ANALYST CURRENT FAVORITES®

DECEMBER 27, 2019 | 6:50 AM EST

OVERVIEW

This publication contains current favorite stock ideas from the analysts in Equity Research. Analysts may only have one "buy" idea (from their stocks under coverage rated Strong Buy or Outperform) on the list at any given time. This list is updated only as changes to the list occur, and, thus, might not reflect the most current stock ratings or analyst selections in the event of interim changes.

CHANGE	COMPANY	TICKER	CLOSE	RATING	TARGET	INDUSTRY
	Aaron's, Inc.	AAN-NYSE	$56.95	SB1	$80.00	Furniture & Furnishings
	Alaska Air Group, Inc.	ALK-NYSE	$69.07	SB1	$83.00	Hybrid Airlines
	Alibaba Group Holding Ltd.	BABA-NYSE	$216.38	SB1	$280.00	eCommerce
	Becton, Dickinson and Company	BDX-NYSE	$271.06	SB1	$288.00	Hospital Supplies & Equipment
	BGC Partners, Inc.	BGCP-NASDAQ	$5.96	SB1	$9.00	Brokerages & Exchanges
	Blueprint Medicines Corporation	BPMC-NASDAQ	$81.71	SB1	$112.00	Biotechnology
	Boston Scientific Corporation	BSX-NYSE	$45.26	SB1	$48.00	Medical Devices
	Brinker International, Inc.	EAT-NYSE	$42.09	MO2	$53.00	Restaurants
	CareDx, Inc.	CDNA-NASDAQ	$22.38	SB1	$50.00	Diagnostics & Clinical Laboratories
	CubeSmart	CUBE-NYSE	$31.32	SB1	$36.00	Self Storage REITs
	CVS Health Corporation	CVS-NYSE	$74.48	SB1	$90.00	Integrated Benefits Management
	CyrusOne Inc.	CONE-NASDAQ	$64.89	SB1	$82.00	Data Centers
	EchoStar Corporation	SATS-NASDAQ	$44.16	SB1	$63.00	Satellite
	Everi Holdings Inc.	EVRI-NYSE	$13.36	SB1	$15.00	Financial Technology & Payments
	Gilead Sciences, Inc.	GILD-NASDAQ	$66.39	SB1	$81.00	Biotechnology
	Hancock Whitney Corporation	HWC-NASDAQ	$44.15	SB1	$50.00	Banking
	HealthEquity, Inc.	HQY-NASDAQ	$75.40	SB1	$80.00	Brokerage & Technology
	Helix Energy Solutions Group, Inc.	HLX-NYSE	$9.82	SB1	$11.00	Offshore Construction
	Ladder Capital Corp	LADR-NYSE	$18.08	SB1	$20.00	Mortgage REITs
	Lumentum Holdings Inc.	LITE-NASDAQ	$79.55	SB1	$82.00	Data Infrastructure
	M.D.C. Holdings, Inc.	MDC-NYSE	$37.91	SB1	$49.00	Housing
	Masco Corporation	MAS-NYSE	$48.17	SB1	$55.00	Appliances and Other Building Products
	Microchip Technology Incorporated	MCHP-NASDAQ	$105.93	SB1	$115.00	Semiconductors
	Occidental Petroleum Corporation	OXY-NYSE	$40.15	SB1	$70.00	Exploration and Production
✔	Pioneer Natural Resources Company	PXD-NYSE	$152.08	SB1	$180.00	Exploration and Production
	Polaris Inc.	PII-NYSE	$101.22	SB1	$117.00	Leisure Products
	Rapid7, Inc.	RPD-NASDAQ	$57.28	SB1	$69.00	Infrastructure Software
	Retail Opportunity Investments Corp.	ROIC-NASDAQ	$17.33	SB1	$20.00	Shopping Center REITs
	salesforce.com, inc.	CRM-NYSE	$164.51	SB1	$200.00	Application Software
	Sonos, Inc.	SONO-NASDAQ	$15.07	SB1	$19.00	Connected Devices
	TCF Financial Corporation	TCF-NASDAQ	$47.11	SB1	$53.00	Banking
	Tempur Sealy International, Inc.	TPX-NYSE	$88.34	SB1	$105.00	Residential Furniture
X	Viper Energy Partners LP	VNOM-NASDAQ	$25.44	SB1	$33.00	Exploration and Production
	Waste Connections, Inc.	WCN-NYSE	$90.44	SB1	$106.00	Waste Services

CLOSE DATE AS OF DEC-26-2019 | ✔=Addition X=Deletion | SB1 - Strong Buy, MO2 - Outperform

Companies on the Raymond James Ltd. (Canadian) Research Restricted List will not appear on the Analyst Current Favorites®.

ADDITIONS

Pioneer Natural Resources Company

Pioneer possesses ~680,000 net acres in the Midland Basin with well over 20 years of inventory. We expect Pioneer can generate mid-teens oil growth with a corporate breakeven in the mid-$30s. The company's commitment to delivering capital efficient growth within cash flow (nearly $500 million in free cash flow (mid-$50s WTI) with 12% oil growth in 2020E), return of capital to owners ($2 billion share repurchase authorization), and balance sheet strength via industry-leading debt metrics make it a compelling investment opportunity at the currently depressed valuation levels.

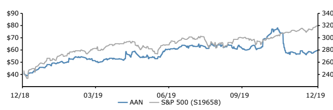
DELETIONS

Viper Energy Partners LP

We continue to like VNOM, but given the limited visibility into near-term non-op completions activity on company acreage we're removing VNOM as our Analyst Current Favorite. Although the anticipated near-term production lumpiness is frustrating, the main issue stems from third-party operators essentially delaying completion activity to 2020 in order to stay within budget. Keep in mind that many of the most prolific Permian players (including PE, PXD, DVN, and CXO) operate on VNOM's acreage. Despite the current circumstances, we view the impact on valuation as temporary and continue to like the company's unique business model of solely owning royalty interests in oil and gas wells (VNOM does not carry risk of capital budget overruns and service cost inflation).

CURRENT LIST

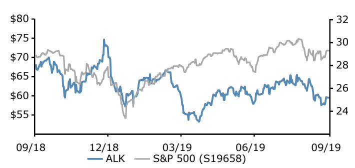
Aaron's, Inc.



AAN-NYSE | $56.95 close
SB1 | $80.00 target
Market Cap (mln) $3,824
Dividend Yield 0.3%
Home & Other Retailers | Furniture & Furnishings
Budd Bugatch, CFA

We believe AAN shares represent an attractive risk/reward dynamic skewed heavily toward reward heading into 2019 for the following reasons: 1) emphasis on centralized and digitized decision making; 2) addition of the rapid customer on-boarding process; 3) the addition of Sunday business hours to core store locations; and 4) eCommerce and Progressive remain strong growth engines.

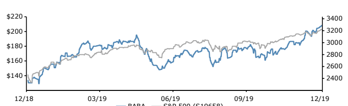
Alaska Air Group, Inc.



ALK-NYSE | $69.07 close
SB1 | $83.00 target
Market Cap (mln) $8,507
Dividend Yield 2.0%
Airlines | Hybrid Airlines
Savanthi Syth, CFA

While Alaska's (and competitor) growth is set to accelerate starting 2H19, we expect the benefit of merger synergies, current and new revenue initiatives, and continued network adjustments to drive margin expansion back to normal levels over the next few years. Along with a strengthening balance sheet, we expect investor sentiment to continue to improve on Strong Buy-rated ALK.

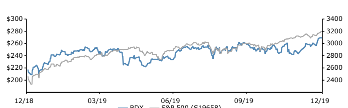
Alibaba Group Holding Ltd.



BABA-NYSE | $216.38 close
SB1 | $280.00 target
Market Cap (mln) $580,487
Dividend Yield 0.0%
Internet | eCommerce
Aaron Kessler, CFA

We expect strong June quarter results as evidenced by strong June quarter China ecommerce sales and strong 6.18 mid-year shopping festival results. We remain positive on Alibaba shares given: we expect continued solid China e-commerce growth with Alibaba as the biggest winner; 2) we believe take rate upside is under appreciated (~3.5% in FY19 with potential for the mid/high-single digits); 3) we believe valuation is attractive at ~10x 2020 marketplace EPS on our base case scenario vs. ~25% expected long-term growth.

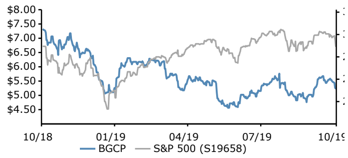
Becton, Dickinson and Company



BDX-NYSE | $271.06 close
SB1 | $288.00 target
Market Cap (mln) $73,460
Dividend Yield 1.2%
Hospital Supplies & Equipment
Lawrence Keusch

BDX is our Analyst Current Favorite, given solid mid-single digit organic growth and mid-teens EPS increases with levers for upside from FY18-FY20. Strong free cash flow generation of $10 billion from adds to the story, driving rapid deleveraging to 3.0x in FY20 from 4.7x post-deal close. We see opportunities for multiple expansion, justified by accelerating organic revenue growth to 5-6% and mid-teens EPS growth through fiscal 2020.

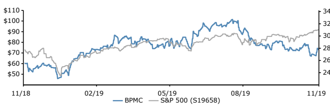
BGC Partners, Inc.



BGCP-NASDAQ | $5.96 close
SB1 | $9.00 target
Market Cap (mln) $2,078
Dividend Yield 9.4%
Capital Markets | Brokerages & Exchanges
Patrick O'Shaughnessy, CFA

Strong Buy-rated BGC Partners is our Analyst Current Favorite for several reasons. For starters, the company is currently undergoing a review of its corporate structure, including potentially eliminating its partnership structure in favor of a C Corp. We believe this move, which we expect an update on in the coming months, would be shareholder friendly and dramatically simplify the firm's organizational structure and financial reporting. Moreover, we continue to believe the fundamentals of the business remain healthy and, with a number of potential volatility catalysts on the horizon, the environment for the firm's trading business may be supportive of positive fourth-quarter guidance and operating performance. Finally, we continue to believe BGCP's valuation remains attractive and, when coupled with a healthy dividend yield, provides a compelling opportunity for investors.

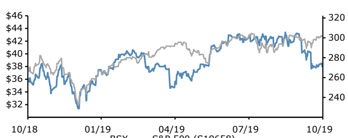
Blueprint Medicines Corporation



BPMC-NASDAQ | $81.71 close
SB1 | $112.00 target
Market Cap (mln) $4,020
Dividend Yield 0.0%
Biotechnology
Dane Leone, CFA

Our conviction in Blueprint Medicines is largely driven by our view of the ongoing development of avapritinib for indolent systemic mastocytosis (ISM), and that the EXPLORER study provides a positive outlook for the first results of PIONEER expected during ASH 2019. Our model currently forecasts for avapritinib commercial revenues to achieve ~$1B during 2025E, with about ~59% of revenues being generated from SM indications that consist of a pricing differential reflected by target dosing of 300mg QD for ASM, 200mg QD for SSM, and 100mg QD for ISM. The remaining 41% of revenue reflects the KIT GIST estimates from our model. Announcement of BLU-263 (next gen D816V targeted drug) IND submission during 1H20 should help to cement Blueprint’s development of the SM marketspace. We believe commercial approval of avapritinib during 2020 could drive upside to shares if data readouts over the next 6-12 months are positive.

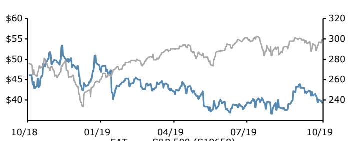
Boston Scientific Corporation



BSX-NYSE | $45.26 close
SB1 | $48.00 target
Market Cap (mln) $63,084
Dividend Yield 0.0%
Medical Devices
Jayson Bedford

We believe sentiment for Boston Scientific Corp. has become too negative, which sets up an attractive risk/reward profile. We are comfortable with our estimates for 3Q and 2020 and are optimistic that 3Q results will act as a "de-risking" event for the stock. BSX currently trades at a discount to its high-growth med tech peers and we believe the stock can close this valuation gap over the next couple of months as organic growth accelerates.

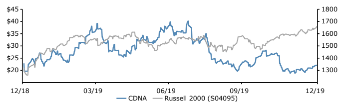
Brinker International, Inc.



EAT-NYSE | $42.09 close
MO2 | $53.00 target
Market Cap (mln) $1,573
Dividend Yield 3.6%
Restaurants
Brian M. Vaccaro, CFA

We believe Chili's can sustain solid comp outperformance behind its recent launch of third-party delivery (at recently negotiated more favorable terms), and that FY20 guidance seems achievable barring a more significant deterioration in industry trends. Combined with the stock's low valuation (P/E < 10x) and high short interest (>30%), we believe this creates a favorable risk/reward from current price levels.

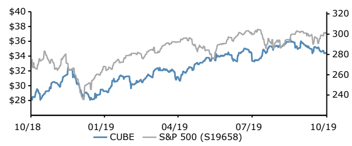
CareDx, Inc.



CDNA-NASDAQ | $22.38 close
SB1 | $50.00 target
Market Cap (mln) $950
Dividend Yield 0.0%
Diagnostics & Clinical Laboratories
John Hsu, CFA

Our conviction in CareDx, inc. reflects: (1) above peer organic revenue growth of 39% through 2020; (2) a growing platform of tests and services across the pre-and post-transplant continuum, including three organs now measured with AlloSure (lung, heart, and kidney), with significant $2B+ total addressable market; 3) we expect 2019 guidance, provided on March 6 to be a positive catalyst as the company is poised to continue penetrating high volume transplant centers, in year two of the AlloSure Kidney launch; and 4) EBITDA margins should expand to 20%+ in 2020, driven by higher volumes against a highly levereagable cost base, given one team that sells all post-transplant product lines.

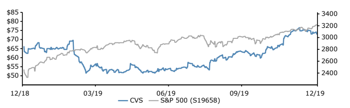
CubeSmart



CUBE-NYSE | $31.32 close
SB1 | $36.00 target
Market Cap (mln) $6,062
Dividend Yield 4.2%
REITs | Self Storage REITs
Jonathan Hughes, CFA

Since 2Q16 - the end of the most recent upcycle in self storage - shares of the self storage REITs have tended to underperform in the weeks leading up to earnings and outperform in the weeks following due to what we believe is a consistently recurring shift in investor sentiment, as fears around industry fundamentals are built-up and subsequently assuaged by better-than-expected prints. This trend is most obvious in CUBE. Recent underperformance, despite what we believe was a strong summer leasing season, combined with CUBE's more favorable relative valuation, smaller size that makes any external growth more impactful, and stronger balance sheet (ex-PSA) vs. peers presents an attractive opportunity.

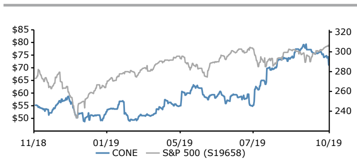
CVS Health Corporation



CVS-NYSE | $74.48 close
SB1 | $90.00 target
Market Cap (mln) $96,896
Dividend Yield 2.7%
Integrated Benefits Management
John W. Ransom

In the short term, we think there is optionality in CVS being able to grind higher given the extreme valuation discount to its peers, in part due to mix, but also in part unfounded, in our view. We also note the decision to not implement the rebate rule opens the door to improved sentiment. Long term, we note that the Aetna acquisition creates a new type of healthcare entity – one that not only bundles a large PBM/drug store, but also creates the potential for lower-cost primary care access as the company rolls out the HealthHUB concept more broadly. The deal may be more evolutionary than revolutionary in the short term: the PBM/health plan model already exists (UnitedHealthcare-Optum); CVS and Aetna have been partners for six years and the plans to overhaul the store base ramp into 2021, when other new initiatives, such as entry into the dialysis market, should also be taking root.

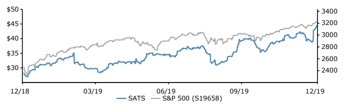
CyrusOne Inc.



CONE-NASDAQ | $64.89 close
SB1 | $82.00 target
Market Cap (mln) $7,346
Dividend Yield 3.1%
Telecommunications Services | Data Centers
Frank G. Louthan, IV

CyrusOne (CONE) is our Analyst Current Favorite based on the recent pullback, which we believe represents a significant opportunity. Trading at a discount to the data center group, which has seen multiple expansion and higher multiples in recent M&A transactions, we are confident that CyrusOne can trade at higher levels, thus our higher price target and renewed confidence in the stock retracing recent highs.

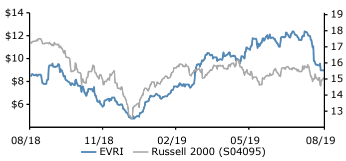
EchoStar Corporation



SATS-NASDAQ | $44.16 close
SB1 | $63.00 target
Market Cap (mln) $4,310
Dividend Yield 0.0%
Telecommunications Services | Satellite
Ric Prentiss

We are making SATS our Analyst Current Favorite as we believe there is significant value to be realized, especially with the company trading at a mere 4.2x 2019E C-EBITDA. In addition to the growth at the Hughes operations, EchoStar also has non-operational assets (49% ownership stake in DISH Mexico and 15B MHz Pops of S-Band spectrum in the EU) plus a very strong balance sheet with leverage of only 0.2x, that we believe will be put to work.

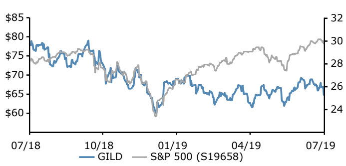
Everi Holdings Inc.



EVRI-NYSE | $13.36 close
SB1 | $15.00 target
Market Cap (mln) $1,128
Dividend Yield 0.0%
Financial Technology & Payments
John Davis

What we view as an unwarranted sell-off (-19%) presents a valuable buying opportunity on one of our top ideas (initiation). Despite solid 2Q19 results and reiterated full-year guidance, the stock is down 19% since its earnings update on what we view as a complete overreaction to some of management's commentary on the call (macro demand headwinds from ERI/CZR pending merger) and a sell-off in the space. While the company did reduce unit sales expectations in 2H19, this was fully offset by a better win per day on the ~14k unit install base. Importantly, unit sales make up just 16% of total revenue and the reduction in the outlook is only a roughly 1% headwind to adjusted EBITDA. Additionally, while some investors may have been disappointed by the lack of news on the strategic alternative front, we did not expect an update as a formal review/process was never announced by the company and we believe strategic options are still on the table. At the end of the day, we think the stock is simply too inexpensive at just 6.5x 2020 adj. EBITDA and we believe investors will be handsomely rewarded for taking advantage of the sell-off.

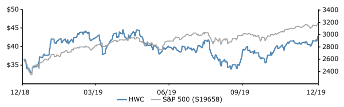
Gilead Sciences, Inc.



GILD-NASDAQ | $66.39 close
SB1 | $81.00 target
Market Cap (mln) $83,993
Dividend Yield 3.8%
Biotechnology
Steven Seedhouse, Ph.D.

Our conviction in Gilead is largely driven by our view that the HCV franchise (primarily Epclusa) will experience only gradual declines, while the HIV franchise (driven by new drug Biktarvy) can continue to grow to ~$19B at peak (vs. ~$14.7B in 2018). For HCV, market data suggests that prescriptions/pricing have in fact stabilized to some extent, and 2019 HCV guidance ($2.7-2.9B) appears attainable. For HIV, a strong Biktarvy launch and continued, robust HIV prophylaxis (PrEP) segment sales support our growth estimates, although the consensus has been revised upward and we are now approximately in line. We think GILD will be able to maintain relatively stable gross margin of ~87% in the stable revenue environment whereas consensus implies a decline to ~85%. Filgotinib appears on its way to help with revenue diversification by introducing the autoimmune disease segment and the recent expanded partnership with GLPG could produce additional assets in osteoarthritis and idiopathic pulmonary fibrosis. The recent siloing of KITE also supports the new CEO's business model for "R&D offshoring" but he is also open to outright acquisition and GILD still has plenty of resources with significant free cash flow generation (~$7-10B/year ex acquisitions through 2030 in our model).

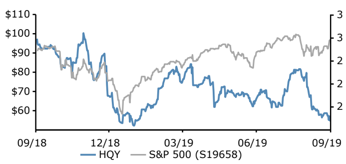
Hancock Whitney Corporation



HWC-NASDAQ | $44.15 close
SB1 | $50.00 target
Market Cap (mln) $3,850
Dividend Yield 2.4%
Banking
Michael Rose

We believe Hancock's enhanced scarcity value following the FHN/IBKC merger of equals (MOE), opportunities for customer/lender acquisition from said MOE, and other M&A in its footprint, and the improving capital return story now warrant less of a P/E discount vs. peers. Moreover, we see further improvement in credit trends resulting in it narrowing the NPA ratio gap vs. peers coupled with our expectation for relatively steady-state fundamental performance to benefit shares into 2020. While some negative migration/loss content in its energy portfolio could be a modest near-term headwind for shares, this is widely known and largely reflected in Street estimates. Net-net, we view the risk-reward positively, as we believe the stage is set for P/E multiple expansion vs. peers going forward.

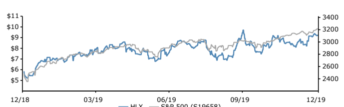
HealthEquity, Inc.



HQY-NASDAQ | $75.40 close
SB1 | $80.00 target
Market Cap (mln) $5,344
Dividend Yield 0.0%
Insurance | Brokerage & Technology
C. Gregory Peters

In light of the recent pullback in the stock driven primarily by a deteriorating outlook for WageWorks (WW), the abrupt shift lower in market interest rates, and the company's levered balance sheet, on September 9, 2019 we upgraded shares of HQY to Strong Buy from Outperform and added the stock to the Analyst Current Favorites list. We have reset our outlook for WW to reflect recent results and management guidance, which we view as cautious. Additionally, while the current level of interest rates present a headwind to the company's outlook in FY22, we estimate HQY's cash yield should still pick-up ~6 bp in FY21. Finally, we have updated our valuation comp table and note that HQY trades in line with peers on an EV/Sales basis and at a substantial discount on an EV/Adj. EBITDA basis with the highest revenue growth and Adj. EBITDA margin profile.

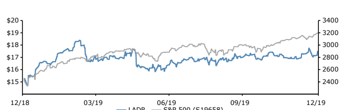
Helix Energy Solutions Group, Inc.



HLX-NYSE | $9.82 close
SB1 | $11.00 target
Market Cap (mln) $1,461
Dividend Yield 0.0%
Oilfield Services | Offshore Construction
Praveen Narra, CFA

We recently upgraded shares of Helix Energy Solutions to a Strong Buy rating in June, highlighting strong FCF generation and improving market conditions in offshore well intervention. Helix is one of the only names where we expect 2019 estimates to be revised higher, along with 2020, and are making it our new Analyst Current Favorite. As the company's capex commitments come to an end with the Q7000 delivery, and as the intervention market continues show signs of strengthen, we expect investors to focus on the company's attractive FCF yield.

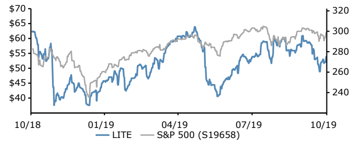
Ladder Capital Corp



LADR-NYSE | $18.08 close
SB1 | $20.00 target
Market Cap (mln) $2,165
Dividend Yield 7.5%
REITs | Mortgage REITs
Stephen Laws

We expect Ladder Capital to continue generating attractive ROEs as the company benefits from its diversified CRE investment approach. This flexibility allows Ladder Capital to pivot the portfolio as it allocates capital across CRE debt investments, equity real estate investments, and CMBS. Additionally, we believe Ladder's internal management structure aligns management with shareholders with a focus on ROE, and its insider ownership of over $200 million, or 11%, is the second highest in the sector.

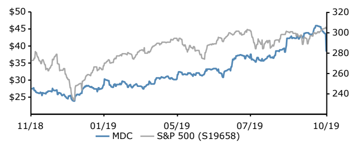
Lumentum Holdings Inc.



LITE-NASDAQ | $79.55 close
SB1 | $82.00 target
Market Cap (mln) $6,142
Dividend Yield 0.0%
Data Infrastructure
Simon Leopold

We believe investors largely appreciate that high estimates for the December quarter reflect some sell-side models' disregard for Apple iPhone seasonality. We envision Lumentum benefiting from iPhone cycles, new 3D sensing opportunities, steady demand for its telecom products, margin upside from product exits, industry consolidation, and eventually a 5G phone market cycle.

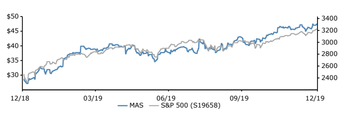
M.D.C. Holdings, Inc.



MDC-NYSE | $37.91 close
SB1 | $49.00 target
Market Cap (mln) $2,373
Dividend Yield 3.2%
Housing
Buck Horne, CFA

M.D.C. Holdings, Inc. (MDC/Strong Buy) is our current favorite as we believe a compelling entry point has emerged following noisy 3Q results, leaving MDC shares among the most heavily discounted homebuilders in the sector. Importantly, we believe the key issues from 3Q are largely temporary and timing-related in nature. Moreover, our confidence in next year's earnings outlook was only bolstered by MDC's industry-leading y/y growth in net orders and absorption rate, as well as recent pricing initiatives. At current levels, MDC easily ranks as the least expensive mid/large-cap builder on either 2020E P/E, price/adjusted book, or EV/EBITDA, despite boasting improving ROE/ROIC metrics now ranking in the industry's upper third. With an outlook for improving margins, outsized market share gains, and normalizing incentive expenses, we see no reason why MDC shouldn't be able to close the remarkable valuation gap currently present.

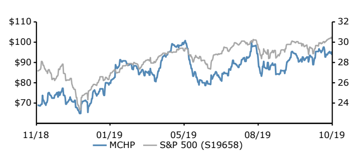
Masco Corporation



MAS-NYSE | $48.17 close
SB1 | $55.00 target
Market Cap (mln) $13,780
Dividend Yield 1.1%
Building Products | Appliances and Other Building Products
Sam J. Darkatsh

Masco is a manufacturer of brand-name consumer products for building and home improvement markets. Masco is composed of four segments, two of which (*Plumbing* and *Decorative Architecture*) have attractive financial profiles (margins, returns, low cyclicality) and two of which far less so (*Cabinets* and *Windows*). The company has initiated a strategic review process (to be completed at the end of June) of the two cyclical, low margin, low return businesses. We believe the company will ultimately be successful in divesting *Cabinets* and *Windows*, actions which should catalyze a favorable re-rating of the overall multiple on the remaining businesses.

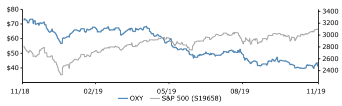
Microchip Technology Incorporated



MCHP-NASDAQ | $105.93 close
SB1 | $115.00 target
Market Cap (mln) $25,315
Dividend Yield 1.4%
Semiconductors
Chris Caso

Our Strong Buy rating on Microchip Technology Incorporated is based on our view of stabilizing business conditions and the potential for margin improvement. Microchip's multiple remains depressed due to its elevated debt, but that is an issue that will solve itself as long as conditions don't deteriorate further, given the company's strong free cash flow. Based on our industry checks and recent peer reports, we're convinced that underlying business conditions are getting neither better nor worse. Macro conditions undoubtedly remain a risk, but since we believe Microchip's channel inventory has already normalized, that mitigates the risk of further substantial cuts and provides a solid base for growth when conditions eventually improve. Finally, Microchip still has room to remove costs and improve profitability at the Microsemi business, which will become more evident once business strengthens.

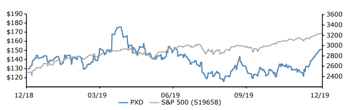
Occidental Petroleum Corporation



OXY-NYSE | $40.15 close
SB1 | $70.00 target
Market Cap (mln) $35,867
Dividend Yield 7.9%
Exploration and Production
Pavel Molchanov

Occidental’s transformative acquisition of Anadarko has created significant long-term leverage to commodity upside, including our forecast for oil prices to reach six-year highs in 2020 (though, to clarify, our estimates reflect futures strip pricing). That said, the market’s polarized response to the deal, including the hefty increase in debt, has led to shareholder rotation and thus multiple compression. OXY’s year-to-date decline is twice that of the E&P index, and the 2020 EBITDA multiple has compressed by close to two turns since April. The dividend yield has widened to more than 7%, placing OXY at the top of its peer group and, in fact, among the 20 highest-yielding stocks in the S&P 500. Crucially for a total return story such as this, we look at the dividend as very safe. Our sensitivity analysis points to $45/Bbl WTI as the point at which cash flow can cover maintenance-level capital spending plus the full dividend. The company’s recently unveiled 2020 capital program results in muted 2% production growth, but the flip side is 1.6x dividend coverage at current strip pricing. Given the market's current antipathy to leverage in the energy sector, multiple expansion for OXY shares will hinge in large part on progress with debt reduction, from organic free cash flow as well as asset sales.

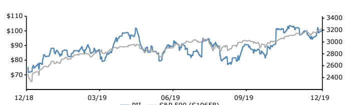
Pioneer Natural Resources Company



PXD-NYSE | $152.08 close
SB1 | $180.00 target
Market Cap (mln) $25,192
Dividend Yield 1.2%
Exploration and Production
John Freeman, CFA

Pioneer possesses ~680,000 net acres in the Midland Basin with well over 20 years of inventory. We expect Pioneer can generate mid-teens oil growth with a corporate breakeven in the mid-$30s. The company's commitment to delivering capital efficient growth within cash flow (nearly $500 million in free cash flow (mid-$50s WTI) with 12% oil growth in 2020E), return of capital to owners ($2 billion share repurchase authorization), and balance sheet strength via industry-leading debt metrics make it a compelling investment opportunity at the currently depressed valuation levels.

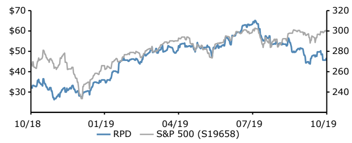
Polaris Inc.



PII-NYSE | $101.22 close
SB1 | $117.00 target
Market Cap (mln) $6,192
Dividend Yield 2.4%
Leisure Products
Joseph Altobello, CFA

Our constructive view on PII is based on our belief that while the near term tariff-related risks and uncertainties facing the company are significant, we believe these risks are already well-reflected in the shares, while the core business remains healthy and thus presents an attractive risk/reward opportunity.

Rapid7, Inc.



RPD-NASDAQ | $57.28 close
SB1 | $69.00 target
Market Cap (mln) $2,828
Dividend Yield 0.0%
Infrastructure Software
Michael Turits, Ph.D.

While do not get material checks on Rapid7 from the channel, security checks overall were solid, and we continue to expect strong demand for RPD's core vulnerability management business, as well as its cloud-based SIEM (security information and event management) business, and new areas including application security and automation (SOAR). Overall, Rapid7 has been one of the best executing small cap companies in our coverage universe, growing revenue 31% and ARR 35% for 2019E and making a smooth transition to cloud based delivery over the last few years. With RPD 30% off its 52-week highs we believe current trading levels offer a compelling entry point, compared to the +30% growth group and the 20-30% growth group. On an EVRG basis RPD trades very attractively relative to growth and closer to in line with historical EVRG levels, therefore commanding less valuation risk than the comparable group in our view.

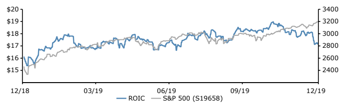
- **RPD ~30% off 52-Week Highs.** We believe RPD has underperformed since 2Q earnings due to 1) an easing in ARR growth, although still strong at 46%, but down from the 4Q18 peak of 53%, 2) investor skepticism on the sustainability of VM market growth over the medium term, and 3) possible worry on competition for its InsightIDR SIEM product.

- **Mid-Teens VM Growth Sustainable.** Gartner currently predicts the VM market to grow at an 11% CAGR 2018-2023, supported by increased use among traditional infrastructure/servers and in new areas, including containers, IoT and OT devices, thus we believe the company expects mid-teens growth for the segment and for it to gain share. We estimate that VM currently makes up ~60% of new ARR, growing >20%. We believe Rapid7 is benefiting from the demand to assess vulnerabilities in applications with the ongoing "shift left" in DevSecOps.

- **SIEM Growth Sustainable**. Rapid7 has experienced >100% growth in its InsightIDR product for several quarters, capitalizing on its cheaper cost, predictable pricing, "plug and play" functionality, and cloud delivery. We do not foresee near-term competitive pressure from Splunk's new pricing, LogRhythm, as Rapid7 is targeted more down market in the SMB and toward "resource-constrained" enterprises, although it could see some competition from Microsoft Azure Sentinel. The recently introduced InsightConnect for automated remediation playbooks adds to InsightIDR's value proposition.

- **We See Upside to 2019 Estimates.** We still see upside surprise potential to revenue given Rapid7's ARR base, and focus on the high-growth SMB market.

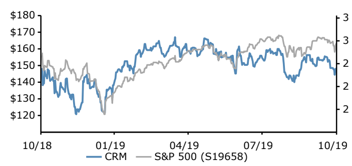
Retail Opportunity Investments Corp.



ROIC-NASDAQ | $17.33 close
SB1 | $20.00 target
Market Cap (mln) $2,010
Dividend Yield 4.6%
REITs | Shopping Center REITs
Collin Mings, CFA

We believe the recent pullback in ROIC shares has created an attractive entry point for investors (over the last four years shares have traded at a 9% premium to consensus NAV on average). Our constructive stance stems from our view that the company: 1) is primed to continue to execute its relationship-driven, off-market acquisition strategy; 2) owns a high-quality portfolio that will continue to register strong same-store NOI growth; and 3) is likely on the radar of some potential acquirers. CEO and industry veteran Stuart Tanz has amassed a high-quality, West Coast portfolio, and we have confidence in management's ability to continue to drive above-average earnings and NAV growth (consensus NAV estimates have climbed an average of 11% per year since 2011). Longer term, we believe Retail Opportunity Investments Corp.'s clean portfolio and limited structural complexity position it as a prime consolidation candidate as well.

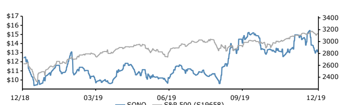
salesforce.com, inc.



CRM-NYSE | $164.51 close
SB1 | $200.00 target
Market Cap (mln) $145,920
Dividend Yield 0.0%
Application Software
Brian Peterson, CFA

We see near-term upside with the company's Dreamforce user conference and analyst day next month. Following a much better than feared F2Q print (in late August), with billings/revenue/cRPO trends all showing little signs of a macro slowdown, FY20 operating margins are on pace to increase over 150 bp y/y, which should be well received by investors. As revenue/margins ramp, we expect CRM to close the valuation gap with peers, as the current 6.4x multiple placed on shares reflects a notable discount to the group at 8.4x.

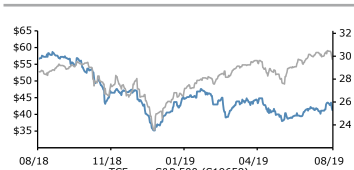
Sonos, Inc.



SONO-NASDAQ | $15.07 close
SB1 | $19.00 target
Market Cap (mln) $1,634
Dividend Yield 0.0%
Connected Devices
Adam Tindle, CFA

We believe the recent weakness related to optically higher promotional activity during the holiday selling season is overdone. Specifically, we think investors are too focused on the magnitude of discounting activity rather than the impact to sell through, which our recent checks indicate is solid. Moreover, we see the upcoming December quarter as a potential catalyst as revenue estimates call for an 80-85% q/q revenue increase, which would be essentially the same as December 2018 despite an easier September quarter starting point (Sept +13% q/q in 2019 vs. +31% q/q in 2018) and years past have seen total revenue up triple digits q/q in December quarters. Additionally, any positive movement on the trade front would create upside to the model, as the full impact of tariffs is currently assumed in FY20 guidance.

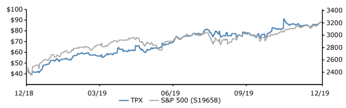
TCF Financial Corporation



TCF-NASDAQ | $47.11 close
SB1 | $53.00 target
Market Cap (mln) $7,227
Dividend Yield 3.0%
Banking
David J. Long, CFA

While we had been bullish on both bank stocks individually prior to the announced MOE between Chemical and TCF, we believe the combination creates an even stronger bank. We believe positive catalysts for TCF shares include better-than-peer loan growth; rapid realization of expense savings given the two-month earlier close than expected and TCF's substantial savings already realized; the realization of revenue synergies, as we and the Street have not included any in forecasts; and short covering, as Chemical's short position increased to 9.5% of outstanding shares in mid-July. We believe TCF's superior profitability metrics and attractive EPS growth prospects relative to peers warrant a premium P/TBV and P/E multiple.

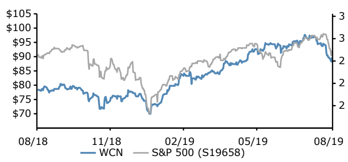
Tempur Sealy International, Inc.



TPX-NYSE | $88.34 close
SB1 | $105.00 target
Market Cap (mln) $4,778
Dividend Yield 0.0%
Furniture & Furnishings Suppliers | Residential Furniture
Bobby Griffin, CFA

Admittedly, TPX has been on a strong run in 2019 and we understand the pushback that our recommendation is a little “long in the tooth,” now that the Mattress Firm announcement has happened. Nonetheless, when looking at the fundamental drivers of Tempur Sealy’s business (new product introductions, growing DTC channel, strong R&D) as well as the current industry dynamics, we still arrive at the view that there are more tailwinds than headwinds to Tempur’s business and the risk/reward remains compelling. Accordingly, with the new high-end breeze products just hitting retailers' floors (favorable merchandising mix for the remainder of 2019), early signs that the Chinese import situation is starting to improve (benefit to the Sealy side of the business), and the outlook for a more favorable raw material environment in 2H19, we continue to see room for further upside in owning TPX in 2019.

Waste Connections, Inc.



WCN-NYSE | $90.44 close
SB1 | $106.00 target
Market Cap (mln) $23,847
Dividend Yield 1.1%
Waste and Industrial Services | Waste Services
Patrick Tyler Brown, CFA

We view risk/reward skew as very favorable based on recent weakness in shares. To this point, exogenous pressures (commodity-linked revenues) have increased; however, investor sentiment likely now incorporates this weakness and importantly, we stress that the core underlying fundamentals (both price and volume) of the solid waste business remain strong which should ultimately re-rate the stock higher vs. peers.

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Underperform (Sell)	4%	3%	3%	0%

** Columns may not add to 100% due to rounding.*

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