials	$61.2	$61.2	$0.0
Health Care	$277.5	$277.5	$0.0

Source: Strategas, Data as of 2/14/2022

Name: UnitedHealth Group
Ticker: UNH
Earnings: Q4 2021

UnitedHealth Group reports Q4 EPS $4.48 vs FactSet $4.30 [27 est, $4.19-4.39] ($460.99, 0.00)
Wednesday, January 19, 2022 10:59:44 AM (GMT)

- **Reports Q4**:
  - Revenue $73.74B vs FactSet $72.98B [*21 est, $71.97-74.65B*]
- **FY Guidance (Dec 2022)**:
  - Reaffirms EPS $21.10-21.60 ex-items vs FactSet $21.63 [*26 est, $21.20-22.37*]
  - Reaffirms revenue $317-320B vs FactSet $316.76B [*22 est, $303.85-321.97B*]
  - Reaffirms OCF $23-24B

Source: FactSet

Analysis: UNH's Q4 results echoed performance from Q2/Q3 in that it beat EPS slightly through higher revenues, better investment income/taxes and MLR. On a core basis, the year tracked largely in-line to ahead of expectations with most of the outperformance attributed to Optum. Additionally, UNH reaffirmed its 2022 guidance despite yet another unexpected surge in COVID and an unexpected mandate to cover at-home testing. While nothing in the results were particularly surprising, commentary from UNH's management team helped alleviate concerns that Medicare Advantage growth and margins were deteriorating, which is key as it is the single largest engine for UNH's growth. All-in the earnings power at UNH still feels underappreciated.

D + G: 1.22% + 10.75% = **11.97%**
Net Premiums Growth + Inorganic Growth + Margin Expansion + Repurchases = EPS Growth Rate
9.00% + 0.50% + 0.00% + 0.25% = 10.75%

Name: **Fidelity National Information Services, Inc.**
Ticker: FIS
Earnings: Q4 2021

Fidelity National Information Services reports Q3 EPS $1.73 ex-items vs FactSet $1.68 [24 est, $1.67-1.70] ($110.92, 0.00)
Thursday, November 04, 2021 11:03:15 AM (GMT)

- **Reports Q3**:
  - Revenue $3.51B vs FactSet $3.52B [*17 est, $3.50-3.57B*]
  - Adjusted EBITDA $1.59B vs FactSet $1.57B [*19 est, $1.56-1.59B*]
  - Repurchased $1.2B in shares during Q3
- **FY Guidance (Dec 2021)**:
  - EPS $6.50 - $6.60 ex-items vs prior guidance $6.45-$6.60 and FactSet $6.55 [*28 est, $6.34-6.72*]
  - Reaffirms revenue $13.9-14.0B vs FactSet $13.93B [*23 est, $13.55-14.00B*]

Source: FactSet

Analysis: While Wall Street was braced for FIS' Q4 Merchant segment performance to reflect Omicron headwinds, performance here was weaker-than-anticipated. This dynamic, plus overall Q1 guidance below consensus, and a somewhat disappointing '22 outlook for the Banking segment, are the main reasons why shares were down on reporting day, in our view.

We believe there are potential pockets of conservatism within the initial '22 guide (travel not expected to return to '19 levels) and see minimal downside at ~12x FY '23 P/E, the stock likely has a hard time working until trends in Merchant begin to converge with V/MA volumes.

D + G: 1.97% + 11.00% = **12.97%**
Organic Growth + Inorganic Growth + Margin Expansion + Debt Repayment + Repurchases = Growth Rate
6.5% + 0.0% + 2.0% + 2.0% + 0.5% = 11.00%

Name: **Visa, Inc.**
Ticker: V
Earnings: FY Q1 2022

Visa reports Q1 EPS $1.81 ex-items vs FactSet $1.70 [28 est, $1.63-1.79] ($206.03, 0.00)
Thursday, January 27, 2022 09:10:11 PM (GMT)

- **Reports Q1**:
  - Revenue $7.06B vs FactSet $6.79B [*27 est, $6.65-7.05B*]
  - Operating income $4.94B ex-items vs FactSet $4.65B [*22 est, $4.42-4.77B*]
  - Payments volume +20% y/y
  - Processed transactions +21%y/y
- **Management Comments:**
  - "Visa delivered very strong results with revenue, net income and EPS all growing at 24% or higher. The strength of our network, the growth in eCommerce, better than expected progress in the return of cross-border travel and a continuation of the recovery all contributed to an excellent quarter. As we look ahead, we do not believe the current surge in the pandemic will curtail the recovery. We see economies around the world continuing to improve and, as restrictions are lifted, cross-border travel will continue to recover. We remain confident that we are wellpositioned, via our multi-pronged growth strategy, to deliver strong results well into the future."

Source: FactSet

Analysis: Visa executed well on their recent earnings report as cross-border drove the beat with improved FY22 guidance. Management is now guiding to net revenue growth at the "high-end of high teens," which is an improvement from "high-end of mid-teens". We believe the improved guidance could prove conservative given the strong 24% revenue growth in FY Q1 ‘22, especially if cross-border continues to improve.

We have been concerned that Omicron might weigh on the recovery for several months. Based on Visa's comments about their experience in South Africa and the UK, we are more confident that both domestic spending and cross-border activity should improve in coming months, which should help expand the company’s multiple back to historical averages.

D + G: 0.69% + 11.00% = **11.69%**
Sales Growth + Margin Improvement + Share Repurchases = EPS Growth Rate
9.5% + 0.0% + 1.5% = 11.00%

Name: <u>Roper Technologies, Inc.</u>
Ticker: ROP
Earnings: Q4 2021

Roper Technologies reports Q4 EPS $3.73 vs FactSet $3.67 [14 est, $3.64-3.77] ($441.99, 0.00)
Wednesday, February 02, 2022 11:57:21 AM (GMT)

- **Reports Q4**:
  - Revenue $1.51B vs FactSet $1.50B [*13 est, $1.48-1.52B*]
  - Adjusted EBITDA $576M vs FactSet $568.4M [*6 est, $564-572M*]
- **Q1 Guidance**:
  - EPS $3.63-$3.67 vs FactSet $3.65 [*11 est, $3.54-3.77*]
- **FY Guidance (Dec 2022)**:
  - EPS $15.25-$15.55 vs FactSet $15.25 [*15 est, $14.92-15.70*]

Source: FactSet

Analysis: ROP finished the year on a strong note and issued a better-than-expected 2022, bolstered by broad tailwinds, improving end markets and a coffer of $5B in potential near-term M&A capacity. All in, 2022 is starting off on a strong note with the free cash compounding and increasing cash return on investment dynamics alive and well and record backlog to boot. In our view, the 2022 marriage of organic growth and inevitable capital deployment should enable ROP to outperform the market in the coming year despite concerns with supply chain tightness, inflation and slowing global growth. ROP reduced net debt by $1.7B in 2021 and now sits at 3.1x leverage (Net debt/EBITDA) vs. 4.7x a year ago - and we see a track to ~2x by the end of 1Q22 when ROP receives ~$2.1B of proceeds from the Transcore divestiture, giving them plenty of firepower to make more software M&A acquisitions over the next twelve months.

<u>D + G</u>: 0.55% + 9.58% = **<u>10.13%</u>**
Organic Growth + Inorganic Growth + Margin Expansion = Growth Rate
6.00% + 3.50% + 1.00% = 9.58%

Name: <u>Amazon.com Inc.</u>
Ticker: AMZN
Earnings: Q4 2021

Amazon.com reports Q4 EPS $27.75, including pre-tax gain of $11.8B, vs FactSet $3.61 [43 est, ($0.96)-7.04] ($2776.91, 0.00)
Thursday, February 03, 2022 09:04:35 PM (GMT)

- **Reports Q4**:
  - EPS includes pre-tax valuation gain of $11.8B included in non-operating income from our common stock investment in Rivian Automotive, Inc., which completed an initial public offering in November
  - Revenue $137.41B vs FactSet $137.68B [*41 est, $130.01-140.72B*]
- **Q1 Guidance**:
  - Revenue $112.0-117.0B vs FactSet $120.94B [*34 est, $115.38-127.50B*]
    - guidance anticipates an unfavorable impact of approximately 150 bps from foreign exchange rates.
  - Operating income $3.0-6.0B vs FactSet $6.40B [*32 est, $2.98-9.71B*]
    - guidance includes approximately $1.0B lower depreciation expense due to increases in the estimated useful lives of our servers and networking equipment beginning on 1-Jan-22.

Source: FactSet

Analysis: We believe Amazon Web Services ("AWS") was a big bright spot and the better-than-expected advertising growth aided margins. The Q1 '22 revenue guidance midpoint at $115bn was 5% below Wall Street expectations, and profit guidance for $3-6bn was below consensus at $6.2bn, however the shortfall was well previewed, and outlook suggested "the sun was coming out" on Omicron and other labor issues in 2022. To top it off, AMZN announced a US Prime fee increase that could add $1.5bn run rate rev/profit over next 12 months.

Amazon's profit outlook is improving as the COVID impact on labor and supply chain subsides, and AWS is a clear beneficiary of the corporate capex cycle. To top it off, Amazon is gaining share in eCommerce today (despite local delivery competition) and should see meaningful acceleration with sector in H2 '22 as comps ease.

<u>D + G</u>: 0.00% + 15.00% = **<u>15.00%</u>**
Sales Growth + Margin Expansion + Share Repurchases = Growth Rate
12.50% + 2.50% + 0.00% = <u>15.00%</u>

Name: **Alphabet, Inc Class A**
Ticker: GOOGL
Earnings: Q4 2021

Alphabet reports Q4 EPS $30.69 vs FactSet $27.68 [39 est, $23.03-33.44] ($2752.88, 0.00)
Tuesday, February 01, 2022 09:11:05 PM (GMT)

- **Reports Q4**:
  - Revenue $75.33B vs FactSet $72.25B [*32 est, $68.68-76.15B*]
  - TAC $13.43B vs consensus $12.84B
  - Net revenue $61.90B vs consensus $59.27B
  - Operating income $21.89B vs consensus $21.27B

Source: FactSet

Analysis: GOOGL reported revenue and EPS that were 4% and 11% above Wall Street consensus. Search continues to post very impressive growth rates (36% YoY) reflecting the favorable macro in digital advertising in Q4, moving advertisers to automated buys, and strong retail. YouTube came in a little shy of Wall Street estimates, lapping a quarter of double-dip from brands, but overall trends seem fine. Stepping back, there is very little to poke holes at here, GOOGL's execution remains unmatched in the group and shares continue to trade at a market-P/E. We continue to have some concerns around 2022 growth rates for the overall industry, which may get flushed out on subsequent earnings reports, but everything looks solid for GOOGL.

D + G: 0.00% + 15.50% = **15.50%**
3YR Expected EPS Growth: 15.00%

Name: **Chemed Corporation**
Ticker: CHE
Earnings: Q4 2021

Chemed reports Q4 EPS $5.25 ex-items vs FactSet $5.08 [3 est, $5.01-5.12] ($458.99, 0.00)
Thursday, February 24, 2022 09:23:50 PM (GMT)

- **Reports Q4**:
  - Revenue $541M vs FactSet $543.2M [*3 est, $542.4-544.3M*]
- **FY Guidance (Dec 2022)**:
  - EPS $19.10 to $19.50 vs FactSet $19.85 [*3 est, $19.54-20.33*]
  - **VITAS**
    - VITAS 2022 revenue, prior to Medicare Cap, is estimated to decline 1.5% to 2.5% when compared to 2021.
      - A portion of the estimated revenue reduction, approximately $15M, is the result of the phase out of sequestration relief over H1 of 2022 compared to a full year of sequestration relief in 2021. ADC is estimated to decline 1.0% to 1.5%.
    - Full year adjusted EBITDA margin, prior to Medicare Cap, is estimated to be 15.5% to 16.0%. We are currently estimating $12M for Medicare Cap billing limitations in calendar year 2022.
  - **Roto-Rooter**
    - Roto-Rooter is forecasted to achieve full-year 2022 revenue growth of 8.0% to 9.5%. Roto-Rooter's adjusted EBITDA margin for 2022 is expected to be 28.5% to 29.5%

Source: FactSet

Analysis: This year's guidance assumes a continued disruption in Vitas in 1H, and improvement in 2H. The industry-wide pressures might create opportunities for CHE to acquire assets that struggle (a change in tone on M&A) as the company remains bullish on the LT growth in hospice. Meanwhile, Roto continues to outperform. We note CHE is typically conservative when providing initial guidance. We remain bullish as we like the underlying fundamentals and the cash flow generation of both businesses.

Given the change in tone in Vitas M&A - With labor inflation outpacing rate updates, smaller hospice operators are more likely to struggle given lack of access to capital. Vitas believes it is well positioned to either take over employees or buy out businesses. We believe that CHE is well capitalized and willing to acquire assets in good markets even if they come with depressed margins given the synergies it can achieve by consolidating the assets into its existing operations.

Roto-Rooter remained strong - During the first 8 weeks of 2022 Roto rev growth is tracking above the growth recorded in Q4 (+11.8% in Q4). Manpower increased 7% in 2021 but demand continues to outpace the supply of labor; expanded the reach to younger people with e-marketing campaign. Roto passed through mid to upper single digit price increases and expects more price increase if needed.

D + G: 0.30% + 9.50% = **9.80%**
Sales Growth Rate + Inorganic Growth + Margin Expansion + Share Repurchases = Growth Rates
5.25% + 1.50% + 0.75% + 2.00% = 9.50%

Name: **JPMorgan Chase & Co.**
Ticker: JPM
Earnings: Q4 2021

JPMorgan Chase reports Q4 EPS $3.33, incl. $1.8B reserve release, vs FactSet $3.01 [22 est, $2.83-3.28] - 8-K ($168.23, 0.00)
Friday, January 14, 2022 11:50:21 AM (GMT)

- **Reports Q4**:
  - Excluding net credit reserve release, EPS was $2.86 and ROTCE 17%
  - Revenue $29.26B vs FactSet $29.78B [*14 est, $28.81-30.76B*]
- **Management Comments:**
  - "Global IB fees were up 37%, driven by both the Corporate & Investment Bank and Commercial Banking, due to unprecedented M&A activity, an active acquisition financing market and strong performance in IPOs. Markets revenue was down 11%, compared to a record Q4 last year, but up 7% versus the 2019 quarter driven by a strong performance in Equities. Asset & Wealth Management delivered robust results as we saw positive inflows into long-term products of $34B across all channels and regions, as well as continued strong loan growth, up 18%, primarily driven by securities-based lending. In Consumer & Community Banking, client investment assets were up 22%, with growth from higher market levels and positive net flows. Combined debit and credit card spend was up 26%, supporting accelerating Card loan growth, up 5%. Auto loans remain elevated, up 7%, although a lack of vehicle supply slowed originations to $8.5B, down 23%. Home lending had another strong quarter with originations at $42B, up 30%."
  - "The economy continues to do quite well despite headwinds related to the Omicron variant, inflation and supply chain bottlenecks. Credit continues to be healthy with exceptionally low net charge-offs, and we remain optimistic on U.S. economic growth as business sentiment is upbeat and consumers are benefiting from job and wage growth."

Source: FactSet

Analysis: JPM reported Q4 '21 operating EPS ahead of expectations. EPS beat was driven by a lower-than-expected loan loss provision (and NCOs) and higher than anticipated net interest income (and loan and securities growth). Fee income and expenses approximated expectations. A higher-than-expected tax rate and lower than anticipated share repurchases restrained further improvement. Still, attention turned towards its outlook as it expects near-term (2022-2023) ROTCE to be below 17% on expense headwinds driven by technology, distribution, marketing and compensation. While it estimates a $5.5bn lift to NII from higher interest rates and loan growth/securities deployment, NII is poised to normalize, which was not quantified. Nevertheless, JPM continues to point towards a 17% ROTCE central case over the medium term while higher investment spend now should evolve into additional competitive advantages down the road.

D + G: 2.82% + 6.33% = **9.15%**
5YR TBV Growth CAGR: 6.5%
BV & EPS Growth (5YRS) Expected: 7.0%

Name: **Broadridge Financial Solutions**
Ticker: BR
Earnings: FY Q2 2022

Broadridge Financial Solutions reports Q2 adjusted EPS $0.82 vs FactSet $0.82 [7 est, $0.78-0.93] ($159.22, 0.00)
Tuesday, February 01, 2022 12:03:41 PM (GMT)

- **Reports Q2**:
  - Revenue $1.26B vs FactSet $1.20B [*7 est, $1.17-1.24B*]
- **FY Guidance (Jun 2022):**
  - Reiterates Adjusted EPS growth +11%-15% y/y vs FactSet +11.8%
  - Recurring revenue growth now to high end of +12%-15% range
  - Adjusted operating income margin ~18.5% vs prior ~19%
  - Reiterates Closed sales $240M-280M

Source: FactSet

Analysis: The stock had a negative reaction on earnings day. Management reiterated FY '22 EPS guidance and reported on a quarter that typically represents only 13% of annual EPS. On the positive side, BR is incrementally raising FY '22 recurring revenue guidance. But it is also reducing FY '22 margin guidance by 50 bps due to growth in lower-margin distribution and communications revenue. We would prefer to see BR growing its higher margin businesses.

Broadridge's management indicated that the full-year recurring revenue growth is trending towards the high end of its outlook range and the company posting a very strong F2Q22 closed sales number. We see no signs of its growth momentum abating.

D + G: 1.75% + 8.75% = **10.50%**

Name: **Pioneer Natural Resources Company**
Ticker: PXD
Earnings: Q4 2021

Pioneer Natural Resources reports Q4 EPS $2.97 vs FactSet $3.99 [26 est, $2.51-6.02] ($222.71, 0.00)
Wednesday, February 16, 2022 09:19:29 PM (GMT)

- **Reports Q4**:
  - Revenue $4.32B vs FactSet $5.18B [*8 est, $4.19-6.58B*]
  - Cash flow from operating activities was $2.2B leading to free cash flow1 of $1.1B for Q4
- **Buyback**
  - The company's board also authorized a new $4B common stock repurchase program
  - This new authorization replaces the existing $2B common stock repurchase program that had $841M remaining under the program at the time of the new authorization
- **Q1 Outlook:**
  - Q1 2022 oil production is forecasted to average between 348 to 363 MBOPD and total production is expected to average between 620 to 645 MBOEPD vs FactSet 635.8 Mboe/d
- **2022 Outlook**
  - The company expects its 2022 total capital budget3 to range between $3.3 to $3.6B. Pioneer expects its capital program to be fully funded from forecasted 2022 cash flow6 of greater than $10.5B.
  - During 2022, the company plans to operate an average of 22 to 24 horizontal drilling rigs in the Midland Basin, including a three-rig average program in the southern Midland Basin joint venture area.
  - The 2022 capital program is expected to place 475 to 505 wells on production.
  - Pioneer expects 2022 oil production of 350 to 365K bopd (MBOPD) and total production of 623 to 648K barrels of oil equivalent per day (MBOEPD) vs FactSet 639.7 Mboe/d.

Source: FactSet

Analysis: Overall, Pioneer remains a free cash flow machine with what we think should be the highest dividend yield in the S&P 500 this year. PXD announced a variable + base dividend of $3.78/share in conjunction with 4Q earnings and will be paying out the associated cash in March. Pioneer stands by their plan of paying back 75% of FCF from prior quarter after payout of the base dividend. At the current strip, we are estimating a dividend yield over 10% this year! In addition to dividends, PXD increased their share repurchase program to$4B after spending $250M on repurchases during 4Q. We anticipate buybacks will continue at a similar pace resulting in an extra $1B returned to shareholders in 2022, for a total estimated yield of ~12%. PXD's balance sheet, shareholder return program, and unhedged philosophy has them pegged as one of our favorites in the space.

D + G: 6.31% + 5.00% = **11.31%**
Expected Oil Output Growth: 6.00%

Name: **Home Depot**
Ticker: HD
Earnings: Q4 2021

Home Depot reports Q4 EPS $3.21 vs FactSet $3.18 [29 est, $2.94-3.64]; increases quarterly dividend by 15.2% to $1.90 from $1.65 ($346.87, 0.00)
Tuesday, February 22, 2022 11:06:42 AM (GMT)

- **Reports Q4**:
  - Revenue $35.72B vs FactSet $34.88B [*24 est, $33.61-36.41B*]
  - Comps 8.1% vs FactSet 5.0%
- **Quarterly Dividend:**
  - Increases quarterly dividend by 15.2% to $1.90 from $1.65.
  - Payable 24-Mar-22; record 10-Mar-22.
  - The new annualized dividend yield is 2.19% vs prior annualized dividend yield of 1.90%.
- **FY22 Guidance:**
  - Diluted earnings-per-share-growth to be low single digits vs FactSet +4.9%
  - Sales growth and comparable sales growth to be slightly positive
    - *FY22 FactSet consensus growth:*
      - Revenue +2.4%
      - Comps +2.2%
  - Operating margin approximately flat with FY21
  - Net interest expense of approximately $1.5B
  - Tax rate of approximately 24.6%

Source: FactSet

Analysis: HD delivered solid 4Q results and provided a prudent FY22 outlook which seemingly leaves room for upside. Near-term momentum remains strong, though the market seems focused on digesting two years of unprecedented top-line growth amid a rising rate environment. While forecasting FY22 is challenging, solid housing fundamentals have a lagged effect on category spend, Pro backlogs remain full, and HD's ecosystem of best-in-class capabilities should support continued share gains. When combined with P&L flexibility/resiliency and attractive relative valuation, we see favorable long-term risk/reward

D + G: 2.41% + 9.00% = **11.41%**
SSS Growth + Margin Expansion + Share Buybacks = Growth Rate
5.5% + 1.5% + 2.0% = 9.00%

Name: **NVIDIA Corporation**
Ticker: NVDA
Earnings: Q4 2021

NVIDIA reports Q4 EPS $1.32 ex-items vs FactSet $1.23 [35 est, $1.20-1.29] ($265.11, 0.00)
Wednesday, February 16, 2022 09:22:44 PM (GMT)

- **Reports Q4**:
  - Revenue $7.64B vs FactSet $7.42B [*34 est, $7.34-7.59B*]
- **Q1 Guidance**:
  - Revenue $8.10B +/- 2% vs FactSet $7.31B [*30 est, $6.32-8.12B*]
  - Non-GAAP gross margin 67.0%, +/- 50bp vs consensus 66.8%
  - Non-GAAP operating expenses $1.60B vs consensus $1.48B
  - Non-GAAP tax rate 13%, +/- 1%
- **Management Comments:**
  - CEO Jensen Huang: "We are seeing exceptional demand for NVIDIA computing platforms. We are entering the new year with strong momentum across our businesses and excellent traction with our new software business models with NVIDIA AI, NVIDIA Omniverse and NVIDIA DRIVE. GTC is coming.We will announce many new products, applications and partners for NVIDIA computing."

Source: FactSet

Analysis: NVDA put up another exceptional quarter and guidance. Datacenter is expected to lead the growth for April, with guidance implying that datacenter revenue accelerates to about 85% y/y growth. We estimate NVDA's datacenter business is now about half the size of INTC's total server business, and about 26% of the total datacenter compute TAM after including AMD. While that growth is exceptional, we still see additional catalysts through year-end including very robust cloud spending, a continued catch up of enterprise AI spending, the beginning of monetizing NVDA's $8B ADAS/self-driving auto pipeline, as well as what we expect to be the launch of their 40-series gaming products in 2H. With earnings already so strong and so many catalysts on the horizon, we continue to view NVDA as a stock that's tough not to own.

D + G: 0.07% + 16.67% = **16.74%**
Organic Growth + Inorganic Growth + Margin + Share Repurchases = Growth Rate
16.67% + 1.00% - 1.00% + 0.00% = 16.67%

Name: **Copart, Inc.**
Ticker: CPRT
Earnings: Q4 2021

Copart reports Q2 EPS $1.10 ex-items vs FactSet $1.07 [9 est, $1.01-1.18] ($126.87, 0.00)
Wednesday, February 16, 2022 10:22:43 PM (GMT)

- **Reports Q2**:
  - Revenue $867.5M vs FactSet $807.0M [*9 est, $760-856M*]

Source: FactSet

Analysis: Copart reported solid results fueled by volume gains (+19%) and robust ASPs (+20%). The business is as strong as ever, as Copart gains share and expands its service globally, but the market has begun to account for our "peak-RPU, peak-margin" scenario. Excluding the pandemic outbreak (March 2020), the most recent pullback (-26%) is not far from other drawdowns in 2018 (-34%) and 2021 (-22%), suggesting a decent entry level is presenting itself for investors that value wide moats and sustainable growth drivers.

Copart operates the largest global marketplace for salvage vehicles with an expanding business in non-insurance vehicles. Over decades, the company has established wide moats based on vast property ownership (necessary to store and process salvage vehicles) and a global digital marketplace (driving robust auction returns). We expect assignments to grow as mobility, total losses, market share, and non-insurance trends improve, but note margin risk when ASP growth slows.

D + G: 0.00% + 10.50% = **10.50%**
ASP + Gross & OpEx Margin Improvement + US Market Share Growth + International Expansion + Buybacks
2.00% + 3.50% + 1.00% + 3.00% + 1.00% = 10.50%

Name: **Adobe, Inc.**
Ticker: ADBE
Earnings: Q4 2021

Adobe reports Q1 EPS $3.37 ex-items vs FactSet $3.34 [27 est, $3.24-3.38] ($466.45, 0.00)
Tuesday, March 22, 2022 08:07:46 PM (GMT)

- **Reports Q1**:
  - Revenue $4.26B vs FactSet $4.24B [*23 est, $4.22-4.31B*]
  - **Impact of war in Ukraine**:
    - On 4-Mar-22, Adobe announced a halt of all new sales of Adobe products and services in Russia and Belarus. In addition, today Adobe is reducing its Digital Media ARR balance by $75M, which represents all ARR for existing business in Russia and Belarus. While Adobe will continue to provide Digital Media services in Ukraine, the company reduced ARR by an additional $12M, which represents its entire Digital Media business in Ukraine. This results in a total ARR reduction of $87M and an expected revenue impact of $75M for FY22.
- **Q2 Guidance**:
  - EPS ~$3.30 ex-items vs FactSet $3.35 [*27 est, $3.26-3.47*]
  - Revenue ~$4.34B vs FactSet $4.40B [*23 est, $4.24-4.50B*]
    - Digital Media segment revenue y/y growth ~15% vs consensus ~15.5%
    - Digital Experience segment revenue y/y growth ~17% vs consensus ~15.2%

Source: FactSet

Analysis: Even after the recent rally, the stock is still off over 30% from November highs and has significantly underperformed peers (MSFT, NOW, INTU) as well as the software index over the same period. At 26x 2023 EPS, we think the concerns around FY '22 guidance and a revenue pandemic pull-forward are priced-in. We get that the initial FY '22 revenue guidance of $17.9bn was disappointing (implying 13.4% YoY growth), but the headline number looks worse than reality. If you adjust for the extra week in FY '21, FX impact, and the benefit of the Workfront acquisition in 2021, you get to a 16.1% growth rate for FY '22 – only 80bps off the initial FY '21 Guide.

With over 90% of revs coming from subscription and no major competitive threats on the horizon, we're confident about the trajectory and sustainability of revenue from here (forecast 16% revenue growth in FY '22, 17%+ in FY '23). On top of achievable mid-high teens revenue growth, ADBE's mid-40s operating margin is likely to expand, and share count likely shrinks over time ($13.1bn buyback authorization remaining, ~6% of mkt cap). We remain convicted on the stock.

D + G:
0.00% + 15.00% = 15.00%

Sales Growth:
20% (59% - Creative Cloud) * 15% (11% - Document Cloud) * 17% (27% - Digital Experience)
11.8% + 1.65% + 4.59% = 18.04% → Discounting a Bit

Growth Rate Audit:
Business Growth + Share Repurchases – Discount = Growth Rate
14.00% + 1.00% = 15.00%

Disclosures

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