MONTHLY RESEARCH WEBINAR

ARGUS ANALYSTS' TOP PICKS FOR 2023

Moderator:

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January 4, 2023

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WHAT'S NEW AT ARGUS?

ARGUS®

■ Argus Analysts' Top Picks for 2023

- Jim Kelleher, CFA, Director of Research
- John Eade, Argus President

■ Argus Quick Notes

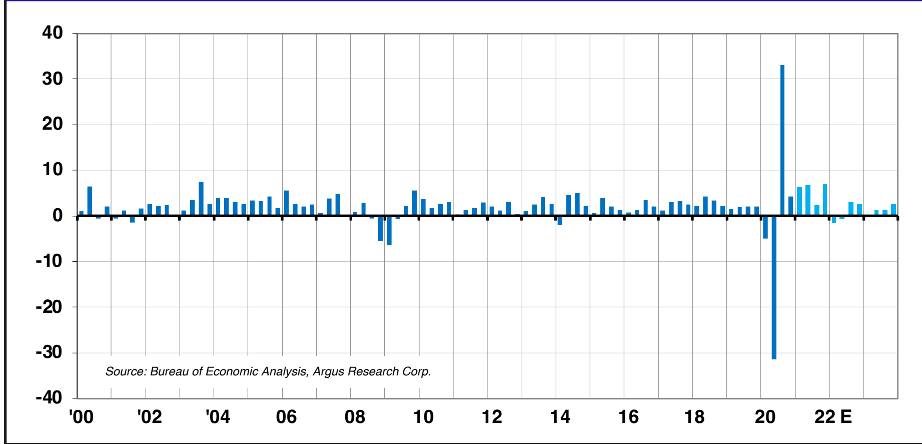
- Rebound Stocks in the Financial Sector
- Sustainable Impact Stocks
- Argus Analysts' Top Picks for 2023
- Find these on the homepage of our website

■ Portfolio Update: the Argus Dividend Growth Model Portfolio

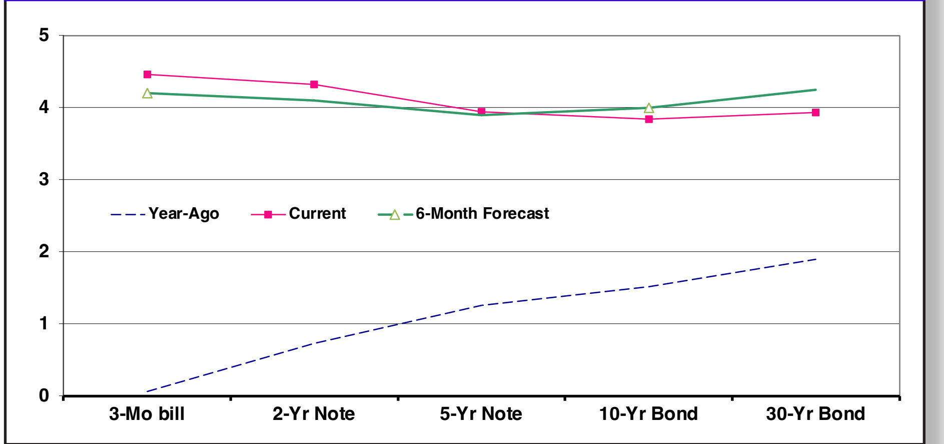
- Since 1930, dividend income accounts for 40%-plus of returns
- Dividends "soften the blow" in down stock years such as 2022
- 3 signals: balance sheet strength, shareholder returns, solid outlook
- Find the Argus Dividend Growth MP on the homepage of our website

MACRO FORECASTS

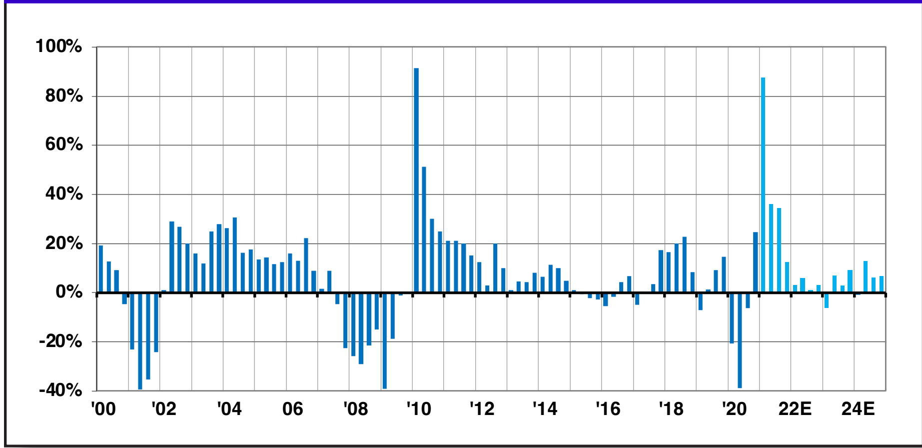
REAL GDP W/FORECASTS (%)



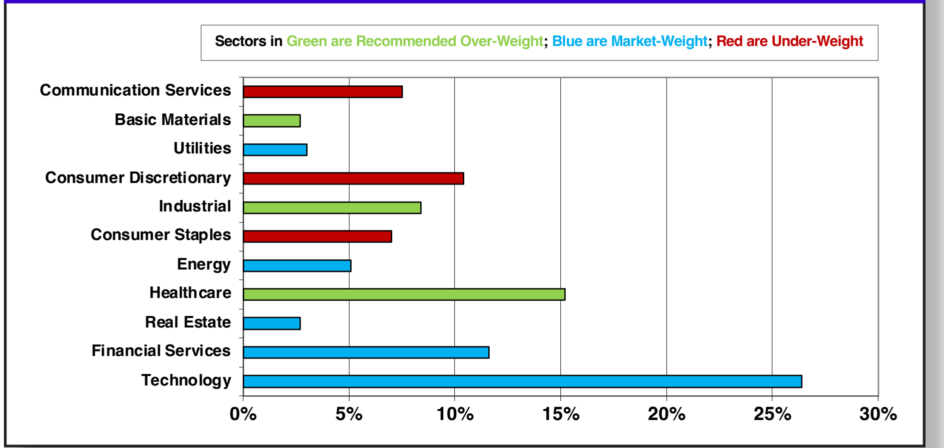
TREASURY YIELD CURVE (%)



S&P 500 QUARTERLY EARNINGS GROWTH



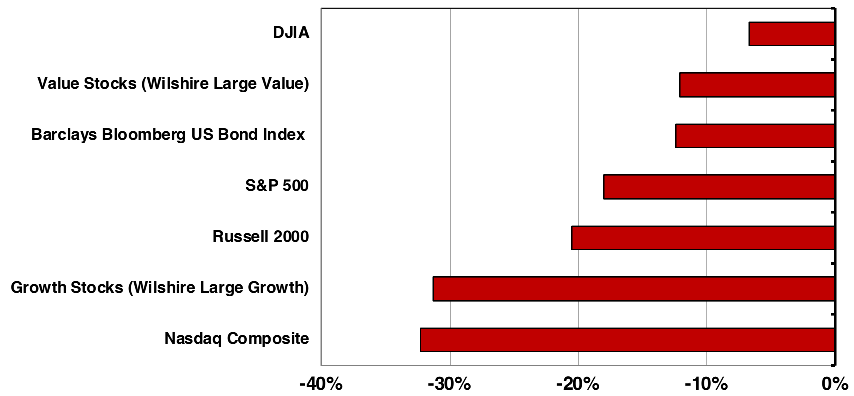
MARKET SECTOR DISTRIBUTION - PERCENT OF S&P 500



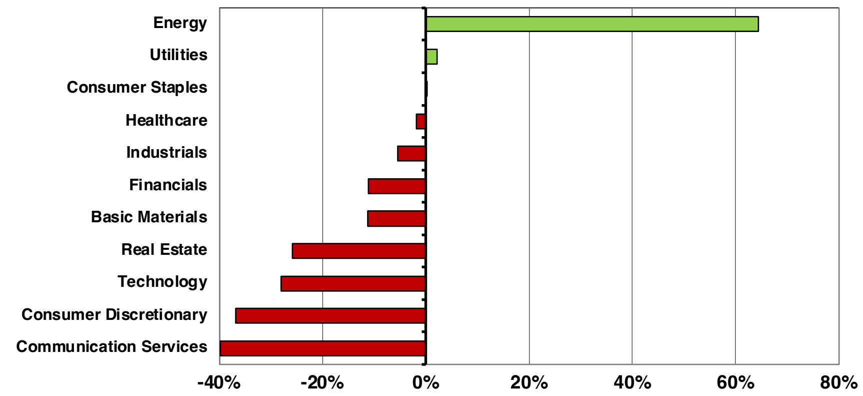
MARKET PERFORMANCE

DATA AS DECEMBER 30, 2022

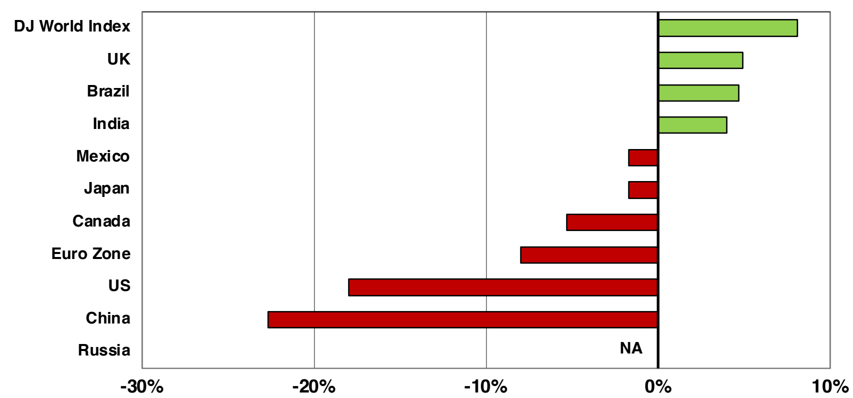
MAJOR INDEX



SECTOR



GLOBAL EQUITY MARKETS



ARGUS ANALYSTS' TOP PICKS 2023

ARGUS®

BASIC MATERIALS

- Corteva Inc. (CTVA)
- Freeport-McMoRan Inc. (FCX)

COMMUNICATION SERVICES

- T-Mobile US Inc. (TMUS)

CONSUMER DISCRETIONARY

- AutoZone Inc. (AZO)
- Lowe's Companies Inc. (LOW)
- Marriott International Inc. (MAR)
- Tesla Inc. (TSLA)

CONSUMER STAPLES

- Coca-Cola Co. (KO)
- Constellation Brands Inc. (STZ)

ENERGY

- Exxon Mobil Corp. (XOM)

FINANCIAL SERVICES

- Blackstone Inc. (BX)
- Morgan Stanley (MS)
- Prudential Financial Inc. (PRU)
- Raymond James Financial Inc. (RJF)

HEALTHCARE

- Centene Corp. (CNC)
- Charles River Laboratories Int'l Inc. (CRL)
- Eli Lilly & Co. (LLY)
- Intuitive Surgical Inc. (ISRG)
- Zoetis Inc. (ZTS)

INDUSTRIALS

- Badger Meter Inc. (BMI)
- Deere & Co. (DE)
- Quanta Services Inc. (PWR)
- Raytheon Technologies Corp. (RTX)

REAL ESTATE

- Host Hotels & Resorts Inc. (HST)

TECHNOLOGY

- Arista Networks Inc. (ANET)
- ASML Holding N.V. (ASML)
- Dell Technologies Inc. (DELL)
- Palo Alto Networks Inc. (PANW)

UTILITIES

- AES Corp. (AES)
- Sempra (SRE)

CORTEVA INC. (CTVA)

12-month target price: $78

(Bill Selesky)

- Corteva is a June 2019 spinoff from DowDuPont. The company is a pure-play seed and crop protection company. Its competitive advantages include its global scale (with operations in 110 countries), broad product range, and strong new product pipeline. Corteva is also focused on boosting shareholder returns through stock buybacks and dividends.

- In 2023, we expect continued positive agricultural fundamentals and strong pricing trends for the company's seeds, especially corn and soybeans. Farm income levels remain strong and we expect planted acres in most crop-producing regions to be higher than in 2022.

- In 2022, Corteva began to exit noncore product lines and geographic markets in order to improve its cost structure and reduce its manufacturing footprint. These efforts have benefited earnings and we expect further gains in 2023.

- We expect demand for corn to remain strong in 2023, driven by higher ethanol production (used in gasoline blending) and growth in Latin America. We also expect savings from restructuring actions to more than offset increased investment in R&D.

■ FREEPORT-MCMORAN INC. (FCX)

12-month target price: $50

(David E. Coleman)

- Freeport-McMoRan is a leading international natural resources company based in Phoenix. It operates geographically diverse assets with significant proven and probable reserves of copper, gold and molybdenum.
- The company's portfolio includes the Grasberg minerals district in Indonesia, one of the world's largest copper and gold deposits; the Morenci minerals district in North America; and the Cerro Verde and El Abra mines in South America.
- Freeport has strengthened its balance sheet through asset sales and should continue to benefit from relatively high prices for copper and other metals.
- We expect copper demand to remain elevated given growth in electrification, and note that demand has remained solid in Europe despite economic weakness and geopolitical tensions.
- FCX shares have traded between $25 and $52 over the past year and are currently near the midpoint of that range. On the fundamentals, the stock trades at a discount to peers on P/E, price/sales, and price/cash flow.

T MOBILE US INC. (TMUS)

12-month target price: $175

(Joseph Bonner, CFA)

- T-Mobile is taking share in the U.S. wireless telecom industry, consistently attracting more subscribers than its competitors.
- Helped by its acquisition of Sprint, T-Mobile got a jump on Verizon and AT&T in the buildout of its next-generation 5G wireless network.
- Continuous service plan innovation combined with razzle-dazzle marketing are part of T-Mobile's DNA.
- The company is strengthening enterprise telecom service and expanding into rural markets with its mobile wireless and fixed wireless (wireless broadband) products. Our five-year earnings growth rate forecast for T-Mobile is 10%.

AUTOZONE INC. (AZO)

12-month target price: $2,775

(Taylor Conrad)

- AutoZone is a leading retailer and distributor of automotive replacement parts and accessories.
- The company has generated solid margins and positive EPS in every year since its IPO in 1991.
- We note that auto parts retailers typically do well in a weak economy as consumers opt to repair rather than replace their existing vehicles.
- We see opportunities for further growth at AutoZone as the average age of vehicles increases and the company gains market share in the commercial segment.

LOWE'S COMPANIES INC. (LOW)

12-month target price: $290

(Chris Graja, CFA)

- The fragmented $1 trillion home improvement sector may be less cyclical than many investors believe. Two-thirds of home improvement projects are nondiscretionary repair and maintenance tasks like broken refrigerators or leaky toilets that can't be delayed.

- Homeowners with low mortgage rates may decide to improve, rather than sell, their existing homes. And Millennials who can't afford their dream home may buy one they can afford and fix it up over time.

- Professional contractors have strong backlogs. According to Lowe's, they expect steady project growth in 2023, and some 70% expect to be busier in 2023 than in 2022.

- There has been significant underinvestment in U.S. housing. The average U.S. home is more than 40 years old. There is also a shortage of homes (estimated at 1.5-2.0 million) due to decades of underproduction that could take years to fill.

- We believe that CEO Marvin Ellison is improving operations and boosting profitability at Lowe's. The company has upgraded its business analytics, upgraded its website, and announced plans to sell the Canadian business, which should lead to better margin performance and higher capital efficiency.

MARRIOTT INTERNATIONAL INC. (MAR)

12-month target price: $172

(John Staszak, CFA)

- Marriott International operates and franchises several brands of hotels, resorts and timeshare facilities in the U.S. and 67 other countries.
- With nearly all of its locations franchised, Marriott has a highly profitable business model. Franchisees bear the cost of operating their hotels and pay Marriott royalties and fees.
- Management plans to raise the dividend and accelerate share buybacks.
- With more than 170 million members, Marriott's loyalty program is among the best in the business.
- MAR shares are trading at 20-times our revised EPS estimate for 2023, below the peer average of 31.

TESLA INC. (TSLA)

12-month target price: $374

(Bill Selesky)

- **We view Tesla as the leader in the electric vehicle industry, and expect its vehicles to see continued strong demand in 2023.**

- **Tesla's proprietary EV batteries provide it with a competitive advantage that should last for several more years. The cost of battery cells continues to decline, driven by increased efficiency, economies of scale, and innovative manufacturing technology.**

- **We believe that the company's Supercharger Network allows for the efficient recharging of Tesla vehicles (based on a pay-as-you-go system). Tesla has also developed an additional revenue stream by opening up its charging network to non-Tesla vehicles.**

- **The company continues to improve the overall driving experience through the use of frequent vehicle software updates, similar to those sent to smartphones, tablets, and computers.**

COCA-COLA CO. (KO)

12-month target price: $73

(Chris Graja, CFA)

- We believe that Coke is a stronger company than it was at the beginning of the pandemic, and expect more focused marketing and a more profitable brand portfolio to boost earnings and the share price over time.
- The company eliminated more than 600 “zombie,” i.e., unproductive, products in 2019, and has repositioned the business through changes in core products as well as in package and serving sizes.
- We believe that high-quality stocks like KO play an important role in portfolio construction.
- We expect the company to keep consumers engaged with Coke products despite challenges from inflation, a weak economy, and the lingering impact of the pandemic.

CONSTELLATION BRANDS INC. (STZ)

12-month target price: $295

(John Staszak, CFA)

- Constellation Brands manufactures and markets alcoholic beverages; its portfolio of wine, spirits, and beers includes Corona and Kim Crawford.
- Management is raising prices to help offset cost pressures.
- To improve distribution and better manage inventory, the company plans to invest $40 million in its technology platform.
- Constellation is also increasing output by building a new beer plant in Mexico.
- We see significant upside for STZ shares based on the company's accelerating beer sales and market share gains.

EXXON MOBIL CORP. (XOM)

12-month target price: $128

(Bill Selesky)

- While XOM shares have risen strongly in 2022, we see further upside based on strong energy market fundamentals and the company's improving balance sheet, reduced capital spending, and higher free cash flow.
- Exxon is taking steps to address climate change, and continues to target net-zero greenhouse gas emissions by 2050. Management recently said that it would reach its 2025 emissions reduction targets ahead of schedule by the end of 2022.
- We have raised our EPS estimates for both 2022 and 2023 based on our expectations for continued growth in commodity prices.
- Exxon recently raised its annualized dividend by 3.4% to $3.64, for a yield of about 3.3%. The company has raised its dividend for 40 straight years.

BLACKSTONE INC. (BX)

12-month target price: $115

(Stephen Biggar)

- Blackstone is one of the world's largest alternative asset managers, which have numerous methods of generating cash for payouts to unit holders.
- In particular, we believe that the company has considerable opportunities for growth in real estate, private equity, infrastructure and credit assets.
- Blackstone has long-term underlying growth potential in fee-based AUM, which should increase as more fund vehicles become eligible for fees.
- The company also has a record $182 billion in dry powder. This should allow it to take advantage of current market dislocations to purchase assets at a discount, leading to the next stage of monetization.

MORGAN STANLEY (MS)

12-month target price: $104

(Stephen Biggar)

- Morgan Stanley’s businesses include institutional securities sales and trading, investment banking, retail securities brokerage, and institutional asset management.
- Well-timed acquisitions in recent years include Eaton Vance, a provider of investment strategies and wealth management solutions, and discount broker ETrade Financial. These acquisitions have boosted the percentage of revenues coming from more stable wealth management businesses to nearly 50%.
- While the equity underwriting environment has weakened, we expect pent-up demand to lead to recovery later in 2023. The company’s trading operations also continue to benefit from volatility in numerous asset classes.

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PRUDENTIAL FINANCIAL INC. (PRU)

12-month target price: $118

(Kevin Heal)

- Prudential is a diversified insurer with a large presence both in the U.S. and internationally, and $1.4 billion in assets under management.
- We remain bullish on Prudential based on its strong ROE and attractive valuation.
- The company's balance sheet is clean, and management consistently returns capital to shareholders through dividend hikes and share buybacks.
- The company pays an annualized dividend of $4.80 per share, for a yield of about 4.5%, well above the peer median of 3.0%. Over the past five years, PRU has raised its dividend at a compound annual rate of 9%.

RAYMOND JAMES FINANCIAL INC. (RJF)

12-month target price: $135

(Kevin Heal)

- Raymond James is a leading asset manager that is expanding its presence in the U.S. and overseas.
- We expect revenues to increase in the Private Client and Asset Management segments as net inflows grow and the company brings additional advisors to its platform.
- We also look for an increase in net interest income, helped by Fed rate hikes.
- Raymond James continues to make acquisitions that complement its existing businesses.
- The company also has a record of strong dividend growth and a commitment to share buybacks.

CENTENE CORP. (CNC)

12-month target price: $99

(John Staszak, CFA)

- Centene is the largest Medicaid managed care organization in the U.S. and a leading provider of insurance under the Affordable Care Act.
- The company offers services to government-sponsored and commercial healthcare providers, with an emphasis on underinsured and uninsured individuals.
- Centene has grown by acquiring other health plans and services, and we expect further acquisitions going forward.
- We think that CNC shares are attractively valued at recent prices near $82, in the lower half of their 52-week range of $73-$99.

CHARLES RIVER LABORATORIES INT'L INC. (CRL)

12-month target price: $240

(David Toung)

- Charles River provides services to support the discovery and assess the safety of new medical therapies.
- We have a favorable view of the company's growing backlog, a positive sign for future demand.
- Management has raised its full-year guidance for both revenue and adjusted EPS.
- We expect the forthcoming sale of the avian vaccines business to provide resources for the purchase of higher-growth assets.

ELI LILLY & CO. (LLY)

12-month target price: $425

(Jasper Hellweg)

- Eli Lilly develops and manufactures therapies to treat pain, diabetes, cancer, and neurodegenerative diseases.
- The FDA recently accepted Lilly's Alzheimer's drug donanemab for priority review. In its research, Lilly has shown that donanemab achieves significantly higher brain amyloid clearance and a greater reduction in brain amyloid plaque than Biogen's competing drug Aduhelm.
- In 2023, the company expects to launch up to four new medicines, including donanemab, mirikizumab for Crohn's disease, lebrikizumab for atopic dermatitis, and pirtobrutinib for certain lymphatic cancers.
- Our target price of $425 implies a total potential return, including the dividend, of roughly 20% from current levels.

INTUITIVE SURGICAL INC. (ISRG)

12-month target price: $320

(David Toung)

- The recovery in elective procedural volume has provided a tailwind for Intuitive Surgical, the maker of the industry-leading da Vinci robotics surgical platform.
- We expect higher surgical volume to drive increased utilization of existing da Vinci units, and in turn to boost hospitals' orders for additional units.
- The company is expanding the range of procedures that may be performed on the da Vinci through new regulatory approvals.
- The da Vinci also has strong growth prospects in relatively underpenetrated European and Asia-Pacific markets.

ZOETIS INC. (ZTS)

12-month target price: $190

(Jasper Hellweg)

- **Zoetis, a 2013 spinoff from Pfizer, focuses on the development, manufacture and commercialization of animal health vaccines and medicines, including parasiticides, anti-infectives, and medicated feed additives.**

- **The company is the largest pure-play animal health and vaccine company and the market leader by revenue. We believe that the industry has solid long-term growth potential and that Zoetis will be able to optimize its leadership position.**

- **Zoetis benefits from broad diversification across product categories and continues to grow in part through acquisitions. It recently acquired veterinary medicine company Jurox, quality-of-life measurement company NewMetrica, and petcare genetics company Basepaws.**

- **The company also benefits from a relatively short R&D and launch cycle for animal products, which can be tested more quickly than human drugs.**

- **Our target price of $190 implies a potential total return, including the dividend, of 34% from current levels.**

BADGER METER INC. (BMI)

12-month target price: $130

(Kris Ruggeri)

- Badger sells meters and related radio and software technologies and services to municipal water utilities, as well as flow instrumentation and measurement products.
- This well-managed company has a long record of market outperformance and dividend growth.
- We expect demand for BMI products to benefit from the Infrastructure Investment and Jobs Act, which earmarks federal spending for water infrastructure.
- BMI trades at a premium to peers on P/E and price/sales. However, we believe that the premium is warranted given industry trends favoring remote metering and monitoring, and the company's high margins and strong balance sheet.

DEERE & CO. (DE)

12-month target price: $475

(John Eade)

- Deere is a well-run heavy equipment manufacturing company.
- Deere has pricing power. It has been able to raise prices on products that are more productive for customers and is now generating higher margins.
- Management has provided an upbeat outlook for FY23 despite challenging global economic conditions. A new CEO and CFO have also come on board.
- Deere recently boosted its dividend by 8%.
- DE shares have consistently outperformed the market and the Industrial sector over trailing 3-month, 1-year and five-year periods.

QUANTA SERVICES INC. (PWR)

12-month target price: $168

(John Staszak, CFA)

- Quanta Services provides infrastructure solutions for the electric power, oil and gas, communications, utility, and renewable energy industries.
- The company is well positioned to benefit from growth in electric vehicle charging infrastructure and underground electrical infrastructure.
- In 2021, Quanta Services acquired Blattner, which provides engineering, procurement and construction services for wind and solar projects.
- Quanta Services had more than $1.8 billion in liquidity at the end of 3Q22.
- We believe that PWR shares are undervalued at 19-times our revised 2023 EPS estimate.

RAYTHEON TECHNOLOGIES INC. (RTX)

12-month target price: $115

(John Eade)

- Raytheon Technologies is the product of the 2020 merger of United Technologies and Raytheon Corp. The old UTX had leading positions in the jet engine and cockpit design segments of the commercial aerospace market, while Raytheon is a major producer of missiles and defense systems.
- Defense spending is increasing, driven in part by the Russian invasion of Ukraine, which has raised prospects for an upcoming period of superpower confrontation. In the U.S., Pentagon spending is advancing at a 4.3% clip, even after adjusting for inflation.
- On the commercial aircraft side, the International Air Transport Association expects passenger traffic to recover to 2019 levels over the next two years.
- The company is shareholder-friendly, with an aggressive stock buyback plan and a history of dividend growth.
- Valuations are attractive.

HOST HOTELS & RESORTS INC. (HST)

12-month target price: $22

(Marie Ferguson)

- **Host is a leader in upscale hotels and resorts, with above-industry-average RevPAR.**
- **We expect the company’s high-end vacation properties to attract affluent consumers as travel ramps in the post-pandemic period.**
- **HST shares have outperformed the REIT industry in 2022.**
- **The company raised its dividend twice in 2022, more than doubling the payout from 2021 levels. The current yield is an above-market 2.9%.**

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ARISTA NETWORKS INC. (ANET)

12-month target price: $155

(Jim Kelleher, CFA)

- Arista, our top pick in Technology-Communications Networks, is a leading supplier of cloud networking solutions for internet companies, cloud service providers, and next-generation data centers.
- Having successfully navigated the supply-chain crisis, Arista is now managing through cost inflation while delivering market-leading growth. The company is seeing strength in in all customer verticals, led by cloud titans and enterprise data center clients.
- Arista has supplemented its focus on cloud, carrier, and large-enterprise customers with products for the campus and mainstream switching market – a market that is rebounding as employees return to offices.
- Given nonfundamental weakness in ANET shares, we recommend adding to or establishing positions in what we regard as a premier long-term holding in the cloud networking space.

ASML HOLDINGS N.V. (ASML)

12-month target price: $640

(Jim Kelleher, CFA)

- Netherlands-based ASML Holdings, our top pick in Technology-Semiconductor Capital Equipment, provides ultraviolet lithography systems critical to the production of integrated circuits.
- ASML has unmatched leadership in extreme ultraviolet (EUV) and deep ultraviolet lithography. Notwithstanding current cyclical and geopolitical headwinds, we expect ASML to benefit from accelerating demand for its advanced tools for memory and logic applications from major semiconductor and foundry customers.
- Prohibitions on advanced technology sales to China are having only a moderate impact on overall sales and profits. Potential sales to China are being reallocated worldwide, reflecting increasing global demand for onshore semiconductor manufacturing capacity as a component of national security.
- ASML has blue-chip finances and a strong commitment to shareholder returns. Having sold down from its peak, the stock appears attractive at current levels.

DELL TECHNOLOGIES INC. (DELL)

12-month target price: $70

(Jim Kelleher, CFA)

- Dell, our top pick in Technology-Information Processing, reemerged as a public company in 2018 after being taken private in 2013 and acquiring EMC in 2016. Dell has now paid down much of the EMC-related debt, most recently using VMware proceeds to repay $9.6 billion.

- Dell's Infrastructure Solutions Group (ISG) provides enterprise IT solutions, including servers, storage, and networking gear. The Client Solutions Group (CSG) is a leading provider of PCs and peripherals.

- During the company's recently reported fiscal 3Q23, strength in the infrastructure business more than offset an as-anticipated sharp deceleration in PC unit demand.

- The company appears to have moved past the worst of the supply-chain crisis. ISG profits in particular are benefiting from more linear orders and deliveries, while CSG is benefiting from a richer and less consumer-oriented mix.

PALO ALTO NETWORKS INC. (PANW)

12-month target price: $240

(Joseph Bonner, CFA)

- We project five-year compound annual earnings growth of 19% for this leading innovator in enterprise cybersecurity.
- Palo Alto provides an integrated, comprehensive cybersecurity platform that protects data on premises, in the cloud, and in hybrid environments.
- Given the growing frequency and toxicity of cyberattacks, cybersecurity remains a top priority for enterprise CIO's and CISO's — even in a period of constrained IT budgets.
- Palo Alto's cybersecurity platform provides the company with a competitive advantage over single-solution providers as IT managers consolidate vendors in order to cut costs and simplify the IT supply chain.

AES CORP. (AES)

12-month target price: $31

(David E. Coleman)

- Based in Arlington, Virginia, AES is an independent global power company. It owns three regulated utilities in the U.S.: Indianapolis Power & Light, Dayton Power & Light, and AES Hawaii.

- AES generates approximately 31,000 megawatts of electricity and has operations in 15 countries, including the United States, Chile, Colombia, Argentina, Brazil, Mexico, India, and Bulgaria.

- Over the long term, we expect the company's efficient gas-fired generating units to drive strong earnings growth.

- The company has held O&M expenses in check and is benefiting from a favorable regulatory environment at its U.S. regulated operations.

- On the fundamentals, AES trades at 16-times our 2023 EPS forecast, below the average multiple for independent, nonregulated peers. Based on our expectations for consistent EPS and dividend growth through 2024, and balance sheet improvement, we think that AES should trade above the peer average.

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SEMPRA (SRE)

12-month target price: $192

(Marie Ferguson)

- Sempra is a San Diego-based energy services holding company that derives 61% of revenue from natural gas utilities. Sempra serves 36 million gas and electric utility customers, primarily in California and Texas.
- We have a favorable view of the company's increased transmission investments and solid execution at its regulated utilities.
- Sempra LNG operates in a fast-growing industry, as the war in Ukraine and sanctions on Russian energy drive up European LNG demand.
- Sempra also has a strong presence in the attractive Mexican market.
- The company has strengthened its balance sheet by selling interests in Sempra Infrastructure Partners. The dividend yield is about 2.9%.

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