

FALL 2025

RESEARCH REPORT

**PRESENTED BY
UNIVERSITY FINANCE ASSOCIATION**





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ABOUT US

Introduction

The Investment Associates Team is a selective cohort within University Finance Association dedicated to a rigorous technical education and application-based investment projects. The team's mission is to prepare members for recruiting into high-finance roles.



@texasufa

ABOUT US

Letter from the Directors

This semester marked a period of meaningful growth for the University Finance Association. After welcoming six new associates in September, we moved quickly to integrate them into our investment process and raise the standard of our work.

The launch of our inaugural Equity Research Journal represents an important milestone for the Investment Team. This publication formalizes our commitment to disciplined, fundamentals-focused equity research and reflects the effort of our team throughout the semester. Each report was produced through a rigorous process, with priority placed on thoughtful investment theses, in-depth analysis, and clear, professional writing.

Alongside the Journal, we introduced several initiatives to strengthen market engagement and professional growth, including weekly market news blogs and market watches, ad hoc lecture topics, and structured technical preparation.

We are incredibly proud of the progress the Investment Team has made this semester. The dedication, curiosity, and professionalism demonstrated throughout the equity research process have laid a strong foundation for future publications.

It has been a privilege to serve as Directors, and we do not take this responsibility lightly. We are grateful for the commitment of our members and look forward to building on this momentum.

Sincerely,

Caden Warner & Nathan Li
Directors of Investment (2025-2026)



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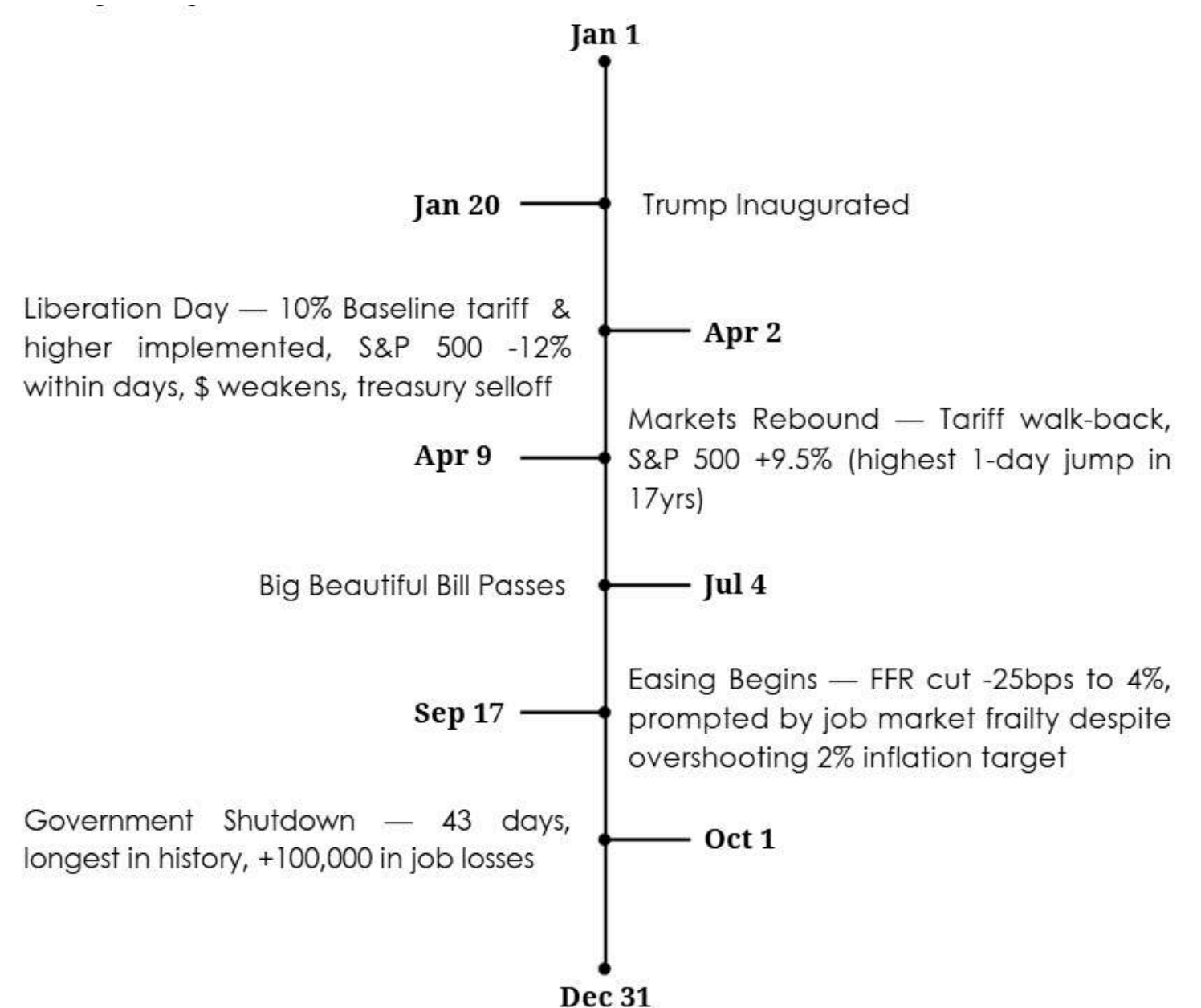
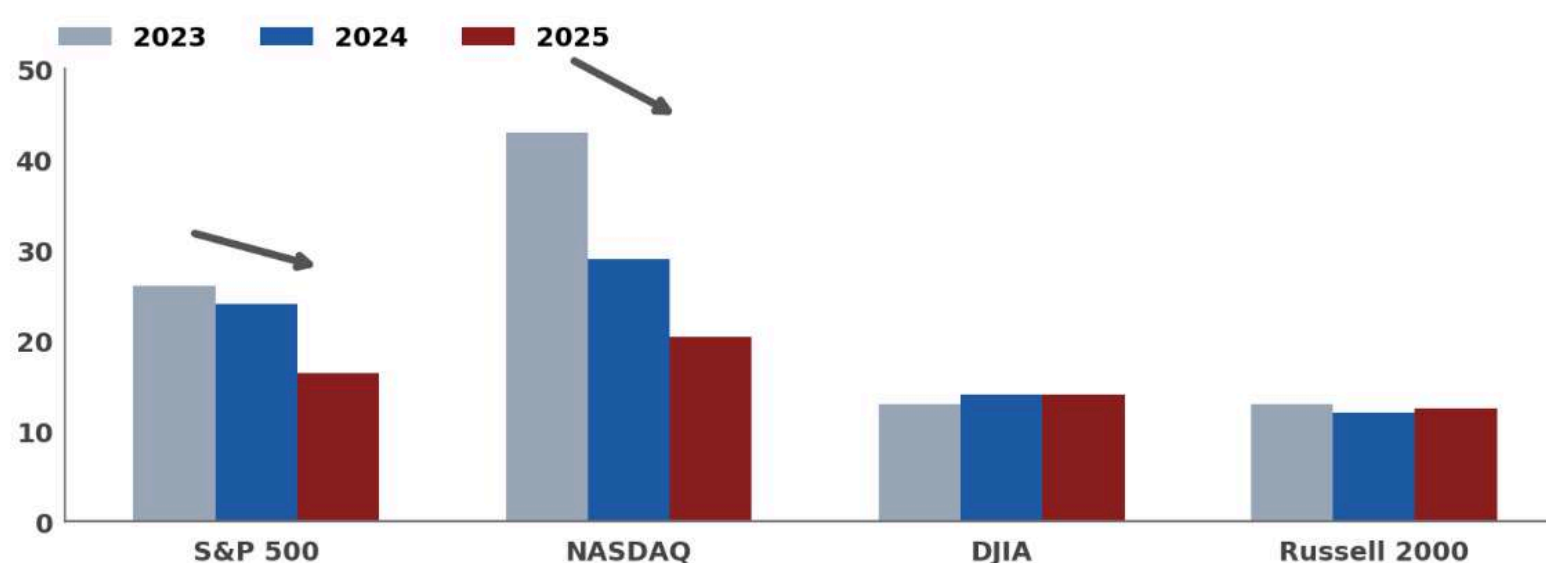
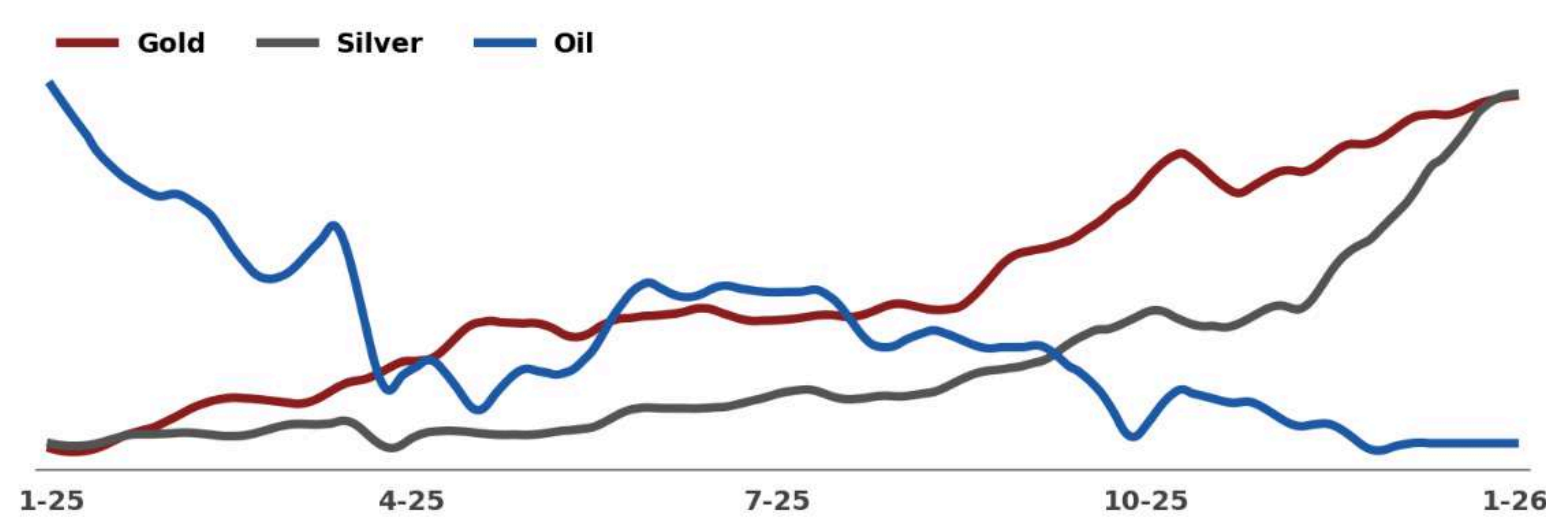
SHANE SCHACK
Associate - TMT



MACRO OVERVIEW

2025 SUMMARY

Over the course of 2025, U.S. equity markets delivered strong total returns despite a volatile macro backdrop that included tariff fears, monetary policy shifts, and geopolitical uncertainty. The S&P 500 advanced roughly 16.4% for the year, marking its third consecutive year of double-digit gains and reflecting broad large-cap strength supported by resilient corporate earnings and technology leadership. The NASDAQ Composite, buoyed by gains in major technology and AI-adjacent stocks, outpaced the broader market, rising about 20.4% in 2025 and underscoring the continued dominance of growth-oriented sectors in the rally. The Dow Jones Industrial Average also posted a solid performance, climbing around 14% over the year as industrials, consumer goods, and blue-chip names benefited from a mixed but generally bullish macro backdrop. Smaller companies participated in equity advances as well, with the Russell 2000 gaining approximately 12.5% in 2025, albeit lagging large caps at times due to greater sensitivity to cost pressures, trade uncertainties, and other headwinds. Overall, these index returns illustrate broad market resilience, with growth-oriented sectors and big-tech shares propelling much of the performance while smaller caps and more cyclical names showed moderate but meaningful gains, particularly in Q4.



BULLISH NARRATIVE

Falling Interest Rates & Monetary Easing

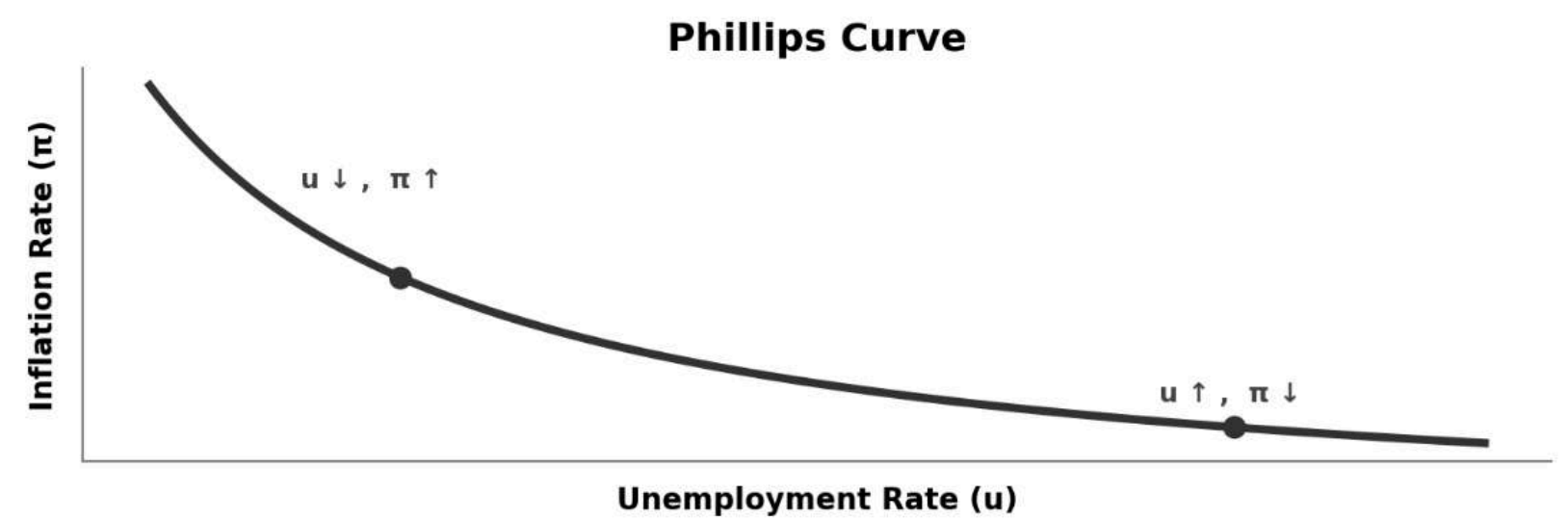
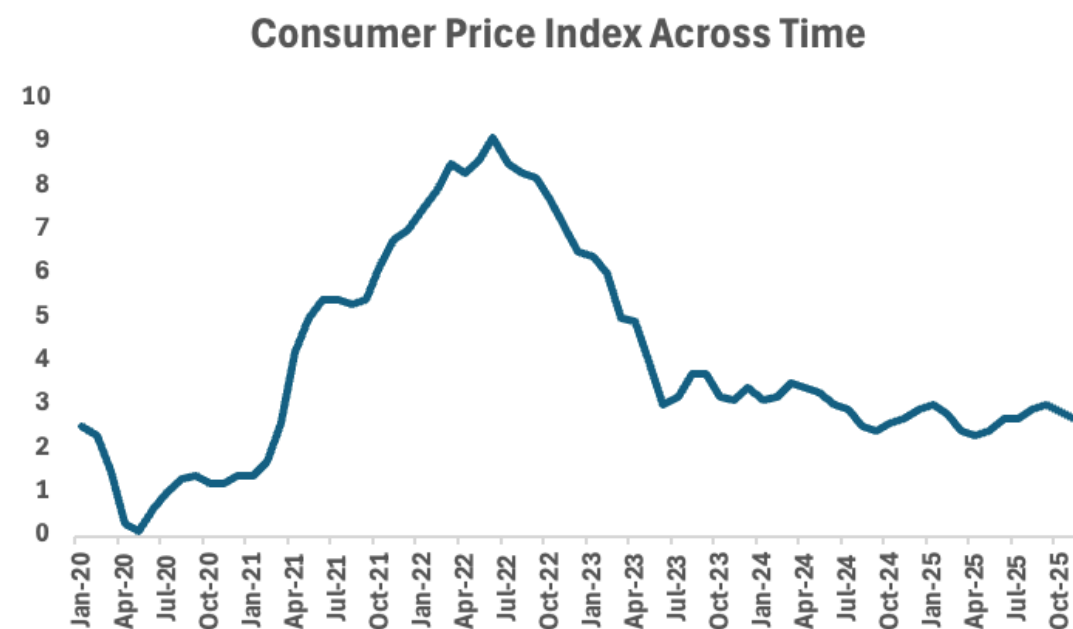
One of the most constructive forces for the U.S. equity market is the Federal Reserve's transition into a rate-cutting cycle, with the federal funds target range now around 3.50% – 3.75% after 3 cuts totaling 75bps in the fall of 2025. Paired with a bottomless supply of credit, debtor leverage in negotiating terms remains largely unchanged. Lower interest rates materially reduce borrowing costs, which is especially beneficial for small caps that rely more on credit financing and floating-rate debt, a dynamic that historically has led to disproportionate gains for small-cap stocks in easing cycles. The Russell 2000, a key small-cap benchmark, has recently outpaced broader market gains as investors anticipate further rate cuts and increased economic stimulus, reflecting this sensitivity to monetary easing. Markets currently price in 25-75bps cuts through 2026.

Moderating Inflation & Price Stability

Despite the tariff regime, inflation has eased significantly from the early 2020s, allowing the Fed to cut rates without sparking renewed price pressures. Headline CPI inflation has moderated toward the ~2.7% range year-over-year, down from pandemic-era highs, and core measures are trending closer to central bank targets. This cooler inflation environment underpins consumer purchasing power while also reducing cost pressures for companies on input costs. Longer-term forecasts suggest inflation expectations remain anchored moderately higher than 2%, allowing markets to price in a soft landing scenario where growth persists without excess price acceleration.

Solid GDP Growth & Corporate Earnings

Economic growth remains positive, with U.S. real GDP expanding 4.3% in Q3 2025 and forecasts indicating continued growth (around 1.9–2.1% for 2026). This strong growth supports corporate revenues and positive revisions, a key driver of stock returns. A growing economy also reinforces investor confidence, particularly in sectors like consumer discretionary, industrials, and cyclicals that are tied directly to strong aggregate demand. GDP growth boosts sentiment, encouraging investors to remain risk-on in a frothy market.



BEARISH NARRATIVE

Rising Unemployment & Labor Market Softness

The U.S. unemployment rate, including discouraged workers (U-4), was around 4.7% in November 2025, while the broader U-6 rate (including part-time workers) was reported at 8.7%. Though unemployment remains under the amount typically associated with deep recessions, if this trend continues, it could erode consumer demand, increase credit default rates, and pressure top-line growth for consumer-reliant companies. On the other hand, with unemployment most affecting the working class, the bottom 60% of income owners only exercise 20% of American purchasing power; the K-Shaped Economy, though an indicator of wealth inequality, has protected GDP growth from the effect of unemployment in 2025.

Tariffs & Geopolitical Headwinds

The new administration has elevated trade policy into a persistent macroeconomic risk. As observed in April (and to a lesser extent in August and October), financial markets have demonstrated heightened sensitivity to tariff-related developments, with sharp sell-offs occurring around periods of elevated tariff anxiety and looming policy deadlines. Although the U.S and China reached a partial truce in late October, tensions persist, particularly surrounding Chinese rare-earth mineral exports and U.S. restrictions on advanced semiconductor technology. Earlier in the year, the U.S and EU unveiled a framework in July that would cap U.S. tariffs at 15% while eliminating European tariffs on American industrial products. While this tentative agreement de-escalated a brewing trade war, it has yet to be implemented, and any delays, renegotiations, or amendments could reignite volatility. Beyond trade, geopolitical conflicts present additional macro risks. The Russia–Ukraine war continues to affect U.S. access to non-Chinese rare-earth mineral supplies, while the conflict in Gaza and recent political developments in Venezuela carry meaningful implications for global oil prices.

Rising National Debt & Fiscal Pressures

U.S. federal debt has continued to climb sharply, approaching \$39 trillion, and growing faster than GDP in recent years. High and rising debt raises structural concerns, placing upward pressure on long-term interest rates and increasing the spread in yield between long-term and short-term USTs. The US pays \$1T in interest annually & adds \$2T to the deficit YoY.

2026 OUTLOOK

The 2026 macro environment presents a mix of bullish and bearish signals. Many analysts anticipate moderate single-digit growth for the S&P 500, driven primarily by earnings growth, with margin expansion expected to remain limited. Volatility is widely expected, leading experts to recommend overweighting equities during market pullbacks and trimming exposure as they rise. Value stocks may offer attractive opportunities, though investors should remain cautious of value traps among companies with weakening fundamentals. Overall, the 2026 outlook suggests a market defined less by broad multiple expansion (as seen the previous 3 years) and more by disciplined, selective investing, rewarding investors who remain flexible and valuation-aware as fundamentals, rather than sentiment, drive returns.



TMT INDUSTRY

COMPANY SUMMARY

Lumen Technologies (LUMN) is a global telecommunications company that leverages a vast fiber network to deliver scalable and reliable digital solutions for businesses and governments. They offer networking, edge cloud, cybersecurity, managed services, and collaboration services through high-speed internet, cloud connectivity, and network-as-a-service (NaaS) solutions. The company specializes in wavelengths, dark fiber, IP VPNs, and hybrid cloud solutions. Lumen’s primary two segments are its Business and Mass Market segments, which serve businesses and consumers, respectively. Within the Business segment, Lumen operates through its North American Enterprise channel to support large and mid-market enterprises, public sector clients, and wholesalers.

INVESTMENT THESIS

Lumen has established itself as a mainstay in enterprise AI infrastructure

Lumen is making a notable shift away from its traditional mass market network services towards an enterprise-driven, comprehensive suite of connectivity solutions, including edge computing, cybersecurity, and integrated IT services. Within their business segment, which comprises around 81% of revenue, the “Grow” product category - focused on fiber, cloud, and AI solutions - has seen 8% YoY growth while legacy products and services have seen declines. With the sale of their legacy business to AT&T, Lumen is removing a declining part of their business and preserving a greater share of capital to invest in high-growth areas associated with AI expansion.

Evolving “connected ecosystem” enhances Lumen’s network offerings for hyperscalers

Lumen has secured over \$10 billion in Private Connectivity Fabric (PCF) contracts with hyperscalers, including Microsoft, Meta, and Google, providing long-duration, high capacity network infrastructure to satisfy increasing demand from the AI build-out. These partnerships provide Lumen with stable revenue sources that compensate for the company’s shift away from its traditional business model. Partnerships with Palantir for data intelligence, Commvault for enterprise cyber resilience, and other firms that comprise Lumen’s “Connected Ecosystem”, improve Lumen’s product line and ability to dominate the AI fiber optic market. Its robust combination of IaaS, cybersecurity, and collaboration products, including Lumen CDN, IP VPN, SD-WAN, and Black Lotus Labs minimizes client concentration.

Continued technological innovation solidifies Lumen’s role at the backbone of AI build-out.

Lumen continuously finds new ways for companies to navigate the modern AI landscape by reducing network latency, supporting hybrid cloud architecture, and implementing robust edge capacity. A Corning partnership for next-generation fiber and a dominant 20.9% share of the Dark Fiber Network Operators market, positions Lumen well to serve as the foundation of AI infrastructure expansion. NaaS adoption remains strong, with 32% more customer growth, a 30% increase in fabric ports deployed, and 36% more services sold.

GROWTH ASSUMPTIONS

With a goal of resetting their financial foundation, Lumen has embraced structural changes, including the sale of their EMEA business and select CDN contracts in Q4 of 2023, which decreased business segment revenue by \$1.2 billion for 2024 and \$1.5 billion for 2023 and greatly decreased operating expenses by 48 percent in 2024. Adjusted EBITDA has fallen 49% since 2022 due to decreased legacy revenue, but net loss also decreased significantly from \$10.3 billion in 2023 to \$55 million in 2024, indicating strong growth after restructuring. A rising EV/EBITDA multiple of 6.5x, up from 4.4x in 2022, is indicative of strong investor expectations for a sharp turnaround in the company. Although Lumen holds just 2.4 percent of the Communication Services Industry, Q2 growth rates indicate that the bottom line grew by 355 percent, the highest of all its peers.

UFA RECOMMENDATION

I recommend a **long** position in LUNMN because of its AI-driven multi-year fiber expansion plan, its sale of its Mass Markets Fiber Business, and strategic partnerships that significantly improve infrastructure and service offerings.

Rating: **Buy**
Current Price: **\$8.10**
Target Price: **\$10.87**

KEY STATISTICS

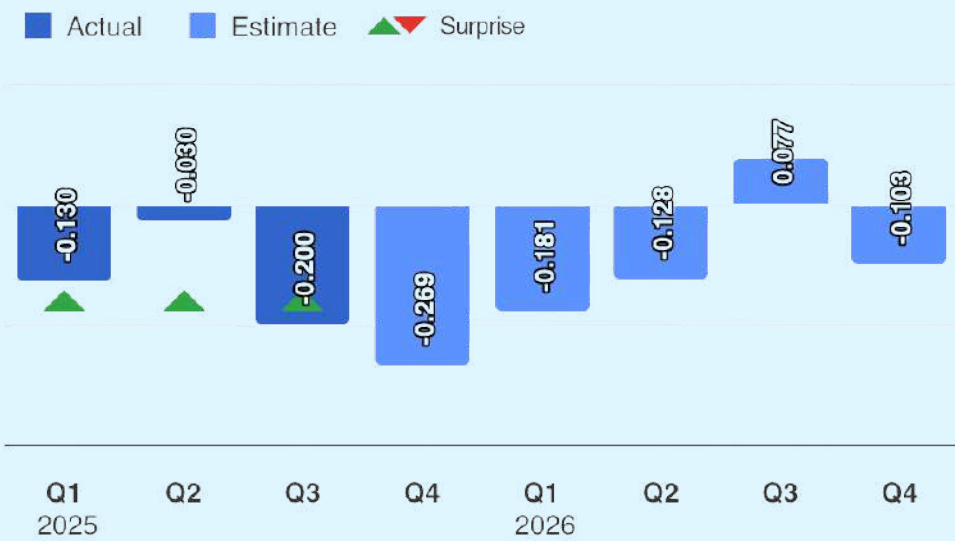
Market Cap: **\$8.13 billion**
Beta: **1.44**
EPS: **- \$1.67**
52wk Price Range: **\$3.01 - \$11.95**

FUNDAMENTALS

Debt-to-Asset Ratio: **0.52**
Current Ratio: **2.21**
EBITDA Margin: **18.72%**
Net Margin: **-13.02%**
Price-to-Sales: **0.63**

GRAPHS & ANALYSIS

Earnings



Stronger Overall Network Utilization

Utilization (EOY)	2022 (Actuals)	2025 (Plan)	2028 (Vision)
Total Intercity Fiber Miles*	12M	17M	47M
Hyperscaler Utilization	30%	45%	57%
Enterprise Channels Utilization**	27%	19%	13%
Overall Network Utilization	57%	64%	70%
Available Capacity for Growth	5M	6M	14M

*Total Intercity Fiber Miles excludes ~22M expanding metro fiber miles today
**Enterprise Channels include Commercial Enterprise, Public Sector, Wholesale, and Services

GROWTH ASSUMPTIONS

Lumen has repositioned itself to operate within its high-growth business segment. Drops in revenue have stabilized following a shift from legacy growth towards targeted AI infrastructure. Revenue is projected to continue growing 14% on average, assuming continued divestitures of legacy-oriented assets. This estimate is conservative compared to Lumen’s non-legacy CAGR from 2015 - 2018 of 16.5%,

Revenue: **\$12.69 billion**
EBITDA: **\$1.87 billion**



GROW, NURTURE, HARVEST

Within the Business segment, the “Grow”, “Nurture”, and “Harvest” segments held 50, 24, and 15 percent of total revenue, respectively. This represents a 4.2% increase Q/Q for Grow, and decreases of 2.8% and 11.8% for the other two segments, respectively. Over 1,500 business customers have adopted Lumen NaaS since it launched in 2023. Total operating expenses decreased 48% from 2023 to 2024, and COGS has reduced by 441 million since 2023, primarily due to divestitures of the EMEA business in 2023, as well as the Latin American business in 2022 have greatly reduced COGS. Sales of lagging assets, increased adoption within the Grow segment, and a reduced debt burden support higher forecasted growth.

RISK ANALYSIS

Mass Markets Segment Divestiture

A key risk faced by Lumen is the pending sale of its consumer Mass Markets fiber-to-the-home segment to AT&T, scheduled to close in 2026. The completion of the transaction is contingent upon regulatory approval and is not guaranteed. Should the deal fall through, Lumen could strain stakeholder relationships and hinder its operational focus on its “Transformation Agenda” – a strategic shift from being a traditional telecom company to a modern digital networking provider. The Mass Markets Segment has declined YoY 9%, 32%, and 20% since 2023, 2022, and 2021, respectively. The business has continued to underperform due to declining legacy voice services, intense price competition in residential broadband, and high capital requirements required to maintain the fiber infrastructure. Should the deal succeed, the sale could result in unforeseen costs, dis-synergies, operational challenges, and reduced cash flows. Regardless of uncertainty surrounding the consumer segment, demand for the business segment’s growth-oriented products remains strong.

Interest Rates

Lumen’s debt load has weighed on investors. The company carries \$17.5 billion in debt, significant compared to the roughly \$9 billion collected in revenue through the first three quarters of the year. Combined with a faltering legacy business, this debt pressures bottom-line growth and raises questions about sustainability in aggressive expansion. A debt-to-equity ratio of -1486.7% is indicative of massive leverage and fragility in Lumen’s capital structure. Despite this risk, however, Lumen has successfully shed \$1.6 billion in debt and completed a \$15 billion debt restructuring, driving material improvement in equity and debt trading values and pushing out repayments. Lumen looks to capitalize on a lower debt burden, with net debt leverage projected to decline from 4.4x to 3.3x by 2026, enabling the company to focus on fiber expansion and AI partnerships.

COMPANY NEWS / EARNINGS TEASER

- Lumen recently reported \$2.4 billion in debt refinancing in Q3 2025, extending maturities and reducing cash interest.
- Lumen reached over \$10 billion in PCF deals, signaling strong demand among hyperscaler customers within the “Grow” segment.
- The company announced beats of revenue, aEBITDA, and FCF for the quarter, owing to new partnerships and strong NaaS adoption.
- Total adjusted EBITDA is down 11% on the year, primarily due to divestitures, although total expenses are down 10%.

COMPETITOR ANALYSIS

- Lumen faces competition across many of its service offerings. Major telecom competitors AT&T and Verizon offer networking services. In the unified communications and cloud space, Lumen competes with Fusion Connect and BCM One. Comcast competes with its ENS product, in fiber-based network improvements. The cybersecurity market is highly saturated, with large and established vendors, including Cisco, IBM, and Palo Alto Security.
- Despite a highly competitive market, Lumen has secured \$10 billion worth of PCF deals with hyperscalers. It has a global fiber network and is projected to scale significantly, reaching 47 million miles by 2028. Its Network-as-a-Service (NaaS) enables consumption of high-bandwidth and secure network services.
- Aiming for \$1 billion in cost savings by 2027, Lumen has greatly increased operational efficiency. Adjusted EBITDA margin FY 2024 was around 26%, indicating stabilization after divestitures and a steady margin of despite declining revenues.

VALUATION & ADDITIONAL ASSUMPTIONS

Assumptions (mm)								
Discount Rate	9.0%							
Perpetual Growth Rate	3.0%							
Transaction Date	11/17/25							
First Fiscal Year End	12/31/25							
Current Price	\$ 8.10							
Shares Outstanding	1,030							
Debt	17,945							
"Excess" Cash	2,401							
	2022	2023	2024	2025	2026	2027	2028	2029
Tax Rate	26.0%	26.0%	26.0%	26.0%	26.0%	26.0%	26.0%	26.0%
Cost of Services (COGS)	45.0%	49.1%	51.1%	48.4%	48.4%	48.4%	48.4%	48.4%
SG&A expense	17.6%	22.0%	22.7%	20.8%	20.8%	20.8%	20.8%	20.8%
D&A expense	18.5%	20.5%	22.6%	5.5%	5.5%	5.5%	5.5%	5.5%
Capex	\$3,016	\$3,100	\$3,231	\$3,499	\$3,219	\$3,219	\$3,219	\$3,219

Intrinsic Value	
Enterprise Value	26,740
Plus: Excess Cash	2,401
Less: Debt	17,945
Equity Value	11,196
Estimated share price	
	10.87

Discounted Cash Flow	2022	2023	2024	2025	2026	2027	2028	2029
Date	12/31/22	12/31/23	12/31/24	12/31/25	12/31/26	12/31/27	12/31/28	12/31/29
Time Periods			0	1	2	3	4	5
Sales Growth		-17%	-10%	-5%	-10%	10%	13%	15%
Sales	17,478	14,557	13,108	12,453	11,207	12,328	13,931	16,020
Less: COGS	7,868	7,144	6,703	6,028	5,425	5,968	6,744	7,755
Less: SG&A	3,078	3,198	2,972	2,584	2,326	2,558	2,891	3,324
Less: D&A	3,239	2,985	2,956	685	616	678	766	881
EBIT	3,293	1,230	477	3,155	2,840	3,124	3,530	4,059
Less: Cash Taxes	-	-	-	-	-	-	918	1,055
Plus: D&A	3,239	2,985	2,956	685	616	678	766	881
Less: Capex	3,016	3,100	3,231	3,499	3,219	3,219	3,219	3,219
Less: Changes in NWC	(3,750)	687	(486)	(1,183)	(1,183)	(1,183)	(1,183)	(1,183)
Unlevered FCF	7,266.00	428.00	688.00	1,524.30	1,420.19	1,765.81	1,342.27	1,849.03



COMPANY SUMMARY

dLocal Limited is a Uruguayan financial technology company that leverages its cross-border payment services platform to enable international merchants to receive and send payments in emerging markets. The company operates as a single operating segment focused on payment processing and deep integration with complex and local transactions, particularly in Latin America, Africa, and Asia. dLocal operates within a variety of industries including travel, retail, crypto, e-commerce, and ride-hailing, with notable merchants including Amazon, Microsoft, Uber, and Spotify. The company also maintains capabilities partnerships, working with Google, for example, to create agentic commerce solutions and Capitec for real-time payment innovation in South Africa.

INVESTMENT THESIS

Regulatory expertise, relationship management, and innovation agenda, enable aggressive global expansion

dLocal has built the foundation necessary to successfully pursue aggressive global expansion across Latin America, African, and Asia. In Q3, dLocal experienced 47% YoY growth in Latin America and 41% in Africa and Asia in countries outside of its traditional markets, which include Brazil, Argentina, and Egypt. Additionally, half of its top ten merchants are different compared to two years ago, signaling increasing diversification. They payments structure in emerging markets continues to evolve, and merchants continue to localize payments and add payment methods in EMs and frontier markets as they globalize, adding value to dLocal’s services.

Integration across global payment cycles create high switching costs and prevents merchant churn

The workflows enabled by dLocal’s deeply integrated platform would be costly to recreate, which encourages merchant stickiness. The payments landscape is highly fragmented and ever-evolving. dLocal predicts APMs will reach 58% of e-commerce payments by 2027, and credit card penetration remains low at 11%. BNPL is predicted to outpace the overall market at a CAGR of 20% through 2027, and crypto corridors have become increasingly popular. This added complexity makes it difficult for companies to individually manage payments across markets and payment methods. As new regulations, payment methods, and settlement requirements emerge, merchants rely on a single platform that can handle complexity and update infrastructure on their behalf.

Scale-driven operating leverage and expanding monetization per merchant

An ongoing investment cycle is driving higher operating expenses, with a 10% increase QoQ and 28% increase YoY, primarily due to increased salaries. dLocal continues to demonstrate strong operating leverage, however, with revenue per employee improving roughly 29% YoY. dLocal serves more than 700 merchants globally – up from about 330 in 2021 – and TPV reached about \$26 billion in 2024, indicating large volume scaling over largely fixed infrastructure. Despite take-rate compression, dLocal’s operating margin was still 20%. Gross take rate (revenue/TPV) was around 2.9% for 2024, down 3.7% from 2023, but growth in higher-take verticals such as commerce and new products will offset that compression.

GROWTH ASSUMPTIONS

A strong balance sheet has fueled dLocal’s core engine - connecting global businesses to local consumers in high growth regions of the world. With increasing merchant globalization and the growth of dLocal’s revenue share outside of its top ten merchants, the company continues to diversify and expand. Continued product enhancement, including integration of BNPL Fuse, 27 APMs-on-file, and stablecoin on- and off-ramp capabilities supports a focused innovation agenda that strengthens dLocal’s moat against other FinTech companies. dLocal is uniquely positioned to continue its low-leverage, high-growth strategy, while minimizing risks. Revenue has grown at a CAGR of 64% since 2020, and total payment volume (TPV) surpassed \$10 billion, marking a 60% YoY increase. Commerce and remittances remain the highest growth verticals YoY in terms of TPV, at 89% and 226%, respectively. We anticipate revenue growth will continue at the roughly 15% seen from 2023 to 2024, as dLocal continues its gradual expansion and capitalizes on product enhancements.

UFA RECOMMENDATION

I recommend a **long** position in **DLO** because of its proven growth and geographic expansion, which protects against regional volatility and currency risk, and its scalable business model, which is asset-light and minimizes interest rate exposure.

Rating: **Buy**
Current Price: **\$14.34**
Target Price: **\$17.29**

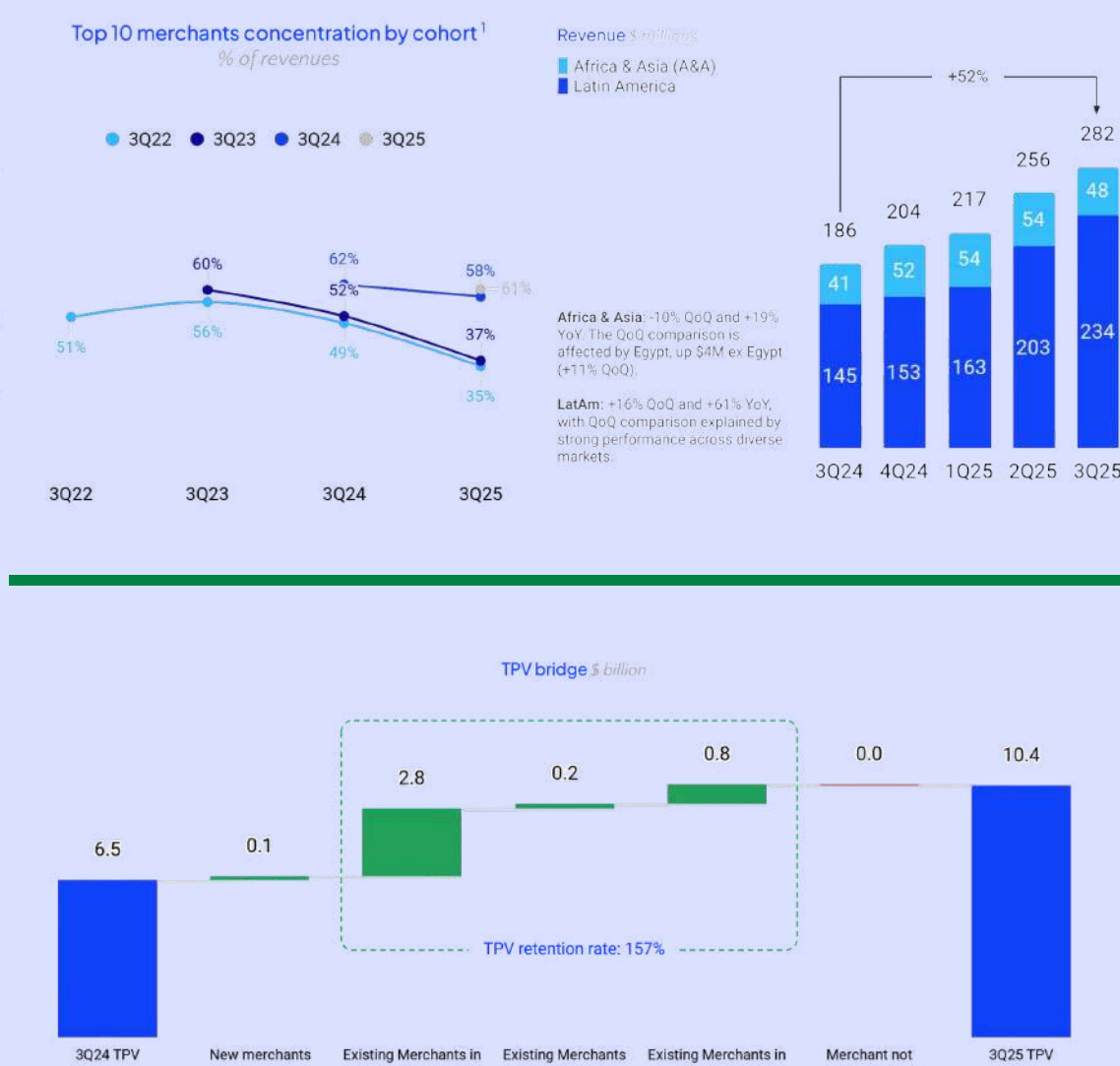
KEY STATISTICS

Market Cap: **\$4.23 billion**
Beta: **1.11**
EPS: **\$0.56**
52wk Price Range: **\$7.61 - \$16.78**

FUNDAMENTALS

Debt-to-Equity Ratio: **0.13**
Current Ratio: **1.46**
EBITDA Margin: **24%**
Net Margin: **17.80%**
Price-to-Sales: **4.50**

GRAPHS & ANALYSIS



GROWTH ASSUMPTIONS

dLocal’s strong balance sheet and expanding product suite are driving diversification, merchant globalization, and a defensible competitive moat, while supporting a low-leverage, high-growth strategy. With revenue growing at a 64% CAGR since 2020, TPV surpassing \$10 billion, and strong momentum in commerce and remittances, the company is expected to sustain steady revenue growth of around 15% as it continues to expand and innovate.

Revenue: **\$960.19 million**
EBITDA: **\$215.63 million**



RESILIENT CASH GENERATION

dLocal has demonstrated resilient cash generation, with a healthy adjusted free cash flow to net income ratio of 73%, and an adjusted free cash flow of \$38 million, up 28% YoY. As an asset-light business with near-zero debt, dLocal’s bottom line growth is not pressured by interest payments, which means the company can reinvest increasingly into its own business. Any significant decreases in FCF are typically affected by regulatory changes in a particular market, which are short-lived and usually reverse with time. This cash is typically spent on increased technology, product, and geographic expansion, as indicated by a relatively low CapEx of under \$2 million per year. Excess cash has funded over \$300 million in share buybacks and still left the company with over \$300 million of own-funds liquidity.

RISK ANALYSIS

Take Rate Compression

dLocal’s revenue model is highly dependent on their take rate for each transaction, which constantly shifts. From Q2 to Q3 2025, this rate declined from 1.07% to 0.99%, due to a higher share of pay-outs than pay-ins, merchant share-of-wallet loss in Egypt, FX spread compression in Bolivia, and lower interest rate spreads in Argentina. This margin pressure, unless temporary, can significantly impact top-line growth, regardless of TPV. Revenue growth, however, remained strong, increasing 52% YoY, and net income was up 93% YoY, driven by reduced ARS bond exposure and therefore lower financing costs.

Merchant Concentration

dLocal tends to receive the bulk of its revenue – 60% in Q3 2025 – from its top ten merchants. For each cohort of merchants, however, from Q3 2022 to 2025, their share of the revenue falls as other merchants outgrow them. dLocal continues to diversify their customers, shielding against heavy merchant concentration.

Regional Volatility

The markets in which dLocal operates are inherently risky. Aggressive discounting by competitors and softness by merchants, for instance, can greatly impact TPV. In specific markets, the evolution of a currency and inflation can have a significant impact on profits. Argentina’s peso posed a challenge for dLocal in 2025, as sharp devaluations, capital controls, and high inflation directly undermined the economics of cross-border payment-processing. Recent tariff hikes in Mexico and shifting tax regimes in Brazil also played a role in earnings volatility. dLocal mitigates this risk through diversification. Although QoQ profit in both Mexico and Argentina was down 16%, Brazil and the remainder of the Latin American segment saw increases of 21% and 30%, respectively. Broad-based volume growth remains strong across all markets outside of Egypt.

COMPANY NEWS / EARNINGS TEASER

- Product enhancements include an improvement to APMs-on-file – incorporating 27 APMs and a 34 p.p. conversion rate uplift – and the creation of BNLP Fuse, the first BNLP aggregator for EMs.
- Net income is up 93% YoY, primarily due to lower finance costs.
- Adjusted EBITDA is up 2% QoQ and 37% YoY, with an adjusted EBITDA to gross profit ratio of 69%.

COMPETITOR ANALYSIS

- dLocal’s primary competition is in the global enterprise payment-processing market, with companies such as Ayden, Stripe, and Checkout.com offering pay-ins and pay-outs at a larger scale. There are also other regional, emerging-market specialists such as EBANX (LatAm), and Razorpay (India), which share deep regulatory knowledge and local relationship management.
- Despite operating within two highly competitive markets, dLocal has differentiated itself as the only active participant in both. It operates BNLP Fuse, the first BNPL aggregator built for emerging markets. It also uses a single platform and API to consolidate 27 different APMs across 16 countries, reducing transaction complexity for merchants.
- dLocal has secured a relatively high net revenue retention rate at 136%, which surpasses most B2B SaaS companies. In addition, gross profit has surpassed 32% growth, signaling that dLocal is withstanding margin pressures to process payments for an increasingly diverse merchant mix.

VALUATION & ADDITIONAL ASSUMPTIONS

Comparable Company Analysis												
Company Name	Ticker	Market Data			Financial Data				Valuation			
		Price (\$/share)	Market Cap (\$M)	EV (\$M)	Sales (\$M)	EBITDA (\$M)	EBIT (\$M)	Earnings (\$M)	EV/Sales x	EV/EBITDA x	EV/EBIT x	P/E x
Payoneer Global Inc.	PAYO	5.62	2,030	1,600	803	124	64	72	2.0x	12.9x	25.0x	28.2x
Remitly Global Inc.	RELY	13.8	2,900	2,530	1,545	67	36	21	1.6x	37.8x	70.3x	138.1x
Paysafe Ltd.	PSFE	8.09	456	2,750	1,683	385	112	-124	1.6x	7.1x	24.6x	-3.7x
Flywire Corp.	FLYW	14.16	1,732	1,370	583	33	9	-2	2.3x	41.5x	152.2x	-866.0x
Marqeta Inc.	MQ	4.77	2,120	1,300	589	-51	-76	-40	2.2x	-25.5x	-17.1x	-53.0x
Min									1.6x	-25.5x	-17.1x	-866.0x
25th Percentile									1.6x	7.1x	24.6x	-53.0x
Median									2.0x	12.9x	25.0x	-3.7x
75th Percentile									2.2x	37.8x	70.3x	28.2x
Max									2.3x	41.5x	152.2x	138.1x

	(\$M)
EBIT	193
Enterprise Value	4825
Plus: Excess Cash	333
Less: Debt	63
Equity Value	5095

Shares Outstanding (M)	294.73
Estimated share price (\$)	17.29



COMPANY SUMMARY

Cloudflare is a global cloud services and internet security company providing content delivery, cybersecurity, and Zero Trust solutions. Its network spans over 300 cities, securing and accelerating millions of websites worldwide. The platform reduces reliance on costly hardware and complex on-premises systems, helping organizations operate more efficiently and securely. Cloudflare continues expanding into adjacent areas such as developer services and AI networking, broadening its long-term growth opportunity. Positioned to benefit from secular trends in cybersecurity, digital transformation, and AI-driven infrastructure, the firm combines high growth with consistently strong margins.

INVESTMENT THESIS

Cloudflare is transforming into a full-stack infrastructure platform with rising switching costs

Cloudflare is evolving from a basic CDN into a broad infrastructure platform spanning Zero Trust security, developer compute, storage, AI networking, and application performance. This expansion increases its total addressable market to more than \$135 billion across security, networking, and developer tools. Cloudflare’s network spans over 310 cities and handles more than 20% of global internet requests, creating meaningful scale advantages and lower operating costs. Products such as Workers and R2 are growing more than 30% YoY, and roughly 60% of large customers now use 4 or more product groups. By bundling security, networking, and compute, Cloudflare reduces vendor complexity and increases switching costs, positioning the company to take share from legacy hardware focused vendors.

Enterprise penetration remains early, creating a long runway for high margin growth

Cloudflare has penetrated only about 35% of the Fortune 500 and has fewer than 2,200 large enterprise customers spending more than \$100,000 annually, indicating a long runway for growth. These customers account for over 60% of total revenue and are growing at more than 20% YoY despite a challenging macro environment. Net retention among large customers remains above 115%, supported by effective cross selling and rising product adoption. Average revenue per large customer has increased for 8 consecutive quarters, and management expects enterprise revenue to double within three to four years. Continued expansion across the Fortune 2000 and a growing global sales presence support sustained multi year growth.

Cloudflare is positioned to be a core enabler of AI networking and inference at the edge

Cloudflare is positioned to benefit from rising demand for fast and cost efficient AI inference at the edge. It is one of the few providers with a global network capable of running distributed inference at scale. In 2024, Cloudflare announced plans to deploy GPUs in more than 100 cities, with a long term goal of reaching 300 locations. This architecture reduces latency by over 40% and lowers inference costs by more than 60% relative to centralized cloud regions. Partnerships with NVIDIA, Hugging Face, and other model providers strengthen the Workers AI ecosystem. AI products represent a mid single digit share of revenue and are growing more than 40% per quarter, supporting Cloudflare’s role as a core infrastructure layer for production AI workloads.

GROWTH ASSUMPTIONS

Cloudflare’s multi-year growth outlook reflects sustained enterprise adoption and expanding demand for secure networking solutions. In 2024, revenue surpassed \$1.66B, growing over 28%, and is forecast to exceed \$6B by 2029, demonstrating strong scale effects. Gross profit expands meaningfully as COGS declines toward 17% of revenue, while OpEx leverage drives operating margin improvement. Under a 50x 2029 EBITDA multiple, the terminal value supports an implied share price above today’s level, with upside enhanced by a 2.75% terminal growth rate. Analysts generally model long-term demand for Cloudflare’s platform, supporting durable free cash flow generation and sustained valuation multiples.

UFA RECOMMENDATION

I recommend a **long** position in NET given its implied upside of 9.16%.

Rating: **Buy**
Current Price: **\$228.10**
Target Price: **\$248.98**

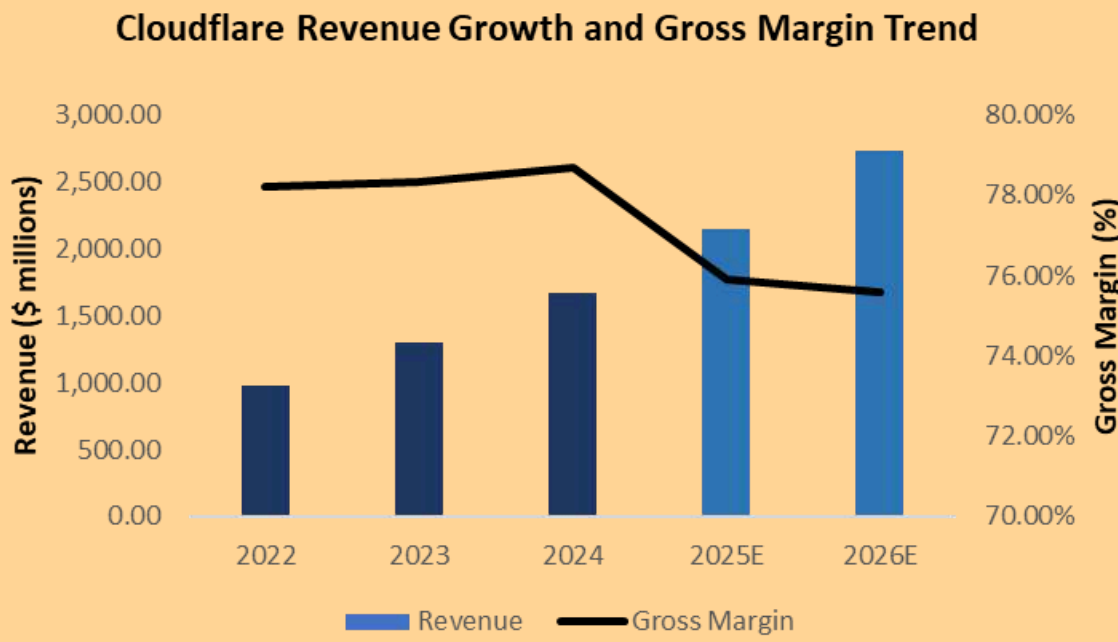
KEY STATISTICS

Market Cap: 79.395B
Beta: 1.93
EPS: -0.31
52wk Price Range: \$87.77 - \$260

FUNDAMENTALS

Leverage Ratio: 2.42
Current Ratio: 2.04
EBITDA Margin: 4.36%
Net Margin: -5.12%
Gross Margin: 75.2%

GRAPHS & ANALYSIS



GROWTH ASSUMPTIONS

Revenue growth is projected to slow steadily over the forecast period, declining from the high-40% range to roughly 28–30%.

Revenue: **\$6.03B**
EPS: 4.77
OpEx as % of Rev: 53%



NETWORK SCALE UNDERPINS OPERATING LEVERAGE

Cloudflare operates one of the largest global edge networks, spanning more than 310 cities and handling over 20% of all internet requests. This scale allows the company to absorb traffic growth without proportional increases in infrastructure investment. Cloudflare also maintains a strong balance sheet, with approximately \$148 million in cash and limited debt, supporting financial flexibility as the company continues to invest in its platform. These structural characteristics provide operational resilience and reduce execution risk as Cloudflare scales.

RISK ANALYSIS

Execution and Margin Realization Risk

Cloudflare’s valuation and long-term upside depend on its ability to translate revenue growth into sustained profitability. While the company is expected to benefit from operating leverage over time, execution risk remains if operating expenses do not decline as projected. In the model, operating expenses fall to approximately 53% of revenue by 2029, supporting meaningful margin expansion. However, continued investment in sales, research and development, and global infrastructure could delay this inflection. If Cloudflare is unable to achieve forecasted cost efficiencies or must reinvest more heavily to support growth, operating margins and FCF could fall below expectations, reducing equity value.

Competitive and Pricing Pressure Risk

Cloudflare operates in highly competitive markets across content delivery, cybersecurity, and cloud infrastructure. Large cloud providers and established cybersecurity firms possess greater financial resources and may bundle networking and security services at aggressive price points. Increased competition could pressure Cloudflare’s pricing or slow customer expansion, particularly among large enterprise accounts that contribute more than 60% of total revenue. If competitive dynamics limit Cloudflare’s ability to maintain current gross margins in the mid-70% range, long-term profitability assumptions embedded in the valuation may prove optimistic.

Macro, Valuation, and Regulatory Risk

Cloudflare’s equity value remains sensitive to broader macroeconomic conditions and changes in market sentiment toward high-growth technology companies. Rising interest rates or increased risk aversion could compress valuation multiples, even if operating performance remains strong. In addition, Cloudflare operates across global markets and is subject to evolving regulations related to data privacy, content moderation, and AI infrastructure. Increased compliance costs or regulatory restrictions could raise operating expenses and limit product flexibility. A combination of macro headwinds and regulatory pressure could reduce near-term upside and increase earnings volatility.

COMPANY NEWS / EARNINGS TEASER

- Cloudflare acquired Replicate to strengthen Workers as a one-stop platform for building, training, and deploying AI models.
- The acquisition expands Cloudflare’s AI developer ecosystem and deepens integration across compute, storage, and networking.
- Analysts project Cloudflare revenue of approximately 2.73 billion in fiscal 2026, implying continued year over year growth of about 27%.

COMPETITOR ANALYSIS

- Relative to peers in IT services and internet infrastructure, Cloudflare trades at a significant valuation premium reflecting its growth profile and platform positioning.
- On FY1 estimates, Cloudflare trades at approximately 35.1x EV/Sales and 153.5x EV/EBITDA, compared to a peer median of 3.4x EV/Sales and 15.9x EV/EBITDA.
- While traditional IT services firms such as Cognizant and CDW trade at materially lower multiples, they exhibit slower growth and lower margin expansion potential. Even relative to higher-quality infrastructure peers like VeriSign, which trades at 14.6x EV/Sales, Cloudflare commands a premium.

VALUATION & ADDITIONAL ASSUMPTIONS

In Thousands \$ USD								
	2022	2023	2024	2025	2026	2027	2028	2029
Revenue	975,241,000.00	1,296,745,000.00	1,669,626,000.00	2,170,513,800.00	2,821,667,940.00	3,639,951,642.60	4,695,537,618.95	6,033,765,840.36
% Growth	48.6%	33.0%	28.8%	30.0%	30.0%	29.0%	29.0%	28.5%
Less: COGS	232,610,000.00	307,005,000.00	378,702,000.00	455,807,898.00	564,333,588.00	691,590,812.09		1,025,740,192.86
% Revenue	23.85%	23.68%	22.68%	21.0%	20.0%	19.0%	18.0%	17.0%
Gross Profit	742,631,000.00	989,740,000.00	1,290,924,000.00	1,714,705,902.00	2,257,334,352.00	2,948,360,830.51	4,695,537,618.95	5,008,025,647.50
Less: Op Ex	943,834,000.00	1,175,225,000.00	1,445,685,000.00	1,736,411,040.00	1,975,167,558.00	2,256,770,018.41	2,676,456,442.80	3,197,895,895.39
% Revenue	96.8%	90.6%	86.6%	80.0%	70.0%	62.0%	57.0%	53.0%
Operating Income	(201,203,000.00)	(185,485,000.00)	(154,761,000.00)	(21,705,138.00)	282,166,794.00	691,590,812.09	2,019,081,176.15	1,810,129,752.11
Less: Taxes	2,648,000.00	6,087,000.00	7,929,000.00	-	28,216,679.40	82,990,897.45	302,862,176.42	307,722,057.86
NOPAT	(201,203,000.00)	(185,485,000.00)	(154,761,000.00)	(21,705,138.00)	253,950,114.60	608,599,914.64	1,716,218,999.73	1,502,407,694.25
Add: D&A	102,335,000.00	135,820,000.00	127,722,000.00	195,346,242.00	225,733,435.20	291,196,131.41	328,687,633.33	422,363,608.82
Less: Change in NWC	(78,504,000.00)	(104,728,000.00)	(108,922,000.00)	(86,820,552.00)	(56,433,358.80)	(36,399,516.43)	(46,955,376.19)	(60,337,658.40)
Less: CapEx	(163,364,000.00)	134,942,000.00	(213,514,000.00)	(217,051,380.00)	(225,733,435.20)	(218,397,098.56)	(187,821,504.76)	(150,844,146.01)
UFCF				(130,230,828.00)	197,516,755.80	644,999,431.07	1,810,129,752.11	1,713,589,498.66
PV Factor				1	2	3	4	5
PV of UFCF				(121,216,699.65)	171,120,188.86	520,122,081.97	1,358,639,763.54	1,197,154,107.40

Gordon Growth	
2029 UFCF	1,713,589,498.66
Terminal Growth Rate	2.75%
Terminal Value in 2029	107,456,579,635.85
PV of Terminal Value	75,071,705,200.26
(+) PV of UFCF	3,125,819,898.31
Enterprise Value	78,197,525,098.58
(+) Cash	147,691,000.00
(-) Debt	146,700,000.00
Equity Value	78,491,916,098.58
Shares Outstanding	315,250,000.00
Implied Share Price	248.98
Current Share Price	228.10
Implied Upside	9.16%



COMPANY SUMMARY

Qualcomm, Inc. is a global semiconductor and technology company that designs and supplies integrated circuits, software, and wireless technologies used across mobile, automotive, Internet of Things, and computing applications. The company is best known for its Snapdragon processors and leadership in cellular connectivity, including 5G. Qualcomm operates through two primary segments: QCT, which generates revenue from chipset sales, and QTL, which earns high margin licensing royalties from its extensive patent portfolio. As connectivity and compute demands expand across devices, vehicles, and edge applications, Qualcomm is positioned to benefit from long term growth in wireless, AI enabled computing, and connected platforms.

INVESTMENT THESIS

Market Underestimates Non-Handset Revenue Diversification

The market continues to value Qualcomm primarily as a handset-driven semiconductor company, despite clear and accelerating evidence of revenue diversification. In fiscal 2024, non-handset segments represented roughly 35% of total revenue, up from under 25% five years ago, reflecting meaningful progress in reducing dependence on smartphone cycles. Automotive revenue grew over 20% YoY, and management has disclosed an automotive design win pipeline exceeding \$30B, with revenue visibility extending through 2030 as programs move into production. IoT revenue has stabilized above \$7B annually, supported by industrial, networking, and edge AI applications with longer product lifecycles. As these higher-visibility, longer-duration businesses grow toward and eventually exceed 40% of total revenue, Qualcomm’s earnings and cash flow volatility should structurally decline, supporting a more stable and predictable mid-single-digit revenue growth profile over the medium term.

Licensing Segment Anchors Cash Flow and Valuation Floor

Qualcomm’s licensing business provides a durable and underappreciated cash flow foundation that stabilizes overall earnings. The segment generates over \$6B in annual revenue with operating margins exceeding 70%, contributing more than \$4B of operating profit with minimal capital requirements. Importantly, licensing revenue has remained resilient through handset downturns, supporting free cash flow conversion above 25% in recent years. With global 5G penetration still below 60%, royalty revenue continues to be supported by unit growth rather than pricing alone. This predictable, high-margin income stream reduces earnings volatility and supports sustainably strong operating margins, justifying a lower risk profile than more cyclical semiconductor peers.

On-Device AI Drives Incremental Growth and Margin Upside

Qualcomm is increasingly monetizing on-device AI through higher-value Snapdragon platforms across mobile, PC, and automotive markets. Management has indicated that AI-enabled chipsets carry higher average selling prices, contributing to gradual margin improvement over time. Recent Snapdragon PC design wins and expanding automotive ADAS platforms introduce multi-year revenue streams with longer product cycles and improved visibility. Despite these tailwinds, market expectations remain conservative, valuing Qualcomm as a mature semiconductor supplier. Moderate AI attach rates can drive incremental revenue growth and modest margin expansion without requiring aggressive adoption assumptions, reinforcing a valuation framework built on steady execution rather than speculative upside.

GROWTH ASSUMPTIONS

The valuation assumes a conservative revenue CAGR of approximately 6%–8% from fiscal 2025 through 2029, reflecting steady diversification into automotive and IoT rather than a sharp handset rebound. Gross margins modestly expand as higher-value platforms scale, while operating expenses decline as a percentage of revenue, driving operating margins toward the high-20% range by the terminal year. Capital expenditures and working capital requirements remain disciplined, consistent with Qualcomm’s asset-light licensing model. A 9.2% WACC, 11.0x exit EBITDA multiple, and 2.5% terminal growth rate reflect cautious assumptions relative to diversified semiconductor peers, resulting in a valuation that embeds limited multiple expansion and leaves room for upside through execution.

UFA RECOMMENDATION

I recommend a **long** position in QCOM given its implied upside of 17.55%.

Rating: **Buy**
Current Price: **\$173.43**
Target Price: **\$203.87**

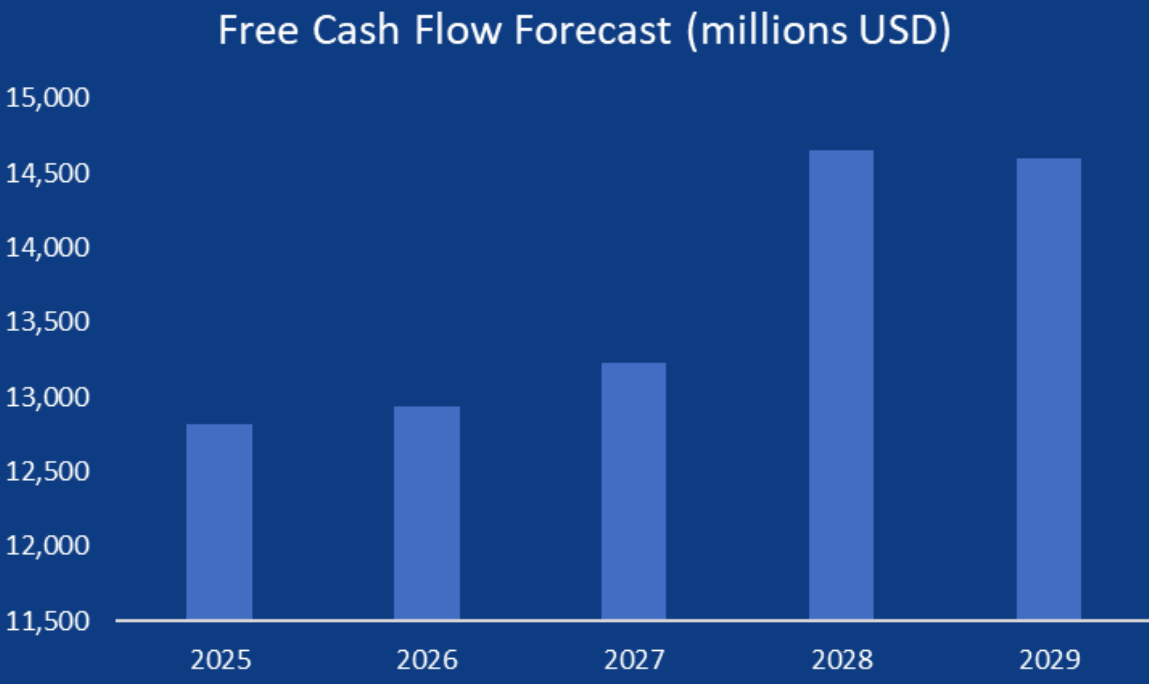
KEY STATISTICS

Market Cap: **187.6B**
Beta: **1.21**
EPS: **5.01**
PE Ratio: **35.15**
52wk Price Range: **\$120.80 – \$205.95**

FUNDAMENTALS

Leverage Ratio: **0.74**
Current Ratio: **2.82**
PEG Ratio: **2.57**
EBITDA Margin: **31.6%**
Net Margin: **12.5%**
FCF Yield: **6.9%**

GRAPHS & ANALYSIS



GROWTH ASSUMPTIONS

Revenue growth is projected to moderate over the forecast period, decelerating from high single digits to approximately 6% by 2029 as handset markets mature.

Revenue: **\$55.2M**
EPS: **12.9**



CAPITAL RETURNS AND BALANCE SHEET DISCIPLINE

Qualcomm maintains strong capital return capacity supported by consistent FCF generation and a disciplined balance sheet. Over the past 3 fiscal years, the company has generated more than \$8B annually in operating cash flow on average, enabling sustained shareholder returns. Qualcomm currently pays an annual dividend of approximately \$3.40 per share, implying a yield near 2%, and has increased its dividend for over 20 consecutive years. In addition, management has authorized ongoing share repurchases, reducing shares outstanding over time and supporting per-share earnings growth. Net debt remains modest relative to EBITDA, reinforcing financial flexibility and limiting downside risk while funding long-term growth initiatives.

RISK ANALYSIS

Handset Demand Cyclicalities and Customer Concentration Risk

Despite diversification efforts, smartphones still represent a majority of Qualcomm’s chipset revenue, making results sensitive to global handset demand cycles. Weak consumer spending, inventory corrections, or delayed upgrade cycles can pressure unit volumes and pricing, as seen during the fiscal 2023 downturn. In addition, a limited number of large OEMs account for a meaningful portion of chipset revenue, increasing exposure to customer-specific ordering behavior. If handset demand recovers more slowly than expected or key customers shift volumes internally, revenue growth assumptions in the high single-digit range could prove optimistic.

Automotive and IoT Execution Risk

Qualcomm’s long-term growth outlook increasingly relies on automotive and IoT segments, which are expected to deliver higher visibility and longer product cycles. While the automotive design win pipeline exceeds \$30B, revenue realization depends on timely vehicle production ramps, OEM execution, and successful software integration. Delays in vehicle launches, lower-than-expected content per vehicle, or slower adoption of advanced driver assistance systems could push revenue further into the out-years. Similarly, IoT demand remains exposed to industrial spending cycles, which could limit near-term growth and margin expansion.

Regulatory and Licensing Model Risk

Qualcomm’s licensing business provides a stable cash flow base but remains subject to ongoing regulatory scrutiny and potential legal challenges across multiple jurisdictions. Changes to global intellectual property enforcement, adverse court rulings, or renegotiation of royalty agreements could pressure licensing revenue or margins over time. While licensing has historically remained resilient, any disruption to this high-margin segment would disproportionately impact free cash flow and valuation. Continued geopolitical tensions and evolving trade regulations may also introduce uncertainty around international licensing and customer relationships.

COMPANY NEWS / EARNINGS TEASER

- Qualcomm completed the acquisition of Ventana Micro Systems, strengthening custom CPU design capabilities for AI, edge computing, and automotive platforms.
- Qualcomm’s Alphawave IP acquisition received UK court approval, removing regulatory uncertainty and expanding high-speed connectivity technology/
- Analysts project revenue of approximately \$41–43 billion in fiscal 2026, implying mid-single-digit growth driven by diversification beyond handsets and AI adoption.

COMPETITOR ANALYSIS

- Qualcomm trades at a moderate valuation with 11.0x EV/EBITDA and 14.5x forward P/E, below many large-cap semiconductor peers, despite comparable profitability and stronger free cash flow generation.
- High-growth peers like NVIDIA trade at 25.0x EV/EBITDA, reflecting AI exposure but with greater earnings concentration and valuation risk, while cyclical peers like Intel trade closer to 8.0x EV/EBITDA.
- Compared to peers like Broadcom (15.0x EV/EBITDA), Qualcomm offers similar margins and stronger balance sheet flexibility at a discount. As automotive and IoT revenues scale, Qualcomm’s valuation gap could narrow.

VALUATION & ADDITIONAL ASSUMPTIONS

In Thousands \$ USD								
	2022	2023	2024	2025	2026	2027	2028	2029
Revenue	44,200,000.00	35,820,000.00	38,962,000.00	41,689,340.00	45,024,487.20	48,626,446.18	52,030,297.41	55,152,115.25
% Growth	31.7%	-19.0%	8.8%	7.0%	8.0%	8.0%	7.0%	6.0%
Less: COGS	18,635,000.00	15,869,000.00	17,060,000.00	17,509,522.80	18,820,235.65	20,179,975.16	21,436,482.53	22,612,367.25
% Revenue	42.16%	44.30%	43.79%	42.0%	41.8%	41.5%	41.2%	41.0%
Gross Profit	25,565,000.00	19,951,000.00	21,902,000.00	24,179,817.20	26,204,251.55	28,446,471.01	30,593,814.88	32,539,748.00
Less: OpEx	9,705,000.00	12,163,000.00	11,831,000.00	12,715,248.70	13,507,346.16	14,344,801.62	15,088,786.25	15,718,352.85
% Revenue	22.0%	34.0%	30.4%	30.5%	30.0%	29.5%	29.0%	28.5%
Operating Income	15,860,000.00	7,788,000.00	10,071,000.00	11,464,568.50	12,696,905.39	14,101,669.39	15,505,028.63	16,821,395.15
Less: Taxes	(2,012,000.00)	(104,000.00)	(226,000.00)	917,165.48	1,269,690.54	1,692,200.33	2,093,178.86	2,523,209.27
NOPAT	13,734,760.00	7,678,968.00	9,849,438.00	10,547,403.02	11,427,214.85	12,409,469.06	13,411,849.76	14,298,185.88
Add: D&A	3,754,000.00	4,128,000.00	4,248,000.00	2,918,253.80	3,061,665.13	3,209,345.45	3,381,969.33	3,584,887.49
Less: Change in NWC	(2,910,000.00)	1,042,000.00	(1,395,000.00)	(625,340.10)	(540,293.85)	(486,264.46)	(520,302.97)	(551,521.15)
Less: CapEx	(4,018,000.00)	(4,952,000.00)	(5,778,000.00)	(2,084,467.00)	(2,161,175.39)	(2,188,190.08)	(2,237,302.79)	(2,206,084.61)
UFCF				10,755,849.72	11,787,410.75	12,944,359.97	14,036,213.33	15,125,467.61
PV Factor				1	2	3	4	5
PV of UFCF				9,849,313.04	9,884,184.59	9,939,492.88	9,869,492.48	9,739,011.65

Gordon Growth	
2029 UFCF	15,125,467.61
Terminal Growth Rate	2.50%
Terminal Value in 2029	231,256,944.27
PV of Terminal Value	148,902,112.15
(+) PV of UFCF	49,281,841.51
Enterprise Value	198,183,953.66
(+) Cash	13,300,000.00
(-) Debt	14,810,000.00
Equity Value	226,293,953.66
Shares Outstanding(Thousands)	1,110,000.00
Implied Share Price	203.87
Current Share Price	173.43
Implied Upside	17.55%



COMPANY SUMMARY

NICE Ltd. is a leading global provider of enterprise software solutions focused on customer engagement and financial crime & compliance. Its flagship cloud-native platform, CXone Mpower, is the world’s most comprehensive contact-center-as-a-service (CCaaS) solution, enabling enterprises to integrate AI, automation, and omnichannel customer support at scale. The company also delivers high-margin compliance platforms, X-Sight and Xceed, which help financial institutions detect fraud, combat money laundering, and navigate regulatory requirements. They offer a more unified, AI-driven, cloud-native approach that delivers broader regulatory coverage and higher operational efficiency than traditional point-solution or on-premise competitors.

INVESTMENT THESIS

Market Underestimates NICE’s Transition to a Cloud-Native, AI-Led CCaaS Platform

The market continues to value NICE largely as a legacy enterprise software provider, despite clear progress in its transition toward cloud-native customer experience solutions. Through its CXone platform, NICE has repositioned itself as a leading provider of Contact Center as a Service (CCaaS), integrating advanced AI, analytics, and automation into a unified cloud offering. As customer engagement shifts increasingly toward digital-first, omnichannel interactions, enterprises are prioritizing scalable, AI-enabled platforms that improve efficiency and customer outcomes. NICE’s strong competitive position in CCaaS, supported by deep domain expertise and high customer switching costs, positions the company to capture durable secular growth as enterprises migrate away from on-premises solutions. As cloud adoption within NICE’s installed base continues and CXone becomes a larger share of total revenue, revenue visibility and margin consistency should improve, supporting a gradual re-rating toward higher-quality SaaS peers.

Financial Crime and Compliance Platforms Provide Resilient, High-Stickiness Growth

In financial crime, risk, and compliance, NICE leverages its X-Sight and Xceed platforms to serve global banks and financial institutions facing increasingly complex regulatory requirements. While cloud adoption in this segment has progressed more gradually than in customer experience, structural factors support long-term durability. Financial institutions face high switching costs, stringent regulatory oversight, and mission-critical performance requirements, creating strong customer retention and pricing resilience. NICE’s ability to offer cloud-enabled solutions that improve fraud detection, AML compliance, and operational efficiency positions the company to benefit as institutions modernize legacy systems over time. Importantly, this segment generates stable margins and recurring revenue, providing a counterbalance to near-term variability in CX spending. As cloud penetration increases incrementally, the financial crime business should continue to deliver steady growth and reinforce the company’s overall earnings durability.

Recurring Revenue Mix and AI-Driven Automation Support Margin Expansion and Cash Flow Stability

NICE’s increasing mix of subscription-based cloud revenue and AI-driven automation tools provides an underappreciated foundation for long-term margin expansion and free cash flow generation. AI capabilities embedded across CXone and financial crime platforms enable customers to reduce manual workflows, improve decision-making, and lower operating costs, allowing NICE to price solutions based on value delivered rather than seat-based licensing alone. As cloud subscriptions scale, incremental margins improve due to lower deployment costs and higher software reuse. At the same time, the company maintains disciplined capital requirements and strong cash conversion, supporting ongoing investment in product innovation without sacrificing balance sheet strength. As AI adoption deepens across NICE’s platforms, operating leverage and cash flow visibility should improve, justifying a valuation framework anchored in steady execution rather than speculative growth.

GROWTH ASSUMPTIONS

The valuation assumes a conservative revenue CAGR of approximately 5%–7% from fiscal 2025 through 2029, reflecting continued cloud migration within CXone and gradual expansion in financial crime and compliance rather than aggressive enterprise IT spending assumptions. Gross margins are modeled to expand modestly as cloud-native subscription revenue and AI-driven automation become a larger share of total sales, while operating expenses decline as a percentage of revenue with improved scale and operating leverage, driving operating margins toward the low-30% range by the terminal year. Capital expenditures and working capital requirements remain disciplined, consistent with NICE’s software- and subscription-based business model. A 9.0% WACC, 12.0x exit EBITDA multiple, and 2.0% terminal growth rate reflect cautious assumptions relative to high-quality SaaS and enterprise software peers, resulting in a valuation that embeds limited multiple expansion and preserves upside through steady execution and cloud adoption.

UFA RECOMMENDATION

I recommend a **long** position in NICE given its implied upside of 66.54%.

Rating: **Buy**
 Current Price: **\$111.94**
 Target Price: **\$186.43**

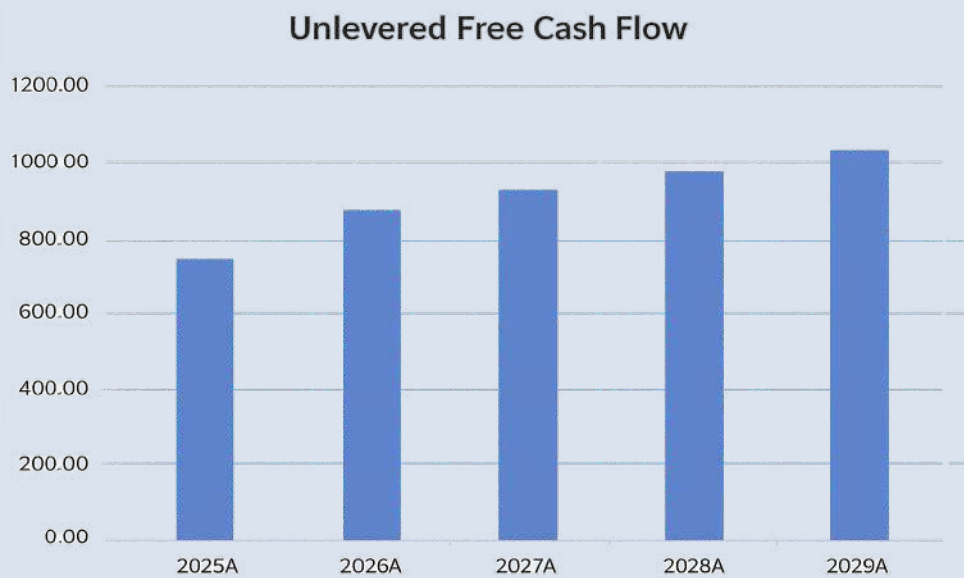
KEY STATISTICS

Market Cap: \$7B
 Beta: 1.29
 EPS: \$8.95
 PE Ratio: 12.61
 52wk Price Range: \$99.00 - \$180.61

FUNDAMENTALS

Leverage Ratio: 0.2
 Current Ratio: 1.7
 PEG Ratio: 1.2
 EBITDA Margin: 28%
 Net Margin: 19%
 FCF Yield: 11%

GRAPHS & ANALYSIS



GROWTH ASSUMPTIONS

Revenue growth is projected to moderate over the forecast period, decelerating from mid-to-high single digits to approximately 5% by 2029 as NICE scales off a larger base and cloud adoption matures.

Revenue: \$3.6B
 EPS: 16.0



CAPITAL RETURNS AND BALANCE SHEET DISCIPLINE

Capital allocation assumptions emphasize balance-sheet strength and disciplined reinvestment while maintaining flexibility for shareholder returns. Free cash flow is expected to be prioritized toward continued investment in cloud infrastructure, AI-driven product development, and targeted tuck-in acquisitions that enhance the CXone and financial crime platforms. NICE is assumed to maintain its established capital return framework, including ongoing share repurchases, supported by strong free cash flow generation and a net cash position. This balanced approach allows the company to return capital to shareholders while preserving financial flexibility to invest through economic cycles and selectively deploy capital into high-return growth initiatives, reinforcing long-term value creation.

RISK ANALYSIS

Execution and Margin Realization Risk

NICE’s valuation and long-term upside depend on its ability to successfully execute its transition toward cloud-native, AI-enabled platforms while delivering sustained margin expansion. The model assumes operating leverage as CXone and financial crime solutions scale, with cloud subscription revenue becoming a larger share of total sales and operating expenses declining as a percentage of revenue. However, execution risk remains if cloud migrations take longer than expected, customer adoption of AI-driven modules is slower, or pricing pressure offsets efficiency gains. Continued investment in product development, sales enablement, and global cloud infrastructure could delay margin inflection. If operating margins fail to expand toward the low-30% range assumed in the out-years, free cash flow growth and equity value could underperform expectations.

Competitive and Pricing Pressure Risk

NICE operates in highly competitive markets across customer experience, CCaaS, analytics, and financial crime compliance, where both large cloud platforms and specialized software vendors compete aggressively. Hyperscale cloud providers and well-capitalized enterprise software peers may bundle customer engagement, security, and analytics tools at attractive price points, increasing pricing pressure and lengthening sales cycles. In financial crime, competition from both legacy vendors and emerging fintech solutions could limit share gains or compress margins. If competitive dynamics constrain NICE’s ability to maintain pricing discipline or slow enterprise customer expansion, particularly among large global accounts, revenue growth and profitability assumptions embedded in the valuation may prove optimistic.

Technology, Regulatory, and Customer Concentration Risk

NICE’s business is sensitive to evolving regulatory requirements, data privacy standards, and customer compliance obligations across global markets. Changes in regulations related to data protection, AI governance, or financial crime enforcement could increase compliance costs or limit product flexibility. In addition, NICE serves large enterprise and financial institution customers with complex procurement processes and long decision cycles, creating potential revenue concentration and renewal risk. Delays in contract renewals, changes in customer technology strategies, or shifts toward in-house solutions could impact revenue visibility. A combination of regulatory complexity, technological change, and customer concentration could increase earnings volatility and create downside risk to valuation.

COMPANY NEWS / EARNINGS TEASER

- NICE continues to accelerate adoption of its CXone cloud platform, with cloud and subscription revenue representing a growing majority of total sales as enterprises migrate away from on-premise contact center solutions.
- NICE expanded its AI capabilities across CXone and financial crime platforms through enhancements to its Enlighten AI suite, reinforcing its position in AI-driven automation, analytics, and decisioning for large enterprises.
- NICE maintains a strong net cash balance and ongoing share repurchase activity, underscoring balance sheet discipline and providing flexibility to reinvest in growth initiatives while returning capital to shareholders.

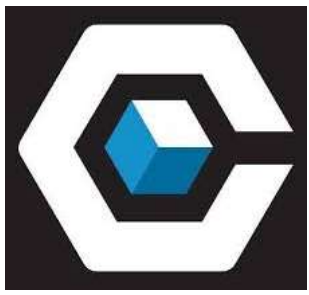
COMPETITOR ANALYSIS

- NICE trades at 6.8x FY1 EV/EBITDA and 7.2x FY2 EV/EBITDA on FY1 revenue of \$2.94B, a discount to high-growth CX and cybersecurity peers such as monday.com (32.0x / 24.6x), CyberArk (60.5x / 49.6x), and Cellebrite (31.2x / 26.1x), despite NICE generating significantly higher absolute profitability with \$1.03B of FY1 EBITDA and ~35% EBITDA margins.
- Compared to diversified software peers, NICE’s operating profitability remains competitive, with FY1 EBIT margins of 30.8%, exceeding monday.com (13.9%), Wix (18.8%), and Cellebrite (23.6%), and approaching Check Point’s 41.1%, while generating robust free cash flow of \$650M, well above the peer median of \$332M.
- At 2.4x FY1 EV/Sales versus the peer median of 6.0x, NICE’s valuation reflects conservative expectations around cloud transition and growth, despite strong margins, net cash balance, and durable enterprise demand, supporting upside potential through multiple expansion as CXone cloud penetration and AI-driven growth improve revenue visibility and sustain high free cash flow generation.

VALUATION & ADDITIONAL ASSUMPTIONS

Unlevered Free Cash Flow (mm)								
Fiscal Year	2022A	2023A	2024A	2025A	2026A	2027A	2028A	2029A
Revenue	2172.76	2371.38	2748.25	2901.17	3075.24	3244.38	3406.60	3576.93
% Growth	18%	9%	16%	6%	6%	5.5%	5%	5%
Less: COGS	(681.01)	(766.19)	(1030.26)	(955.81)	(1076.33)	(1135.53)	(1192.31)	(1251.93)
% Revenue	31%	32%	37%	33%	35%	35%	35%	35%
Gross Profit	1491.75	1605.19	1717.99	1945.36	1998.91	2108.85	2214.29	2325.00
Less: Op Ex	(1157.88)	(1175.34)	(1169.34)	(1307.41)	(859.53)	(906.80)	(952.14)	(999.75)
% Revenue	53%	50%	43%	45%	43%	43%	43%	43%
Operating Income	333.86	429.85	548.66	637.95	1139.38	1202.04	1262.14	1325.25
Less: Taxes	(79.08)	(119.09)	(163.01)	(131.85)	(250.66)	(264.45)	(277.67)	(291.56)
NOPAT	254.79	310.75	385.65	506.10	888.71	937.59	984.47	1033.70
Add: D&A	175.86	166.92	205.99	187.07	184.51	194.66	204.4	214.62
Less: Change in NWC	(301.59)	91.81	(80.51)	127.71	(61.50)	(64.89)	(68.13)	(71.54)
Less: Capex	(81.57)	(83.96)	(100.24)	(94.96)	(123.01)	(129.78)	(136.26)	(143.08)
Unlevered Free Cash Flow	47.48	485.52	410.90	725.92	888.71	937.59	984.47	1033.70
Projection Year				1	2	3	4	5

Implied Share Price Calculation	
Sum of PV of FCF	3,413
Growth Rate	3%
WACC	10%
Terminal Value	14,127
PV of Terminal Value	8,772
Enterprise Value	12,185
(+) Cash	455.89
(-) Debt	563.6
Equity Value	12,077
Diluted Shares Outstanding (mm)	64.78
Implied Share Price	186.43



COMPANY SUMMARY

Core Scientific, Inc. (NASDAQ: CORZ) is a U.S. digital-infrastructure operator focused on Bitcoin self-mining and high-density hosting/HPC colocation, running purpose-built data centers across multiple states. The company operates both its own mining fleet and third-party hosting services, supported by infrastructure that provides power, cooling, and operational resources to large-scale compute customers . As of January 2025, Core Scientific ran approximately 161,000 owned Bitcoin miners, representing about 96% of the miners deployed in its facilities and delivering roughly 18.5 EH/s of energized hash rate . Beyond digital-asset mining, the firm is transitioning part of its data-center capacity to support AI and high-performance-computing workloads, reflecting rising demand for GPU-accelerated compute and broader use cases for its power-dense infrastructure footprint .

INVESTMENT THESIS

Strategic Pivot from Bitcoin Mining to AI Infrastructure

The market underestimates Core Scientific’s optionality in converting its large Bitcoin-mining infrastructure into AI/HPC capacity. The company operates one of the largest power-dense data-center footprints in North America, with 1.3 GW of total power capacity across sites originally built for high-density mining workloads infrastructure that can be rapidly adapted for GPU-driven AI compute. In 2024, Core Scientific began monetizing this optionality by signing long-term HPC hosting agreements, including a 12-year, \$3.5B deal to deliver 200 MW of high-performance infrastructure and an additional contract modifying 100 MW of existing facilities to support AI workloads starting in 2025. These steps signal a strategic shift toward becoming a broader digital-infrastructure platform rather than a pure Bitcoin miner. Reflecting this view, the company rejected CoreWeave’s unsolicited \$1B takeover offer, stating that the proposal “significantly undervalues the company,” underscoring management’s belief that the long-term value of its AI/HPC-ready power assets exceeds what is currently reflected in the stock.

Revenue Diversification and Blended Business Model

Core Scientific has materially diversified its revenue composition. In 2024, self-mining generated approximately \$409 million, or roughly 80% of total revenue, while hosted mining contributed \$78 million (15%) and high-performance computing hosting added \$24 million (5%). This represents a significant evolution from earlier periods when the company's revenue base consisted almost entirely of self-mining. Despite a decline in Bitcoin production from 640 million in 2022 to 502 million in 2023 and 511 million in 2024, the expanding contributions from hosting and colocation helped stabilize overall revenue. These non-self-mining segments are characterized by greater predictability and lower sensitivity to Bitcoin price swings, providing a partial hedge against mining cyclicality. Yet the equity market continues to value Core Scientific primarily as a mono-line miner, overlooking the structural shift toward a blended model with recurring, contract-driven revenue streams.

Enhanced Liquidity Creates a Competitive Advantage in a Capital-Constrained Industry

Following its restructuring, Core Scientific has significantly improved its liquidity and financial flexibility, ending the most recent quarter with \$694.8 million in liquidity, including \$453.4 million in cash and \$241.4 million in Bitcoin. The company also reduced near-term financing risk by extending its debt maturities and decreasing cash interest burden relative to pre-restructuring levels. This enhanced financial position gives Core Scientific a strategic advantage at a time when many competitors face tightening capital markets, rising power costs, or elevated leverage. With the ability to fund infrastructure upgrades, support high-density colocation builds, and sustain self-mining operations through lower-margin periods, Core Scientific is positioned to take share as less-capitalized miners scale back. The market has not fully recognized the improved durability of the company’s post-restructuring balance sheet, nor its ability to deploy capital counter-cyclically in an industry where financial resilience is increasingly rare.

GROWTH ASSUMPTIONS

The valuation assumes a conservative 7%–10% revenue CAGR from fiscal 2025 through 2029, driven by growth in hosted mining and high-performance computing colocation rather than optimistic assumptions around Bitcoin prices or AI demand. Gross margins expand modestly as higher-margin, contract-driven infrastructure revenue scales, while operating expenses decline as a percentage of revenue with improved utilization, driving EBITDA margins toward the mid-30% range by the terminal year. Capital expenditures remain disciplined and largely customer-funded. A 10.0% WACC, 9.5x exit EBITDA multiple, and 2.0% terminal growth rate reflect conservative assumptions relative to digital infrastructure peers, resulting in a valuation that embeds limited multiple expansion and preserves upside through execution.

UFA RECOMMENDATION

I recommend a **long** position in **CORZ** given its implied upside of 75.1%.

Rating: **Buy**
Current Price: **\$15.99**
Target Price: **\$28.00**

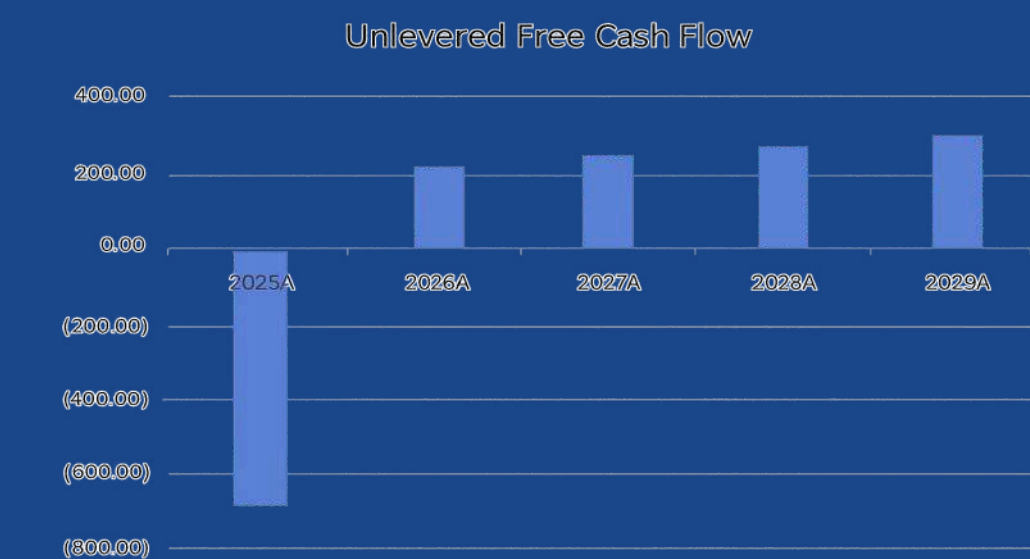
KEY STATISTICS

Market Cap: \$4.9B
Beta: 2.27
EPS: \$2.15
PE Ratio: 114.71
52wk Price Range: \$6.20 - \$23.63

FUNDAMENTALS

Current Ratio: 6.7x
EBITDA Margin: 24%
Net Margin: 17.8%
FCF Yield: 6%

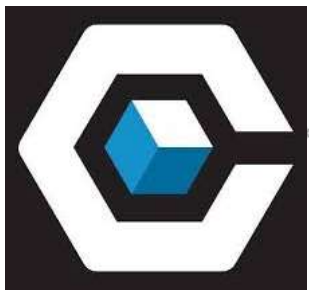
GRAPHS & ANALYSIS



GROWTH ASSUMPTIONS

Revenue growth is projected to reaccelerate in the mid-term as Core Scientific scales higher-margin hosting and HPC colocation capacity, sustaining low-teens growth through 2029 as infrastructure utilization improves.

Revenue: \$525.8M
EPS: 0.14



CAPITAL RETURNS AND BALANCE SHEET DISCIPLINE

Capital allocation assumptions prioritize balance-sheet discipline over near-term shareholder returns. Free cash flow is expected to be retained to support infrastructure upgrades, fund customer-backed HPC and colocation builds, and maintain liquidity through Bitcoin cycle volatility. The company is not assumed to initiate dividends or share repurchases over the forecast period, reflecting management’s focus on deleveraging, preserving financial flexibility, and reinvesting in higher-return contracted infrastructure opportunities. This conservative capital return framework enhances downside protection and positions Core Scientific to deploy capital counter-cyclically as weaker competitors retrench.

RISK ANALYSIS

Execution and Margin Realization Risk

Core Scientific’s valuation and long-term upside depend on its ability to scale hosted mining and high-performance computing colocation while improving profitability. The model assumes operating leverage as higher-margin, contract-driven infrastructure revenue becomes a larger share of total sales and operating expenses decline as a percentage of revenue. However, execution risk remains if facility conversions, customer onboarding, or utilization ramp more slowly than expected. Continued investment in power infrastructure, cooling systems, and site upgrades could delay margin expansion. If EBITDA margins fail to inflect toward the mid-20% range assumed in the out-years, free cash flow generation and equity value could fall materially below forecast.

Bitcoin Price, Demand Volatility, and Revenue Mix Risk

While Core Scientific has diversified beyond pure self-mining, a meaningful portion of revenue and cash flow remains exposed to Bitcoin price volatility and network difficulty dynamics. Sustained declines in Bitcoin prices, increases in hash rate competition, or changes in mining economics could pressure self-mining profitability and reduce internally generated cash flows used to support infrastructure investments. In addition, demand for high-density colocation remains subject to customer concentration and broader cycles in AI and data center spending. If diversification into hosting and colocation does not progress as modeled, the company may remain more cyclical than assumed, increasing earnings volatility and downside risk.

Capital Intensity, Balance Sheet, and Regulatory Risk

Core Scientific operates in a capital-intensive industry with significant exposure to power markets, permitting regimes, and regulatory oversight. Although the company emerged from restructuring with improved liquidity, large-scale infrastructure investments require ongoing access to capital and stable power pricing. Increases in electricity costs, delays in securing permits, or changes in energy or cryptocurrency regulations could raise operating expenses or limit capacity expansion. Additionally, tighter capital markets or adverse regulatory developments could constrain the company’s ability to deploy capital counter-cyclically, reducing strategic flexibility and increasing downside risk to valuation.

COMPANY NEWS / EARNINGS TEASER

- Core Scientific rejected CoreWeave’s unsolicited ~\$1B acquisition proposal, citing material undervaluation of its power-dense data center assets and long-term AI/HPC optionality.
- Core Scientific continues to expand high-performance computing and colocation capacity, increasing exposure to long-term, contract-driven infrastructure revenue beyond self-mining.
- Following its restructuring, Core Scientific reported nearly \$700M in liquidity, significantly improving balance-sheet flexibility and positioning the company to invest counter-cyclically as weaker miners retrench.

COMPETITOR ANALYSIS

- Core Scientific trades at 20.9x EV/Sales on FY2025 revenue of \$334.2M, a premium to Riot (9.0x), MARA (7.2x), and CleanSpark (3.7x), reflecting larger scale and improving revenue durability despite –\$96.0M EBITDA making EV/EBITDA comparisons less meaningful.
- Pure-play mining peers including Riot (–\$46.3M EBITDA), TeraWulf (–\$38.1M EBITDA), and MARA (\$0.0M EBITDA) continue to generate negative or breakeven profitability, while Cipher Mining (\$36.2M EBITDA) and CleanSpark (\$241.3M EBITDA) have turned EBITDA-positive but operate at smaller enterprise values of \$6.4B and \$2.9B, respectively.
- Compared to the peer median of 22.1x EV/Sales, Core Scientific’s \$7.0B enterprise value and growing exposure to contracted hosting and colocation position it toward the upper end of the group, with potential for valuation re-rating as EBITDA turns sustainably positive rather than through multiple compression.

VALUATION & ADDITIONAL ASSUMPTIONS

Unlevered Free Cash Flow (mm)								
Fiscal Year	2022A	2023A	2024A	2025A	2026A	2027A	2028A	2029A
Revenue	640.30	502.40	510.67	334.18	374.28	419.20	469.50	525.84
% Growth	18%	-22%	2%	-35%	12%	12%	12%	12%
Less: COGS	(631.91)	(427.16)	(389.60)	(312.56)	(131.00)	(146.72)	(164.33)	(184.04)
% Revenue	99%	85%	76%	94%	35%	35%	35%	35%
Gross Profit	8.39	75.24	121.07	21.62	243.28	272.48	305.18	341.80
Less: Op Ex	(252.97)	(59.89)	(132.25)	(209.72)	(17.03)	(19.07)	(21.36)	(23.93)
% Revenue	40%	12%	26%	63%	7%	7%	7%	7%
Operating Income	(244.59)	15.35	(11.18)	(188.10)	226.25	253.40	283.81	317.87
Less:Taxes	(17.10)	(0.70)	(0.90)	(0.90)	(49.78)	(55.75)	(62.44)	(69.93)
NOPAT	(261.69)	14.65	(12.08)	(189.00)	176.48	197.66	221.37	247.94
Add: D&A	226.09	96.45	120.12	92.12	63.63	71.26	79.82	89.39
Less: Change in NWC	(478.66)	(551.03)	27.64	(28.91)	(3.74)	(4.19)	(4.70)	(5.26)
Less: Capex	(383.98)	(16.16)	(94.96)	(493.11)	(18.71)	(20.96)	(23.48)	(26.29)
Unlevered Free Cash Flow	(898.23)	(456.10)	40.72	(618.90)	217.65	243.77	273.02	305.78
Projection Year				1	2	3	4	5

Implied Share Price Calculation	
Sum of PV of FCF	206
Growth Rate	5%
WACC	9%
Terminal Value	7,989
PV of Terminal Value	5,313
Enterprise Value	5,518
(+) Cash	900
(-) Debt	1,000
Equity Value	5,418
Diluted Shares Outstanding (mm)	200.00
Implied Share Price	27.09



HEALTHCARE INDUSTRY

COMPANY SUMMARY

Medtronic is a global leader in medical technology, serving patients in 150+ countries, and develops, manufactures, and markets devices across major chronic conditions. Its portfolio spans cardiac rhythm management and structural heart, diabetes systems (insulin pumps/CGMs), neuromodulation (pain and movement disorders), and surgical technologies (advanced stapling and robotics). This breadth makes MDT one of the most diversified medtech platforms, with multiple recurring revenue streams across therapeutic areas.

A key structural driver is management's plan to separate the Diabetes segment, allowing investors to value the higher-margin, faster-growing core franchises (Cardiovascular, Neuroscience, Medical Surgical) more cleanly and potentially at higher peer-like multiples.

INVESTMENT THESIS

Market Overweights Short-Term Headwinds

MDT trades at a valuation discount versus medtech peers (average of 16x forward P/E and 12x EV/EBITDA, below peers like Boston Scientific and Intuitive Surgical). This disconnect reflects an overly narrow focus on near-term headline risks rather than the company's long-duration earnings power. Medtronic's installed base, recurring revenue characteristics, and regulatory barriers to entry create a structural foundation that supports steady cash generation across cycles. As near-term pressures normalize and earnings visibility improves, the market is likely to reassess the sustainability of MDT's cash flows, supporting multiple expansion toward peer averages.

Diabetes Separation as a Major Catalyst

The planned separation of Medtronic's Diabetes business represents a pivotal inflection point. While Diabetes has historically contributed to revenue growth, its competitive dynamics, margin profile, and capital requirements differ meaningfully from the rest of Medtronic's portfolio. Within the consolidated structure, these differences have obscured the earnings quality and margin stability of the core businesses, leading investors to apply a blended and discounted valuation multiple. This simplification should improve transparency around capital allocation, margin progression, and return on invested capital, enabling investors to more accurately benchmark MDT against high-quality peers.

Innovation Pipeline Not Fully Priced In

Medtronic's innovation engine provides meaningful upside optionality that is not fully embedded in investor expectations. Product initiatives across neuromodulation, structural heart, and robotic-assisted surgery are positioned to drive incremental revenue growth while reinforcing pricing power over time. Importantly, these opportunities do not rely on binary outcomes or adoption curves. Instead, they benefit from gradual penetration into large, existing clinical markets with established reimbursement pathways.

The market's current valuation framework implicitly assumes limited contribution from these initiatives. This dynamic supports a favorable risk-reward profile, where downside is buffered by existing cash flows, and upside is driven by steady, execution-based gains rather than speculative growth.

GROWTH ASSUMPTIONS

The valuation assumes a conservative mid-single-digit revenue growth trajectory over the forecast period, reflecting Medtronic's diversified exposure across therapeutic areas and geographies. Growth is driven by a combination of modest procedure volume recovery, continued adoption of next-generation devices, and incremental pricing where clinical differentiation supports it. Importantly, the forecast does not assume a sharp cyclical rebound or aggressive share gains; instead, it is grounded in normalized demand trends and historical performance.

This approach reflects the view that Medtronic's breadth reduces reliance on any single product cycle or end market. As growth contributions from surgical technologies, neuroscience, and cardiovascular therapies offset more mature segments, overall revenue growth becomes more predictable and less volatile, supporting a lower risk profile than implied by current market pricing.

UFA RECOMMENDATION

I recommend a **long** position in **MDT** because the market undervalues its stable cash flows and improving focus, creating upside as short-term issues fade.

Rating: **Buy**

Current Price: **\$96**

Target Price: **\$102**

KEY STATISTICS

Market Cap: **\$116.2 billion**

Beta: **0.95**

EPS: **\$5.10**

PE Ratio: **16x**

52wk Price Range: **\$78.50 – \$96.75**

FUNDAMENTALS

Leverage Ratio: **2.3x**

Current Ratio: **1.7x**

PEG Ratio: **2.0x**

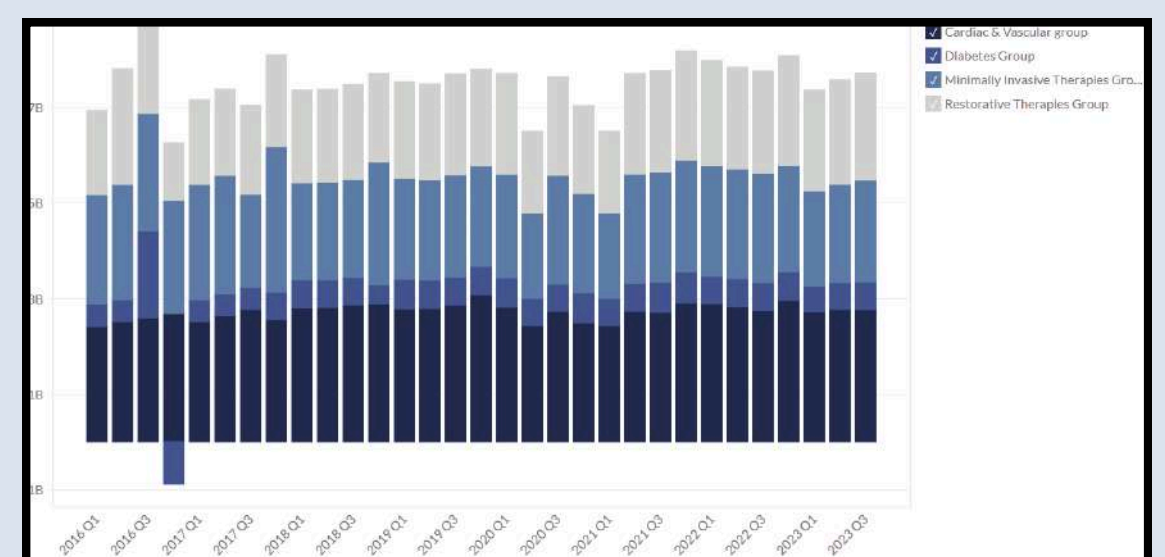
EBITDA Margin: **27.5%**

Net Margin: **16.5%**

MISC: **3.3%**

GRAPHS & ANALYSIS

Stock Price Chart (Last 6 Months)



GROWTH ASSUMPTIONS

Steady mid-single-digit revenue growth with modest margin expansion driven by portfolio focus and innovation.

Revenue: **5-6%**

EPS: **6-7%**

Misc: **2.5%**



MORE DATA

Capital Returnsn and Balance Sheet Discipline

Medtronic maintains a strong capital return capacity supported by durable free cash flow generation and disciplined balance sheet management. Over the past several fiscal years, the company has consistently generated multi-billion-dollar annual free cash flow, enabling a balanced approach to shareholder returns and reinvestment. MDT currently pays a reliable dividend, reflecting its long-standing commitment to returning capital, while retaining flexibility to fund innovation, acquisitions, and portfolio optimization initiatives.

RISK ANALYSIS

Procedure Volume Sensitivity and Healthcare Utilization Risk

While Medtronic benefits from broad diversification across medical technologies, a meaningful portion of revenue remains tied to elective and semi-elective procedures. Periods of hospital capacity constraints, reimbursement pressure, or slower procedure recovery could temporarily impact volume growth and near-term revenue visibility. Additionally, shifts in payer dynamics or hospital purchasing behavior may increase pricing pressure in select segments. Although these risks are cyclical rather than structural, they can introduce short-term volatility to results.

Innovation Execution and Competitive Risk

Medtronic’s long-term growth outlook depends on consistent execution across its innovation pipeline, including cardiovascular therapies, neuromodulation platforms, and surgical technologies. Delays in regulatory approvals, slower-than-expected adoption, or competitive product launches could limit near-term contribution from new technologies. While the company’s scale and clinical relationships provide meaningful barriers to entry, competitive intensity across medtech remains high, requiring sustained R&D investment and disciplined commercialization to protect share and margins.

Regulatory and Portfolio Transition Risk

As a global medical device manufacturer, Medtronic operates under complex and evolving regulatory frameworks across multiple jurisdictions. Changes in regulatory requirements, reimbursement policies, or product compliance standards could increase costs or delay product launches. Additionally, the planned separation of the Diabetes business introduces execution risk, including transitional costs, operational complexity, and potential short-term disruption. While management has experience navigating portfolio changes, execution missteps could impact investor sentiment if not well managed.

COMPANY NEWS / EARNINGS TEASER

- Medtronic announced continued progress on its portfolio simplification strategy, including preparations for the planned separation of the Diabetes business, aimed at enhancing strategic focus and valuation transparency.
- The company reported steady momentum across core cardiovascular and neuroscience franchises, supported by new product launches and expanded indications.
- Management reaffirmed its commitment to disciplined capital allocation, emphasizing sustained investment in innovation alongside shareholder returns.

COMPETITOR ANALYSIS

Medtronic trades at a valuation discount relative to several large-cap medtech peers despite comparable scale, diversification, and cash generation. Higher-growth peers with more concentrated product exposure often command premium multiples, reflecting perceived growth visibility rather than superior profitability or balance sheet strength. In contrast, MDT’s diversified portfolio reduces earnings volatility but has led to a market perception of lower growth, contributing to multiple compression.

Compared with peers that emphasize single therapeutic areas or narrower technology platforms, Medtronic offers a more balanced risk profile with stable margins and resilient cash flows. As portfolio complexity declines and execution improves, the valuation gap between MDT and higher-multiple peers may narrow, particularly if investors place greater weight on cash flow durability and capital return visibility.

VALUATION & ADDITIONAL ASSUMPTIONS

USD in \$ Millions						
	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030
Revenue	32,360	34,140	36,120	38,290	40,590	43,030
% Growth		5.50%	5.80%	6.00%	6.00%	6.00%
Less: COGS	(10,840)	(11,430)	(12,110)	(12,830)	(13,610)	(14,420)
% Revenue						
Gross Profit	21,520	22,710	24,010	25,460	26,980	28,610
Less: OpEx	(9,710)	(10,240)	(10,780)	(11,310)	(11,820)	(12,270)
% Revenue	30%	30%	30%	30%	29%	29%
Operating Income	11,810	12,470	13,230	14,150	15,160	16,340
Less: Taxes	(3,540)	(3,740)	(3,970)	(4,250)	(4,550)	(4,900)
NOPAT	8,270	8,730	9,260	9,900	10,610	11,440
Add: D&A	2,100	2,220	2,350	2,490	2,640	2,800
Less: CapEx	(1,390)	(1,470)	(1,550)	(1,650)	(1,750)	(1,850)
Less: Changes in NWC	(180)	(200)	(215)	(230)	(245)	(245)
UFCF	8,800	9,280	9,845	10,510	11,255	12,145

Gordon Growth	
2030 UFCF	12,145
Terminal Growth Rate	2.50%
WACC	8.00%
Terminal Value (2030)	127,300
PV of Terminal Value	86,600
PV of UFCF	24,900
Enterprise Value	111,500
Cash	13,300
Debt	14,800
Equity Value	110,000
Shares Outstanding (mm)	1,134
Implied Share Price	\$102
Current Share Price	\$96
Implied Upside	6%



COMPANY SUMMARY

Dexcom is a leading medical device company focused exclusively on continuous glucose monitoring (CGM) systems for people with diabetes. The company's core products consist of disposable glucose sensors, transmitters, and software platforms that provide real-time glucose data. Dexcom operates under a highly recurring revenue model driven primarily by sensor replacements, which creates strong visibility and customer retention.

Historically, Dexcom's growth has been driven by penetration within the Type 1 diabetes market, where adoption is already relatively high. More recently, the company has sought to expand usage into broader Type 2 diabetes populations and international markets, introducing new competitive, reimbursement, and margin dynamics that differ from Dexcom's original high-value customer base.

INVESTMENT THESIS

Market Overestimates the Sustainability of Growth

Dexcom continues to be valued as a high-growth medical technology company despite clear evidence that revenue growth is decelerating as the CGM market matures. Penetration in the Type 1 diabetes population is already substantial, limiting incremental growth from Dexcom's most profitable customer base. Expansion into non-insulin and Type 2 patients increases unit volumes but comes with lower utilization rates, tighter reimbursement, and reduced lifetime value per patient.

This shift in mix fundamentally changes the growth profile of the business. While headline revenue may continue to grow at a low-double-digit rate, the economic quality of that growth is weaker than in prior cycles.

Margin Pressure Is Structural, Not Temporary

Dexcom's margin profile has deteriorated as the company scales into lower-reimbursed patient populations and navigates operational complexity associated with product transitions. Manufacturing inefficiencies, inventory write-downs and higher quality-control spending have all weighed on gross margins while operating expenses remain elevated as Dexcom invests in sales infrastructure, international expansion, and regulatory compliance.

Importantly, these pressures are not purely cyclical. Competitive pricing dynamics, payer scrutiny, and increased regulatory oversight suggest that margins are unlikely to return to prior peak levels in the near term. As a result, operating leverage is weaker than what investors have historically expected, compressing free cash flow margins and limiting valuation support.

Regulatory and Reimbursement Risk Is Underappreciated

As a regulated medical device company, Dexcom faces ongoing compliance and quality-system requirements that carry real financial consequences. Increased regulatory scrutiny raises the risk of production delays, remediation costs, and slower product rollouts. Additionally, reimbursement dynamics are becoming more restrictive, particularly among non-insulin Type 2 patients where payers are actively managing utilization and coverage limits.

Even modest reductions in reimbursed sensor usage or pricing can have an outsized impact on revenue and margins given Dexcom's reliance on recurring sensor sales. These risks introduce asymmetric downside, particularly in a valuation environment that leaves little room for execution missteps.

GROWTH ASSUMPTIONS

The valuation assumes that Dexcom's revenue growth continues to decelerate over the forecast period as the business matures and market penetration increases. Growth is driven primarily by incremental adoption in international markets and selective expansion within Type 2 diabetes populations, offset by pricing pressure and lower per-patient utilization.

Margins are modeled conservatively, reflecting ongoing cost inflation, competitive pricing dynamics, and higher regulatory and compliance expenses. While modest operating leverage is achievable over time, the forecast does not assume a return to historical peak margins. Capital expenditures remain elevated to support manufacturing scale, technology upgrades, and quality systems, limiting near-term free cash flow expansion.

Overall, the assumptions reflect a transition from a high-growth disruptor to a more mature medical device company with moderate growth, tighter margins, and increased operational complexity.

UFA RECOMMENDATION

I recommend a **short** position in **DXCM** because the market overvalue its growth and margin recovery, creating downside as adoption slows and cost pressures persist.

Rating: **Sell**

Current Price: **\$66**

Target Price: **\$62**

KEY STATISTICS

Market Cap: **\$44 billion**

Beta: **1.1**

EPS: **\$1.30**

PE Ratio: **33x**

52wk Price Range: **\$62 – \$132**

FUNDAMENTALS

Leverage Ratio: **1.3x**

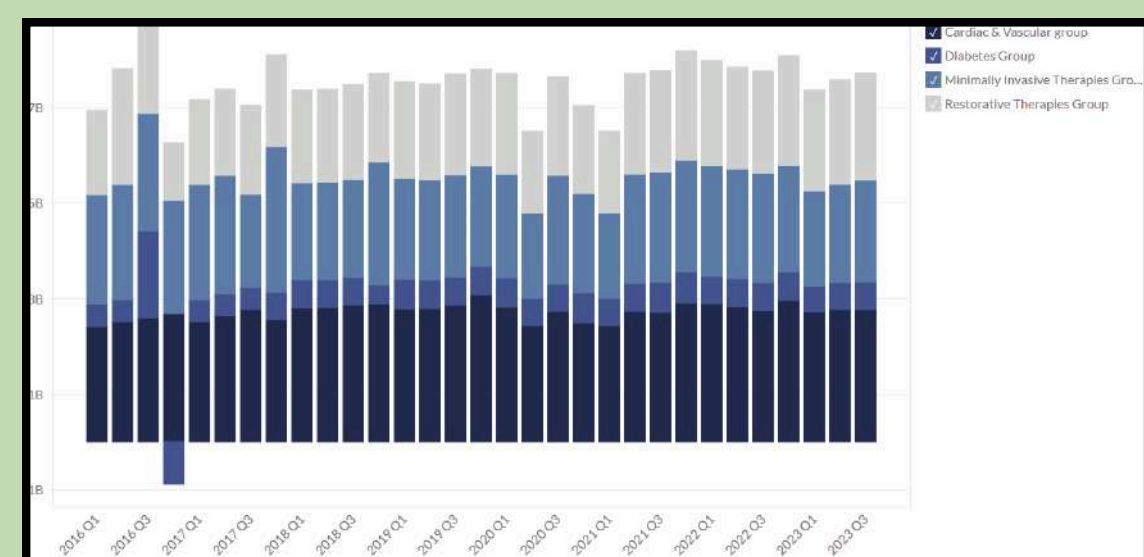
Current Ratio: **2.5x**

PEG Ratio: **3.0x**

EBITDA Margin: **25%**

Net Margin: **15%**

GRAPHS & ANALYSIS



GROWTH ASSUMPTIONS

Moderating double-digit revenue growth with continued margin pressure as Dexcom expands beyond its core Type 1 market and navigates reimbursement, competition, and regulatory costs.

Revenue: **10-12%**

EPS: **5-7%**

Misc: **3.0%**



MORE DATA

Capital Returns and Balance Sheet Discipline

Dexcom’s capital allocation strategy reflects a company still prioritizing growth investment over near-term capital returns. While the business generates positive free cash flow, a meaningful portion is reinvested into manufacturing capacity, quality systems, and international expansion rather than returned to shareholders. Unlike more mature medical device peers, Dexcom does not pay a dividend and has limited share repurchase activity, underscoring management’s focus on reinvestment during this phase of the company’s lifecycle.

RISK ANALYSIS

Demand Sensitivity, Adoption Saturation, and Utilization Risk

Dexcom’s growth increasingly depends on expanding beyond its core Type 1 diabetes population into broader Type 2 and non-insulin patient groups. While this strategy increases the addressable market, it introduces utilization risk, as these patients typically use fewer sensors annually and face greater reimbursement scrutiny. Slower adoption rates, reduced sensor usage, or tighter payer approvals could materially impact revenue growth and visibility.

Additionally, CGM penetration in developed Type 1 markets is already relatively high, limiting incremental growth from Dexcom’s most profitable customer segment. As growth shifts toward lower-intensity users, each new customer contributes less lifetime revenue, reducing the marginal economics of expansion and increasing sensitivity to changes in coverage and pricing.

Margin Pressure and Operational Execution Risk

Dexcom faces sustained margin pressure driven by manufacturing inefficiencies, product transitions, and higher quality-control and compliance costs. As the company scales newer platforms and phases out legacy products, inventory write-downs and yield challenges have weighed on gross margins. These pressures are compounded by product-mix shifts toward lower-reimbursed patient cohorts and international markets.

Regulatory and Reimbursement Risk

As a regulated medical device manufacturer, Dexcom operates under strict and evolving regulatory frameworks. Heightened regulatory scrutiny increases the risk of remediation costs, production delays, and slower approval timelines for new products or enhancements. Addressing regulatory findings typically requires sustained investment in quality systems, adding to the company’s cost base. Even modest reductions in approved sensor usage or reimbursement rates could have a disproportionate impact on revenue and margins given Dexcom’s reliance on recurring sensor sales. These risks increase the downside, especially in a valuation environment that assumes continued growth and margin normalization.

COMPANY NEWS / EARNINGS TEASER

- Dexcom reported continued revenue growth driven by international expansion and broader CGM adoption, while acknowledging ongoing margin pressure.
- Management highlighted progress on operational improvements and quality initiatives, while noting that regulatory compliance and cost control remain near-term priorities.
- Guidance reflects a more measured growth outlook as the company balances expansion efforts with margin stabilization and execution discipline.

COMPETITOR ANALYSIS

Dexcom trades at a premium valuation relative to many diversified medical device peers, reflecting its historical growth profile and recurring revenue model. However, competition within the CGM market has intensified, with lower-cost alternatives exerting pressure on pricing and reimbursement. Unlike diversified medtech peers that benefit from multiple therapeutic verticals, Dexcom’s concentrated exposure to CGM amplifies earnings sensitivity to competitive and regulatory developments.

Peers with broader product portfolios often command lower multiples but offer greater earnings stability and cash flow durability. As Dexcom’s growth moderates and margin pressures persist, the valuation gap between Dexcom and more diversified peers may narrow through multiple compression rather than peer re-rating. Absent a clear reacceleration in growth or sustained margin recovery, Dexcom’s premium valuation appears increasingly difficult to justify.

VALUATION & ADDITIONAL ASSUMPTIONS

USD in \$ Millions						
	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030
Revenue	4,520	5,050	5,650	6,300	7,235	7,750
% Growth		11.73%	11.88%	11.50%	14.84%	7.12%
Less: COGS	(1,853)	(2,071)	(2,317)	(2,583)	(2,870)	(3,178)
% Revenue						
Gross Profit	2,667	2,979	3,333	3,717	4,365	4,572
Less: OpEx	(1,673)	(1,818)	(1,978)	(2,142)	(2,450)	(2,635)
% Revenue	37%	36%	35%	34%	34%	34%
Operating Income	994	1,161	1,355	1,575	1,915	1,937
Less: Taxes	(199)	(232)	(271)	(315)	(336)	(387)
NOPAT	795	929	1,084	1,260	1,579	1,550
Add: D&A	271	303	339	378	420	465
Less: CapEx	(316)	(354)	(396)	(441)	(490)	(543)
Less: Changes in NWC	(49)	(53)	(60)	(65)	(70)	(75)
UFCF	701	825	967	1,132	1,439	1,397

Gordon Growth	
2030 UFCF	1,397
Terminal Growth Rate	3.00%
WACC	8.50%
Terminal Value (2030)	26,160
PV of Terminal Value	16,500
PV of UFCF	5,200
Enterprise Value	21,700
Cash	7,580
Debt	5,490
Equity Value	23,790
Shares Outstanding (mm)	391
Implied Share Price	\$62
Current Share Price	\$66
Implied Upside	-6%



ENERGY INDUSTRY



COMPANY SUMMARY

Solaris Energy Infrastructure is an energy solutions company that provides power-as-a-service offerings to industrial customers, with a growing focus on on supplying reliable power to data centers. In addition, the company operates a smaller, but established logistics segment that supports upstream fracking activities by designing, manufacturing, delivering, and maintaining proppants and fluids at well-sites. Leveraging its decade of experience in the oil-field service industry, Solaris is positioned to expand its power platform through the development of large-scale, modular turbine solutions tailored to the increasing demands of next-generation hyper-scale data centers.

INVESTMENT THESIS

First-Mover Advantage & High Data Center Switching Costs

Solaris holds a first-mover advantage, as existing contracts with xAI that were expanded in January contributed to nearly 13% of revenue in 2024, while competitors are only now announcing partnerships. Because data centers face high switching costs due to a required 100% uptime, early deployment creates proven reliability that reduces customer risk. This provides Solaris a competitive moat, as data centers seek long-term energy partners, especially in a market where grid connections can take eight years and operational disruptions carry significant financial penalties. Ultimately, these conditions enable Solaris to compound an early lead into future contract wins.

Unique Benefits of Modular Turbines & Proven Success

Solaris is uniquely positioned to meet accelerated data-center power demand, at a time when traditional solutions are bottlenecked. Large-scale natural-gas turbines have seven-year waitlists and grid infrastructure cannot scale quickly enough, creating reliability concerns for operators who require 100% uptime. Solaris’s 600 MW gas-powered modular turbines directly solve these issues while offering more capacity than competitors such as Liberty Energy or Atlas Energy by 375 MW. Currently, Solaris’s solution is being validated, with xAI already taking 400 MW and committing to 1.1 GW of Solaris’s planned 1.7 GW fleet by 2027. Now, one risk relates to the complex execution of turbine manufacturing, which relies on the purchase of core turbine engines that could be disrupted by supply chain problems. This could lead to future secured contracts not being fulfilled, and I believe this idea has made Solaris undervalued. However, proven deployments with xAI along with 330 MW of turbines already being secured prove risk mitigation, and positive milestone reports could increase investor confidence and correct the stock price. Coupling this with the 102% expected growth in data-center capacity over the next three years means that Solaris will not only be correctly priced but also experience massive growth by capturing a disproportionate share of this new market. This will translate into stronger earnings, through a gross margin 83% higher and operating margin 63% higher than competitors like Liberty Energy, and ultimately a higher stock price beyond market expectations.

GROWTH ASSUMPTIONS

Solaris trades at \$44.96, which represents 52.7% growth YTD. This performance is supported by strong operations with 43% revenue growth TTM, two-year EBITDA growth of 15%, and a 12% increase in EBITDA margin. These metrics prove the success of Solaris’s shift towards a new power generation business model, as data center contracts such as with xAI are more lucrative and stable compared to the cyclical revenue generation in the oil-field service industry. Coupling this with Solaris’s first-mover advantage provides a forward EV/EBITDA multiple of 9.7x, a 34.7% premium relative to the 6.4x - 8.0x multiples of similar oil-field service firms transitioning into the power generation space. However, compared to pure power generation firms with 10.9x - 11.9x multiples, Solaris actually holds a 14.9% discount, showcasing potential upside as the power generation shift continues. This discount is priced in due to the deployment risk of Solaris’s planned 1.7 GW turbine fleet by 2027, but this risk is offset through proven success with xAI as well as 20% of turbines already being manufactured. Thus, as Solaris continues to execute on its power infrastructure strategy, I believe a re-rating of 10.5x forward EV/EBITDA is justified, implying a share price of around \$56 and a 24.9% upside from current levels.

UFA RECOMMENDATION

I recommend a **long** position in SEI with an upside of 25% and a price target of \$56.17.

Rating: **Buy**
Current Price: **\$44.96**
Target Price: **\$56.17**

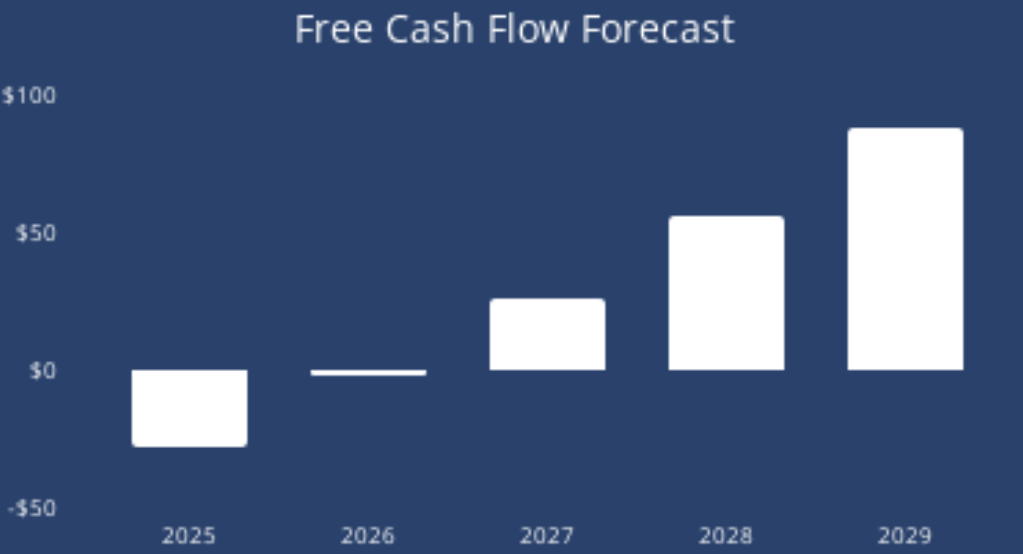
KEY STATISTICS

Market Cap: **\$3.23 billion**
Beta: **1.55**
EPS: **0.91**
PE Ratio: **49.37**
52wk Price Range: **\$14.27 - \$57.16**

FUNDAMENTALS

Leverage Ratio: **99.76%**
Current Ratio: **2.39**
EBITDA Margin: **35.51%**
Net Margin: **6.73%**

GRAPHS & ANALYSIS



GROWTH ASSUMPTIONS

Solaris is undervalued because of skepticism over the deployment of its 1.7 GW fleet by 2027, but a proven supply chain, existing contract reliability, and strong operations should drive a multiple re-rating from 9.6x to 10.5x, closer to the 10.9x - 11.9x range of power generation firms.

Revenue: **\$538.8M**
EPS: **0.91**



MANAGEMENT AND ANALYST EXPECTATIONS

Solaris anticipates between \$575 - \$625 million EBITDA by 2028, driven by increased contracts through the 1.7GW turbine fleet. This provides even more upside beyond the one-year short-term timeframe.

Furthermore, analysts expect EPS growth of 62.6%, from 0.91 TTM to 1.48 NTM, supporting the investment theses of increased investor financial benefits in the future.

RISK ANALYSIS

Turbine Fleets, Client Concentration, Higher Competition, and Market Risk

The primary risk is associated with core turbine procurement and manufacturing, which is tied to the rollout of Solaris’s planned 1.7 GW turbine fleet by 2027 and exposed to supply-chain constraints. As a result, delays or cost overruns could defer revenue recognition on contracted capacity, pressuring near-term EBITDA. This is especially significant given that a meaningful portion of the projected \$575 - \$625 million in 2028 EBITDA assumes full fleet deployment. While approximately 330 MW of turbines have already been secured and xAI has committed to 1.1 GW of capacity, any disruption in the remaining buildout could weigh on investor confidence.

A second risk relates to customer concentration within the data-center segment. xAI represented nearly 13% of revenue in 2024 and accounts for a substantial share of committed future capacity, creating exposure to strategic shifts by xAI. Although data-center contracts benefit from high switching costs and durations of nearly 10 - 15 years, changes in data center capital spending in the future could slow expected growth. At the very least, these changes could also create unpredictability of financial performance, creating uncertainty for investors.

Additionally, as Solaris scales its power platform, it may face increased competition from similar companies transitioning from the oil-field service industry to power generation such as Liberty Energy and Atlas Energy Solutions. There exists alternative power sources as well such as from traditional utilities, large OEMs, or even emerging technologies, which could all compress pricing to secure incremental contracts.

Finally, Solaris faces valuation risk following its significant, recent share price appreciation. The stock has risen over 50% YTD and any miss relative to near-term EBITDA or deployment milestones could result in multiple compression toward oil-field services and hybrid peer levels in the 6x - 8x range, implying meaningful downside. Furthermore, given Solaris’s smaller market capitalization, the stock may experience heightened volatility around announcements, extending the timeline for theses realization even if long-term fundamentals remain intact.

COMPANY NEWS / EARNINGS TEASER

- Solaris recently received a buy rating from Weiss Ratings and has an average 12-month price target of \$52.80 from 14 firms.
- Solaris also reported its Q3 financial results last month and held significant growth. Specifically, revenue and EBITDA increased 12% from the last quarter, and Solaris increased its financial guidance for Q4 2025 and Q1 2026.
- Finally, Solaris ordered 500 more MW of power generation capacity above its existing 1.7 GW fleet to now total 2.2 GW by 2028.

COMPETITOR ANALYSIS

- Solaris’s main competitors are similar oil-field service firms that have also begun transitioning into the power generation industry. Two examples are Liberty Energy and Atlas Energy Solutions.
- Specifically, Liberty Energy recently partnered with Oklo this year to add nuclear capacity to its existing Forte modular reactors, offering an alternative energy source to Solaris’s own reactors.
- While these firms do provide increased competition in the power generation space, Solaris’s first-mover advantage coupled with high switching costs solidify its advantage.
- This means that even with further advancements like the Oklo partnership, Solaris continues to stay ahead due to its increased contracts and higher reliability.

VALUATION & ADDITIONAL ASSUMPTIONS

Comparative Companies Analysis								
Company Name	Company Type	Ticker	Share Price	EV	TTM Financial Performance Data			NTM Valuation Multiple
					Revenue	EBTIDA	EBITDA Margin	EV / EBITDA
NOV	OFS	NOV	15.67	6,263.45	8,772.00	1,184.00	13.5%	6.3x
Weatherford International	OFS	WFRD	78.83	6,432.96	4,970.00	1,066.00	21.4%	6.1x
Liberty Energy	Hybrid	LBRT	17.48	3,129.68	3,911.00	587.14	15.0%	6.4x
Atlas Energy Solutions	Hybrid	AESI	9.21	1,691.89	1,117.22	208.75	18.7%	8.0x
Generac	Power	GNRC	138.94	9,436.13	4,352.44	679.35	15.6%	10.9x
Cummins	Power	CMI	506.72	74,194.39	33,581.00	5,018.00	14.9%	11.9x
OFS Median				6,348.21	6,871.00	1,125.00	17.5%	6.2x
Hybrid Median				2,410.79	2,514.11	397.95	16.8%	7.2x
Power Median				41,815.26	18,966.72	2,848.68	15.3%	11.4x
Overall Median				6,282.91	4,131.72	633.25	15.3%	9.5x
OFS Mean				6,348.21	6,871.00	1,125.00	17.5%	6.2x
Hybrid Mean				2,410.79	2,514.11	397.95	16.8%	7.2x
Power Mean				41,815.26	18,966.72	2,848.68	15.3%	11.4x
Overall Mean				22,113.02	10,740.42	1,623.31	16.1%	9.3x



COMPANY SUMMARY

Duke Energy Corporation is a regulated electricity utility company that generates, transmits, and distributes electricity to millions of customers across the United States, with a significant presence in the Southeast and Midwest. In addition, the firm builds infrastructure projects like grids for the government that are reimbursed with profit at a later date. Through these segments, DEC obtains stable, predictable cash flows due to long-term rate frameworks and project plans approved by state regulators. Looking ahead, DEC’s five-year capital expansion plan positions it to grow its operational activities and benefit due to growing energy needs from data center customers.

INVESTMENT THESIS

Unique Operations, Service Territory, and Regulations

Firstly, DEC is regulated, as its electricity rates are set by state regulators, which provides more stable revenues compared to unregulated competitors. Secondly, DEC’s service territory is concentrated in the Southeastern US, which hosts 42% of data centers nationwide and has received steadily increasing electricity demand. Finally, the DEC benefits from a historically supportive regulatory environment. For instance in 2023, the North Carolina Utilities Commission approved a multi-year rate plan that increased revenues by 8% in 2024 alone, which is typically unseen in other states. Thus, these conditions provide DEC a strong, unique position among utility firms.

Rider Implementation for Cost Recovery

DEC utilizes riders, temporary additions to base electricity rates designed to recover costs for storms, infrastructure upgrades, uncollectible debts, and other projects. In 2025, these revenues totaled \$402M, representing 10% of net income YTD. With a projected \$95B to \$105B capital expansion plan through 2030, DEC is positioned to continue relying on riders to recover costs more quickly than through standard rate change cases. However, the market has not priced these cost savings into the stock price, given how volatile and tentative they are, despite pricing in the large capital expansion plan. This means that DEC will offset large capital expenditures in the future, showing potential upside to near-term earnings beyond market expectations.

Nuclear Production Tax Credit Expansion

DEC plans to expand its nuclear capacity by 300 MW across four reactors by 2031, which will generate nuclear tax credits. Section 45U of the Inflation Reduction Act offers a baseline production tax credit for zero-emission nuclear generation of 0.03 cents per kW/hr, and the recent creation of a transferable tax credit market enables DEC to monetize these credits immediately rather than over several years. In 2025, DEC already realized \$643 million in nuclear tax credits, representing 17% of net income YTD. However, these savings are not priced into the stock due to how new and tentative the transferrable credit market is. As a result, the tax credits created by the nuclear reactor expansion suggest future earnings beyond market expectations, potentially leading to a stock price correction.

GROWTH ASSUMPTIONS

DEC trades at \$117.18, which represents 8.7% growth YTD. This performance is supported by strong operating leverage, as operating margins have grown 8% over the last three years, signaling that DEC can capitalize on future expansion to grow earnings. Furthermore, DEC’s interest expense growth has slowed 12% despite a previous rising rate environment, which has decreased earnings drag as DEC pivots towards more growth. However, I believe the market has not priced these healthy operations correctly because DEC recently paused the discontinuation of its operations which previously reduced net income by 53%. Furthermore, there exists skepticism over its \$95 billion five-year capital expansion plan, due to execution complexities. But, this risk is offset by the long-term, predictable cash flows DEC produces as well as the near-zero competition its operations faces. As a result, I believe this justifies a re-rating of its forward EV/EBITDA multiple to 12.8x from 12.3x, a 4.5% increase. This valuation comes from a comparable companies analysis of similar competitors such as Southern Company and Exelon Corporation, which are firms of similar size, geography, financials, and operating activities. In the end, this new valuation implies a share price of \$129.03, which showcases a 10.1% upside from current levels.

UFA RECOMMENDATION

I recommend a **long** position in **DUK** with an upside of 10% and a price target of \$129.03.

Rating: **Buy**
Current Price: **\$117.18**
Target Price: **\$129.03**

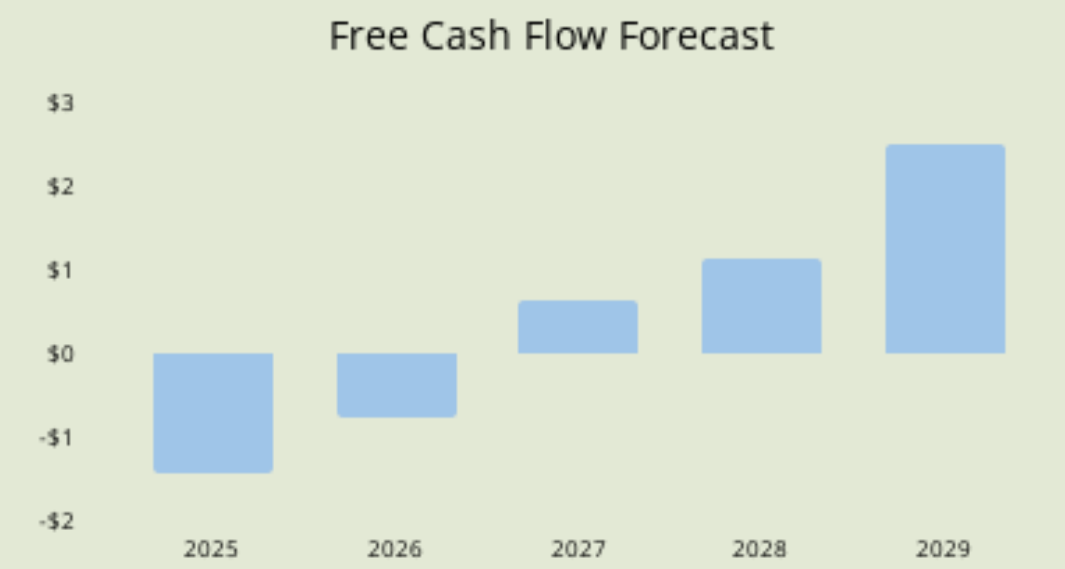
KEY STATISTICS

Market Cap: **\$91.13 billion**
Beta: **0.36**
EPS: **6.36**
PE Ratio: **18.42**
52wk Price Range: **\$105.20 - \$130.03**

FUNDAMENTALS

Leverage Ratio: **174.20%**
Current Ratio: **0.63**
EBITDA Margin: **46.70%**
Net Margin: **15.77%**

GRAPHS & ANALYSIS



GROWTH ASSUMPTIONS

DEC is undervalued because of previous operational discontinuations as well as skepticism over its five-year capital expansion plan. However, pauses on the discontinuations and predictable cash flows offset these risks and should drive a multiple re-rating from 12.3x to 12.8x.

Revenue: **\$31.66 billion**
EPS: **6.36**

EXPANSION PLAN AND ANALYST EXPECTATIONS

DEC anticipates a \$95 billion capital expansion plan to be implemented from 2026 to 2030, which will be used to build new infrastructure and modernize existing grids, better serving data center clients. This provides even more upside beyond the short-term timeframe described by the new valuation.

Furthermore, analysts expect EPS growth of 6.0%, from 6.36 LTM to 6.74 NTM, providing more support for the investment theses of increased investor benefits.

RISK ANALYSIS

Regulations, Capital Expansion, Customer Concentration, Valuation Risk

The primary risk DEC faces relates to rate-setting uncertainty. As a regulated utility, DEC's ability to earn returns on its significant capital investments is contingent on approval from state public utility commissions. While the company has historically operated in constructive regulatory environments, unfavorable rate case outcomes caused by shifts in political priorities could limit allowed returns. This risk is magnified given DEC's estimated \$95 billion capital expansion plan, as any mismatch between capital deployed and approved rate recovery could pressure near-term earnings.

A second key risk stems from execution risk tied to DEC's large-scale capital program. The firm plans to materially expand and modernize its grid to support rising electricity demand, particularly from data centers, which requires precise project management. Any delays, labor shortages, supply-chain disruptions, or even cost inflation could increase project expenses beyond what regulators ultimately allow DEC to recover. As a result, execution missteps could compress returns on invested capital and reduce the earnings accretion expected from these infrastructure investments.

Furthermore, DEC faces customer concentration risk tied to the growing importance of data center customers within its service territory. While the Southeast accounts for a disproportionate share of U.S. data center development, demand from hyperscalers is inherently cyclical due to its dependency on technology investment trends. A slowdown in data center capital expenditures could affect load growth assumptions embedded in DEC's long-term planning and create uncertainty around future revenue growth trajectories.

Finally, DEC is exposed to valuation risk given its income-oriented investor base. Any sustained rise in long-term yields could pressure DEC's valuation multiple as investors demand higher returns elsewhere. Moreover, after an 8.7% YTD increase in share price, any miss related to earnings guidance or regulatory outcomes could result in multiple compression toward historical averages. This could introduce near-term volatility even if DEC's long-term fundamentals remain intact.

COMPANY NEWS / EARNINGS TEASER

- DEC recently requested to update rates in North Carolina, which would lead to a \$1 billion revenue increase by 2028.
- The firm also requested an extension of its nuclear tax production credits and the creation of new hydro and solar incentives within the state as well.
- DEC reported new leadership changes, as the Chief Accounting Officer stepped down after nearly 24 years. The firm has also reported senior vice president changes effective in the new year, which showcases its commitment to executive changes amidst this period of growth.

COMPETITOR ANALYSIS

- Southern Company maintains a strong presence in the Southeast and is expanding its energy capacity to support load growth similar to DEC.
- Exelon focuses more on regulated transmission with limited generation exposure.
- These firms compete with DEC as an alternative utility investment rather than a traditional competitor. This is because unlike normal power producers, utilities act as local monopolies, meaning DEC does not directly compete for residential customers within its footprint.
- Instead, DEC benefits from high switching costs with long-lived infrastructure assets and a historically positive regulatory environment in the Southeast which makes it an attractive investment option. As a result, even as peers pursue similar grid expansion, DEC maintains its competitive edge relative to comparable utility firms.

VALUATION & ADDITIONAL ASSUMPTIONS

Comparative Companies Analysis

Company Name	Ticker	Share Price	EV	TTM Financial Performance Data			NTM Valuation Multiple
				Revenue	EBTIDA	EBITDA Margin	EV / EBITDA
Southern Company	SO	87.17	167,260.00	28,912.00	13,065.00	45.2%	12.8x
Dominion Energy Inc.	D	59.20	103,030.00	15,928.00	7,021.00	44.1%	14.7x
American Electric Power Company Inc.	AEP	115.67	109,180.00	21,424.40	8,853.00	41.3%	12.3x
Exelon Corporation	EXC	43.56	93,679.67	24,317.00	8,695.00	35.8%	10.8x
Xcel Energy Inc.	XEL	74.42	76,266.81	14,241.00	5,709.00	40.1%	13.4x
Overall Median			103,030.00	21,424.40	8,695.00	41.3%	12.8x
Overall Mean			109,883.30	20,964.48	8,668.60	41.3%	12.8x

COMPANY SUMMARY

NextEra Energy is the largest electric utility holding company in the U.S. and the world's biggest generator of wind and solar power. It operates through Florida Power & Light (FPL - a regulated utility serving millions of customers) and NextEra Energy Resources (its clean energy development arm). NEE is positioned for stable utility income and renewable growth, enabling resilience across commodity cycles and policy shifts. Its hybrid model makes it less exposed to oil and gas price volatility compared to fossil-heavy peers, and less dependent on subsidy timing than pure-play renewables. With a five-year beta of ~0.45, it maintains lower market sensitivity than the utility sector average (~0.55).

INVESTMENT THESIS

Downside Protection Through Regulated Utility Cash Flows

NextEra offers meaningful downside protection through FPL's regulated revenue base, which generates predictable earnings supported by favorable Florida demographics, rate base growth, and constructive regulation. This provides stability during economic slowdowns and rising rate environments, allowing the company to fund growth investments without over-reliance on external capital markets. Compared with traditional utilities, NEE delivers superior earnings growth while maintaining comparable defensive characteristics.

Secular Demand Growth From Electrification & Data Centers

U.S. electricity demand is re-accelerating for the first time in decades, driven by electrification, EV adoption, and the rapid expansion of AI and hyperscale data centers. NextEra is uniquely positioned to capture a disproportionate share of this demand due to its scale in solar, wind, battery storage, and transmission infrastructure. The company's ~30 GW renewable and storage backlog — one of the largest in the industry — provides multi-year visibility into capacity additions and earnings growth.

Policy Tailwinds and Capital Efficiency Drive Superior Returns

NextEra is a leading beneficiary of Inflation Reduction Act (IRA) incentives, particularly production tax credits, investment tax credits, and tax credit transferability. These incentives materially reduce project capital costs and enhance returns on invested capital. Unlike smaller developers, NEE's scale and balance sheet allow it to efficiently monetize credits and structure projects to minimize policy risk. Management's guidance for ~10% annual dividend growth through 2026 reflects confidence in sustained free cash flow generation and differentiates NEE from peers guiding to mid-single-digit growth.

GROWTH ASSUMPTIONS

NextEra Energy, Inc. trades at approximately \$80, reflecting muted performance over the past year as utilities have faced valuation pressure from higher interest rates. Despite this, NextEra's underlying fundamentals remain strong. Adjusted EPS has compounded at roughly 9–11% over the past decade, driven by steady rate base growth at FPL and continued expansion of its renewable and storage platform. Operating leverage remains intact as new renewable capacity comes online under long-term contracted revenues, while regulated earnings provide margin stability. However, we believe the market has not fully priced in NextEra's long-duration growth profile. Investor skepticism persists around the scale and execution of its ~30 GW renewable and storage backlog, as well as concerns over capital intensity in a higher-rate environment. These risks are offset by predictable regulated cash flows, IRA-driven tax credit transferability that lowers effective project costs, and balance sheet strength relative to peers. As a result, we believe NextEra warrants a modest re-rating of its forward EV/EBITDA multiple to ~17.5x from ~16.5x, supported by a comparable companies analysis of large-cap utilities such as Southern Company and Exelon Corporation. This revised valuation implies a target price of approximately \$98, representing ~22% upside from current levels.

UFA RECOMMENDATION

I recommend a **long** position in NEE with an upside of 22% and a price target of \$98.

Rating: **Buy**

Current Price: **\$80.93**

Target Price: **\$98.00**

KEY STATISTICS

Market Cap: **\$168.55 billion**

Beta: 0.45

EPS: **3.15**

PE Ratio: 25.7

52wk Price Range: **\$61.72 - 87.53**

FUNDAMENTALS

Leverage Ratio: 452%

Current Ratio: 0.62

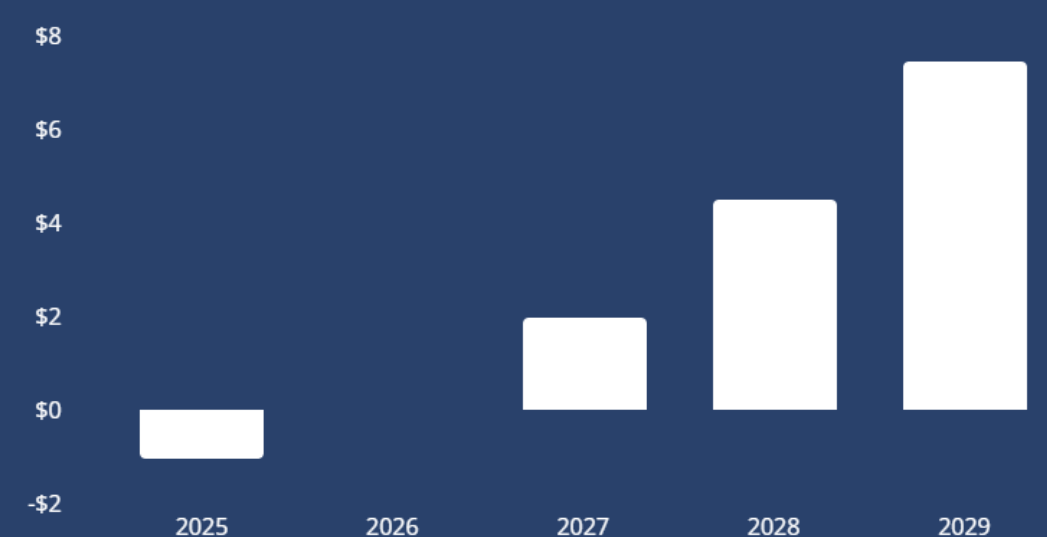
EBITDA Margin: 54.87%

Net Margin: 24.71%

GRAPHS & ANALYSIS



Free Cash Flow Forecast



GROWTH ASSUMPTIONS

NextEra is undervalued due to concerns around interest rates and renewable capital intensity. As contracted projects come online and cash flows stabilize, the stock should re-rate from ~16.5x to ~17.5x forward EV/EBITDA, supporting upside.

Revenue: **\$26.3B**

EPS: **3.70**

MANAGEMENT AND ANALYST EXPECTATIONS

Management has reaffirmed long-term expectations for mid- to high-single-digit EPS growth, supported by renewable backlog conversion and regulated capital deployment at FPL. Analysts expect continued earnings acceleration as renewable capacity is placed into service and tax credit monetization enhances project economics. Dividend growth of ~10% through 2026 further supports total shareholder returns and signals confidence in cash flow visibility.

RISK ANALYSIS

Capital Intensity, Regulatory Exposure, Execution Risk, and Valuation Risk

The primary risk for NextEra Energy, Inc. is its high capital intensity, which is inherent to both regulated utility expansion and large-scale renewable development. NextEra’s long-term growth strategy relies on significant capital deployment across FPL’s regulated rate base and NEER’s renewable and storage backlog. As a result, delays, cost overruns, or higher-than-expected financing costs could pressure near-term returns and free cash flow. This risk is amplified in a higher interest rate environment, where incremental debt issuance may reduce project-level economics despite NextEra’s relatively strong balance sheet.

A second risk relates to regulatory and policy exposure. While FPL benefits from constructive regulation in Florida, changes in allowed returns, rate case outcomes, or political dynamics could impact regulated earnings growth. Additionally, although NextEra is one of the largest beneficiaries of federal clean energy incentives, changes to tax credit structures, eligibility requirements, or long-term policy support could reduce returns on future renewable projects. While the Inflation Reduction Act provides multi-year visibility, policy risk remains a consideration for long-duration infrastructure investments.

Additionally, as NextEra scales its renewable and storage platform, it faces increased competition from both traditional utilities and pure-play renewable developers. Large utilities such as Southern Company, Duke Energy, and Xcel Energy continue to expand their clean energy footprints, while independent developers compete aggressively for power purchase agreements with corporate and utility customers. Increased competition could compress pricing, extend development timelines, or reduce incremental returns on new projects, particularly in regions with congestion or permitting constraints.

Finally, NextEra faces valuation risk following its historical premium multiple relative to the utility sector. While recent multiple compression has reduced this risk, the stock still trades above traditional utility peers on forward earnings and EV/EBITDA metrics. Any miss relative to earnings expectations, delays in backlog conversion, or adverse regulatory developments could result in further multiple compression. Given NextEra’s large market capitalization, such re-rating events could lead to heightened volatility, even if long-term fundamentals remain intact.

COMPANY NEWS / EARNINGS TEASER

- NextEra Energy, Inc. continues to carry a favorable analyst outlook, with the majority of sell-side firms maintaining Buy or Overweight ratings and 12-month price targets generally in the low-\$90s, reflecting confidence in earnings visibility and backlog execution.
- Most recently, NextEra reported solid quarterly results driven by rate base growth at FPL and steady progress in renewables and storage. Management reaffirmed long-term adjusted EPS growth expectations and reiterated guidance for ~10% annual dividend growth through 2026, underscoring confidence in cash flow durability.

COMPETITOR ANALYSIS

- NextEra’s primary competitors are large, regulated utilities that are increasingly investing in clean energy infrastructure. Key peers include Southern Company, Duke Energy, and Xcel Energy, which operate across similar geographies and regulatory frameworks.
- Specifically, these peers have expanded their renewable generation portfolios in recent years; however, their project pipelines and renewable backlogs remain meaningfully smaller than NextEra’s, limiting their ability to capture the same level of operating leverage from clean energy growth.
- While competition in the power generation and utility space continues to increase, NextEra’s scale, long-term contracted backlog, and access to low-cost capital solidify its competitive advantage. This positions the company to continue outperforming peers through higher earnings growth and more attractive long-term shareholder returns.

VALUATION & ADDITIONAL ASSUMPTIONS

Comparative Companies Analysis								
Company Name	Ticker	Share Price (\$)	EV (\$MM)	Revenue (\$MM)	EBITDA (\$MM)	EBITDA Margin (%)	NTM EV / EBITDA (x)	
NextEra Energy, Inc.	NEE	80.93	169,200	26,300	13,830	52.60%	16.5x	
Southern Company	SO	87.18	98,060	28,912	13,065	45.20%	12.8x	
Duke Energy	DUK	117.44	91,592	29,928	14,785	49.40%	13.4x	
American Electric Power	AEP	115.81	62,001	21,424	8,853	41.30%	12.3x	
Exelon Corporation	EXC	43.92	44,412	24,317	8,695	35.80%	10.8x	
Xcel Energy	XEL	74.42	76,267	14,241	5,709	40.10%	13.4x	

Peer Summary Statistics		
Metric	Median	Mean
EV (\$MM)	93,679	103,030
Revenue (\$MM)	24,317	21,424
EBITDA (\$MM)	8,695	8,669
EBITDA Margin (%)	41.30%	41.30%
NTM EV / EBITDA (x)	12.8x	12.8x

COMPANY SUMMARY

Diamondback Energy is a Permian Basin-focused independent exploration and production company with a concentrated footprint across the Midland and Delaware basins. The company produces oil-weighted volumes at one of the lowest cost structures in U.S. shale, with recent acquisitions of Endeavor Energy Partners and Double Eagle significantly expanding scale, inventory depth, and operating footprint, positioning Diamondback among the top-tier Permian producers by acreage quality. Its pure-play Permian exposure provides superior basin economics while enhanced scale supports operating leverage and consolidation optionality as higher-cost operators face inventory constraints.

INVESTMENT THESIS

Structural Cost Advantage and Core Inventory Depth

Diamondback holds a structural advantage as one of the lowest-cost producers in U.S. shale, with an estimated oil breakeven of approximately \$37 per barrel, roughly 8% lower than two years ago. As many shale operators face rising marginal costs and declining well productivity, Diamondback's concentrated exposure to core Permian acreage allows it to sustain profitability at oil prices that pressure higher-cost peers. The Endeavor and Double Eagle acquisitions add more than 400 high-quality drilling locations, extending Diamondback's premium inventory runway well into the next decade.

High Free Cash Flow Generation and Shareholder Returns

Diamondback delivers a double-digit free cash flow yield supported by strong operating margins and disciplined capital spending. In 2024, the company generated approximately \$3.6 billion of free cash flow on \$3.3 billion of net income, enabling consistent capital returns. Management has committed to returning at least 50% of free cash flow to shareholders and has historically exceeded this threshold through dividends and aggressive buybacks, supported by a \$6 billion share repurchase authorization.

Flexible Spending Model and Balance Sheet Strength

Diamondback actively manages downside risk through a flexible spending model. When oil prices softened, management reduced rig activity, trimmed capital expenditures, and redirected excess cash toward debt reduction and buybacks. This discipline has improved credit metrics, with leverage trending below 1.0x debt-to-EBITDA and S&P upgrading the company to BBB. This balance sheet strength reduces financial risk and supports continued capital returns even in moderate commodity price environments.

GROWTH ASSUMPTIONS

Diamondback Energy, Inc. trades around \$152.34, reflecting modest performance over the past year amid oil price volatility. Despite this, Diamondback's underlying fundamentals remain strong, supported by industry-leading breakevens, expanding core inventory, and disciplined capital allocation. Free cash flow margins remain wide, with realized prices in the low-\$40s per BOE against operating costs near \$10 per BOE, enabling resilient cash generation.

However, we believe the market has not fully priced in Diamondback's improved scale and inventory quality following recent M&A. Investor skepticism remains around integration risk and commodity price sensitivity, but these concerns are offset by Diamondback's low-cost structure, flexible spending model, and balance sheet improvement. As integration synergies materialize and leverage continues to decline, Diamondback's earnings and free cash flow profile should improve on a per-share basis.

We believe Diamondback warrants a modest re-rating of its forward EV/EBITDA multiple to ~6.5x from ~6.0x, supported by a comparable companies analysis of Permian-focused peers such as Pioneer Natural Resources and EOG Resources. This valuation implies meaningful upside from current levels and supports a constructive long-term outlook.

UFA RECOMMENDATION

I recommend a **long** position in FANG with an upside of 25% and a price target of \$190.00.

Rating: **Buy**
Current Price: **\$152.34**
Target Price: **\$190.00**

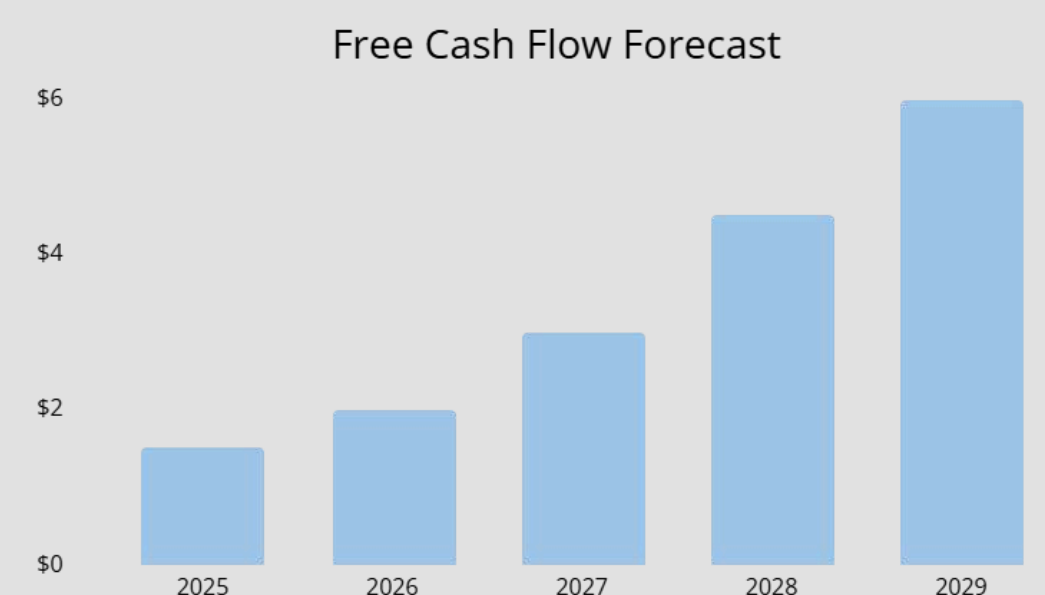
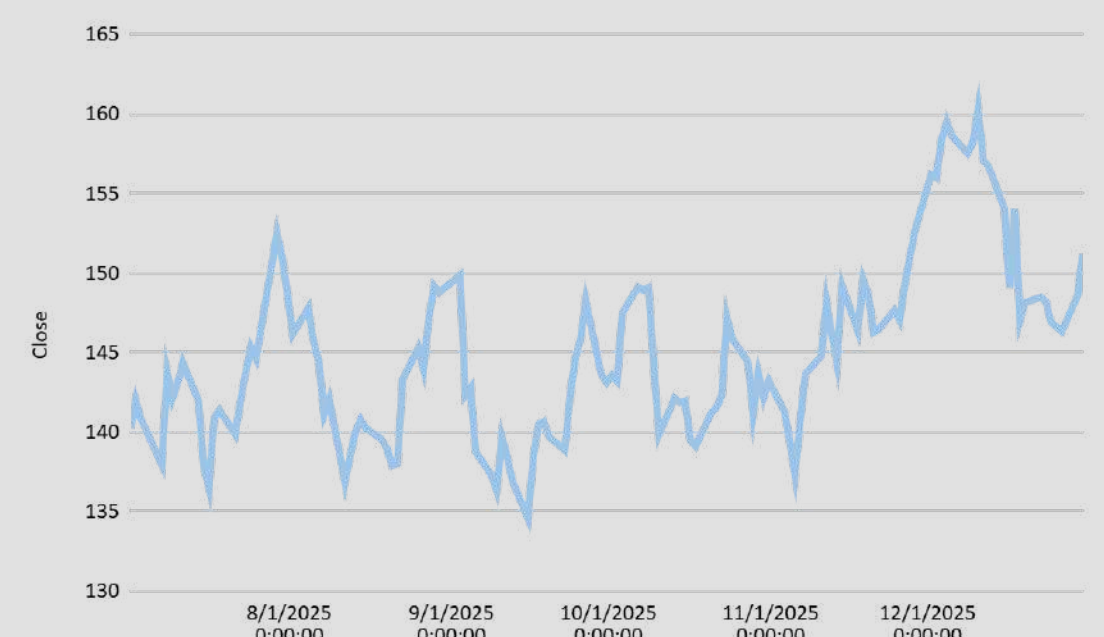
KEY STATISTICS

Market Cap: **\$43.65 billion**
Beta: **1.01**
EPS: **14.10**
PE Ratio: **10.59**
52wk Price Range: **\$114.00 - 180.91**

FUNDAMENTALS

Leverage Ratio: **92%**
Current Ratio: **0.71**
EBITDA Margin: **56.20%**
Net Margin: **29.80%**

GRAPHS & ANALYSIS



GROWTH ASSUMPTIONS

Diamondback is undervalued due to investor concerns around commodity volatility and recent acquisition integration. Its low-cost Permian inventory support durable free cash flow, and as synergies are realized and leverage declines, the stock should re-rate from ~6.0x to ~6.5x forward EV/EBITDA, closer to higher-quality peers.

Revenue: **\$15B**
EPS: **13.1**

MANAGEMENT AND ANALYST EXPECTATIONS

Management expects Diamondback to continue generating strong free cash flow across mid-cycle oil prices of \$60–70 per barrel, while maintaining disciplined capital spending. Analysts forecast continued debt reduction, sustained capital returns, and improving per-share metrics as buybacks reduce share count. The market expects Diamondback to remain among the top free cash flow generators in U.S. shale, with leverage declining toward sub-1.0x levels over the medium term.

RISK ANALYSIS

Commodity Price Volatility, Integration Risk, and Valuation Risk

The primary risk facing Diamondback Energy, Inc. is exposure to commodity price volatility, particularly crude oil prices. As an upstream E&P company, Diamondback's revenues, cash flows, and capital returns are directly tied to realized oil and natural gas prices. While the company's estimated ~\$37 per barrel oil breakeven provides meaningful downside protection relative to higher-cost peers, a sustained decline in oil prices below mid-cycle levels could compress free cash flow, slow debt reduction, and reduce shareholder distributions. This risk is amplified during periods of macroeconomic uncertainty or demand shocks, where commodity prices may disconnect from underlying cost advantages.

A second key risk relates to execution and integration following Diamondback's recent large-scale acquisitions, including Endeavor Energy Partners and Double Eagle. These transactions significantly expand Diamondback's asset base and inventory depth but also increase operational complexity. Risks include delays in realizing expected synergies, inefficiencies in drilling and completion optimization, or higher-than-anticipated integration costs. While management has a strong track record of disciplined execution, any missteps could weigh on near-term production efficiency, operating costs, and investor confidence.

Additionally, Diamondback faces ongoing capital discipline and cost inflation risks. The shale industry continues to experience upward pressure on labor, services, and completion costs, which could erode margins if not offset by productivity gains or favorable pricing. Although Diamondback has demonstrated flexibility by adjusting rig counts and capital spending in response to price movements, persistent cost inflation could limit the company's ability to sustain high free cash flow margins, particularly in a range-bound commodity environment.

Finally, Diamondback faces valuation risk following its strong historical performance and elevated sensitivity to commodity price sentiment. The stock trades at a discount to long-term averages, but remains highly correlated with oil price movements. Any miss relative to production guidance, free cash flow expectations, or capital return commitments could result in multiple compression. Given Diamondback's large market capitalization and role as a Permian consolidator, such re-rating events could introduce heightened volatility even if long-term fundamentals and asset quality remain intact.

COMPANY NEWS / EARNINGS TEASER

- Diamondback Energy, Inc. recently reaffirmed its commitment to return at least 50% of free cash flow to shareholders through dividends and share repurchases, supported by strong free cash flow generation and disciplined capital spending.
- Management also provided updates on the integration of the Endeavor Energy Partners and Double Eagle acquisitions, citing early operational efficiencies and continued net debt reduction, underscoring balance sheet improvement despite commodity price volatility.

COMPETITOR ANALYSIS

- Diamondback primarily competes with large, Permian-focused independent E&P companies such as EOG Resources, Devon Energy, and Occidental Petroleum, which operate at scale within the basin and compete for drilling inventory, service capacity, and allocating their capital.
- While these peers possess meaningful production scale and diversified asset bases, Diamondback differentiates itself through lower breakeven economics, deeper exposure to core Permian acreage, and a more flexible capital spending framework. This allows the company to generate free cash flow at oil prices that pressure higher-cost operators.
- As consolidation within the Permian continues, Diamondback's balance sheet strength and expanded inventory depth position it as a consolidator of choice, supporting a durable competitive advantage even as competition for high-quality acreage intensifies.

VALUATION & ADDITIONAL ASSUMPTIONS

Comparative Companies Analysis							
Company Name	Ticker	Share Price (\$)	EV (\$MM)	Revenue (\$MM)	EBITDA (\$MM)	EBITDA Margin (%)	NTM EV / EBITDA (x)
Diamondback Energy, Inc.	FANG	152.34	65,768	14,900	9,912	66.50%	6.6x
EOG Resources	EOG	107.27	63,020	23,900	12,835	53.20%	4.9x
Occidental Petroleum	OXY	42.38	69,618	28,200	11,793	41.80%	5.9x
Coterra Energy	CTRA	26.6	24,346	6,800	5,231	76.90%	4.7x
Permian Resources	PR	14.4	15,753	5,200	3,790	72.90%	4.2x

Peer Summary Statistics		
Metric	Median	Mean
EV (\$MM)	20,050	34,000
Revenue (\$MM)	9,300	12,900
EBITDA (\$MM)	4,590	5,885
EBITDA Margin (%)	64.40%	61.60%
NTM EV / EBITDA (x)	4.4x	4.6x



FINANCIALS

INDUSTRY



COMPANY SUMMARY

Continuing to dominate LatAm Markets

Its Latin America's premier integrated financial services platform, showcasing total leadership across banking, microfinance, insurance, and digital payments in Peru, with a market capitalization of ~\$20.4 billion as of November 2025. Headquartered in Lima, the firm operates through four primary segments: Universal Banking (Banco de Crédito del Perú) generating the lion's share of revenues, Microfinance serving SMEs and informal sector borrowers, Insurance & Pensions providing underwriting and pension management, and Investment Banking & Wealth Management serving corporates and high net-worth clients. Credicorp's focus is Yape, a mobile payments and digital financial services platform boasting 15 million monthly active users (75% of Peru's economically active population) with increasing market share in digital wallets, lending, and deposits.

INVESTMENT THESIS

Digital payments and fintech monetization

They are set to create a massive new engine boosting fee income and cross-selling revenues through Credicorp's emerging fintech platforms, targeting market share expansion from 5% to 10% within lending services deployed by 3 million users already. The company's digital wallet infrastructure and payment processing capabilities are generating increasingly predictable recurring revenue streams that diversify away from traditional interest-based banking income. With transaction volumes climbing steadily and customer engagement metrics improving quarter-over-quarter, the platform is achieving meaningful scale economics that should enhance profitability while reducing operational costs per user interaction.

Peru's macroeconomic backdrop and financial inclusion

Peru's economy grew 3.9% in Q3 2025 and recent 3% growth through 2025-2026; commodity prices remain elevated, inflation has stabilized below 3%, real wages are recovering, and the National Financial Inclusion targets expanding credit access and digital services to 38% of Peruvians, lacking bank accounts and 55% who remain outside formal digital financial services. This untapped consumer base represents a significant growth opportunity for a bank with Credicorp's branch network and technological capabilities. As Peru's middle class expands and consumer confidence strengthens, demand for banking services should increase meaningfully, allowing Credicorp to capture new customers at competitive acquisition costs while building value relationships in underserved segments.

Fintech growth and disciplined risk management

Support a sustainable long-term Return on Equity (ROE) of 19.5% and disciplined dividend growth. Management highlighted cost of risk maintained in a healthy 1.6%–2.4% range vs. historical peers at 2.5%+; Efficiency ratios hovering near 44.6%, demonstrating world-class operational leverage; and lastly the SUNAT tax dispute payment of 1.6B treated as a balance-sheet event, leaving ordinary dividend policy and core earnings power intact, supporting a 4.3%+ dividend yield.

GROWTH ASSUMPTIONS

Credicorp's strategic competitive advantage rests on three enduring pillars: its universal banking franchise leverages an unmatched branch network and deposit base across Peru to generate sticky net interest income at scale, commanding the strongest loan origination capabilities in microfinance and retail segments where Peruvian GDP growth and financial inclusion tailwinds provide multi-decade structural growth; its emerging fintech superpower Yape is transitioning from a payment rails business to a revenue-generating ecosystem offering lending, wealth management, and merchant services.

The company's market position is reinforced by its ability to serve both mass market customers and high-net-worth individuals through complementary distribution channels. As digital adoption accelerates and regulatory frameworks continue to support financial services innovation, Credicorp is well-positioned to capture market share gains from less sophisticated competitors. The combination of organic growth from market expansion and pricing power from Yape's ecosystem monetization creates multiple pathways for earnings growth that compound over the forecast period.

UFA RECOMMENDATION

I recommend a **long** position in **BAP** due to its dominant market position, surging digital growth via Yape, superior ROE, and undervalued trading multiples.

Rating: **Buy**
Current Price: **\$275.6**
Target Price: **\$301.34**

KEY STATISTICS

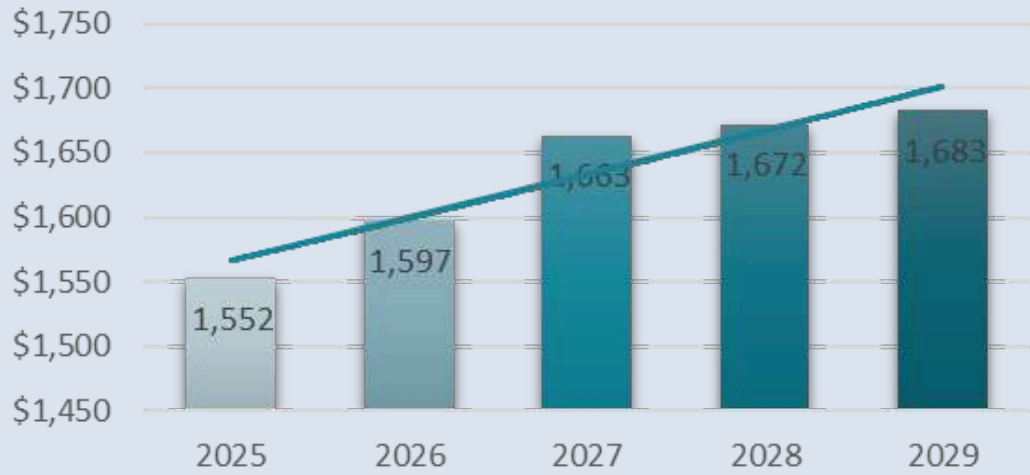
Market Cap: **\$20.45 billion**
Beta: **0.73**
EPS: **\$6.41**
P/E Ratio: **12.37x**
52wk Price Range: **\$165.51 - \$285.68**

FUNDAMENTALS

Leverage Ratio: **6.9x**
Current Ratio: **1.09x**
PEG Ratio: **0.56x**
EBITDA Margin: **46.4%**
Net Margin: **31.7%**
MISC: **15 million users (Yape)**



Free Cash Flow Forecast (In millions USD)



MAIN ASSUMPTIONS

Revenue growth driven by accelerating digital monetization through Yape and structural loan growth in developing countries.

Revenue: **7.4% avg**
Projected EPS: **\$8.4**
Misc: **10% user growth**



MORE DATA

Profitability Metrics

They have been trading on average at ~12.37x trailing P/E with a 4.28% dividend yield. Full-year 2024 revenues surged 12.46% and net earnings increased by 13.07%. They had a net profit margin of 20.38%, demonstrating the firm's pricing power and operational efficiency. The firm's Q2 2025 performance further validated the thesis with net income surging 36% year over year, indicating a quarterly ROE of 20.7%. As the company signaled 1.6% risk of underwriting, indicating high-quality loans.

RISK ANALYSIS

Geopolitics & Microfinance sensitivity

Credicorp operates in a jurisdiction characterized by high political fragmentation and regulatory unpredictability, often referred to as the "Peruvian Discount." A primary concern is the aggressive stance of local tax authorities, evidenced by the recently resolved S/1.6 billion dispute with SUNAT in Q2 2025 regarding historical transactions. While this specific liability was successfully mitigated, it highlights a persistent tail risk of retroactive fiscal audits. Furthermore, the banking sector faces lingering populist legislative threats, including potential caps on interest rates and further authorized withdrawals from private pension funds (AFPs), which directly undermine the AUM and fee-generation power of Credicorp's insurance and pension subsidiary, Pacifico/Prima.

The firm's exposure to the informal economy through Mibanco represents its highest beta volatility. Unlike the secured Corporate banking portfolio, the SME loan book is structurally vulnerable to climatic shocks, specifically the 2025 El Niño phenomenon, which disrupts agricultural cycles and logistics infrastructure in Peru's northern regions. These disruptions historically correlate with spikes in Non-Performing Loans (NPLs) and Cost of Risk (CoR) volatility. While management has guided for a controlled of ~1.6%–2.4%, a severe weather event could force higher provisioning, compressing margins in the high-yield microfinance segment and acting as a drag on the group's consolidated ROE.

It has a 5.5% of group risk-adjusted revenues and the potential for 10% contribution by 2026; and the firm's elevated ROE of 18.5%–20.7% (global peers at 12%–15%) and Peru's favorable credit-to-GDP expansion relative to developed & emerging LatAm markets, with long-term sustainable ROE targets of 19.5% if the firm maintains its efficiency ratio below 45% and cost of risk between 1.5%–2.5%.

COMPANY NEWS / EARNINGS TEASER

- On November 13, 2025, Credicorp reported strong Q3 earnings with EPS of \$6.17, beating consensus estimates of \$6.05 by \$0.12. This performance was driven by a record Net Interest Margin (NIM) and robust profitability in the Comercial Banking segment.
- Tax Dispute Resolved: In a significant de-risking event, Credicorp fully resolved its long-standing tax dispute with SUNAT in mid-2025, paying ~S/1.6 billion. While costly, this removes a major overhang and clarifies the firm's capital position for future dividends.

COMPETITOR ANALYSIS

- Credicorp's BCP dominates with greater than 30% loan market share, significantly dwarfing rivals like BBVA Peru and Intercorp (IFS), while competitors struggle to scale digital ecosystems and Credicorp's Yape holds a crushing 75% active workforce penetration.
- Yape forces traditional peers into a defensive catch up mode on cost of funding advantages, and BAP trades at a compelling discount relative to its earnings potential compared to Intercorp Financial Services (IFS), which faces higher exposure to retail volatility without a comparable digital moat.
- Credicorp's Yape allows it to defend net interest margins of approximately 6.0% far more effectively than peers reliant on expensive wholesale funding, through its digital ecosystem and operational execution.

Valuation & Metrics (in millions)

Base Case ~ 16% | Bear Case ~ 12% | Bull Case ~ 30%

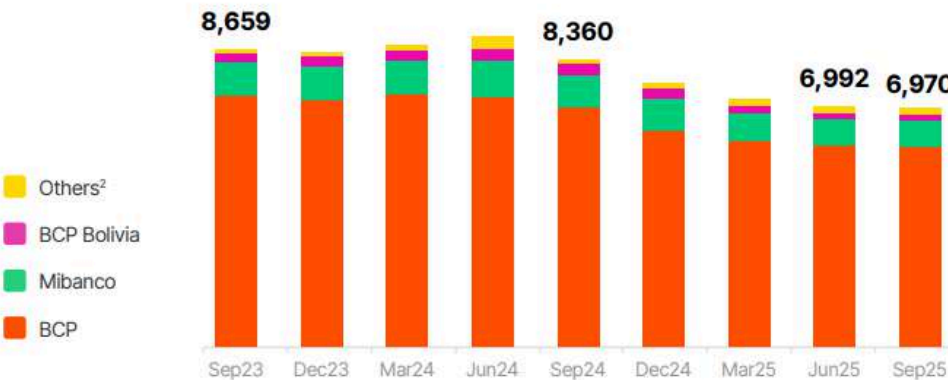
Discounted Cash Flow		2024	2025	2026	2027	2028	2029
Date		12/31/2024	12/31/2025	12/31/2026	12/31/2027	12/31/2028	12/31/2029
Time Periods			0	1	2	3	4
Sales Growth			15.0%	7.7%	10.0%	7.2%	6.5%
Sales		5,293	6,086.61	6,555.27	7,210.80	7,729.98	8,232.43
Less: COGS		1,533	1,643.38	1,823.02	2,065.48	2,258.48	2,453.39
Less: SG&A		190	182.60	200.59	225.06	243.68	262.12
Less: other exp		1,253	1,440.95	1,629.50	1,882.07	2,118.46	2,323.84
Less: D&A		190	218.50	247.09	285.39	321.23	359.22
EBIT		2,127	2,601	2,655	2,753	2,788	2,834
Less: Cash Taxes		637	780	797	826	836	850
Plus: D&A		190	219	247	285	321	359
Less: Capex		296	444	488	537	591	650
Less: Changes in NWC		111	43	20	12	10	10
Unlevered FCF		1,273	1,552	1,597	1,663	1,672	1,683
							1,741.7L
							25,633
Transaction CF		1,273	1,552	1,597	1,663	1,672	27,316
			2025	2026	2027	2028	2029
Tax Rate			30.0%	30.0%	30.0%	30.0%	30.0%
Cost of Services (COGS)			27.0%	27.8%	28.6%	29.2%	29.8%
SG&A expense			3.0%	3.1%	3.1%	3.2%	3.2%
other expense			23.67%	24.86%	26.10%	27.41%	28.23%
D&A expense			3.6%	3.8%	4.0%	4.2%	4.4%
Capex			\$444	\$488	\$537	\$591	\$650

Current Market Value	
Market Cap	20,449
Plus: Debt	421
Less: Excess Cash	290
Enterprise Value	20,579
Current share price	259.02

Rate of Return	
Target Price Upside/Downside	16%

Market Value vs Intrinsic Value	
Market Value	259.02
Upside	42.32
Intrinsic Value	301.34

Total NPLs¹
(S/ millions)





COMPANY SUMMARY

Continuing to dominate LatAm Markets

It is the publicly traded holding company for Burke & Herbert Bank & Trust Company, the oldest continuously operating bank under its original name in the greater Washington, D.C. metropolitan area (established 1873). The bank operates through two primary segments: Universal Community Banking (\$366.2M in 2024 net interest income) serving retail, small business, and commercial clients across Northern Virginia, Maryland, Delaware, West Virginia, and Kentucky; and Wealth Management & Trust Services offering advisory, planning, and institutional trust services to high net worth clients. The company holds approximately \$7.9 billion in total assets (Q3 2025), with \$5.6 billion in gross loans and \$6.4 billion in deposits. Burke & Herbert trades at approximately \$69.45 per share with a market capitalization of ~\$1.04 billion as of mid-December 2025.

INVESTMENT THESIS

Underperforming Loan Surge and Reserve Inadequacy

Burke & Herbert's non-performing loan ratio surged 150% year-over-year to 1.60% of total loans in Q3 2025. The allowance for credit losses coverage ratio has collapsed to 75.92% in Q3 2025 from 189.05% in Q3 2024, thus placing BHRB below peer benchmarks and substantially below industry norms where the average is 100 to 115%. With \$89.1 million in non performing loans offset by only \$67.7 million in reserves, the company faces a material reserve build cycle ahead that will compress reported earnings by 8 -12 basis points on ROA over the next 12 to 18 months. The deterioration accelerates amid softening commercial real estate fundamentals, rising consumer delinquencies and regional economic headwinds in Virginia and Maryland markets.

Net Interest Margin Compression

Their net interest margin contracted 10 basis points from 4.18% to 4.08% in two quarters, driven primarily by a non-cash acquisition benefit that declined from \$11.5M in Q2 to \$8.2M and rising deposit costs at 1.87% both in Q3 2025. The accretion income, which artificially boosted reported earnings by 2 to 3 basis points on ROA annually, is exhausting as acquired loan portfolios season and pay down. Simultaneously, deposit costs remain elevated relative to historical norms, constraining their net interest margin further as the Fed's rate-cutting cycle (2024–2025) unwinds and the market reprices deposit competition. Over the next 12 - 24 months, it is poised to compress an additional 15 to 20 basis points in the 3.85 - 3.90% range, reducing net interest income by approximately 8% and offsetting any operating leverage gains.

Execution Risk of Back to Back Merger

Burke & Herbert's December 2025 announcement of a \$354.2 million acquisition of LINKBANCORP Inc. Expected to close in mid 2026, compounds execution risk materially. The company has yet to fully realize revenue and cost synergies from its May 2024 Summit Community Bank merger, as they achieved \$28M while expecting \$25 to 35M, with integration costs persisting and ongoing system consolidation efforts, while exposing the company to a lower credit rating due to low liquidity.

GROWTH ASSUMPTIONS

B&H's strategic competitive positioning relies on its branch network and deposit base across Northern Virginia, Maryland, Delaware, West Virginia, and Kentucky; Equally, their high net worth client relationships and premium deposit gathering at the Washington, D.C. corridor, generate stable net interest income at scale. Its geographic expansion into secondary Virginia markets offers in theory short term deposit and loan growth opportunities than purely Northern Virginia.

Its wealth management and trust services business expects to deliver fee-based revenue diversification and cross-selling opportunities to retail banking customers. However, these purported advantages obscure three material weaknesses. First, the Washington, D.C. corridor market is fundamentally mature, with limited demographic tailwinds and rising competitive intensity from national banks and fintech challengers. Second, the wealth management segment, while offering fee income diversification, remains immaterial, only generating \$45M annually, relative to the overall earnings base and has not delivered the promised cross-sell benefits.

UFA RECOMMENDATION

I recommend a **short** position in **BHRB** due to surging non-performing loans, inadequate reserve coverage, as well as deteriorating credit rating combined with the risk of executing multiple mergers.

Rating: **Sell**
Current Price: **\$63.34**
Target Price: **\$47.15**

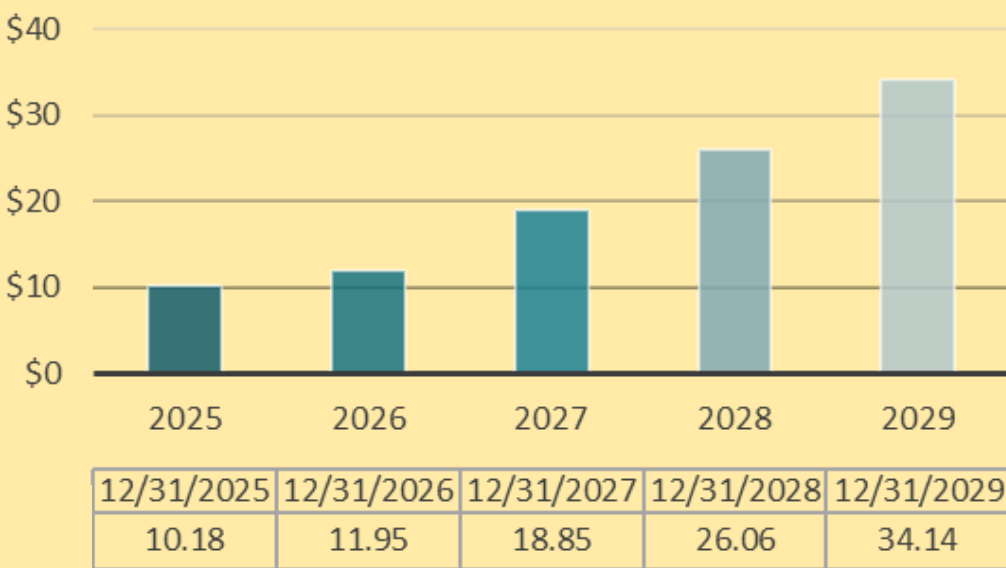
KEY STATISTICS

Market Cap: **\$952 million**
Beta: **0.75**
EPS: **\$1.97**
P/E Ratio: **8.75x**
52wk Price Range: **\$47.57 - \$70.85**

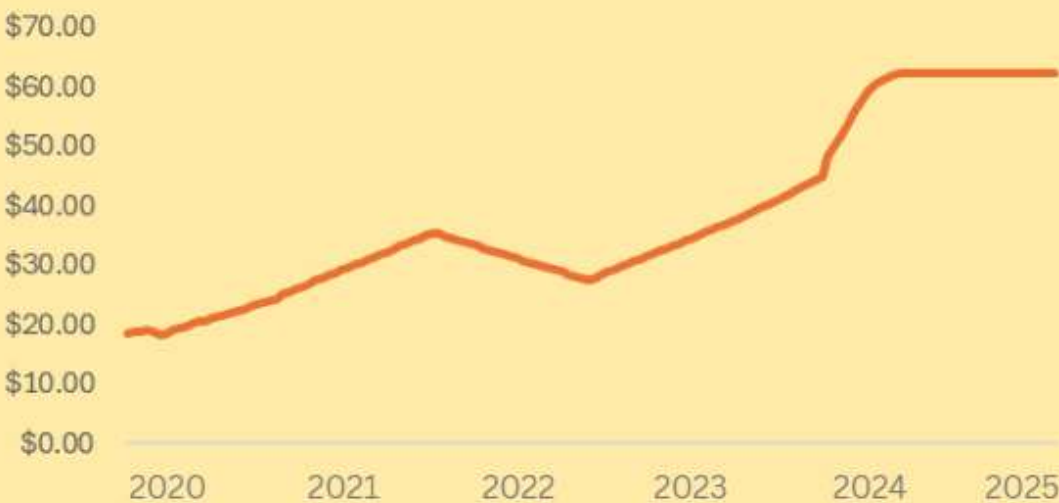
FUNDAMENTALS

Net Interest Margin: **4.08%**
Leverage Ratio: **10.71x**
Current Ratio: **1.60%**
PEG Ratio: **0.2x**
Return on Equity: **14.88%**
Dividend Yield: **3.4%**

Free Cash Flow Forecast (In millions USD)



Stock Price (BHRB)



MAIN ASSUMPTIONS

Revenue and Net Interest (NIM) Compression driven by margin deterioration, rising provision expenses, and integration cost headwinds.

Revenue: **5.5% YoY**
NLP Ratio: **1.5%**
Accretion Income: **\$32M**



COMPANY'S MARKET POSITION

Growth and Rising Costs

The company's market position is further constrained by significant structural changes incompatible with continuous single digit growth. Rising deposit costs (1.87% in Q3 2025) compress net interest margins as competition intensifies and as the Fed's rate-cutting cycle reverses, reducing pricing power relative to national competitors. Operating efficiency ratios remain elevated at 56.34% in Q3 2025, leaving limited room for higher expenses as revenue growth continues to stall.

RISK ANALYSIS

Commercial Real Estate & Multiple Compression

Burke & Herbert operates in a jurisdiction characterized by cyclical federal government employment exposure and commercial real estate market volatility. A primary concern is the bank's commercial real estate exposure at approximately 350% of risk based capital, with particular vulnerability to office sector deterioration post pandemic hybrid work adoption. Recent expansion into Bethesda and secondary Virginia markets has increased exposure to market cycles at precisely the moment office vacancy rates are rising and property valuations are compressing. The bank's exposure to Maryland and Northern Virginia municipal bond issuances and overleveraged borrower debt service obligations suggests concentrated regional economic stress.

The firm's acquisition of LINKBANCORP introduced \$41.3 million in after tax merger expenses and a \$37.6 million loan portfolio write-down, signaling deteriorating credit quality in acquired assets. Pro forma net interest margin for the combined BHRB-LNKB entity stands at 4.00%, below BHRB's current 4.08%, indicating LNKB brings inferior asset quality and funding economics. Management bandwidth is fundamentally constrained by simultaneous integration of two major deals, reducing focus on organic credit management and core deposit gathering.

Despite their cheap 8.75x P/E and ultra-low 0.2x PEG ratio, analyst growth estimates don't account for the structural headwinds ahead: normalized loan loss provisions for the surging 1.60% NPL ratio, the \$32M cliff in accretion income as acquired loans mature, and margin compression from rising deposit costs. Over the next two quarters, deteriorating credit metrics will force analysts to cut 2026 - 2027 EPS estimates by 15 to 25%, resetting the P/E from 8.75x to 7.0 - 7.5x and compressing multiples further.

COMPANY NEWS / EARNINGS TEASER

- Burke & Herbert's accretion income declined 29% or \$8.2 million in Q3 2025 from \$11.5 million in Q2. Full year 2026 accretion is projected at just \$8 to \$12 million versus \$32 million in 2025. This \$1.20 to \$1.60 per share earnings cliff represents a critical headwind to reported profitability and growth narratives.
- Q3 2025 deposit costs rose to 1.87%, the highest in 18 months, while loan yields remain stuck at 6.76%. Deposit beta running 35 to 40% indicates rising competitive pressure for core deposits in secondary markets.

COMPETITOR ANALYSIS

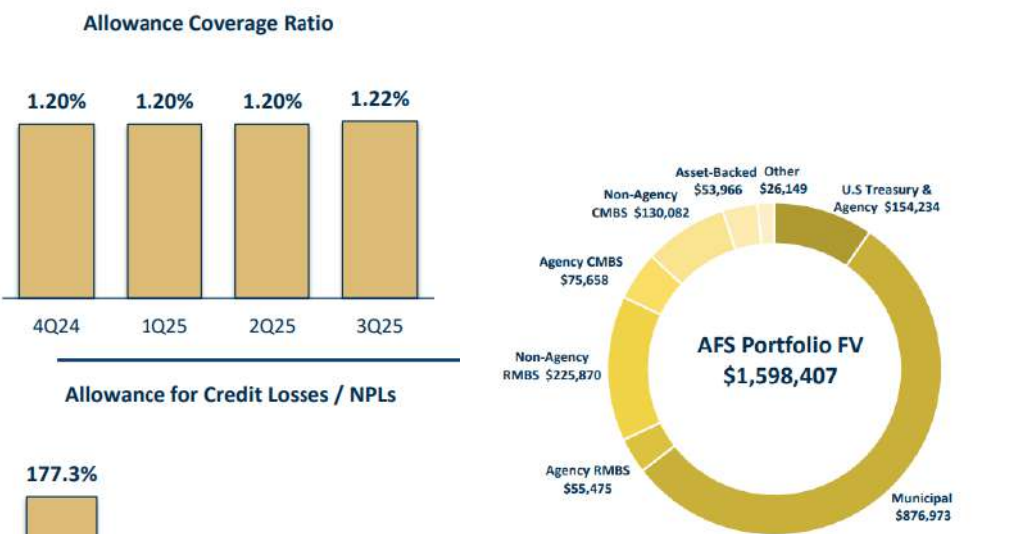
- Atlantic Union Bankshares (AUB) maintains 18.4% market share while M&T Bank controls 22.1% dominance across the region, and BHRB's secondary market expansion faces headwinds from competitors with established branch networks.
- AUB gathers deposits at a cost of 1.67% compared to BHRB's 1.87%, demonstrating superior deposit efficiency. This is BHRB's main competitor in the wealth management space.
- SASR's stronger earnings quality and sustainability exceed BHRB's despite similar market positioning. Their earnings exceed BHRB's, showcasing that SASR has achieved a more durable competitive advantage.

Valuation & Metrics (in millions)

Base Case - 38% | Bear Case - 43% | Bull Case - 17%

Discounted Cash Flow		2024	2025	2026	2027	2028	2029
Date		12/31/2024	12/31/2025	12/31/2026	12/31/2027	12/31/2028	12/31/2029
Time Periods			0	1	2	3	4
Sales Growth			6.5%	6.0%	5.5%	5.0%	5.0%
Sales		96.10	102.34	108.48	114.45	120.17	126.18
Less: COGS		36.33	38.69	41.43	41.52	41.41	41.31
Less: SG&A		24.99	26.61	28.21	28.27	28.20	28.13
Less: other exp		22.10	23.54	23.45	22.52	21.28	19.66
Less: D&A		4.13	4.40	6.79	10.39	15.82	24.08
EBIT		8.55	9.10	8.61	11.76	13.46	13.00
Less: Cash Taxes		1.71	1.82	1.72	2.35	2.69	2.60
Plus: D&A		4.13	4.40	6.79	10.39	15.82	24.08
Less: Capex		2.52	1.26	1.51	0.76	0.38	0.19
Less: Changes in NWC		4.80	0.24	0.22	0.18	0.15	0.15
Unlevered FCF		3.64	10.18	11.95	18.85	26.06	34.14
							1,095.60
Transaction CF		3.64	10.18	11.95	18.85	26.06	1,129.74

	2025	2026	2027	2028	2029
Tax Rate	20.0%	20.0%	20.0%	20.0%	20.0%
Cost of Services (COGS)	37.8%	38.2%	36.3%	34.5%	32.7%
SG&A expense	26.0%	26.0%	24.7%	23.5%	22.3%
Other expense	23.00%	21.62%	19.67%	17.71%	15.58%
D&A expense	4.3%	6.3%	9.1%	13.2%	19.1%
Capex	\$1.26	\$1.51	\$0.76	\$0.38	\$0.19



Terminal Value	
Growing Perpetuity	1,096

Intrinsic Value	
Enterprise Value	930.16
Plus: Excess Cash	325
Less: Debt	536
Equity Value	719
Estimated share price	\$ 47.86

Rate of Return	
Target Price Upside/Downside	-38%

Loan Segment	Adjustable Rate	Fixed Rate
Commercial Real Estate	\$ 1,282,996	\$ 1,521,179
Residential	546,687	581,265
Owner-occupied CRE	339,370	273,190
AD&C	244,937	130,090
Commercial & Industrial	355,449	179,282
Consumer	71,273	33,761
	\$ 2,840,712	\$ 2,718,767



COMPANY SUMMARY

Citi’s Global diversified financial services

Citigroup Inc. (Citi) is one of the world’s largest financial institutions, serving as the parent company for CitiBank. Citi was founded over 200 years ago in New York, and is now a global powerhouse and one of the “Big Four” U.S. banks. Its business is divided into two segments: the Institutional Clients Group (ICG) which provides investment banking, corporate lending, and trading services; and the Personal Banking and Wealth Management (PBWM) which offers consumer banking products like checking accounts, mortgages, and one of the largest global credit card businesses. Citi offers comprehensive financial services to institutional, corporate, and individual clients across nearly 100 countries.

INVESTMENT THESIS

Unmatched Global Banking Network

Citi’s unrivaled global operating network allows it to act as the primary cross-border banking partner for the world’s largest multinational corporations. This presence across 100 countries is the foundation of its Institutional Clients Group and Treasury and Trade Solutions (TTS) segment. Global businesses rely on Citi’s ability to manage complex, multi-jurisdictional cash management, payments, and trade finance which cannot be easily replicated by other banks. As a result, Citi plays a critical role in supporting clients’ global operations, liquidity management, and international growth strategies.

Strategic Cost Reduction and Simplification

Citigroup is undergoing a major organizational restructuring to simplify its business and improve its efficiency ratio. Led by CEO Jane Fraser, Citigroup plans to streamline its corporate structure, cutting \$2.0 to \$2.5 billion in annual costs through job eliminations and consolidating its core businesses. These changes are designed to reduce management layers, improve accountability, and accelerate decision-making across the firm. Over time, the restructuring is expected to enhance profitability and allow Citi to focus more effectively on its highest-return growth opportunities.

Global Focus Over Domestic Branches

While competitors have vast U.S. branch networks, Citi has intentionally reduced its domestic branch footprint to focus on major global financial centers and digitally delivered services. This strategy allows the bank to allocate more capital and resources toward areas where it has a competitive advantage, particularly in cross-border banking and international financial services. By concentrating on high-barrier-to-entry businesses such as global payments, treasury services, and trade finance, Citi strengthens its competitive moat and improves capital efficiency. Over time, this focused approach positions Citi to generate more stable, scalable, and differentiated revenue streams.

GROWTH ASSUMPTIONS

Citigroup’s long-term growth outlook is anchored in three core strengths: its unmatched global operating network enables it to serve as the primary cross-border banking partner for the world’s largest multinational corporations, creating durable, fee-based revenue through Treasury and Trade Solutions and Institutional Clients Group; its ongoing organizational restructuring under CEO Jane Fraser is simplifying the firm, improving efficiency, and unlocking operating leverage through meaningful cost reductions; and its strategic decision to scale back domestic branch banking in favor of global financial hubs and digital delivery concentrates capital in high-return, high-barrier-to-entry businesses.

UFA RECOMMENDATION

I recommend a **long** position in **C-US** for its global network, cost restructuring, and focus on high-return international and digital businesses driving sustainable growth.

Rating: **Buy**
Current Price: **\$103.9**
Target Price: **\$122.61**

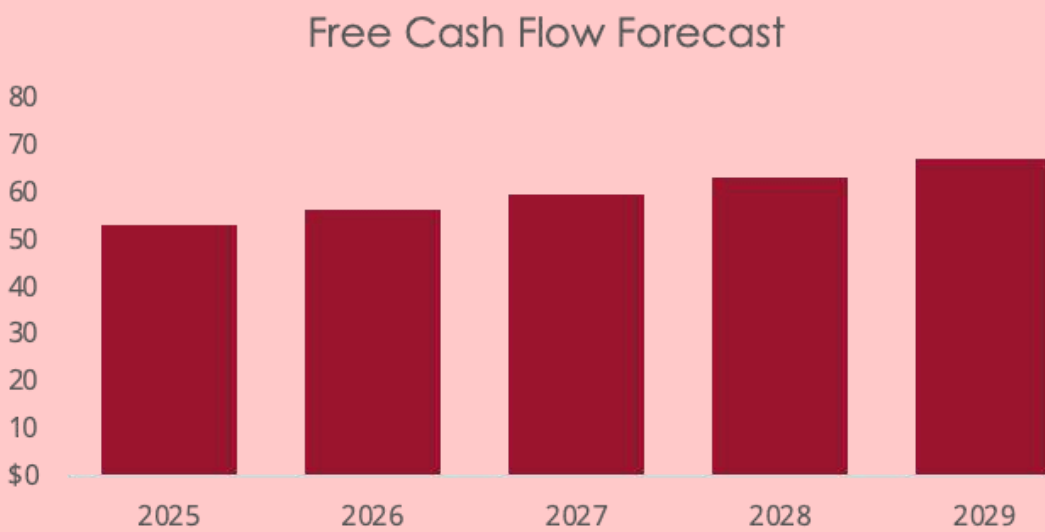
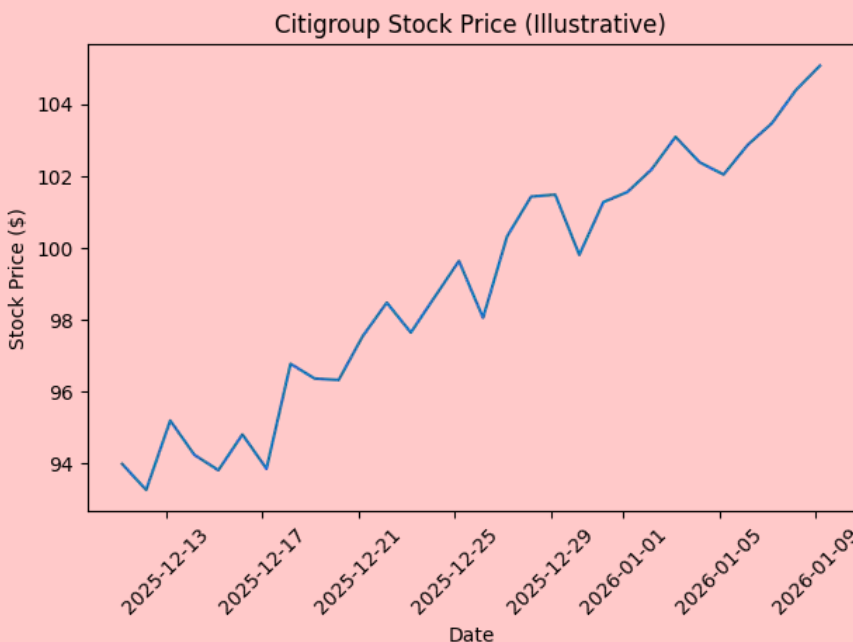
KEY STATISTICS

Market Cap: **\$215.772 billion**
Beta: **1.2**
EPS: **7.12**
PE Ratio: **16.46**
52wk Price Range: **55.51 - 122.84**

FUNDAMENTALS

Leverage Ratio: **~3.38x**
Current Ratio: **~0.31**
PEG Ratio: **~0.92–0.55**
EBITDA Margin: **~12.5%**
Net Margin: **~7.4%–8.7%**

GRAPHS & ANALYSIS



GROWTH ASSUMPTIONS

Citi’s global focus and efficiency drive its growth.

Revenue: **7% avg.**
EPS: **~18%**



MORE DATA

Citi's Financials

Citigroup has an upside of 47.18% Year to Date, significantly outperforming the S&P whose YTD return is 16.45%. Citi's current share price is \$103.52, with a "Buy" analyst consensus. However, our estimated intrinsic value of the company is \$122.61, meaning that Citigroup's stock is currently undervalued. This estimate leaves room for an 18% upside, creating a "Strong Buy" consensus with our team. Citigroup's interest income has healthily grown YoY, up 8% from 2023's ~133.26B and 93% from 2022's ~74.41B. Citi's new restructuring plan will cut SG&A costs by our estimated ~7.6%, furthering an increase in profitability.

RISK ANALYSIS

Macroeconommic, Regulatory, and Operational Risk

Citi's performance is highly sensitive to global economic conditions and interest rate fluctuations. As a global bank, slower GDP growth, recessions, or trade disruptions in key markets could reduce lending activity, corporate deal flow, and trading revenue. Changes in interest rates directly impact Citi's net interest margins: lower rates compress earnings on loans and deposits, while higher rates may increase funding costs or credit risk. Moreover, volatile currency markets and geopolitical tensions can affect international operations, given Citi's presence in nearly 100 countries.

Operating across multiple jurisdictions, Citi is exposed to stringent regulatory and compliance requirements that could materially impact its financials. Changes in capital requirements, banking regulations, or taxation could increase operational costs or restrict strategic initiatives. Past legal settlements and ongoing investigations demonstrate that fines, penalties, or adverse regulatory rulings could directly reduce profits and negatively affect investor confidence. Additionally, evolving regulations around digital banking, cross-border payments, and consumer protections may require substantial investments to ensure compliance.

Citi faces intense competition from both traditional global banks and innovative fintech companies, particularly in digital banking, payments, and treasury services. Its strategy to reduce domestic branches and focus on global hubs and digital delivery carries execution risk, as failure to scale digital platforms or maintain service quality could result in client attrition. Operational disruptions, including cybersecurity threats, system outages, or data breaches, could damage reputation and client trust. Moreover, competition in high-return international markets may intensify, putting pressure on pricing and margins despite Citi's global network advantage.

COMPANY NEWS / EARNINGS TEASER

Citigroup's stock has experienced volatility in 2025 after the firm reported a significant pre-tax loss tied to the sale of its remaining Russia business. Investors are now focused on its upcoming fourth-quarter earnings call on January 14, 2026, while optimism grows around Citi's ongoing transformation under CEO Jane Fraser and its strategy execution. Analysts are watching closely for signs of improved efficiency, cost reductions, and growth in high-return international and digital businesses.

COMPETITOR ANALYSIS

Citigroup competes with the other "Big Four" U.S. banks (JPMorgan Chase, Bank of America, and Wells Fargo) as well as large global banks like HSBC and Deutsche Bank. While Citi's strength lies in its unmatched global network and cross-border banking capabilities, competitors often have larger domestic U.S. retail footprints (ex Wells Fargo) or more diversified investment banking operations (ex JPMorgan). In digital banking and payments, Citi faces competition from both fintech disruptors (ex PayPal, Square) and traditional banks expanding their technology platforms. Citi's strategy to focus on global financial hubs and high-barrier international businesses differentiates it from peers who rely more heavily on domestic retail or trading revenue.

VALUATION & ADDITIONAL ASSUMPTIONS

Discounted Cash Flow						
Date	2024	2025	2026	2027	2027	2028
	12/31/24	12/31/25	12/31/26	12/31/27	12/31/28	12/31/29
Time Periods	0	1	2	3	4	
Sales Growth		7.0%	7.0%	7.0%	7.0%	7.0%
Interest Income	143.26	153.29	164.02	175.50	187.78	200.93
Less: Non-Interest Expense	83.40	89.24	94.05	99.13	104.47	110.11
Less: SG&A	9.84	10.53	10.93	11.34	11.77	12.22
Less: R&D	9.84	10.53	11.60	12.79	14.09	15.53
Less: Other Expenses	20.00	21.40	23.81	24.97	25.92	27.73
EBIT	20.18	21.59	23.62	27.27	31.53	35.34
Less: Cash Taxes	5.30	4.53	4.96	5.73	6.82	7.42
Plus: D&A	5.70	21.40	23.81	24.97	25.92	27.73
Less: Capex	1.26	1.26	1.30	1.34	1.38	1.42
Less: Changes in NWC	(16.74)	(15.90)	(15.11)	(14.35)	(13.63)	(12.95)
Unlevered FCF	36.06	53.10	56.28	59.53	63.08	67.18
						785.52
Transaction CF	36.06	53.10	56.28	59.53	63.08	852.70

	2025	2026	2027	2028	2029
Tax Rate	21.0%	21.0%	21.0%	21.0%	21.0%
Non-Interest Expense	58.2%	57.3%	56.5%	55.6%	54.8%
SG&A expense	6.9%	6.7%	6.5%	6.3%	6.1%
R&D expense	6.9%	7.1%	7.3%	7.5%	7.7%
Other expenses	14.0%	14.5%	14.2%	13.8%	13.8%
Capex	\$1.26	\$1.30	\$1.34	\$1.38	\$1.42

Current Market Value	
Market Cap	192,380
Plus: Debt	594
Less: Excess Cash	42
Enterprise Value	192,931
Current share price	103.90

Rate of Return	
Target Price Upside/Downside	18%

Market Value vs Intrinsic Value	
Market Value	103.90
Upside	18.71
Intrinsic Value	122.61



COMPANY SUMMARY

Leading diversified investment services

Charles Schwab Corporation is an American multinational financial services company, offering a comprehensive range of banking, trading, wealth management, and advisory services to retail investors and independent financial advisors. Schwab is the world’s largest publicly traded investment services firm (by client assets), a dominant market position forged by its massive scale and highly lucrative, diversified revenue model that gives it a unique and sustainable competitive advantage. The firm’s strong brand reputation, technological innovation, and client-focused approach further reinforce its ability to attract and retain a broad base of individual and institutional clients.

INVESTMENT THESIS

Scale-Driven Competitive Advantage

Charles Schwab’s unparalleled scale in both the RIA custody and online brokerage segments provides a protective competitive moat. In a declining interest rate environment, its diversified, banking-like business model generates more stable net interest margins and superior returns relative to pure-play competitors. This scale also allows Schwab to leverage its fixed-cost base across a growing client network, improving operating efficiency and profitability. Additionally, its strong brand and integrated platform make it difficult for competitors to replicate its client acquisition and retention capabilities, supporting long-term growth and resilience.

RIA Platform Drives Growth

Schwab is a long-term compounder because it is the infrastructure provider for the fastest-growing segment of the wealth industry (RIAs). Its market-leading custody platform ensures sticky, recurring revenue from both custody fees and client assets, growing organically at an annualized rate of 5–7% with the independent advisor trend driving significant asset gathering. The scale and integration of Schwab’s platform create high switching costs, while ongoing investments in technology and client services support continued growth in assets under custody and fee-based revenue.

Asset Sensitivity Boosts Earnings

As one of the most highly asset-sensitive financial institutions, Schwab is expected to be highly effective and swift in lowering its own funding costs as the Fed cuts rates, primarily the interest it pays on client sweep accounts. The falling rates will also benefit Schwab’s large portfolio of low-yielding bonds purchased during the historically low rate cycle because they will mature and be reinvested into new, higher-yielding securities, which in turn create a stronger boost to net interest margins and earnings compared to competitors. This dynamic positions Schwab to generate superior risk-adjusted returns and reinforces its ability to maintain stable, profitable growth in a declining interest rate environment.

GROWTH ASSUMPTIONS

Charles Schwab’s long-term growth is anchored in its dominant position in the RIA custody and online brokerage segments, which provide sticky, recurring revenue from both custody fees and client assets. The firm benefits from the structural growth of the independent advisor market, with assets under custody growing organically at an annualized rate of 5–7%. Its scale and integrated platform create high switching costs, making it difficult for competitors to dislodge clients, while ongoing investments in technology and client services further support retention and incremental asset growth.

Additionally, Schwab’s asset-sensitive banking model positions it to capitalize on changes in interest rates. As the Fed adjusts rates, Schwab can quickly lower funding costs and reinvest maturing low-yield bonds into higher-yielding securities, enhancing net interest margins relative to competitors. Combined with its diversified, fee-based revenue streams, these factors create multiple avenues for sustainable earnings growth, supporting a compelling long thesis for the stock.

UFA RECOMMENDATION

I recommend a **long** position in **SCHW** due to its dominant RIA platform, scale moat, and asset-sensitive banking model position it for sustainable, high-quality earnings growth.

Rating: **Buy**
Current Price: **\$93.85**
Target Price: **\$107.54**

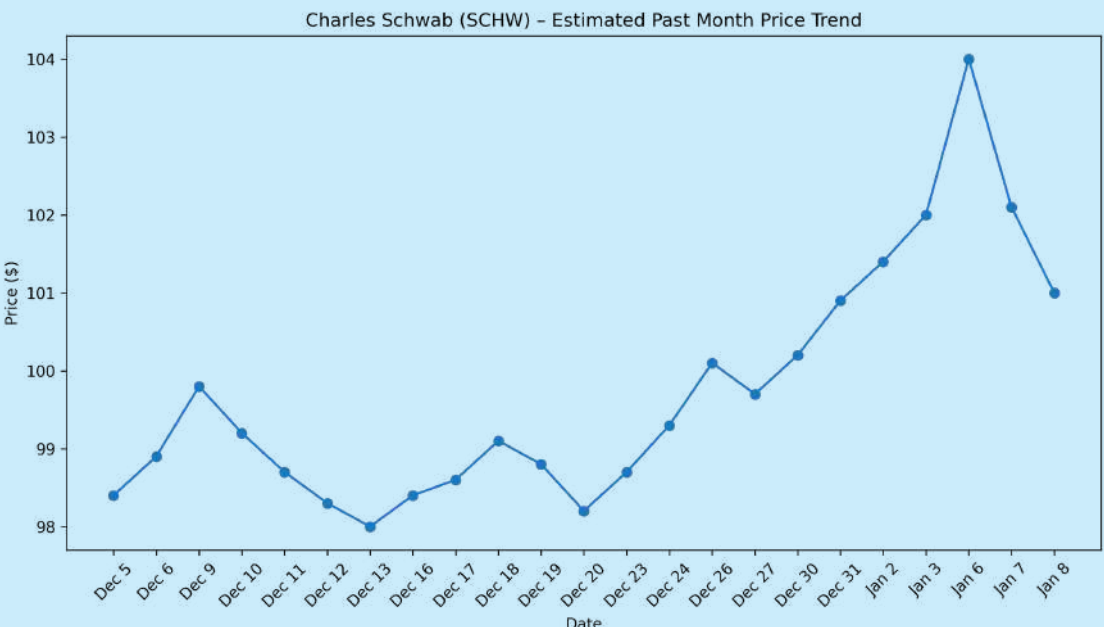
KEY STATISTICS

Market Cap: **\$182.52 billion**
Beta: **0.96**
EPS: **4.27**
PE Ratio: **23.55**
52wk Price Range: **65.88 - 102.28**

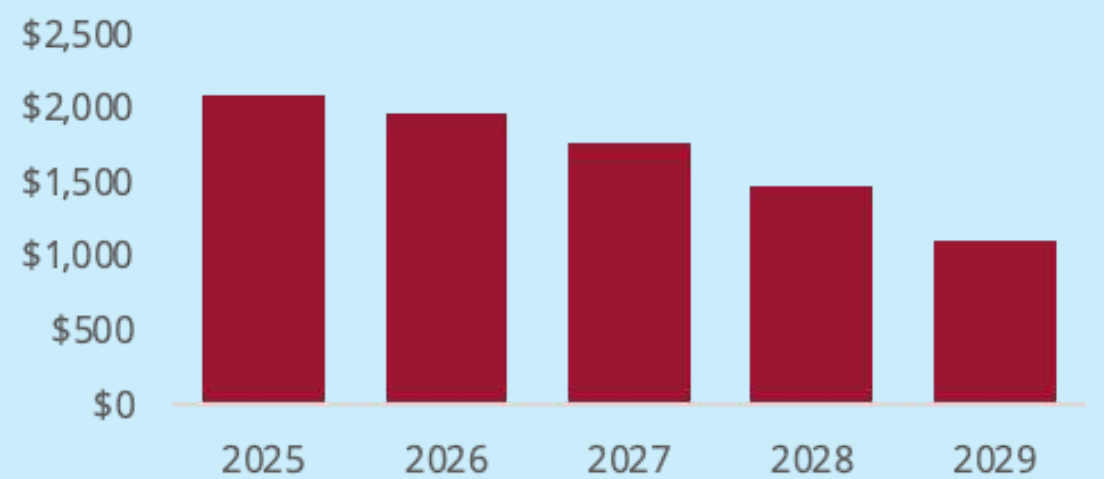
FUNDAMENTALS

Leverage Ratio: **~1.0x – 1.12x**
Current Ratio: **~0.59**
PEG Ratio: **45.0**
EBITDA Margin: **~40 %**
Net Margin: **~28%–36 %**

GRAPHS & ANALYSIS



Free Cash Flow Forecast



GROWTH ASSUMPTIONS

Schwab’s new asset growth and interest income expansion drive its growth.

Revenue: 10% avg.
EPS: ~15%



MORE DATA

Citi’s Financials

Citigroup has an upside of 47.18% Year to Date, significantly outperforming the S&P whose YTD return is 16.45%. Citi’s current share price is \$103.52, with a “Buy” analyst consensus. However, our estimated intrinsic value of the company is \$122.61, meaning that Citigroup’s stock is currently undervalued. This estimate leaves room for an 18% upside, creating a “Strong Buy” consensus with our team. Citigroup’s interest income has healthily grown YoY, up 8% from 2023’s ~133.26B and 93% from 2022’s ~74.41B. Citi’s new restructuring plan will cut SG&A costs by our estimated ~7.6%, furthering an increase in profitability.

RISK ANALYSIS

Interest Rate, Competitive, and Market Risk

Charles Schwab’s earnings are highly sensitive to interest rate movements, which can be a double-edged sword. While declining rates can eventually lower funding costs, they may also compress net interest margins in the near term if asset yields reprice faster than liabilities. Additionally, Schwab’s large balance sheet and bond portfolio expose it to duration and reinvestment risk if rate cuts are slower or more volatile than expected. Unexpected shifts in the rate environment could delay margin recovery and weigh on near-term profitability. Prolonged uncertainty around monetary policy could also make earnings more volatile than investors anticipate.

Schwab relies heavily on client cash balances in sweep accounts as a low-cost funding source, but rising competition from money market funds and higher-yielding alternatives could pressure cash retention. If clients continue to move assets out of sweep accounts in search of better yields, Schwab may face higher funding costs and reduced interest income. Sustained competitive pressure could challenge the stickiness that underpins Schwab’s business model. This risk is heightened in periods of elevated rate volatility when client behavior can shift quickly. Over time, this dynamic could force Schwab to offer more competitive pricing, compressing margins.

As a major brokerage and RIA custodian, Schwab’s revenue is tied to equity As a major brokerage and RIA custodian, Schwab’s revenue is tied to equity markets and investor activity, making it vulnerable to prolonged market downturns or reduced trading volumes. A weaker market environment can slow asset growth and fee generation across advisory and brokerage platforms. Additionally, increased regulatory scrutiny of large financial institutions could raise compliance costs or limit certain revenue-generating activities over time. Changes in fiduciary or capital requirements could further impact returns and operational flexibility. Heightened regulation may also constrain Schwab’s ability to deploy capital as efficiently as in the past.

COMPANY NEWS / EARNINGS TEASER

Charles Schwab has delivered solid earnings momentum in 2025, supported by strong net new asset inflows, continued client account growth, and improving operating leverage as funding pressures gradually ease. Client assets remain at record levels, while management has highlighted improving cash dynamics and expense discipline as key drivers of profitability. As interest rates normalize, investors are focused on Schwab’s upcoming earnings release as a potential catalyst for net interest margin expansion and sustained earnings growth into 2026.

COMPETITOR ANALYSIS

Charles Schwab faces competition from both traditional financial institutions and fintech platforms across its core businesses. In brokerage and advisory custody, firms such as Fidelity, Vanguard, and Morgan Stanley compete for client assets, while digital platforms like Robinhood, SoFi, and Wealthfront target younger investors with low fees and user-friendly technology. On the banking and deposit side, large banks including Bank of America and J.P. Morgan vie for deposits and fee income, but Schwab’s scale, integrated platform, and trusted brand continue to differentiate it and support durable market leadership.

VALUATION & ADDITIONAL ASSUMPTIONS

Discounted Cash Flow		2024	2025	2026	2027	2028	2029
Date		12/31/24	12/31/25	12/31/26	12/31/27	12/31/28	12/31/29
Time Periods			0	1	2	3	4
Sales Growth			10.0%	10.0%	10.0%	10.0%	10.0%
Sales		19,608	21,568.60	23,723.26	26,095.59	28,705.14	31,575.66
Less: COGS		6,393	7,032.30	7,890.24	8,852.85	9,932.90	11,144.71
Less: SG&A		5,716	6,287.60	7,054.69	7,915.36	8,881.03	9,964.52
Less: other exp		9,144	5,658.40	6,410.97	7,263.63	8,229.69	9,324.24
Less: D&A		1,435	1,578.50	1,771.08	1,987.15	2,229.58	2,501.59
EBIT		(3,082)	1,010	596	77	(568)	(1,359)
Less: Cash Taxes		1,750	202	119	15	(114)	(272)
Plus: D&A		1,435	1,579	1,771	1,987	2,230	2,502
Less: Capex		236	248	260	273	287	301
Less: Changes in NWC		1,009	43	20	12	10	10
Unlevered FCF		(4,642)	2,096	1,968	1,763	1,478	1,103
							14,966
Transaction CF		(4,642)	2,096	1,968	1,763	1,478	16,069
			2025	2026	2027	2028	2029
Tax Rate			20.0%	20.0%	20.0%	20.0%	20.0%
Cost of Services (COGS)			32.6%	33.3%	33.9%	34.6%	35.3%
SG&A expense			29.2%	29.7%	30.3%	30.9%	31.6%
Other expenses			26.2%	27.0%	27.8%	28.7%	29.5%
D&A expense			7.3%	7.5%	7.6%	7.8%	7.9%
Capex			\$248	\$260	\$273	\$287	\$301

Current Market Value	
Market Cap	170,340
Plus: Debt	2,108
Less: Excess Cash	72
Enterprise Value	172,376

Current share price	93.84
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Rate of Return	
Target Price Upside/Downside	15%

Market Value vs Intrinsic Value	
Market Value	93.84
Upside	13.70
Intrinsic Value	107.54



COMPANY SUMMARY

Premier asset management firm and provider of investment management

BlackRock is the world's largest asset manager, with \$10.6 trillion AUM as of Q2 2025. Headquartered in New York, the firm operates across investment management, risk advisory, and technology solutions. Its product suite spans ETFs (iShares, the largest global ETF provider), index and active funds, and alternatives (infrastructure, private credit, real estate). BlackRock also owns Aladdin, a market-leading risk management and portfolio analytics platform used by 1,000+ clients, including pension funds, insurers, governments, and other asset managers. BlackRock has positioned itself as the prime choice for institutions and retail investors.

INVESTMENT THESIS

Aladdin and technology-driven services

Aladdin and technology-driven services create a durable moat that competitors cannot replicate at scale. The platform generates stable, high-margin recurring revenue while also acting as a distribution funnel for BlackRock's funds. Aladdin has significant growth potential in expanding adoption among mid-sized asset managers, insurance firms, and sovereign wealth funds seeking integrated risk and portfolio management solutions.

Shift Toward Alternatives and Private Markets

The shift toward alternatives and private markets (private credit, infrastructure, renewable energy) provides a multi-trillion-dollar growth runway. BlackRock has aggressively expanded in alternatives through acquisitions (e.g., Global Infrastructure Partners in 2024), positioning itself to compete directly with Apollo, Blackstone, and KKR. This diversifies revenue away from traditional management fees and aligns with client demand for yield and diversification in a higher-rate environment.

Asset Sensitivity Boosts Earnings

As one of the most highly asset-sensitive financial institutions, Schwab is expected to be highly effective and swift in lowering its own funding costs as the Fed cuts rates, primarily the interest it pays on client sweep accounts. The falling rates will also benefit Schwab's large portfolio of low-yielding bonds purchased during the historically low rate cycle because they will mature and be reinvested into new, higher-yielding securities, which in turn create a stronger boost to net interest margins and earnings compared to competitors. This dynamic positions Schwab to generate superior risk-adjusted returns and reinforces its ability to maintain stable, profitable growth in a declining interest rate environment.

GROWTH ASSUMPTIONS

BlackRock's long-term growth is driven by its unmatched scale and diversified platform across ETFs, technology, and private markets, which generates highly recurring, asset-based revenue and resilience across market cycles. As the global leader in ETFs, iShares is structurally positioned to capture continued passive inflows, while Aladdin embeds BlackRock deeply into client workflows, creating sticky, high-margin technology revenue and reinforcing distribution for its investment products. In parallel, the firm's expanding alternatives platform provides incremental fee growth and diversification away from traditional management fees, mitigating industry-wide fee compression. Supported by strong organic inflows, operating leverage, and disciplined capital allocation, BlackRock is positioned for durable earnings growth, which is reflected in our DCF implying approximately 9% upside to intrinsic value.

Additionally, the DCF assumes mid-teens revenue growth driven by sustained ETF inflows, continued adoption of Aladdin, and steady expansion in alternatives, with operating leverage reflected in declining cost ratios over the forecast period. A 10.3% discount rate and 4.0% perpetual growth rate reflect BlackRock's scale, stability, and long-term exposure to global capital markets. These assumptions support intrinsic value upside while remaining conservative given the firm's diversified and resilient earnings base.

UFA RECOMMENDATION

I recommend a **long** position in **BLK** given its platform scale and exposure to secular growth across ETFs and private markets.

Rating: **Buy**

Current Price: **\$1,082.43**

Target Price: **\$1,180.92**

KEY STATISTICS

Market Cap: **\$168.35 billion**

Beta: **1.48**

EPS: **38.85**

PE Ratio: **38.85**

52wk Price Range: **773.74 - 1,219.94**

FUNDAMENTALS

Leverage Ratio: **~2.9x – 3.1x**

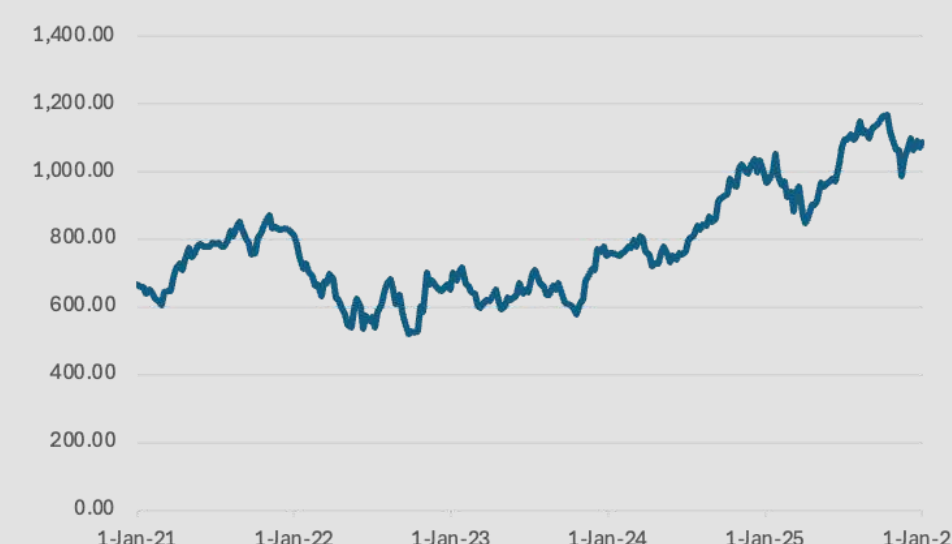
Current Ratio: **~6.49**

PEG Ratio: **24.88**

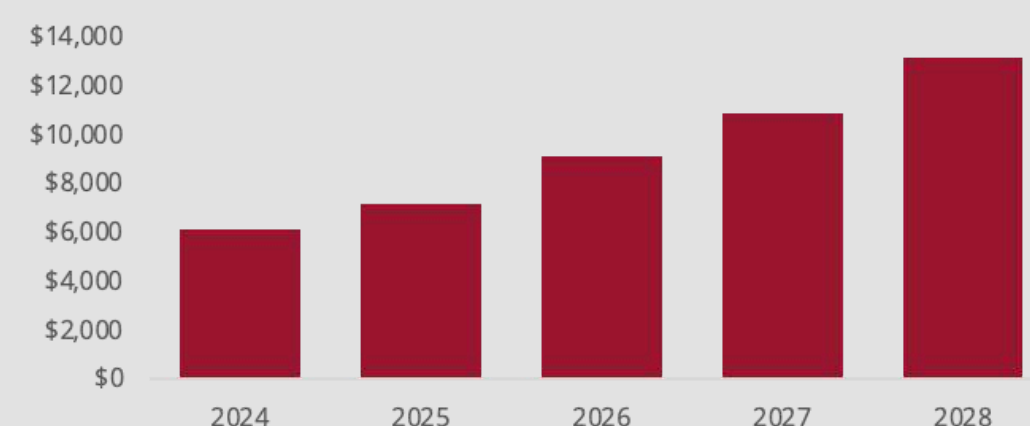
EBITDA Margin: **~39.65 %**

Net Margin: **~26.64 %–31.21 %**

STOCK PRICE (BLK)



Free Cash Flow Forecast



GROWTH ASSUMPTIONS

BlackRock's growth is driven by sustained ETF inflows, expanding alternatives AUM, and operating leverage from its scaled platform.

Revenue: **15%**

EPS: **~16-18%**

FINANCIAL DATA

BlackRock trades at ~20x forward EPS with a dividend yield near 3%. Revenues reached \$19.5B in 2024, supported by ETF inflows of \$170B and \$50B in alternatives. Organic base fees remain resilient despite industry-wide fee compression. The firm’s 2024 acquisition of GIP (~\$12.5B) expanded its infrastructure AUM by ~\$150B, driving its total alternatives platform above \$600B. With net inflows averaging \$200–250B annually and a fortress balance sheet, BlackRock maintains flexibility for buybacks, dividends, and bolt-on acquisitions.

RISK ANALYSIS

Interest Rate, Competitive, and Market Risk

BlackRock’s earnings are highly sensitive to market performance and investor activity, which can be a double-edged sword. While rising equity and fixed-income markets can drive strong inflows and boost fee income, prolonged market downturns, elevated volatility, or reduced trading volumes could slow net new assets, limit performance fees, and weigh on overall revenue growth. This sensitivity is particularly relevant for its active investment strategies and alternatives platform, where returns are directly tied to market conditions.

Fee compression across the asset management industry presents risk, especially in ETFs and passive products, where competitors such as Vanguard, State Street, and Fidelity continue to drive pricing pressure. Even with BlackRock’s scale and brand, continued margin pressure could limit profitability growth, particularly in low-fee, high-volume segments. A shift in investor preference toward lower-cost providers or alternative platforms could further amplify this effect.

BlackRock’s platform is highly dependent on key institutional clients and Aladdin adoption. While Aladdin generates high-margin revenue, a slowdown in adoption, client attrition, or reduced platform usage could materially impact recurring technology and investment management revenues. Concentration risk is also a factor, as a small number of large institutional clients account for a meaningful portion of revenue. Any disruption to these relationships could affect cash flow stability and the firm’s long-term growth trajectory.

Finally, BlackRock faces regulatory, political, and geopolitical risks across its global operations. Changes in fiduciary standards, capital requirements, or cross-border regulations could increase compliance costs, constrain certain investment products, or limit strategic flexibility. Additionally, heightened scrutiny of large asset managers, evolving ESG regulations, and geopolitical tensions could impact global fund flows and operational decisions. While BlackRock’s scale and integrated platform help mitigate some of these risks, regulatory and macro uncertainties remain a key consideration for investors.

COMPANY NEWS / EARNINGS TEASER

- BlackRock has delivered steady earnings momentum in 2025, supported by strong net inflows into ETFs and alternatives, performance fees, and cost management.
- Total assets under management remain high , while management highlighted Aladdin adoption and strategic alternatives acquisitions as drivers of revenue.
- As markets stabilize and passive investing continues to expand, investors are focused on BlackRock’s upcoming earnings release as a potential catalyst for fee growth, operating leverage, and sustained earnings growth into 2026.

COMPETITOR ANALYSIS

- In ETFs and passive investing, Vanguard and State Street are the primary competitors, while active asset managers such as Fidelity, T. Rowe Price, and J.P. Morgan compete in both equity and fixed income funds.
- In alternatives and private markets, firms like Blackstone, KKR, and Apollo vie for institutional capital in private credit, infrastructure, and real estate.
- Despite intense competition, BlackRock’s scale, Aladdin technology platform, and diversified product suite provide stickiness and recurring revenue that differentiate it and support durable market leadership.

VALUATION & ADDITIONAL ASSUMPTIONS

Discounted Cash Flow		2024	2025	2026	2027	2028	2029
Date		12/31/20	12/31/24	12/31/25	12/31/26	12/31/27	12/31/28
Time Periods			0	1	2	3	4
Sales Growth			13.5%	14.3%	15.1%	15.9%	16.7%
Sales		20,407	23,161.95	26,474.10	30,471.69	35,316.69	41,214.58
Less: COGS		3,775	4,169.15	4,500.60	4,875.47	5,297.50	5,770.04
Less: SG&A		8,677	9,959.64	11,119.12	12,798.11	14,479.64	16,897.98
Less: R&D		-	-	-	-	-	-
Less: D&A		384	463.24	529.48	609.43	706.33	824.29
EBIT		7,571	8,570	10,325	12,189	14,833	17,722
Less: Cash Taxes		1,783	1,800	2,168	2,560	3,115	3,722
Plus: D&A		384	463	529	609	706	824
Less: Capex		255	445	516	574	654	735
Less: Changes in NWC		176	678	1,008	585	891	988
Unlevered FCF		5,741	\$ 6,110.48	\$ 7,162.15	\$ 9,079.49	\$ 10,879.41	\$ 13,101.88
							216,285
Transaction CF		5,741	6,110	7,162	9,079	10,879	229,387

	2025	2026	2027	2028	2029
Tax Rate	21.0%	21.0%	21.0%	21.0%	21.0%
Cost of Services (COGS)	18.0%	17.0%	16.0%	15.0%	14.0%
SG&A expense	43.0%	42.0%	42.0%	41.0%	41.0%
R&D expense	-	-	-	-	-
D&A expense	2.0%	2.0%	2.0%	2.0%	2.0%
Capex	\$445	\$516	\$574	\$654	\$735

Current Market Value	
Market Cap	167,692,470,501
Plus: Debt	12,800
Less: Excess Cash	12,600
Enterprise Value	167,692,470,701
Current share price	1,082.43

COMPANY SUMMARY

Leading Global Independent Investment Bank

Moelis & Co is a global independent investment bank that generated approximately \$1.19 billion in GAAP revenues in 2024, up about 40% from roughly \$855 million in 2023 as deal activity rebounded. Full-year 2024 GAAP net income was about \$151 million, or \$1.78 per diluted share, versus a net loss in the prior year, implying an approximate 11% net margin on reported revenues. Advisory fees remain the core of the model, with mergers & acquisitions estimated to contribute 60–70% of revenues and restructuring a further 15–25%, underscoring the firm’s concentration in high-fee strategic advisory work. Moelis operates a capital-light platform with no lending book and a strong balance sheet, including roughly \$560 million of cash and liquid investments at year-end 2024 and effectively no financial debt, giving it significant flexibility through cycles.

Over 90% of Moelis’s revenues in 2024 came from advisory fees (excluding small “other revenue” items), reinforcing its position as a pure-play advisory franchise rather than a diversified broker-dealer. The firm leverages a global footprint with the U.S. contributing about 82% of 2024 revenues (around \$980 million), while international offices add diversification and access to cross-border mandates. Given its lean cost base, changes in activity flow directly into earnings: in 2024, adjusted revenues rose roughly 40%, while net income swung from a \$20–25 million loss in 2023 to more than \$135–150 million of profit, illustrating strong operating leverage as volumes recovered.

INVESTMENT THESIS

High Operating Leverage to M&A Recovery

Moelis provides high operating leverage to a recovery in global M&A and capital markets. Revenues rebounded from \$855M in 2023 to \$1.19B in 2024 (~40% growth), while net income swung from a loss to \$150M, with nearly half of incremental revenue converting to earnings. Industry fee growth could drive stronger EPS expansion as utilization and productivity normalize off cyclical lows.

Pure-Play Advisory in Complex Situations

Moelis’s revenue mix, about two-thirds M&A advisory and 15–25% restructuring, gives it structural exposure to situations where boards and creditors value independent advice. With over 90% of revenue from pure advisory, the firm avoids underwriting and lending risk and is well positioned to benefit from increased governance scrutiny and attention to conflicts.

Capital-Light Model, Strong Cash Returns

Moelis’s capital-light model enables strong cash returns: its ~\$2.5–2.6 dividend implies a 4–4.5% yield with payout ratios often near 80–100% in normalized years. With ~\$560M in cash, no debt, and minimal capital needs, the firm can keep returning most free cash flow while retaining flexibility for special dividends or buybacks as earnings improve.

GROWTH ASSUMPTIONS

The DCF assumes strong near- to mid-term revenue growth reflecting a multi-year normalization in advisory activity, with sales growth moderating from 34% in 2024 to the high-teens through 2029 as industry fee pools expand and Moelis continues to gain share. Operating leverage is reflected in relatively stable SG&A as a percentage of revenue, driving significant EBIT and free cash flow expansion as revenues scale. Capital intensity remains minimal, consistent with Moelis’s asset-light model, allowing the majority of earnings to convert into free cash flow. The valuation applies a 6.8% discount rate and a 3.5% perpetual growth rate, reflecting Moelis’s strong competitive positioning, fee-based revenue model, and long-term exposure to global capital markets activity, balanced against the inherent cyclicity of advisory revenues. Under these assumptions, our DCF implies an intrinsic value of approximately \$80 per share, representing roughly 12% upside from the current price and supporting the view that Moelis offers attractive risk-adjusted return potential as advisory markets continue to recover.

UFA RECOMMENDATION

I recommend a **long** position in MC as a capital-light advisory firm with outsized earnings leverage to a multi-year normalization in M&A and RX volumes.

Rating: **Buy**
Current Price: **\$71.22**
Target Price: **\$80.06**

KEY STATISTICS

Market Cap: **\$5.58 billion**
Beta: **1.89**
EPS: **3.01**
PE Ratio: **23.66**
52wk Price Range: **47.00 - 82.89**

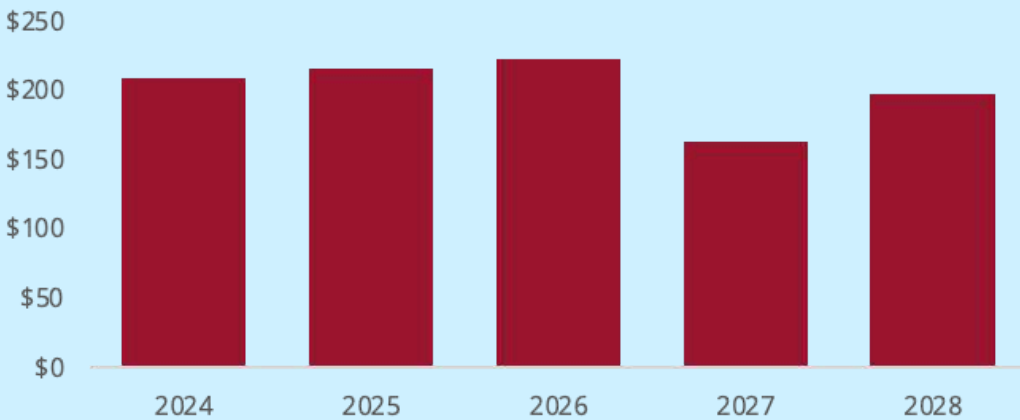
FUNDAMENTALS

Leverage Ratio: **~2.06**
Current Ratio: **~1.25**
PEG Ratio: **0.64**
EBITDA Margin: **~19.62 %**
Net Margin: **~15.94 %**

STOCK PRICE (MC)



Free Cash Flow Forecast



GROWTH ASSUMPTIONS

Moelis’s growth is driven by a recovery in global M&A, continued restructuring strength, and high operating leverage from its capital-light advisory model.

Revenue: **~17–20%**
EPS: **~20%+**

FINANCIAL DATA

Trailing-twelve-month revenues are now around \$1.2–1.5 billion, versus a multi-year average near \$1.0 billion, indicating that 2024’s rebound has pushed the firm back toward the top end of its historical revenue range. With 2024 net income roughly \$136–151 million on \$1.19 billion of revenue, net margin is in the 11–13% range, a material improvement from negative margins in 2023 but still below peak-cycle profitability, leaving room for further margin expansion if activity continues to normalize. At an annual dividend of about \$2.5–2.6 per share and a yield around 4–4.5%, Moelis offers an income stream that is higher than many large bank peers, albeit with earnings that are more sensitive to deal volumes. Ultimately, these numbers support a thesis that Moelis offers leveraged upside to a sustained recovery in global M&A and restructuring, underpinned by a capital-light, cash-distributing model and a revenue base that is overwhelmingly advisory rather than balance-sheet driven.

RISK ANALYSIS

Cyclical, Competitive, and Execution Risk

Moelis’s earnings are highly sensitive to global M&A and capital markets activity, resulting in inherent revenue cyclicality. While a recovery in deal volumes can drive outsized earnings growth due to high operating leverage, periods of elevated rates, macro uncertainty, or weak sponsor activity can materially reduce transaction volumes and advisory fees, particularly given the firm’s heavy exposure to M&A.

Competition for advisory mandates is intense, with pressure from global banks and other elite boutiques. This can compress fees and increase compensation costs needed to retain senior bankers, limiting margin expansion even in stronger markets. As a people-driven business, Moelis is also exposed to key talent retention risk.

Revenue concentration and execution risk remain meaningful, as a small number of large transactions can account for a significant portion of annual revenue. Deal delays or cancellations can create volatility, while restructuring activity, though countercyclical, is dependent on unpredictable credit cycles.

Finally, regulatory, antitrust, and geopolitical developments may weigh on cross-border deal activity and increase compliance costs. Although Moelis’s capital-light model avoids balance sheet risk, macro and regulatory uncertainty could still negatively impact advisory demand and earnings visibility.

COMPANY NEWS / EARNINGS TEASER

- Moelis has shown improving earnings momentum as advisory activity rebounds from cyclical lows, supported by higher M&A volumes and continued strength in restructuring.
- Revenues have recovered, with management highlighting improving banker utilization, a strengthening deal pipeline, and disciplined cost management.
- As capital markets activity continues to normalize, investors are focused on operating leverage, earnings growth, and increased capital returns into 2026.

COMPETITOR ANALYSIS

- In M&A advisory, key competitors include Goldman Sachs, Morgan Stanley, J.P. Morgan, and boutique peers such as Evercore, Lazard, and PJT Partners, all of which compete for large-cap and complex mandates.
- In restructuring, Moelis faces competition from firms like Lazard, Houlihan Lokey, and PJT, where relationships with boards and creditors are critical.
- Despite intense competition, Moelis differentiates itself through its senior-led banker teams and reputation for independent advice in complex situations.
- The firm’s lack of balance sheet conflicts and capital-light structure enhance credibility with clients, supporting share gains and positioning Moelis favorably as advisory demand recovers.

VALUATION & ADDITIONAL ASSUMPTIONS

Discounted Cash Flow		2024	2025	2026	2027	2028	2029
Date		12/31/20	12/31/24	12/31/25	12/31/26	12/31/27	12/31/28
Time Periods			0	1	2	3	4
Sales Growth			34.0%	21.0%	17.0%	18.0%	17.0%
Sales		1,194	1,599.96	1,935.95	2,265.06	2,672.77	3,127.15
Less: COGS		-	-	-	-	-	-
Less: SG&A		978	991.98	1,200.29	1,404.34	1,657.12	1,938.83
Less: R&D		-	-	-	-	-	-
Less: D&A		10	25.60	32.91	49.83	61.47	81.31
EBIT		206	582	703	811	954	1,107
Less: Cash Taxes		45	134	162	187	219	255
Plus: D&A		384	26	33	50	61	81
Less: Capex		255	7	31	36	42	48
Less: Changes in NWC		176	258	327	415	591	688
Unlevered FCF		114	209	216	223	163	198
Transaction CF		114	209	216	223	163	198

	2025	2026	2027	2028	2029
Tax Rate	23.0%	23.0%	23.0%	23.0%	23.0%
Cost of Services (COGS)	0.0%	0.0%	0.0%	0.0%	0.0%
SG&A expense	62.0%	62.0%	62.0%	62.0%	62.0%
R&D expense	-	-	-	-	-
D&A expense	1.6%	1.7%	2.2%	2.3%	2.6%
Capex	\$7	\$31	\$36	\$42	\$48

Current Market Value	
Market Cap	5,269,995,120
Plus: Debt	210
Less: Excess Cash	475
Enterprise Value	5,269,994,855

Current share price	71.22
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Rate of Return	
Target Price Upside/Downside	12%

Market Value vs Intrinsic Value	
Market Value	71.22
Upside	8.84
Intrinsic Value	80.06



CONSUMER INDUSTRY



COMPANY SUMMARY

Costco Wholesale Corporation (NASDAQ: COST) is a global leader in membership-based warehouse retail, known for its value-focused business model, strong membership base, and operational efficiency. By offering a curated selection of bulk products at low prices, Costco drives high renewal rates and steady traffic across economic cycles. The company continues to expand its international footprint, reinforcing its position as a consumer staple retailer and a resilient, long-term choice for both consumers and investors.

INVESTMENT THESIS

Industry-Leading Loyalty and Resilient Growth

Costco's industry-leading customer loyalty and membership model drive resilient, above-peer growth across cycles. Costco's membership-based warehouse model creates an exceptionally sticky customer base, with renewal rates of about 93% in the U.S. and Canada, well above Sam's Club and typical retail programs, because customers pay to shop there and concentrate spending to "earn back" their fees. This supports steady, recurring revenue driven by a sales mix focused on food, household essentials, and other staples that hold up even when consumers trade down in weaker macro environments, while growth in higher-fee Executive memberships further boosts high-margin membership income and engagement. Financially, this loyalty translates into stable top-line growth and earnings durability: FY2025 sales increased 8% and e-commerce grew 15%, reflecting Costco's ability to extend its value proposition online, leverage its scale to keep prices low, and sustain traffic across cycles. With a global warehouse footprint and expanding international presence, Costco's combination of best-in-class loyalty, recurring membership income, and value leadership positions it to continue outperforming traditional retailers and warehouse club peers.

Strategic Mix Shift, Private Label Expansion, and Margin Durability

Costco's strategic mix shift, private-label expansion, and operational discipline support durable margin expansion and long-term growth. Costco has been improving earnings quality by expanding its Kirkland Signature private label and shifting its mix toward higher-margin categories such as fresh foods, ancillary services (pharmacy, optical, fuel, travel), and select discretionary items. Kirkland now accounts for a substantial share of sales and offers national-brand quality at lower prices, strengthening customer trust while providing better gross margins and greater control over pricing and sourcing, which helps Costco preserve value during inflation. These strategies are reflected in profitability: Costco reported record Q4 2025 net income of about 2.6 billion USD, up 11% year over year, while maintaining a historically stable operating margin of around 3–4% despite higher labor and input costs. Its limited SKU strategy simplifies supply chains, reduces working capital, and concentrates purchasing volumes, enhancing bargaining power with suppliers and supporting consistent margin performance over time.

GROWTH ASSUMPTIONS

Costco's stock has an implied upside of 16.9% with a price target of \$1,072. FY2025 net sales reached \$269.9B (+8.1% YoY) with net income up 11% YoY, reflecting Costco's strong operational leverage and efficiency-driven growth. The company uses its \$17.8B cash position to invest in expansion and technology. Share price has increased, primarily driven by membership, e-commerce, and operational margin growth, supported by their cost control in merchandising procurement and low SG&A structure. Costco remains stable and comfortably positioned against volatility (0.79 Beta) and broader consumer shifts.

UFA RECOMMENDATION

I recommend a **long** position in **COST** because it combines defensive, steady fundamentals with structural growth and a best-in-class retail model that is hard for competitors to replicate.

Rating: **Buy**
Current Price: **\$856.66**
Target Price: **\$1043.44**

KEY STATISTICS

Market Cap: **\$382.98 billion**
Beta: **0.77**
EPS: **18.63**
P/E Ratio: **46.21**
52wk Price Range: **\$844.06 - \$1,078.23**

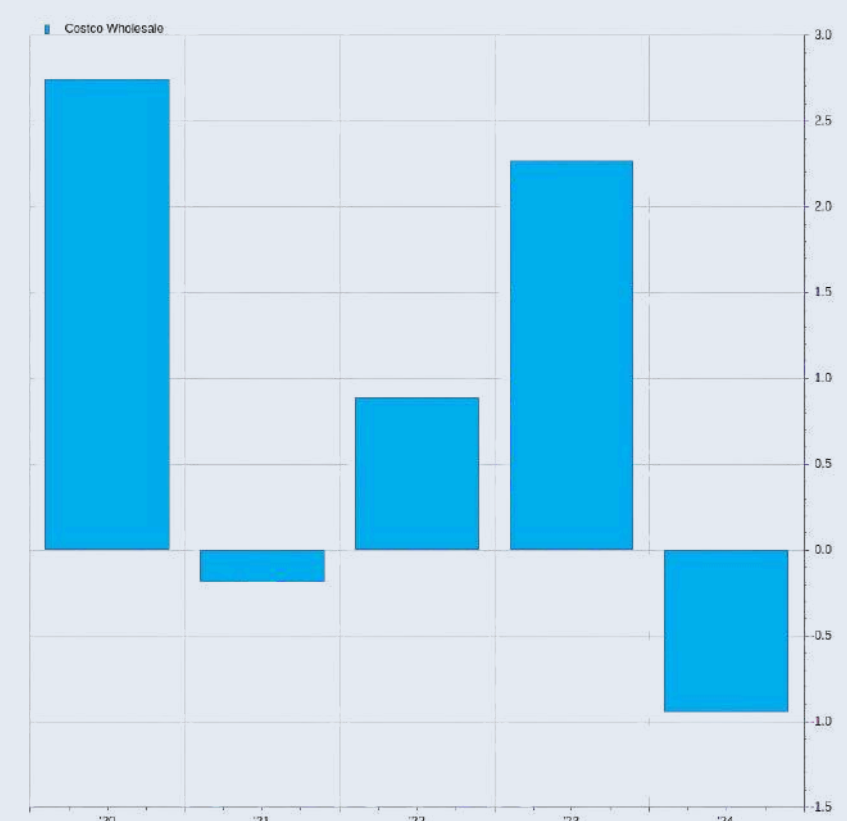
FUNDAMENTALS

Debt to Equity Ratio: **0.47**
Current Ratio: **1.02**
EBITDA Margin: **4.7%**
Net Margin: **3.02%**
PEG Ratio: **4.80**

GRAPHS & ANALYSIS



Free Cash Flow % Short Term Debt



GROWTH ASSUMPTIONS

Costco has continued to execute strongly, increasing revenue by about 8% year over year and growing net income by roughly 11–12% year over year in its latest fiscal results.

Revenue: **\$257 billion (FY25)**
EV/Sales: **1.33**
Misc:



MEMBERSHIP SCALE AND EXPANSION

Costco leverages its signature membership program, with over 78 million households and a 93% renewal rate, to drive consistent revenue and customer engagement. Its private label brand, Kirkland Signature, constitutes 25% of total sales. Costco opened 21 new warehouses in high-growth regions, mostly in the US and Canada, but also Mexico, Japan, Australia, and Sweden. They also invested \$5.5 billion in real estate, logistics, and supply chain capacity to ensure proper margin control and operational scale, leading to significant cost advantages of about 40 bps of operating margin expansion. This uniquely positions Costco for further market expansion and industry leadership.

RISK ANALYSIS

Macro, FX, and cost inflation

Costco is exposed to broad macroeconomic trends such as overall consumer spending, interest rates, and economic growth, which can affect traffic, basket size, and mix between discretionary and staple categories. In addition, foreign exchange volatility impacts reported results because a growing portion of revenue and earnings comes from international markets, meaning a strong U.S. dollar can translate into weaker reported sales and profits even if local performance is solid.

On the cost side, sustained inflation in wages, freight, utilities, and key commodities (like food and fuel) can squeeze margins if Costco is unable or unwilling to fully pass these costs on to customers without damaging its value perception. While Costco has historically managed inflation well through scale, vendor negotiations, and its limited-SKU model, there is ongoing risk that prolonged cost pressure or new tariffs could outpace its ability to offset them with efficiencies and modest price increases.

Valuation and multiple compression

Costco currently trades at a premium valuation versus most big-box and grocery peers, reflecting its strong fundamentals, high membership loyalty, and defensive characteristics. This elevated multiple means that even small disappointments, such as slightly slower comparable sales, weaker e-commerce growth, or modest pressure on renewal rates, could trigger outsized price reactions as investors reassess the growth narrative.

If the broader market rotates away from high-quality, defensive growth names or if interest rates remain elevated, investors may demand lower multiples on earnings and cash flows, putting pressure on Costco’s valuation even if operational performance remains healthy. In that scenario, shareholders face “multiple compression risk,” where the stock declines not because the business is deteriorating, but because the premium investors are willing to pay for each dollar of earnings falls from currently elevated levels.

COMPANY NEWS / EARNINGS TEASER

- Costco has been in the news for its premium valuation and the strength of its membership model as a key driver of recurring revenue.
- Recent results showed about 8% sales growth, 6.4% comp growth, and over 20% digital comp growth, highlighting both in-club and online momentum.
- Slightly softening renewal rates and high expectations into 2026 make investors sensitive to any signs of slowing engagement or pressure on its value proposition.

COMPETITOR ANALYSIS

- Costco faces intense competition from Sam’s Club, BJ’s, and big-box and grocery players like Walmart and Target, all of which use aggressive pricing, promotions, and convenience to attract value-oriented shoppers.
- These rivals are investing heavily in e-commerce, curbside pickup, and sharper pricing strategies to narrow Costco’s value gap and capture a larger share of customer spending.
- Costco’s membership-only model, strong Kirkland private-label brand, and highly loyal customer base create a durable moat that helps it retain and grow share despite this pressure.
- Its limited SKU assortment, treasure-hunt merchandising, and consistent value proposition reinforce member stickiness, making it difficult for competitors to win customers away with short-term discounts or convenience alone.

VALUATION & ADDITIONAL ASSUMPTIONS

DCF	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Revenue	195.93	226.95	242.29	254.45	275.24	296.99	319.18	342.45	360.92	381.48
% growth		15.83%	6.76%	5.02%	8.17%	7.90%	7.47%	7.29%	5.39%	5.70%
EBIT	7.30	7.79	8.11	9.29	10.38	11.56	12.78	14.15	14.61	15.27
% margin	3.73%	3.43%	3.35%	3.65%	3.77%	3.89%	4.00%	4.13%	4.05%	4.00%
Taxes	1.60	1.93	2.20	2.37	2.72	2.99	3.33	3.65	3.89	4.04
% of EBIT	21.92%	24.78%	27.13%	25.51%	26.20%	25.87%	26.06%	25.80%	26.63%	26.46%
EBIAT						8.57	9.45	10.50	10.72	11.23
D&A	1.75	1.88	2.08	2.24	2.43	2.66	2.79	2.86	2.97	3.28
% of sales						0.90%	0.87%	0.84%	0.82%	0.86%
CapEx	3.56	3.89	4.32	4.71	5.49	6.27	6.53	6.95	7.48	8.38
% of sales						2.11%	2.05%	2.03%	2.07%	2.20%
Change in NWC	1.00	(1.56)	1.02	0.61	1.76	1.29	1.37	1.47	1.55	1.64
% of sales	0.51%	-1.00%	0.42%	0.24%	0.64%	0.43%	0.43%	0.43%	0.43%	0.43%
Unlevered FCF						3.67	4.34	4.94	4.66	4.49
Present Value of FCF						3.52	3.97	4.33	3.91	3.61

Debt	8
% Debt	2.1%
Cost of Debt	4.3%
Tax Rate	24.7%

Equity Value	383
% Equity	98%
Cost of Equity	4.50%
Risk Free Rate	2.8%
Beta	0.38
Market Risk Premium	4.6%

Debt + Equity	391
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WACC	4.47%
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Assumptions	
Valuation Assumptions	
WACC	4.5%
TGR	2.0%



COMPANY SUMMARY

Warby Parker Inc. (WRBY) is a U.S.-based direct-to-consumer eyewear retailer known for disrupting the traditional market with online-first sales, retail stores, and a home try-on program. The company offers prescription glasses, sunglasses, and contact lenses at competitive prices while building a strong following among younger consumers. Its omnichannel model, combining e-commerce, physical stores, and optometry services, allows Warby Parker to scale efficiently and remain a trend forward, accessible player in the competitive consumer discretionary market.

INVESTMENT THESIS

Shrinking Margins Could Constrain Growth Investments

Warby Parker’s gross margins have declined from 56 percent to 53 percent year over year, reflecting several cost-related headwinds and strategic shifts. The company continues to face higher input costs from tariffs and global shipping pressures, which have weighed on profitability throughout the year. Additionally, Warby Parker’s increasing focus on expanding its contact lens segment has contributed to a shift in product mix toward lower-margin categories. While this strategy broadens the company’s addressable market and improves customer lifetime value, it reduces overall profitability in the near term. The company also faces rising store and operating costs as it scales its retail presence. Adjusted EBITDA margins of 11.6 percent in the third quarter of 2025 underscore this pressure. If discretionary consumer spending weakens or supply chain expenses remain elevated, margin compression could persist, limiting Warby Parker’s ability to reinvest in areas such as marketing, technology, or product innovation.

Growth Tied to Discretionary Spending Trends

With 2.66 million active customers, Warby Parker’s top line remains heavily influenced by consumer sentiment and overall discretionary spending. Warby Parker’s revenue base is highly sensitive to consumer sentiment, given the discretionary nature of eyewear purchases. The company’s 15.2% year-over-year revenue growth to \$221.7 million in Q3 2025 reflects continued brand strength, but this trajectory could reverse under prolonged economic uncertainty or tighter consumer budgets. However, the premium positioning of Warby Parker’s eyewear means that demand may soften if macroeconomic conditions deteriorate or real disposable income declines. Given its positioning in the premium eyewear category, any shift toward budget-conscious alternatives may slow traffic and lower average order values.

Expansion-Fueled Growth Increases Execution Risk

Warby Parker’s rapid retail expansion, adding 41 new stores in 2024 to reach 276 total, demonstrates ambition but also heightens exposure to fixed costs, labor pressures, and inventory challenges. The discontinuation of its Home-Try-On program removes a key customer acquisition lever, placing greater emphasis on in-store performance and operational efficiency. As the company juggles scale and profitability, small executional missteps could compound, delaying margin recovery and long-term earnings growth.

GROWTH ASSUMPTIONS

Warby Parker trades at \$19.81, about 66.6 percent of its 52-week high, reflecting steady performance but tempered investor sentiment. Q3 2025 revenue grew 15.2 percent year over year to \$221.7 million, supported by a 9.3 percent rise in active customers to 2.66 million and a 4.8 percent increase in average revenue per customer to \$320. Adjusted EBITDA of \$25.7 million (an 11.6 percent margin) and free cash flow of \$35.6 million highlight improving profitability and operational discipline. With \$280.4 million in cash, the company remains well-capitalized to fund continued growth. Analysts’ \$22.17 price target implies modest upside, though with a beta of 1.37, volatility remains elevated. Overall, Warby Parker’s growth trajectory is solid, but its dependence on discretionary spending poses ongoing risk.

UFA RECOMMENDATION

I recommend a **long** position in **WRBY** because of its strong revenue and customer growth. It’s omnichannel model, and a differentiated brand in vision care supports long-term expansion despite discretionary spending risk.

Rating: **Buy**
Current Price: **\$21.59**
Target Price: **\$26.33**

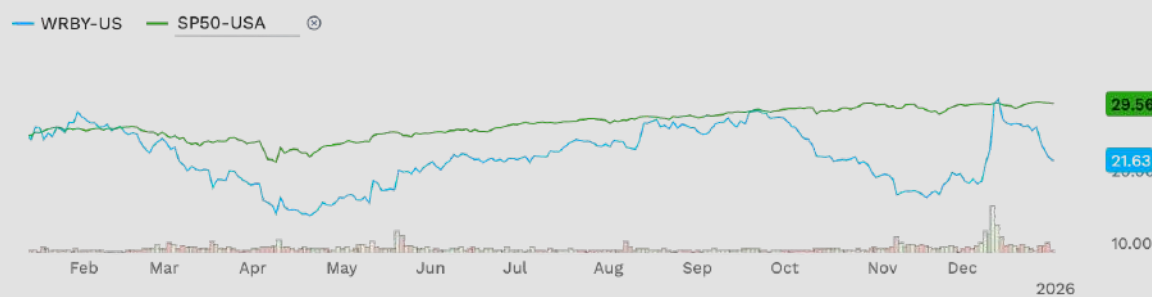
KEY STATISTICS

Market Cap: **\$2.69 billion**
Beta: **1.24**
EV/Sales: **3.05**
Forward P/E: **46.73**
52wk Price Range: **\$13.63 - \$31.00**

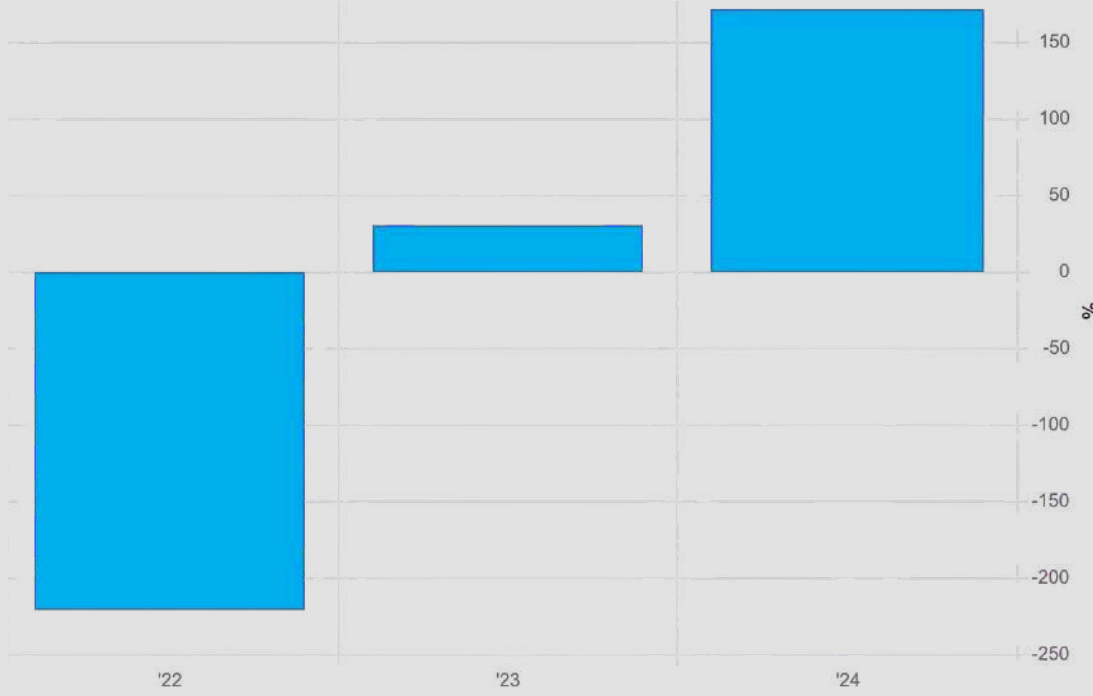
FUNDAMENTALS

Debt to Equity Ratio: **0.63**
Current Ratio: **2.55**
EBITDA Margin: **3.93%**
Net Margin: **-1.12%**
P/S Ratio: **3.15**

GRAPHS & ANALYSIS



Free Cash Flow % Short Term Debt



GROWTH ASSUMPTIONS

Warby Parker has continued to grow at a double digit pace, with revenue up about 15% year over year in Q3 2025 and management guiding to roughly 13% full year revenue growth for 2025.

Revenue: \$871–874 million (FY25)
EV/Sales: 2.2
Misc: Active customers up ~9%



OMNICHANNEL GROWTH & CUSTOMER EXPANSION

Warby Parker combines online-first sales with 313 retail stores to reach a growing customer base of 2.66 million active users, up 9.3% year over year, with average revenue per customer of \$320. Q3 2025 revenue rose 15.2% year over year to \$221.7 million, with adjusted EBITDA of \$25.7 million (an 11.6% margin), underscoring improving operating leverage as the business scales. The company added 41 new stores in 2024, expanding its footprint while appealing to younger, style-conscious consumers who value design, transparency, and an integrated digital experience.

RISK ANALYSIS

Macro and discretionary spending risk

Warby Parker is particularly sensitive to the economic cycle because glasses and sunglasses, while necessary for many customers, are often purchased as upgraded or additional pairs that behave like discretionary items rather than bare-minimum necessities. When consumer confidence weakens, interest rates stay high, or inflation compresses real disposable income, customers can stretch replacement cycles, postpone non-urgent eye exams, or opt for cheaper alternatives from discount retailers and online marketplaces. This can show up as slower traffic growth, lower conversion from browsing to purchase, and pressure on average order value if Warby Parker leans more on promotions or discounts to sustain demand.

Execution risk from rapid store expansion

Warby Parker’s aggressive store growth strategy increases execution complexity, including site selection risk, staffing, local marketing, and inventory allocation across a larger footprint. Underperforming stores or slower-than-expected ramp curves can weigh on profitability, as fixed costs in leases and labor are less flexible if sales underdeliver. The company’s shift away from the Home-Try-On program toward a heavier reliance on in-store experiences and omnichannel integration raises the bar for operational excellence; missteps in service quality, inventory availability, or localized demand forecasting could weaken brand perception and drag on unit economics.

Competitive and category risk

Warby Parker’s aggressive store growth strategy increases execution complexity, including site selection risk, staffing, local marketing, and inventory allocation across a larger footprint. Underperforming stores or slower-than-expected ramp curves can weigh on profitability, as fixed costs in leases and labor are less flexible if sales underdeliver. The company’s shift away from the Home-Try-On program toward a heavier reliance on in-store experiences and omnichannel integration raises the bar for operational excellence; missteps in service quality, inventory availability, or localized demand forecasting could weaken brand perception and drag on unit economics.

COMPANY NEWS / EARNINGS TEASER

- Warby Parker has been in the news for sustaining double-digit revenue growth and expanding its store base while steadily improving profitability.
- Q3 2025 results showed about 15% year-over-year revenue growth, a 9% increase in active customers to roughly 2.66 million, and average revenue per customer of around \$320, with adjusted EBITDA margin in the low teens.
- Investors are now focused on how effectively the company can navigate discretionary spending headwinds, mix shift toward lower-margin products like contacts, and the profit impact of rapid store openings heading into 2026.

COMPETITOR ANALYSIS

- Warby Parker faces intense competition from legacy optical chains, independent optometrists, mass merchants, and online retailers that compete aggressively on price, insurance integration, and convenience, putting ongoing pressure on its growth and pricing power.
- Its direct-to-consumer, design-forward brand, transparent pricing, and integrated online–offline experience give it a differentiated position that especially resonates with younger, urban, style-conscious consumers.
- While rivals can undercut on price or leverage larger physical networks, Warby Parker’s recognizable brand and curated in-store experience help it retain and deepen relationships with its growing base of active customers.

VALUATION & ADDITIONAL ASSUMPTIONS

* Forecasted free cash flows are only estimated until Dec '27 in Factset						1	2	3
DCF	2020	2021	2022	2023	2024	2025	2026	2027
Revenue	393.70	540.80	598.10	669.80	771.30	873.20	987.70	1,151.70
% growth		37.36%	10.60%	11.99%	15.15%	13.21%	13.11%	16.60%
EBIT	-55.60	-143.70	-111.20	-72.00	-30.1	0.40	40.60	100.40
% margin	-14.12%	-26.57%	-18.59%	-10.75%	-3.90%	0.05%	4.11%	8.72%
Taxes	0.20	0.30	0.50	0.40	0.90	1.30	11.50	25.50
% of EBIT	-0.36%	-0.21%	-0.45%	-0.56%	-2.99%	325.00%	28.33%	25.40%
EBIAT						-0.90	29.10	74.90
D&A	18.38	21.96	31.86	38.55	45.87	51.10	58.60	58.60
% of sales						5.85%	5.93%	5.09%
CapEx	-20.07	-48.51	-60.18	-53.67	-64.67	-70.50	-71.60	-76.80
% of sales						-8.07%	-7.25%	-6.67%
Change in NWC	25.39	(24.50)	-14.55	5.81	19.26	2.71	4.25	4.95
% of sales	6.45%	-1.00%	-2.43%	0.87%	2.50%	0.31%	0.43%	0.43%
Unlevered FCF						117.99	155.05	205.35
Present Value of FCF						117.99	155.05	205.35
Terminal Value						2,451.75		
Present Value of Terminal Value						1,815.02		
Enterprise Value						2,293.41		
+ Cash						2,700.00		
- Debt						232.53		
Equity Value						4,760.88		
Shares						122.00		

Debt	233
% Debt	7.9%
Cost of Debt	5.3%
Tax Rate	45.0%
Equity Value	2,700
% Equity	92%
Cost of Equity	11.20%
Risk Free Rate	2.8%
Beta	1.12
Market Risk Premium	4.6%
Debt + Equity	2,933
WACC	10.54%



COMPANY SUMMARY

Ralph Lauren Corporation (NYSE: RL) is a leading global lifestyle brand with a diversified portfolio across apparel, footwear, accessories, home, and fragrance. The company operates internationally through North America, Europe, and Asia, with revenues balanced between wholesale, retail, and digital channels. Built on premium brand positioning and classic American style, Ralph Lauren has steadily expanded its international stores while investing heavily in digital platforms and supply chain efficiency, giving it a competitive edge in the discretionary retail market.

INVESTMENT THESIS

Strong Pricing Power and Brand Discipline Generate Revenue

Ralph Lauren's premium brand position in the market provides strong pricing power, which allows the company to protect margins even in a volatile macroeconomic environment. Ralph Lauren has further reduced reliance on promotion due to their disciplined approach to discounting, which supports their higher full price sales and gross margins. In Q1 FY26, gross margin increased to 72.3%, up 180 basis points year-over-year. This was driven by their optimized inventory, lower cotton costs, and favorable products that are higher in margins, offsetting tariff pressures. Operating expenses great at a slower rate than revenue, which brought the operating margin up by 270 basis points in comparison to the previous year. Adjusted EPS reached to \$3.77, a 40% increase YoY, demonstrating resilient earning despite macroeconomic uncertainty.

International Expansion as a Key Driver of Revenue

Ralph Lauren's growth is driven by international markers and its diversified geographic expansion, where sales are rising faster than in North America. During the first half of FY26, the company has reported an increase in sales in Europe and Asia, with a 19-21% increase in sales in Asia, and China alone contributing over 30% year-over-year growth. This shows strong demand for the brand, and in Q2 FY26, total revenue has increased by 14% to approximately \$2 billion. The company has therefore raised its full-year revenue outlook to a 5-7% constant increase.

Operational Efficiency and Earnings Growth

Strategic operational efficiency initiatives, including leaner supply chains, automation, and tightened inventory control have driven operating expense reductions that supported a nearly 40% year-over-year increase in adjusted EPS to \$3.77 in Q1 FY26. Total operating expenses grew 12% in Q1 FY26, less than revenue growth, narrowing the adjusted operating expense rate to 55.2% from 56.2% the prior year, and further pushing it down to 53.9%. Its growing sales faster than expenses, and they have improved cost control in store operations, logistics, and corporate management. Ralph Lauren continues to invest in digital platforms, data analytics, and key city expansions. They incorporate flagship stores and localized marketing in global cities, which allows to grow sales faster than utilizing expenses.

GROWTH ASSUMPTIONS

Ralph Lauren's long-term growth is supported by its continued shift towards a direct-to-consumer business model, with digital and owned retail channels that account for a growing share of total revenue. The company deepens their relationships with customers through personalized assistance, whether in store, or online through an AI-powered chatbot in their mobile app known as "Ask Ralph" that tailors stylistic recommendations. This results in increased items in carts and therefore Ralph Lauren is able to effectively gain control over merchandising, customer data, and brand presentation. Furthermore, Ralph Lauren's growth is driven by their flagship "ecosystem", where they upgrade key store locations to create a higher-end, full-brand experience that supports higher traffic and full-price demand. Their flagship locations include RL Restaurant and the Ralph's Coffee shop that include limited availability items that incentivize consumers to visit their tailored locations. Lastly, Ralph Lauren's growth is supported by their deliberate investment in categories they call "high-potential", such as Women's Apparel, Handbags, and collaborations, using their improved data-analytical systems, driving consistent demand.

UFA RECOMMENDATION

I recommend a **long** position in RL because it combines premium brand-driven pricing power with disciplined execution, accelerating international demand, and scalable direct-to-consumer growth that competitors struggle to replicate

Rating: **Buy**

Current Price: **\$353.61**

Target Price: **\$374.36**

KEY STATISTICS

Market Cap: **\$21.44 billion**

Beta: **1.53**

EPS: **\$13.54**

P/E Ratio: **26.12x**

52wk Price Range: **\$176.61 – \$380.00**

FUNDAMENTALS

Debt to Equity Ratio: **1.11**

Current Ratio: **2.04**

EBITDA Margin: **17.28%**

Net Margin: **11.28%**

PEG Ratio: **1.69**

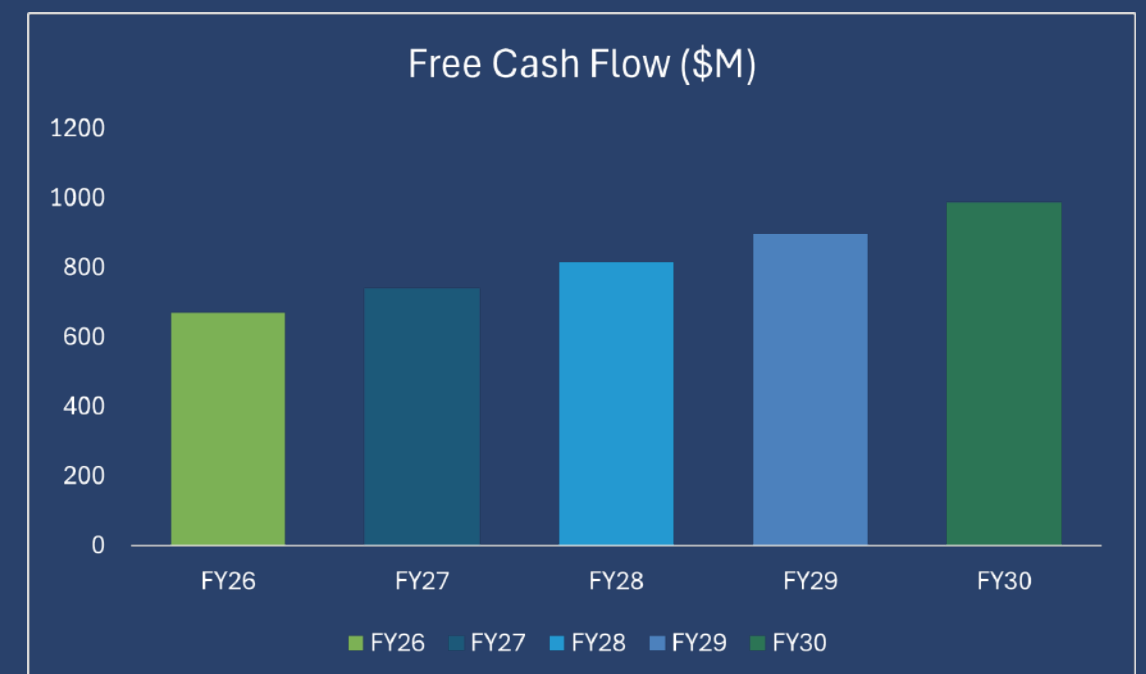
GRAPHS & ANALYSIS

Stock Price (RL)



Free Cash Flow

Free Cash Flow (\$M)



GROWTH ASSUMPTIONS

Ralph Lauren demonstrates high margins, supported by increasing their brand image and disciplined inventory management, with net income outpacing revenue growth by ~7 percentage points.

Revenue: **\$7.1 billion** (FY25)

EV/Sales: **2.99x**



FINANCIAL DATA

Financially, Ralph Lauren remains strong with results exceeding expectations. Quarterly revenues rose 14% year-over-year to \$1.7 billion, while gross profit climbed to \$1.2 billion, lifting gross margins to 72.3%. Despite a 12% increase in operating expenses, year-over year operating margins expanded over 200 basis points to 16.6%, driving nearly 40% EPS growth to \$3.77. The company maintains over \$2 billion in liquidity against \$1.6 billion in debt. Compared to peers like PVH, which have \$191 million in cash against \$3.73 billion in debt, it is evident that RL is net cash positive. This supports \$300 million in shareholder returns this quarter, including \$250 million in buybacks. Management raised guidance, projecting low to mid-single-digit revenue growth and 40–60 basis points of gross margin expansion, signaling confidence in sustained profitability.

RISK ANALYSIS

Sourcing and Tariff Exposure Could Put Pressure on Margins

Ralph Lauren heavily relies on manufacturing overseas for the production of apparel and outerwear, particularly in China, Vietnam, Bangladesh, and India. Changes in trade policies or new tariffs can increase the cost of good sold, especially if the company is unable to effectively pass these costs onto consumers through pricing. If cotton, tariff rates, or freight costs rise, they can decrease the companies gross margins. In Q1 FY26, RL reported a 72.3% gross margin, meaning costs are ~27.7% of sales, and a 1-5% of cost increase on COGS would equate to roughly \$5M-\$24M impact on profit, as higher input costs directly reduce profitability. Competitive pressures limit how much price increases can be absorbed, increasing the risk of margin contraction.

Consumer Discretionary Spending Weakness

Ralph Lauren’s products are premium discretionary good, and customer purchase them when they feel confident in their income and the economy. Despite their strong international demand, North America remains one of Ralph Lauren’s largest markets. In the Q2 FY26 earnings report, management reported slower transaction growth in North America compared to other regions, and macroeconomic data suggest U.S. consumer decrease due to the persistent inflation over the last year. If consumer spending weakens further, especially among middle-income and price-sensitive consumers, it can lowers comps and reduce their full-price sell throughs, and higher markdowns rate. The primary customer base is middle-income consumers, and during economic downturns, premium brands often see demand shift to lower-priced alternatives.

FX Volatility Creates Earnings Uncertainty

Ralph Lauren earns a significant portion of revenue outside of the U.S., and foreign exchange movements can reduce the dollar value of international sales when transacted back to the reporting currency, even if local demand is stable. Therefore, a stronger U.S. Dollar reduces reported value. Historically, a 1-2% FX impact can reduce revenue growth by 100-200 basis points.

COMPANY NEWS /
EARNINGS TEASER

- Ralph Lauren delivered strong Q2 FY26 results, with revenue up 14% year-over-year to ~\$2.0 billion, leading management to raise full-year revenue expectations to +5–7% in constant currency. Adjusted EPS for the quarter was \$3.79, beating analysts’ expectations of \$3.45
- Analysts project EPS of approximately \$5.72 for Q3 FY26. Direct-to-consumer and digital sales remain a key driver, supported by full-price selling and continued global expansion, particularly in China.

COMPETITOR ANALYSIS

- Ralph Lauren operates in a highly competitive global apparel and luxury market, facing competition from premium lifestyle brands (e.g., Tommy Hilfiger, Hugo Boss), luxury houses (e.g., LVMH brands), and fast-fashion competitors that compete aggressively on speed and price, creating pressure on discretionary spending and market share.
- While competitors may outcompete on price or trends, Ralph Lauren’s iconic brand heritage, global recognition, and timeless design support stronger pricing power and customer loyalty, differentiating it from trend-driven and promotional peers.
- Ralph Lauren’s direct-to-consumer focus, elevated flagship stores, and disciplined distribution strategy allow the company to control inventory and retain high-value consumers. The company further partnered with CFDA and announced two grant programs to strengthen American manufacturing.

VALUATION & ADDITIONAL ASSUMPTIONS

Discounted Cash Flow											
	2025	2026	2027	2028	2029		2025	2026	2027	2028	2029
	3/29/2025	3/28/2026	3/27/2027	3/26/2028	3/25/2029	Cost of Services (COGS)	31%	31.20%	31.00%	30.90%	30.80%
Sales Growth		5.20%	4%	3.50%	3%	SG&A Expense	55%	54.40%	54.20%	54.20%	54.00%
Sales	7,079.00	7,447.1	7,767.33	8039.19	8280.37	D&A Expense	3%	3.10%	3.00%	3.00%	2.90%
Less: COGS	2,226.10	2323.50	2407.87	2484.11	2550.35	R&D Expense	-	-	-	-	-
Less: SG&A	3863	4051.23	4209.89	4357.24	4471.40	Cash Tax Rate	22%	22%	22%	22%	22%
Less: R&D	-	-	-	-	-	Capex	3%	2.90%	2.80%	2.80%	2.60%
Less: D&A	219.6	230.86	233.02	241.18	240.13	Change in NWC % of Sales	1%	1.50%	1.30%	1.20%	1.10%
EBIT	770.30	841.52	916.55	956.66	1,018.49	Assumptions					
Less: Cash Taxes	169.47	185.14	201.64	210.47	224.07	Debt	1,142.60	Equity Value	21,980		
Plus: D&A	219.6	230.86	233.02	241.18	240.13	% Debt	4.94%	% of Equity	95.06%		
Less: Capex	216.2	215.97	217.49	225.10	215.29	Cost of Debt	3.86%	Cost of Equity	10.81%		
Less: Change in NWC	72	111.71	100.98	96.47	91.08	Tax Rate	20%	Risk Free Rate	4.19%		
Unlevered FCF	532.23	559.58	629.46	665.81	728.18	WACC	10.43%	Beta	1.53		
					7317.42	TGR	2.50%	Market Risk Premium	4.33%		
Transactional FCF	481.96	506.72	570.01	602.92	6626.30			Debt + Equity	23122.6		



COMPANY SUMMARY

Deckers Brands (DECK) is a U.S. global footwear and apparel company. Their portfolio includes running wear (HOKA) lifestyle comfort (UGG) and outdoor sandals (Teva). With distribution across more than 50 countries, Deckers’ diversification from casual to athletic helped deliver \$1.43B in revenue in Q2 FY26 (+9.1% YoY). Their omnichannel distribution model includes direct-to-customer retail and e-commerce platforms, enabling it to reach global customers. The company maintains a balance sheet with zero debt, steady revenue growth, and industry-leading profitability, positioning it among the strongest performers in global footwear.

INVESTMENT THESIS

Strong Balance Sheet, Capital Returns, and Valuation

As of Q2 FY26, Deckers holds \$1.414 B in cash and has no debt, providing substantial financial flexibility and allowing for funding without external financing or macroeconomic factors. This strength can be visible in the shareholder returns, as Deckers repurchased 2.6 million shares for \$282 million during Q2 FY26. The stock continues to trade at a valuation that remains below premium branded footwear competitors. Shares trade at just 8.54x EV/EBITDA, which demonstrates that it is far below than premium peers. Analysts expect EPS to rise to \$6.84 in FY27, as the company has beaten the four consecutive earnings predictions from 15% to 65% due to sticky pricing power and decreased manufacturing costs. With a 12 month target of \$112 stock price, the stock offers a 25-30% upside.

Profitability Supported by Disciplined Inventory

Deckers demonstrates industry-leading profitability driven by strong gross margins, tight inventory, and balanced channel management. In Q2 FY26, the company generated a 56.2% gross margin and \$326.5M in operating profit, reflecting their ability to invest in brand, product innovation, and distribution given their high scale of profitability. Growth was driven primarily through wholesale revenue, which increased 13.4% year-over-year, and their direct-to-customer sales remained relatively stable. This reflects management’s decision not to force DTC growth at the expense of brand’s integrity. Inventory remains well-managed at \$835.6M, supporting full-price selling and preventing markdowns. While peers face pressure from promotions, excess inventory, or slowing volume growth, Deckers benefits from tight supply and efficient operations.

Brand Portfolio with HOKA and UGG Driving Stability

Deckers’ portfolio provides a balance between growth and stability. UGG’s performance continues to reinforce the stability of Deckers’ portfolio, with 10.1% YoY revenue growth to \$760M in Q2 FY26, supported heavily by international markets. Management highlighted that non-U.S. regions delivered “the lion’s share of UGG growth,” with strong full-price sell-through and solid consumer response to new seasonal collections. The brand’s consistent demand to new seasonal assortments reduces volatility and helps balance the faster-growing consumer industry.

GROWTH ASSUMPTIONS

Deckers’ long-term growth is supported by their brand investment and geographic expansion. A key assumptions is that international markers will continue to outperform the U.S., as both HOKA and UGG have shown increasing demand in Europe and China. HOKA’s growth is supported by its innovation to core franchises, specifically their Clifton and Bondi models, which allow the brand to drive purchases instead of relying on new customer acquisition. Management has highlighted that these deliver “strong sell-through” and a 2 percentage points marker share gains, outpacing France, Germany, and Italy. Deckers are targeting whole sale expansion and international revenue grew +38% year-over-year according to their Q2 FY26 earnings report. UGG’s growth is supported by their newer silhouettes, such as Neumel franchise and Zora Ballet Flat, which outperformed expectations. The Neumel revenue doubled year-over-year in the first half. Overall, Deckers is proving that it can go profitably while investing, and this can be seen through their Q2 FY26 revenue increase +9% and EPS +14% year-over-year with no debt.

UFA RECOMMENDATION

I recommend a **long** position in **DECK** due to its balance sheet strength, industry-leading profitability, and diverse brand portfolio. The company’s zero-debt position, strong FCF generation, and disciplined inventory management provide downside protection.

Rating: **Buy**
Current Price: **\$89.52**
Target Price: **\$112.00**

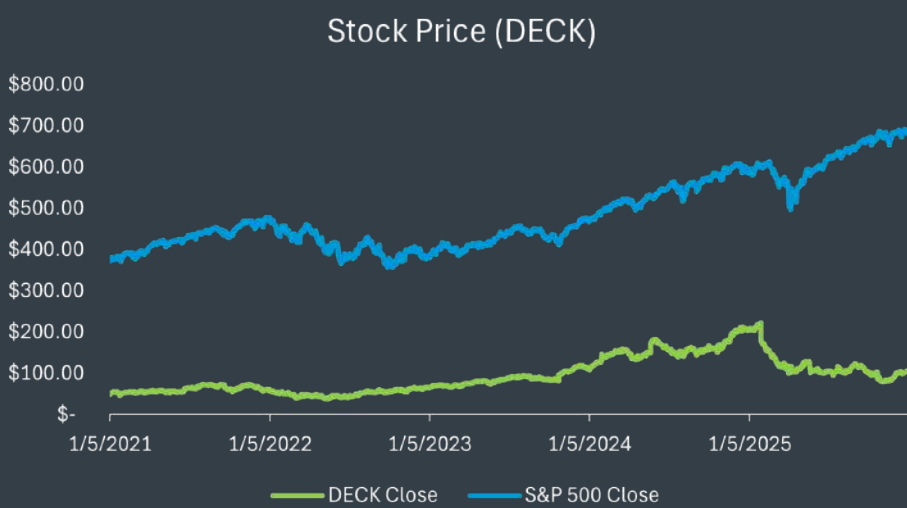
KEY STATISTICS

Market Cap: **\$8.5 billion**
Beta: **1.40**
EPS: **\$6.36**
P/E Ratio: **17.67x**
52wk Price Range: **\$80.71 – \$199.10**

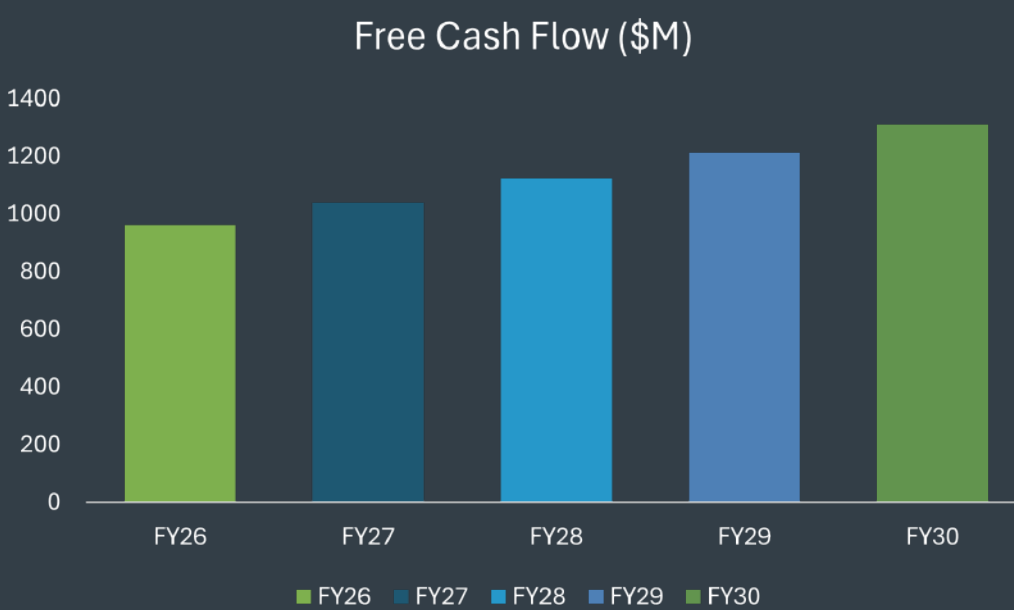
FUNDAMENTALS

Debt to Equity Ratio: **0.00**
Current Ratio: **2.30**
EBITDA Margin: **22%**
Net Margin: **19.4%**
PEG Ratio: **1.10**

GRAPHS & ANALYSIS



Free Cash Flow



GROWTH ASSUMPTIONS

Deckers has delivered strong historical growth with 9.1% sales growth (FY26) due to increased reliance on international markers and wholesale channels.

Revenue: **\$4.9 billion** (FY25)
EV/Sales: **3.04x**



FINANCIAL DATA

Deckers trades at \$92.46, which is down 54.8% relative to the last year. It trades at EV/EBITDA of 8.54, demonstrating its discounted valuation. The company generated \$5.24B in TTM revenue, up from \$4.99B in FY25, demonstrating sustained multi-year growth. TTM gross profit reached \$3.02B, supported by a product mix and strong full-price sell-through across UGG and HOKA. Operating income totaled \$1.23B (~23.5% margin), showing that Decker scales efficiently despite heavy investment in brand expansion. Net income rose to \$1.02B, effecting \$6.73 EPS, while share repurchases reduced diluted share count following the buyback of 2.6M shares in Q2 FY26. Analysts expect \$5.37B FY26 revenue, with \$1.86B projected for Q3, supporting a continued outlook for mid to high single-digit growth into FY27.

RISK ANALYSIS

Consumer Price Sensitivity and Rising Tariffs Could Pressure Margins

Greater tariffs on imports, particularly goods from Vietnam, could serve as a short-term risk to Deckers’ valuation. In its Q2 FY26 earnings, Deckers reported a diluted EPS of \$1.82 and projected a full-year sales outlook of approximately \$5.35 billion, beating expectations. However, the management cited that higher tariffs and inflationary pressure are constrains to discretionary spending, leading to a more cautious consumer outlook. This led to a cut in a significant share price drop of ~13% and contributed to a 50% year-to-year decline in the stock. The continued prevalence of tariffs can force Deckers to increase retail prices to defend margins, which, in a weak consumer spending environment, could put pressure on inventory and demand, influencing future earnings and valuation.

Direct-to-Consumer (DTC) and Domestic Sales Decline

Decker’s direct-to-consumer (DTC) and U.S. domestic higher-margin businesses have demonstrated a declining performance. While total net sales grew by +9.1% year-over-year in Q2 FY26, DTC net sales decreased 0.8% and domestic sales fell by 1.7%. Although this is partially offset by international growth, DTC channels are significant as they have the potential to deliver higher gross margins than wholesale by eliminating the intermediary margins and having higher pricing control. The drop has occurred due to U.S. consumer’s weaker discretionary spending, and their preferences shifting to multi-brand store experiences. Deckers’ recent marketing efficiency and conversation rates cannot keep up with shifting channel preferences. Due to the fact that DTC generates stronger consumer data, a slowdown in DTC growth can lead to lower margins.

Supply Chain Vulnerability and Inventory Management Risk

Deckers’ premium UGG products heavily rely on sheepskin, which is a raw material with limited supply and volatile pricing. If sheepskin supply gets disrupted or prices rise due to geopolitical trade disruptions, UGG production costs could rise. Furthermore, Deckers’ inventory increased year-over year, and if the company mismanages complex forecasts, it could lead to inventory imbalances.

COMPANY NEWS / EARNINGS TEASER

- After the Q2 FY26 earnings announcement, Deckers’ stock fell more than 12%, reflecting the investor concern over the company’s slowing sales growth. Market commentary emphasized that while revenue beat expectations, management highlighted demand weakness in the U.S.
- Decker’s wholesale growth increased, specifically internationally. While this supports short-term revenue growth, it shifts the brand away from DTC, increasing Deckers’ reliance on partner-driven promotion.
- The company’s main drivers are UGG and HOKA, while its “Other brands” significantly declined year-over-year.
- Deckers has a strong balance sheet and no debt, which could offset risks.

COMPETITOR ANALYSIS

- In performance footwear (HOKA), Deckers primarily competes with On Holding, Nike, and Adidas, which benefit from greater scale, marketing budgets, and wholesale leverage.
- While On operates with premium gross margins (~62%) and strong DTC sales, Nike and Adidas exert pricing and shelf-space pressure despite lower consolidated margins, intensifying competition.
- In lifestyle footwear (UGG), Deckers competes with Crocs and Skechers, where trend cyclicity and promotional activity pose risks to pricing power.
- While many of these competitors possess broader distribution and larger marketing budgets, Deckers distinguishes due to its focused brand portfolio and historically strong free cash flow generation.

VALUATION & ADDITIONAL ASSUMPTIONS

Discounted Cash Flow						2025	2026	2027	2028	2029
						3/31/2025	3/31/2026	3/31/2027	3/31/2028	3/31/2029
Sales Growth							11%	10%	9%	8%
Sales						4,985.60	5,534.0	6,087.42	6635.285	7166.11
Less: COGS						2,099.90	2479.24	2714.99	2952.7	3188.92
Less: SG&A						1706.5	1870.50	2039.28	2189.64	2293.15
Less: R&D						-	-	-	-	-
Less: D&A						69.35	77.48	79.1364	86.26	85.99
EBIT						1,109.85	1,106.80	1,254.01	1406.68	1,598.04
Less: Cash Taxes						244.17	243.50	275.882	309.47	351.57
Plus: D&A						69.35	77.48	79.13643	86.26	85.99
Less: Capex						86.17	88.54	91.31	99.53	100.33
Less: Change in NWC						37.75	37.70	37.65	37.60	37.55
Unlevered FCF						811.11	814.54	928.30	1,046.34	1,194.59
									10932.58	
Transactional FCF						729.42	732.50	834.80	940.95	9831.45

Assumptions					
Debt	0.00	Equity Value	2,513		
% Debt	0.00%	% of Equity	100.00%		
Cost of Debt	0.00%	Cost of Equity	11.20%		
Tax Rate	22%	Risk Free Rate	4.20%		
WACC	11.20%	Beta	1.4		
TGR	2.50%	Market Risk Premium	4.33%		
		Debt + Equity	2513		

Cost of Services (COGS)	42%	44.8%	44.6%	44.5%	44.5%
SG&A Expense	34%	33.8%	33.5%	33%	32%
D&A Expense	1.4%	1.4%	1.3%	1.3%	1.2%
R&D Expense	-	-	-	-	-
Cash Tax Rate	22%	22%	22%	22%	22%
Capex	1.7%	1.6%	1.5%	1.5%	1.4%
Change in NWC % of Sales	5%	5%	4.9%	4.9%	4.8%



INDUSTRIALS

INDUSTRY



COMPANY SUMMARY

Optex Systems Holdings, Inc. is a manufacturer of optical sighting systems used in firearms and assault vehicles for sovereign entities, prime defense contractors, and commercial customers. With deep expertise in optical systems and a vertically integrated supply chain, Optex is positioned to capture momentum from the global defense spending upswing. Optex’s competitive advantage lies in its expertise in providing optical systems and vertical integration in optical systems for a variety of firearms and assault vehicles. In particular, Optex transitioned manufacturing in-house for the Speedtracker Mach product line after acquiring the IP, demonstrating its commitment to vertical integration and cost control.

INVESTMENT THESIS

Market underrates Optex’s specialized model sustains 3x industry margins

Thesis Point 1 is about margin-rich growth through specialization. Optex’s 22.56% gross margin is more than 3x the industry average, signalling operating leverage and pricing power within its niche. By manufacturing optics and assemblies in-house, the company reduces subcontracting cost and which translates to tighter cost control. Additionally, customer-funded engineering allows Optex to minimize SG&A and R&D expenses, keeping operating costs lean (~14% of revenue) while sustaining high production margins. This also comes with a very low debt to equity ratio of 0.09, rare for a small-cap defense contractor, and \$6 million in cash in the bank.

NATO rearmament and macro tailwinds feed a growing, multi-year backlog

Thesis Point 2 follows increases in NATO and Allied Spending. Optex is a prime and sub-prime contractor for a variety of U.S. government allies. NATO allies have committed to allocating 5% of GDP annually to defense budgets until 2035. Optex’s partnerships with defense primes (RTX, GDLS, BAE, etc) directly align with this spending, creating an immediate pipeline into European vehicle and firearm programs. A backlog of \$45 million provides near-term revenue certainty, while ongoing rearmament across Europe and Israel supports sustained medium-term upside. Current U.S. defense policy strongly favors domestic manufacturing and supply-chain security, directly benefiting vertically integrated firms like Optex. “Buy American” mandates, greater funding for readiness and procurement, and streamlined Foreign Military Sales approvals continue to expand demand for U.S.-made components. Downside risks include budget delays, renewed tariffs on optical materials, or a shift in defense priorities away from ground systems toward missiles or cyber programs. However, Optex’s low leverage, U.S. production base, and diversified customer set provide insulation from these pressures.

GROWTH ASSUMPTIONS

High-growth, high-margin defense name still trading at a discount

Optex has an upside of 23% upside with a price target of \$16 from peer comparison. Optex is currently trading at a P/E of 16.18x compared to peers trading at 20x - 30x despite having superior margins. Revenues grew 21% y/y, supported by vertical integration and multi-year contracts, setting up a scalable foundation for long-term growth. The market continues to undervalue the sustainability of its margins and scalability of its model. Investors largely treat Optex as a short-term beneficiary of higher defense spending, but its vertical integration, asset-light cost structure, and expanding international exposure position it for continued earnings leverage beyond current expectations. This efficiency-driven profitability suggests meaningful room for multiple expansion as Optex proves the durability of its growth trajectory.

UFA RECOMMENDATION

I recommend a **long** position in **OPXS** with an upside of 24% and a price target of \$15.87.

Rating: **Buy**

Current Price: \$12.75

Target Price: \$15.87

KEY STATISTICS

Market Cap: \$94.69M

Beta: 1.82

EPS: 0.75

PE Ratio: 18.95x

52wk Price Range: 5.36 - 17.76

FUNDAMENTALS

Leverage Ratio: 0.06

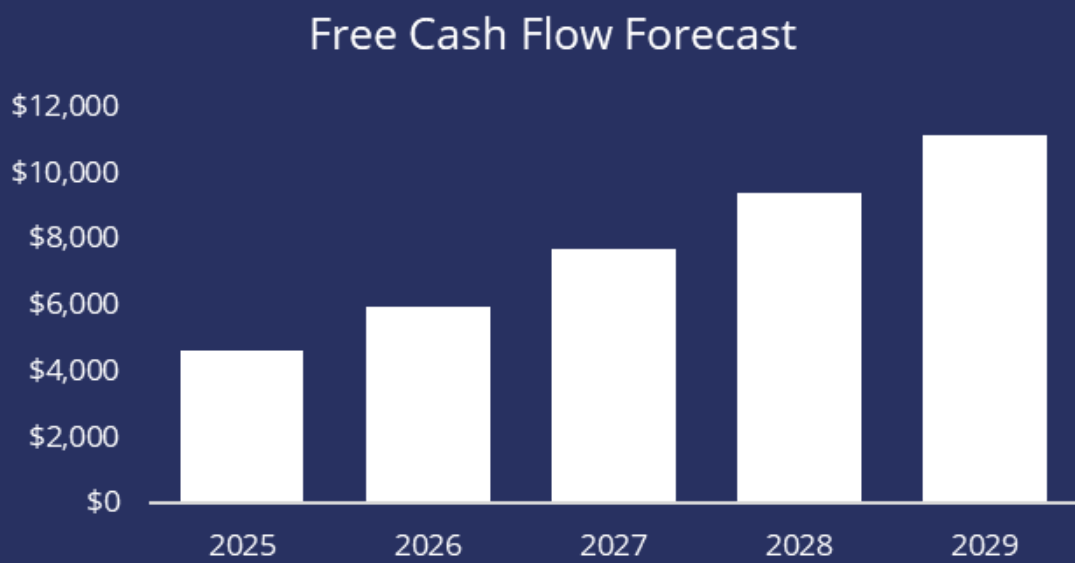
Current Ratio: 5.14

PEG Ratio: 0.8

EBITDA Margin: 17.46%

Net Margin: 13.01%

GRAPHS & ANALYSIS



GROWTH ASSUMPTIONS

Optex is undervalued due to market skepticism about the sustainability of its defense-driven growth, but its vertical integration, asset-light model, and expanding international presence should drive durable margin expansion and P/E multiple re-rating from 16x toward the 20-30x peer range.

Revenue: \$39.5M

EPS: 0.75



RECORD Q2 AND A YEAR OF REVENUE LOCKED IN

Over the last several years Optex has compounded revenue at a mid-teens to low-20s rate, driven by higher periscope production and wins like the M10 Booker program, while maintaining attractive gross margins around 30 percent.

For the first half of fiscal 2025, Optex delivered record Q2 revenue of \$10.7 million, up roughly 26 percent year over year, with gross margin expanding to about 31 percent and EPS of 0.26, demonstrating strong operating leverage as incremental volume flows through largely fixed overhead. Backlog sits a little above 40 million when including the post-quarter 5.7 million AOC award, implying roughly one year of revenue coverage and giving line of sight into double-digit growth through at least fiscal 2026 under current delivery schedules

RISK ANALYSIS

Concentrated programs, fixed-price contracts, and microcap illiquidity risks

The primary risk stems from reliance on key contracts with the federal and foreign governments and larger defense contractors. Therefore, any drawbacks or changes in the allocation of defense spending cause a decline in revenue from operations. Additionally, backlog declined from about \$45.6 million to \$38.3 million year over year as of the third quarter 10-Q, and six-month orders were down low-double-digits, signaling that timing of new awards and option exercises can create periods of flat or negative reported growth even if long-term demand is healthy.

Another key consideration is execution and cost risk. The majority of Optex’s contracts are fixed-price which may prevent the recovery of costs that exceed the projected budget or timeline. This can be seen through contract loss reserves which have increased due to inflationary pressure, rework, and labor inefficiencies. This could lead to eroded margins if not contained. The company is also pursuing adjacent opportunities via Applied Optics Center and the Speedtracker acquisition; while these expand TAM, they increase complexity and bring integration risk in niche, sometimes unproven, product areas.

Finally, from a trading perspective, the stock is vulnerable to large swings around news flow or investor positioning changes, including days with double-digit moves on modest volume which stems from Optex is a sparsely traded microcap stock. Any miss vs. expectations on quarterly orders or margins could drive outsized drawdowns even if long-term value is intact, elongating the path to thesis realization for a long position.

COMPANY NEWS / EARNINGS TEASE

- Optex’s latest results showed another strong year.
- Fiscal 2025 revenue grew about 22% to roughly 41 million, gross margin increased to about 29%, and operating income rose 50%.
- Net income rose nearly high-30s percent.

COMPETITOR ANALYSIS

- Optex’s competition arises from a small quantity of specialty firms and can be split into two categories based on Optex’s two main segments.
- The biggest competitor for Optex’s periscope and optical systems segment is Gus Periscopes. For Applied Optics Center thin film and laser coatings, primary competitors are Materion-Barr, G&H Artemis and Alluxa.
- While these firms have greater resources and are entrenched deeper into the defense market, the argument for the long case is that Optex’s niche, embedded position on long-lived ground platforms and growing soldier-system opportunities offers a superior growth and margin profile relative to similar-size defense component names.

VALUATION

Assumptions									
Discount Rate	11.0%								
Perpetual Growth Rate	1.5%								
Transaction Date	9/28/2025								
First Fiscal Year End	9/30/2025								
Current Price	12.75								
Shares Outstanding	6,940,000,000								
Debt	3,398								
"Excess" Cash	4,871								
	2022	2023	2024	2025	2026	2027	2028	2029	
Tax Rate	23.5%	23.5%	23.5%	23.5%	23.5%	23.5%	23.5%	23.5%	23.5%
Cost of Services (COGS)	42%	46%	50%	50.4%	50.4%	50.4%	50.4%	50.4%	50.4%
SG&A expense	8%	9%	12%	25.6%	25.6%	25.6%	25.6%	25.6%	25.6%
R&D expense	-	-	-	-	-	-	-	-	-
D&A expense	1%	1%	0%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%
Capex	1%	1%	2%	\$3,499	\$3,835	\$3,861	\$3,861	\$3,861	\$3,861
Discounted Cash Flow									
Date	9/30/2022	9/30/2023	9/30/2024	9/30/2025	9/30/2026	9/30/2027	9/30/2028	9/30/2029	
Time Periods				0	1	2	3	4	
Sales Growth		15%	32%	22.0%	20.0%	18.0%	15.0%	13.0%	
Sales	22,383	25,659	33,995	41,473.90	49,768.68	58,727.04	67,536.10	76,315.79	
Less: COGS	17,486	19,040	24,466	20,902.85	25,083.41	29,598.43	34,038.19	38,463.16	
Less: SG&A	3,250	3,832	4,708	10,617.32	12,740.78	15,034.12	17,289.24	19,536.84	
Less: R&D	-	-	-	-	-	-	-	-	
Less: D&A	307	345	25	2,281.06	2,737.28	3,229.99	3,714.49	4,197.37	
EBIT	3,250	3,832	4,821	7,673	9,207	10,865	12,494	14,118	
Less: Cash Taxes	364	469	1,006	1,803	2,164	2,553	2,936	3,318	
Plus: D&A	307	345	25	2,281	2,737	3,230	3,714	4,197	
Less: Capex	257	376	681	3,499	3,835	3,861	3,861	3,861	
Less: Changes in NWC	(157)	(3,191)	(2,887)	43	20	12	10	10	
Unlevered FCF	-	-	-	4,609	5,926	7,668	9,402	11,127	
Transaction CF	-	-	-	4,609	5,926	7,668	9,402	130,010	

Intrinsic Value	
Enterprise Value	108,686.77
Plus: Excess Cash	4,871
Less: Debt	3,398
Equity Value	110,160

Estimated share price 15.87

Rate of Return	
Target Price Upside/Downside	24%

Market Value vs Intrinsic Value	
Market Value	12.75
Upside	3.12
Intrinsic Value	15.87



COMPANY SUMMARY

Axon Enterprise is a global safety company dedicated to reducing the amount of gun-related deaths between the police and the public through a mix of hardware and software products. Their product mix includes fully integrated hardware sensors, such as body cameras and drones, software, and TASER. Axon's product ecosystem is fully integrated across body cameras, vehicle systems, drones, robotics, and its proprietary cloud-based software platform. All devices connect seamlessly to Axon's internal evidence-management and real-time operations system, which is also designed to interoperate with third-party hardware. This architecture enables Axon to scale efficiently while monetizing ecosystems that would otherwise represent competitive products from other manufacturers. The result is exceptionally high switching costs: once a law-enforcement agency adopts Axon's unified suite of sensors, software, and cloud services, migrating to an alternative provider becomes operationally complex and financially impractical. This integration advantage underpins Axon's strong retention, recurring-revenue growth, and long-term customer lock-in.

INVESTMENT THESIS

Cloud & Services mix shift Axon's margin profile and valuation potential

Axon's transformation from a TASER-centric hardware company to an integrated software, cloud, and sensor ecosystem is substantially expanding its margin profile. In 2024, Axon delivered 33.4% revenue growth to \$2.1B, while adjusted gross margin increased to 63.2%, up from 61.8%, driven by a larger contribution from Axon Cloud & Services, the company's highest-margin segment. Consensus models still treat Axon as predominantly hardware-driven; however, at current growth rates, Cloud & Services will increasingly define Axon's revenue mix and earnings power. This positions Axon for sustained margin expansion even as operating scale normalizes, supporting a valuation re-rating as the business resembles a recurring-revenue software platform rather than a cyclical device manufacturer.

Temporary margin compression conceals underlying profit trajectory

Axon's operating expenses grew \$384.2M in 2024 due to stock-based compensation, scaling headcount, and one-time consulting and integration costs. While this temporarily compressed operating margins (income from operations of \$58.5M vs. \$156.9M in 2023), much of the expense inflation is non-recurring or tied to future growth capacity. Axon is investing heavily in TASER automation and cost-reduction initiatives, which should start improving manufacturing efficiency. As these investments mature and the Cloud & Services mix rises, Axon is positioned to generate significant operating leverage not reflected in consensus forecasts. The Street's current earnings expectations underestimate Axon's margin recovery potential and the long-term profitability of a high-recurring-revenue model.

GROWTH ASSUMPTIONS

Cloud-driven, margin-expanding platform priced like traditional industrials

Axon delivered 33.4% revenue growth in 2024 with gross margin rising to 63.2%, reflecting the rapid expansion of its high-margin Cloud & Services segment and supporting a DCF-implied intrinsic value of \$633.90/share. While simple EV/EBITDA comps screen more conservatively, they understate Axon's earnings power because 2024 EBITDA was temporarily compressed by elevated scaling and SBC, whereas the DCF and P/E framework better capture the durability of software-driven margins and point to ~12% upside from the ~\$568/share price.

The variant view is that consensus underestimates Axon's path to EBITDA recovery and ongoing margin expansion as Cloud & Services become a larger share of revenue. As operating leverage normalizes, Axon's earnings power justifies a valuation closer to software-leaning peers, supporting our upward-revised target.

UFA RECOMMENDATION

I recommend a **long** position in **AXON** with an upside of 12% and a price target of \$633.90.

Rating: **Buy**

Current Price: \$567.93

Target Price: \$633.90

KEY STATISTICS

Market Cap: \$45.45B

Beta: 1.73

EPS: 3.16

PE Ratio: 145.93x

52wk Price Range: 469.24 - 885.92

FUNDAMENTALS

Leverage Ratio: 0.31

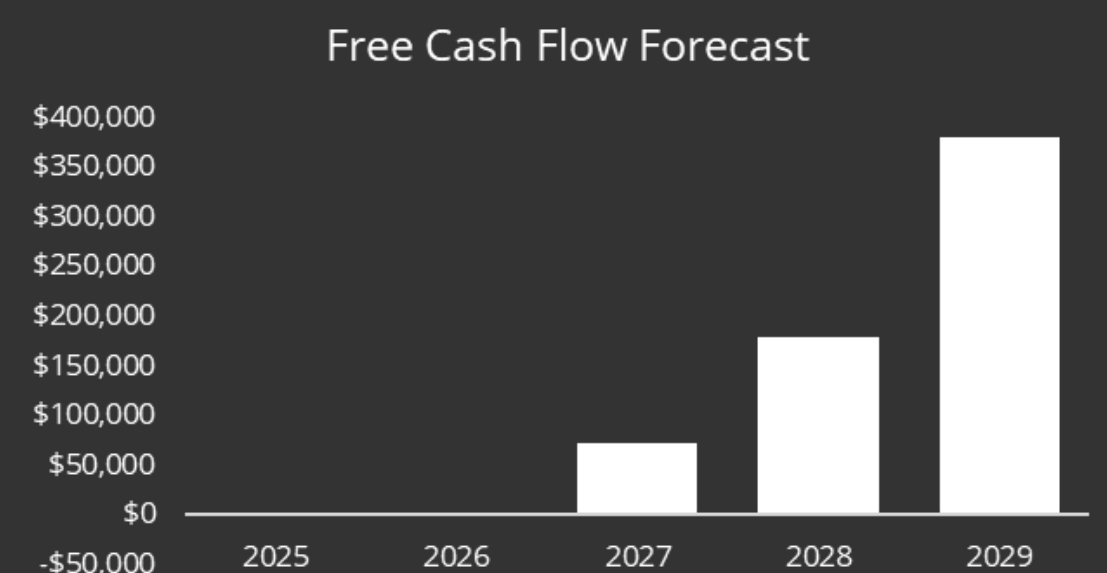
Current Ratio: 1.37

PEG Ratio: 0.8

EBITDA Margin: 25.04%

Net Margin: 18.10%

GRAPHS & ANALYSIS



GROWTH ASSUMPTIONS

Axon's growth assumptions call for sustained low-30s revenue expansion with mid-60s gross margins as Cloud & Services deepen mix, driving EBITDA margin recovery from 2024's SBC-driven compression. On that earnings power, the thesis underwrites a valuation transition from EV/EBITDA industrial-like multiples toward software-leaning P/E comps, supporting a ~\$634/share target.

Revenue: \$39.5M

EPS: 3.16



CLOUD FLYWHEEL AND CONTRACT VISIBILITY

Axon’s model is increasingly anchored by high-visibility, software-driven revenue. Cloud & Services grew 44% in 2024 to \$806M, lifting ARR 37% to \$1.0B and helping push non-GAAP gross margin to roughly 63%. Multi-year bundled contracts and a growing base of long-term subscriptions provide substantial revenue visibility and operating leverage, reinforcing the durability of Axon’s growth algorithm.

Complementing this, Axon is broadening its platform beyond TASERs and body cameras into records, dispatch, real-time intelligence, and enterprise security, deepening its role as the operating system for public safety agencies. This expanding product footprint increases wallet share and switching costs, supporting sustained double-digit top-line growth and strengthening the case for a premium, software-leaning valuation multiple.

RISK ANALYSIS

Core execution, regulatory, and data-security risks can impact operations

Axon’s business model is exposed to a variety of risk. In addition to key risks that center on product execution and regulation, Axon is also exposed to cybersecruity and AI risks because of its cloud stack services.

First, any potential failure to continually innovate TASERs, sensors, and cloud software would slow growth and lead to product recalls which would increase costs and decrease reliability. This would also add on to the task of managing concentrated suppliers and complex global supply chains as product defects, security issues, or component shortages could interrupt deliveries and compress margins.

Because Axon sells weapons, cameras, and surveillance and data systems to public-safety agencies, it is subject to extensive and evolving regulation on privacy, data protection, export controls, firearms, drones, and use-of-force, and adverse changes or compliance failures could limit sales or increase costs. The company faces product-liability, civil-rights, and other litigation and government investigations relating to TASER use, policing practices, and data handling; negative outcomes or adverse publicity in these matters could harm its brand and financial results.

Finally, Axon’s cloud platforms store sensitive video and evidence; cyber attacks, data breaches, outages, or improper use of customer data could result in liability, regulatory penalties, contract loss, and reputational harm. The company also flags risks around the development and deployment of AI features, including potential bias, errors, misuse, and regulatory pushback, any of which could lead to restrictions on AI capabilities or increased compliance costs.

COMPANY NEWS / EARNINGS TEASER

- Axon’s latest results underscore durable, software-led growth.
- 2024 revenue was up 33% to \$2.1B and non-GAAP gross margin expanding to roughly 63% on 44% Cloud & Services growth and \$1B of ARR.
- Management’s 2025 outlook for \$2.55–2.65B of revenue and \$640–670M of adjusted EBITDA (~25% margin) supports a continued high-growth, high-margin earnings trajectory.

COMPETITOR ANALYSIS

- Axon competes in a variety of competitive markets: sensors (body and in-car cameras), conducted energy weapons (TASER), and integrated cloud software for its products.
- Axon’s TASER platform is effectively the category standard in U.S. law enforcement, facing only smaller regional competitors and substitution from traditional firearms, so competition is driven more by safety, efficacy, and training outcomes than by price.
- In cameras and cloud software, Axon competes with large public-safety and communications vendors such as Motorola Solutions, as well as niche hardware and SaaS providers that sell standalone products rather than end-to-end platforms. Axon’s strategy is to differentiate via its integrated Axon Cloud suite, long-term bundled contracts, and extensive patent portfolio.

VALUATION

Assumptions									
Discount Rate	10.8%								
Perpetual Growth Rate	1.5%								
Transaction Date	2/28/2025								
First Fiscal Year End	2/28/2025								
Current Price	567.93								
Shares Outstanding	79,437,268								
Debt	721,672								
"Excess" Cash	986,349								
	2022	2023	2024	2025	2026	2027	2028	2029	
Tax Rate	21.5%	23.5%	23.5%	23.5%	23.5%	23.5%	23.5%	23.5%	
Cost of Services (COGS)	39%	39%	40%	42.0%	42.0%	42.0%	42.0%	41.0%	
SG&A expense	34%	32%	36%	32.0%	32.0%	32.0%	32.0%	32.0%	
R&D expense	20%	19%	21%	21%	21%	19%	17%	15%	
D&A expense	2%	1%	2%	1.0%	1.0%	1.0%	1.0%	1.0%	
Capex	6%	8%	3%	3%	3%	3%	3%	3%	
Discounted Cash Flow									
Date	2/28/2022	9/30/2023	9/30/2024	2/28/2025	9/30/2026	9/30/2027	9/30/2028	9/30/2029	
Time Periods				0	1	2	3	4	
Sales Growth		31%	33%	33.0%	30.0%	28.0%	25.0%	22.0%	
Sales	1,187,143	1,560,699	2,082,526	2,769,759.58	3,600,687.45	4,608,079.94	5,761,099.93	7,029,541.91	
Less: COGS	461,030	605,245	841,146	1,163,299.02	1,512,288.73	1,935,729.58	2,419,661.97	2,881,702.18	
Less: SG&A	399,330	494,884	741,247	886,323.07	1,152,219.99	1,474,841.58	1,843,551.98	2,249,133.41	
Less: R&D	233,810	303,719	441,593	581,649.51	756,144.37	875,687.19	979,386.99	1,054,281.29	
Less: D&A	23,116	19,315	48,425	27,697.60	36,006.67	46,088.80	57,611.00	70,285.42	
EBIT	92,973	156,850	58,540	110,790	144,027	276,533	460,888	773,140	
Less: Cash Taxes	49,308	(18,722)	4,470	26,036	33,846	64,985	108,309	181,688	
Plus: D&A	23,116	19,315	48,425	27,698	36,007	46,089	57,611	70,285	
Less: Capex	72,688	124,818	72,688	110,790	144,027	184,365	230,444	281,142	
Less: Changes in NWC	-	(157)	(2,887)	4,300	2,000	1,200	1,000	1,000	
Unlevered FCF	-	-	-	(2,638)	160	72,081	178,746	379,596	
Transaction CF	-	-	-	(2,638)	160	72,081	178,746	379,596	

Intrinsic Value	
Enterprise Value	4,770,842.93
Plus: Excess Cash	986,349
Less: Debt	721,672
Equity Value	5,035,520

Estimated share price 633.90

Rate of Return	
Target Price Upside/Downside	12%

Market Value vs Intrinsic Value	
Market Value	567.93
Upside	65.97
Intrinsic Value	633.90



COMPANY SUMMARY

Newmont is mispriced as a cyclical miner, with declining capital intensity and balance sheet strength driving upside.

NEM is the world's largest gold mining company by reserve base, controlling 134.1 million ounces of gold reserves as of 2024. The company operates a vast portfolio of Tier 1 assets across North and South America, Australia, and Africa. NEM also produces by-products including copper, silver, lead and zinc which account for ~10% of their revenues. Management is currently undergoing change as the current CEO has announced he will step down at the end of the year. They also announced a share buyback program to be financed by their divestitures, which are expedited to make them ~\$3 Billion after tax.

INVESTMENT THESIS

NEM Is Quietly Becoming a Free Cash Flow Utility, Not a Cyclical Miner

The market continues to value NEM as a cyclical, capital intensive gold producer even though it is shifting towards a lower reinvestment phase. NEM trades at ~6.3x forward EV/EBITDA, versus a historical EV/EBITDA range of 8x-9x when gold prices were significantly lower and capital intensity was higher, meaning EBITDA is weaker than it is today (Figure 1). The current multiple implies either a permanent elevation in reinvestment needs or a sharp decline in gold prices, neither of which is likely given the documented decline in growth capital spending and improving cash flow conversion. Growth CapEx is expected to decline following the completion of large scale projects such as Tanami Expansion 2 and Ahafo North. Management has confirmed that both projects are exiting peak spend and are transitioning into steady operations, reducing CapEx spend. While Newmont does not provide a single headline figure for growth CapEx roll-off, the company has guided to a material reduction in project spending as these assets move from construction to production. This directly increases the amount of EBITDA which converts to FCF without requiring production increases or gold price increases. Despite this improvement in cash flows, NEM trades at a forward FCF yield of ~12%. For a company with long life tier one assets and declining CapEx, and improving EBITDA to FCF conversion (Figure 2), this yield implies that the market discounts its cash flows as temporary and volatile. This assumption is inconsistent with management guidance that emphasizes a transition from capital deployment to cash generation, as well as FCF projections that show sustained cash generation rather than just short-term spikes. Other large cap diversified miners with lower reserve quality and higher geopolitical risk typically trade ~8%-10% FCF yield. NEM's higher yield does not reflect weaker assets or balance sheet stress, but rather a market that has not adjusted for NEM's shift from build phase to harvest phase. If EBITDA stabilizes while EV remains at ~6x-7x multiple, FCF will exceed what the current valuation implies. Even if there is a re-rating back to NEM's historical 8x EV/EBITDA, it would represent meaningful upside without requiring an increase in gold prices.

Margins Are Structurally Higher Than the Market Assumes

The market is anchoring NEM's margins to a period of peak cost pressure, but the numerical drivers of margin compression are temporary and already reversing. NEM's all-in sustaining costs (AISC) are currently at ~\$1,500-\$1,600 per oz, which is compared to a per inflation cost that was closer to \$1,000-\$1,100 per oz (Figure 3). The increase was driven mainly by diesel, labor, and consumable rather than mine quality of declining grades. According to industry reports, Diesel alone can make up to 10%-15% of site operating costs for open pit operations, meaning the rise in prices has a disproportionate impact on margins. At a gold price of ~\$3,800, a \$100 per oz reduction in AISC increases operating margin by ~5%-7% (Figure 4), depending on the starting cost base. This margin sensitivity is not reflected in current expectations, which implicitly assume that costs remain at the current near peak levels.

Management also says that inefficiencies related to construction overlap reduced their throughput and increased unit costs. These inefficiencies are not recurring. As NEM's construction activity subsides, their throughput will normalize and their fixed costs will be spread across higher volumes, reducing unit costs and lifting operating margins. The market is pricing NEM as if its margin floor has been permanently locked at its trough levels. With gold prices at ~\$3815 per oz, even a modest normalization of AISC creates operating margins that are higher than those experienced during the peak. Margins are constrained by a cost shock and not by anything structural like geology or asset quality, as that shock fades, per oz margins should normalize.

UFA RECOMMENDATION

I recommend a **long** position in NEM with a \$108.53 target price, implying ~28% upside from \$84.54.

Rating: **Buy**

Current Price: \$84.54

Target Price: \$108.53

KEY STATISTICS

Market Cap: \$92,255.12 Million

Beta (5Y): 0.49

EPS: 1.67

PE Ratio: 13.07

52wk Price Range: \$36.86-\$87.93

FUNDAMENTALS

Total Debt to Equity: 17.01%

Current Ratio: 2.04

PEG Ratio: 0.03

EBITDA Margin: 55.77%

Net Margin: 33.82%

Net Debt to EBITDA: -0.03x

GRAPHS & ANALYSIS

Figure 1

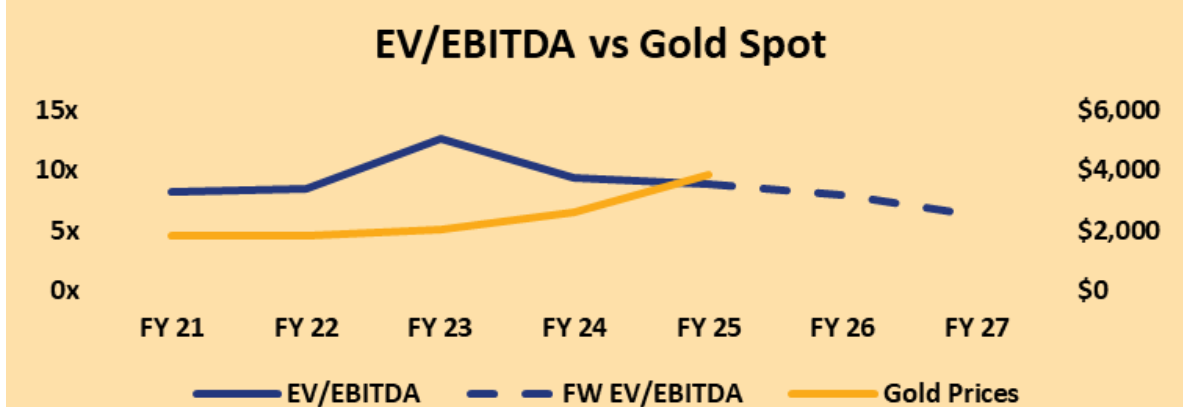


Figure 2

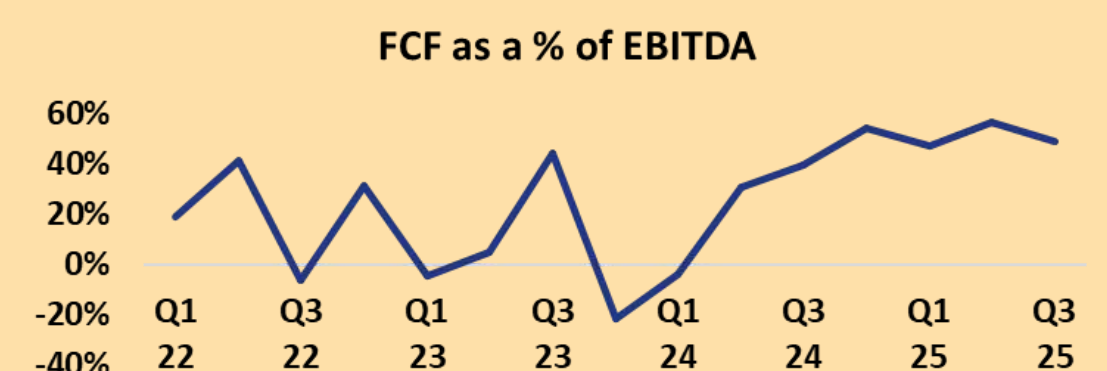


Figure 3

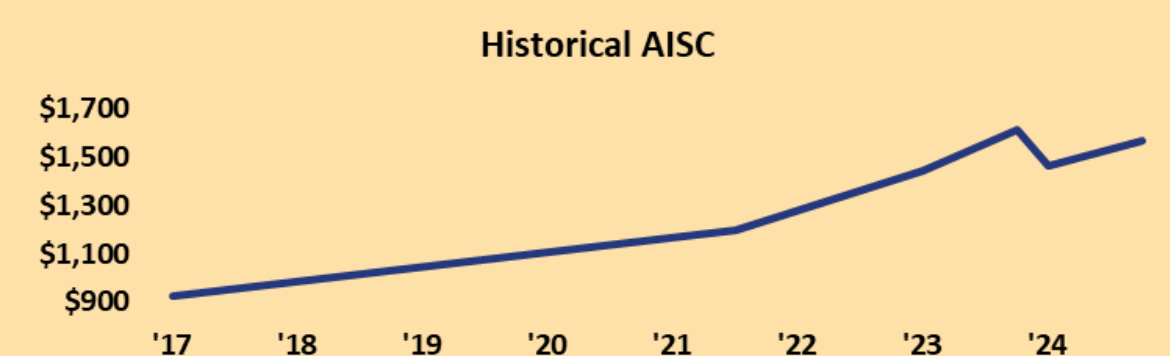


Figure 4

		AISC				
		\$1,150	\$1,250	\$1,350	\$1,450	\$1,550
Gold Spot	\$4,015	71.36%	64.86%	59.45%	52.31%	47.32%
	\$3,915	67.59%	63.47%	56.14%	49.75%	44.13%
	\$3,815	65.17%	59.29%	42.37%	38.48%	35.51%
	\$3,715	62.53%	56.32%	40.28%	37.92%	36.49%
	\$3,615	59.46%	52.16%	39.49%	35.37%	33.84%



Newmont Is Positioned to Benefit from Gold Price Volatility Through Balance Sheet Strength

The market treats NEM as a directional gold equity whose performance depends on gold prices continuing to rise. This ignores NEM’s balance sheet which allows it to limit downside in weaker price environments, while keeping the same level of upside during volatile periods. NEM has a Net Debt/EBITDA of -0.03x, meaning that they have net cash rather than net leverage. This compares to a peer median Net Debt/EBITDA of ~0.15x which indicates that most large cap gold miners carry positive leverage even in favorable price environments (Figure 5). A miner with net leverage faces balance sheet stress when gold prices fall, while a miner with net cash does not. This difference determines whether volatility results in permanent capital loss or temporary noise.

NEM has ~ \$4.4B of liquidity with \$3.3B being in cash and \$1.1B being in undrawn credit. This liquidity is sufficient to fund their interest and working capital requirements even in prolonged gold price drawdowns. As a result, during down turns, NEM doesn't have to increase leverage in response to price weakness (Figure 6).

Management commentary indicates that NEM is cash flow positive across a wide range of gold prices, with downside breakeven levels far below the current spot price. If gold trades in a volatile range rather than either higher or lower, NEM retains earnings and balance sheet flexibility each time the price rebounds, rather increasing their leverage. Over time this compounds QV even without a sustained directional move. The market undervalues this because it doesn't show up in quarterly beta. A highly levered miner may outperform in a gold rally, but will suffer capital damage during drawdowns. NEMs lower leverage means that downside scenarios are capped, while they fully capture repeated upside periods. That asymmetric payoff is underappreciated.

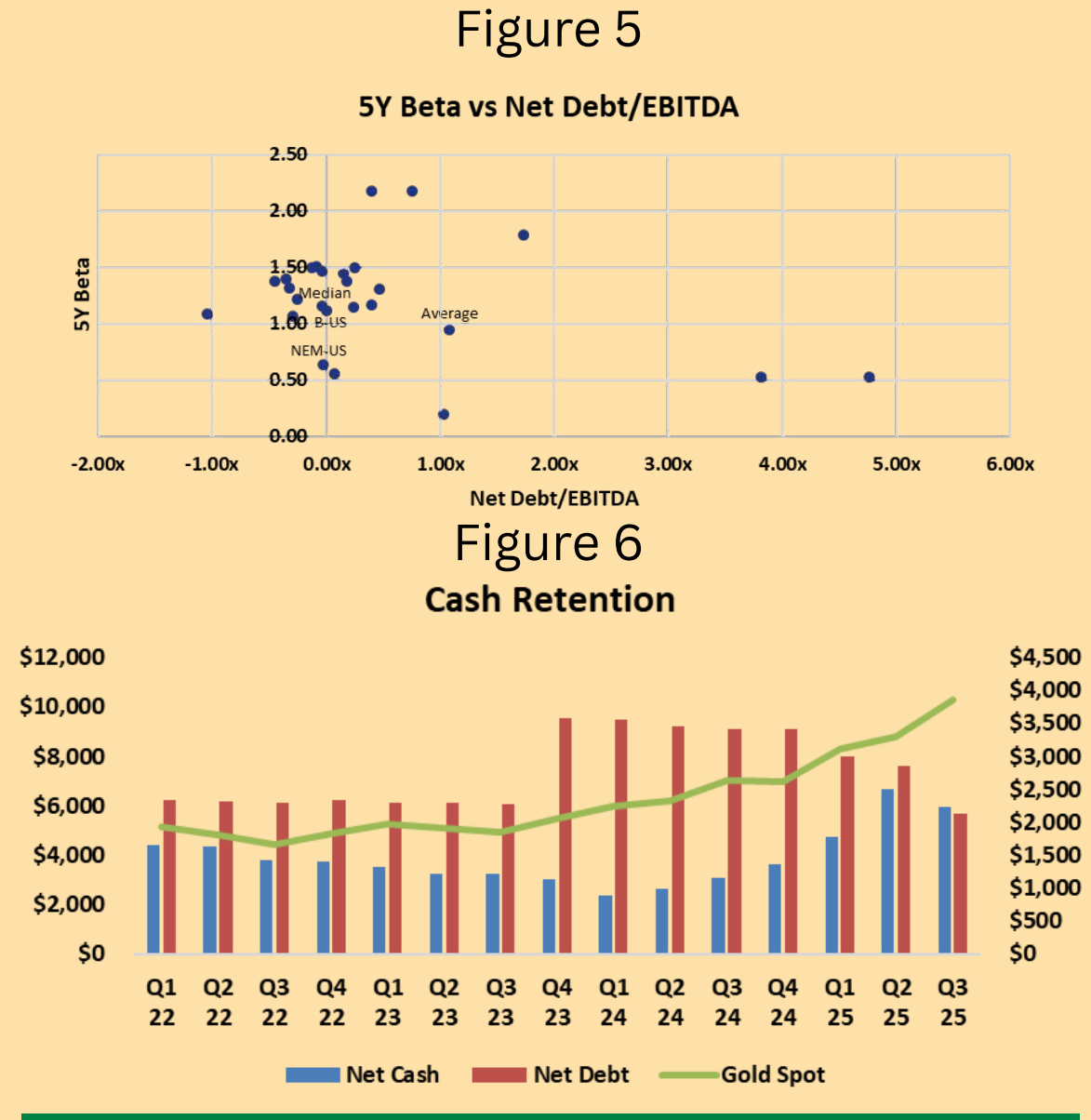
RISK ANALYSIS

Key risks are a sharp and sustained decline in gold prices, slower-than-expected capital intensity reduction, and persistent cost inflation

The primary risk is a lower gold price environment than consensus. This investment case does not require an increase in gold prices, but it does assume that gold prices remain within a range that supports EBITDA as growth CapEx decreases. A rapid or sustained decline in gold prices would compress EBITDA faster than CapEx reductions which would weaken FCF conversion.

A second risk is that growth CapEx does not decline as expected. The thesis assumes Tanami Expansion 2 and Ahafo North exit peak spend without being replaced by new large-scale projects or acquisitions. If this happens, the improvement in EBITDA to FCF conversion would be delayed which would reduce the confidence in the thesis.

A third risk is that operating costs remain high or increase. The margin normalization thesis relies on easing diesel, labor and consumable costs, as well as improved operational efficiency. If labor markets remain tight, energy prices reaccelerate, or throughput doesn't improve, AISC could remain near current levels which would limit any margin recovery even with rising gold prices. Finally the current liquidity that NEM enjoys could be diluted. If management increases leverage through M&A activity, raises dividends, or increases growth spending, it would reduce the payoff to gold volatility and make the stock perform more like a conventional unhedged directional gold miner.



COMPANY NEWS / EARNINGS TEASER

NEM approaches earnings with the balance sheet as the key variable, not gold direction. Management has emphasized financial flexibility and downside protection, so we see limited risk unless costs surprise higher or liquidity commentary weakens.

COMPETITOR ANALYSIS

NEM competes primarily with Barrick, Agnico Eagle, AngleGold Ashanti, and Gold Fields within the large-cap gold mining space. NEM and B operate the most diversified portfolios, while AEM is more concentrated in lower-risk geographies, and AU and GFI have higher exposure to emerging markets. Relative to peers, NEM is differentiated by its balance sheet strength and asset longevity rather than production growth. NEM operates with net cash and substantial liquidity, while most of its peers carry net leverage, this results in higher beta to gold prices but greater downside risk during drawdowns. The current market favors higher beta gold exposure, leaving NEM underappreciated despite its lower risk and downside protection.

VALUATION & ADDITIONAL ASSUMPTIONS

Actuals & Projections FY Ends December 31st	Actuals										Projections						
	2019A	2020A	2021A	2022A	2023A	2024A	2025E			2026E		2027E					
	FY	FY	FY	FY	FY	FY	1QA	2QA	3QA	4QE	FY	FY	FY				
	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23	Dec-24	31-Mar-25	30-Jun-25	30-Sep-25	31-Dec-25	Dec-25	Dec-26	Dec-27				
Diluted Shares Outstanding	737.0	806.0	801.0	795.0	841.0	1,148.0	1,127.0	1,112.0	1,106.9	1,101.8	1,111.9	1,096.7	1,096.7				
YoY % Chng		9.4%	(0.6%)	(0.7%)	5.8%	36.5%	(2.3%)	(3.7%)	(3.7%)	(2.9%)	(3.1%)	(1.4%)	0.0%				
Basic EPS	\$3.82	\$3.52	\$1.46	(\$0.54)	(\$2.97)	\$2.92	\$1.68	\$1.86	\$0.93	\$0.83	\$5.29	\$3.67	\$3.87				
YoY % Chng		(7.9%)	(58.5%)	(137.0%)	(450.0%)	198.3%	1,020.0%	151.4%	15.7%	(33.2%)	81.3%	(30.7%)	5.5%				
Diluted EPS, Adjusted	\$1.32	\$2.66	\$2.96	\$1.85	\$1.57	\$3.48	\$1.25	\$1.43	\$1.13	\$1.04	\$4.85	\$4.51	\$4.71				
YoY % Chng		101.5%	11.3%	(37.5%)	(15.1%)	121.7%	127.3%	98.6%	40.0%	(25.9%)	39.4%	(7.1%)	4.5%				
Diluted EPS, GAAP	\$3.81	\$3.51	\$1.46	(\$0.54)	(\$2.97)	\$2.92	\$1.68	\$1.85	\$0.92	\$0.83	\$5.28	\$3.66	\$3.86				
YoY % Chng		(7.9%)	(58.4%)	(137.0%)	(450.0%)	198.3%	1,020.0%	150.0%	15.5%	(33.3%)	80.9%	(30.7%)	5.5%				
Dividend per Share	\$0.56	\$1.04	\$2.20	\$2.20	\$1.60	\$1.00	\$0.25	\$0.25	\$0.25	\$0.25	\$1.00	\$1.00	\$1.00				
YoY % Chng		85.7%	111.5%	0.0%	(27.3%)	(37.5%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%				
Shares Repurchase			9.7	0.6	0.5	7.6	7.5	6.5	5.1	5.1	24.2	5.1	0.0				
Key Balance Sheet Metrics																	
Cash and Cash Equivalents	\$2,243.0	\$5,540.0	\$4,992.0	\$2,877.0	\$3,002.0	\$3,619.0	\$4,698.0	\$6,185.0	\$4,251.7	\$4,269.5	\$4,269.5	\$5,020.4	\$4,981.2				
Total Current Assets	\$6,272.0	\$8,505.0	\$7,698.0	\$6,515.0	\$7,512.0	\$12,275.0	\$10,740.0	\$10,399.0	\$10,449.5	\$10,054.0	\$10,054.0	\$10,334.8	\$10,618.0				
Current Assets (Non-Cash)	\$4,029.0	\$2,965.0	\$2,704.0	\$3,638.0	\$4,510.0	\$8,656.0	\$6,042.0	\$4,214.0	\$6,197.8	\$5,784.6	\$5,784.6	\$5,314.3	\$5,036.8				
Short-Term Debt	\$0.0	\$551.0	\$87.0	\$0.0	\$1,923.0	\$924.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0				
Total Current Liabilities	\$2,385.0	\$3,369.0	\$2,654.0	\$2,926.0	\$5,988.0	\$7,543.0	\$5,426.0	\$4,670.0	\$5,967.5	\$5,574.8	\$5,574.8	\$5,271.6	\$5,550.0				
Current Liabilities (Non-Debt)	\$2,385.0	\$2,818.0	\$2,567.0	\$2,926.0	\$4,075.0	\$6,619.0	\$5,426.0	\$4,670.0	\$5,967.5	\$5,574.8	\$5,574.8	\$5,271.6	\$5,550.0				
Key Cash Flow Metrics																	
Change in Working Capital		(\$1,497.0)	(\$10.0)	\$575.0	(\$277.0)	\$1,602.0	(\$1,421.0)	(\$1,072.0)	\$686.3	(\$20.5)	(\$1,827.2)	(\$167.1)	\$44.1				
Stock Based Compensation	\$97.0	\$72.0	\$72.0	\$73.0	\$80.0	\$89.0	\$21.0	\$27.0	\$21.4	\$20.5	\$89.9	\$89.6	\$89.7				
Cash Flow from Operating Activities	\$2,866.0	\$4,882.0	\$4,279.0	\$3,220.0	\$2,763.0	\$6,363.0	\$2,031.0	\$2,384.0	\$1,268.8	\$1,828.8	\$7,512.6	\$7,505.8	\$7,504.3				
Net Cash Provided by Operating Activities of Discontinued Operations	(\$10.0)	(\$8.0)	\$13.0	\$22.0	\$9.0	\$45.0	\$0.0	\$0.0	\$2.8	\$0.7	\$3.5	\$4.5	\$4.7				
Capital Expenditure	\$1,463.0	\$1,302.0	\$1,653.0	\$2,131.0	\$2,666.0	\$3,402.0	\$826.0	\$674.0	\$847.6	\$857.6	\$3,205.1	\$3,201.2	\$3,191.6				
Free Cash Flow, Calculated	\$1,403.0	\$3,580.0	\$2,626.0	\$1,089.0	\$97.0	\$2,961.0	\$1,205.0	\$1,710.0	\$421.2	\$971.2	\$4,307.5	\$4,304.6	\$4,312.6				
Free Cash Flow	\$1,413.0	\$3,588.0	\$2,613.0	\$1,067.0	\$88.0	\$2,916.0	\$1,205.0	\$1,710.0	\$418.4	\$970.5	\$4,304.0	\$4,300.0	\$4,307.9				
Free Cash Flow per Share	\$1.94	\$4.45	\$3.27	\$1.34	\$0.18	\$2.55	\$1.07	\$1.54	\$0.38	\$0.88	\$3.87	\$3.92	\$3.93				
Free Cash Flow per Share, Calculated	\$1.93	\$4.44	\$3.28	\$1.37	\$0.19	\$2.59	\$1.07	\$1.54	\$0.38	\$0.88	\$3.87	\$3.93	\$3.93				

Intrinsic Value	
Enterprise Value	\$118.27 B
Plus: Excess Cash	\$(0.32) B
Less: Debt	\$5.65 B
Equity Value	\$118.59 B
Est. Share Price	\$108.53
Rate of Return	
Upside/Downside	28.40%
Market Vs Intrinsic Value	
Market Value	\$84.54
Upside	\$23.99
Intrinsic Value	\$108.53



COMPANY SUMMARY

Cleveland-Cliffs' near-term outlook is shaped more by cyclical pressure and leverage than by scale or market position.

Cleveland-Cliffs is the largest flat-rolled steel and iron-ore pellet producer in North America. They control a vertically integrated chain spanning from iron ore mines in Minnesota and Michigan, pellet operation, HBI production, and downstream finishing facilities. CLF shipped ~4.03M net tons of steel in Q325 and generated \$4.7B in revenue, up ~3% YoY. However, with weak steel demand and cost pressures, full-year EBITDA is expected to miss guidance. The company also has a heavy debt load of ~8.0B, with only \$66M in cash, management has cut FY25 capex and SG&A to preserve liquidity.

INVESTMENT THESIS

Retail-Driven Overreaction Has Inflated the Valuation Beyond Fundamentals

The recent surge in CLF's price has been driven by narratives rather than any real change in fundamentals. The move was caused by three headlines: the announcement of a MOU with POSCO for their reshoring efforts, a \$400 Million DOD-related GOES deal, and potential rare-earth mineralization at select mining sites (Figure 1). While POSCO's name adds credibility to the agreement, its economic substance is limited at this moment. The details are insufficient to underwrite value, as there is no confirmed structure around capital injection, offtake pricing, margins, or timing. It is likely that any potential benefit from this deal would materialize well beyond the near-term horizon. This same disconnect applies to the other rally drivers. The DOD GOES agreement is only marginally accretive to earnings, given its small volume and limited impact on CLF's cost structure and utilization. Likewise, the rare-earth exploration angle has not yet been proven commercially viable, and would likely take years, if it occurs at all. These factors support short-term sentiment and retail participation, but they do not change CLF's near-term EBITDA trajectory or balance-sheet constraints.

What makes this an asymmetric setup is that this sentiment-driven repricing has occurred alongside multiple compression risks. Post rally, CLF is effectively trading at ~9-10x 2026 EV/EBITDA, compared to the 3-year historical range of ~6-7x, which is baffling as the near-term fundamentals are deteriorating (Figure 2). Q4 steel pricing is expected to decline by \$20-\$30 per ton QoQ, while shipments and costs are guided to remain flat. In an industry with such tight margins and high leverage, price declines pressure margins. The market is assigning CLF a forward multiple that (1) assumes a clean steel pricing recovery, (2) successful execution and monetization of the POSCO MOU, and (3) upside from defense and rare-earth initiatives, before any of these outcomes are visible in earnings or cash flow. If even one of these expectations fails to materialize, the current valuation premium has little fundamental support.

Structural Cost Pressure and Balance Sheet Strain Limit Upside Even in a Better Steel Environment

Even if the steel macro shows modest improvement, CLF's upside remains capped by cost pressure, weak volume, and a constrained balance sheet. At the operating level, the company is facing flat shipment volumes and a challenging automotive end market. Given that ~40% of CLF's steel production is tied to autos this is quite critical. The recent strength in auto shipments is temporary, and a result of stockpiling caused by tariffs. Looking ahead, industry forecasts point to contractions in North American light-vehicle production into FY25-26 (Figure 3). That matters because auto contracts are central to a CLF margin recovery narrative and if build rates soften or OEM downtime increases, margin uplift will not materialize. On the cost side, CLF still faces structural problems. Management is targeting ~\$50/ton in steel cost reduction and has achieved some defensive asset-optimization savings. This helps stabilize CLF's margins but does not fundamentally change CLF's cost curve, especially in a falling price environment. Q4 shipments and costs are guided to remain flat, meaning that any decline in HRC pricing flows directly to EBITDA pressure (Figure 4). Industrial and construction demand remains soft and CLF enters this period with ~\$8billion of LT debt, a D/C ratio of ~58%, and a negative TIE ratio. While headline liquidity looks healthy at ~\$3.1B, the majority of the number comes from underdrawn revolver capacity rather than cash. This leverage limits CLF's flexibility as capital must be prioritized toward debt reduction and maintenance capex rather than growth.

UFA RECOMMENDATION

I recommend a **short** position in CLF with a \$10.76 target price, implying ~17% downside from \$12.92.

Rating: **Sell**

Current Price: \$12.92

Target Price: \$10.76

KEY STATISTICS

Market Cap: \$7,263.77 Million

Beta: 1.99

EPS: -.450

PE Ratio: -3.75

52wk Price Range: \$5.63-\$16.70

FUNDAMENTALS

Total Debt to Equity: 147.07%

Current Ratio: 2.04

PEG Ratio: -12.5

EBITDA Margin: -1.01%

Net Margin: -7.67%

EBIT/Interest Expense: -2.43

GRAPHS & ANALYSIS

Figure 1

CLF Catalysts

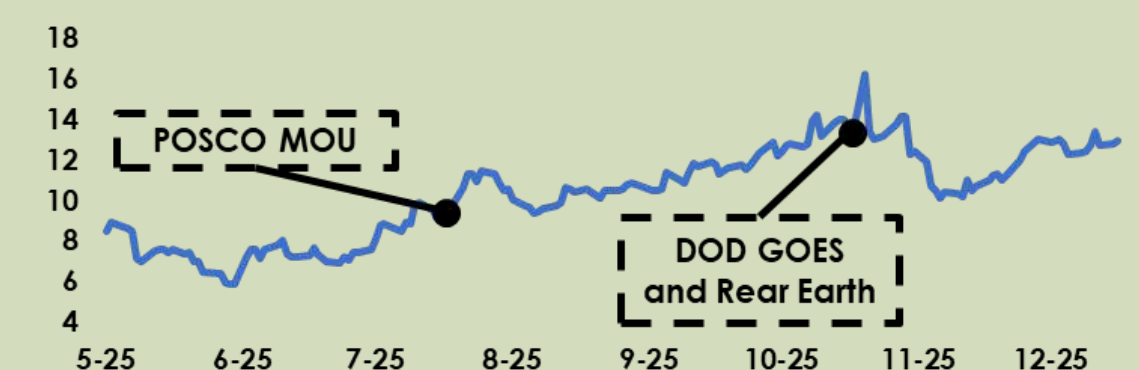


Figure 2

1-3 Year EV/EBITDA

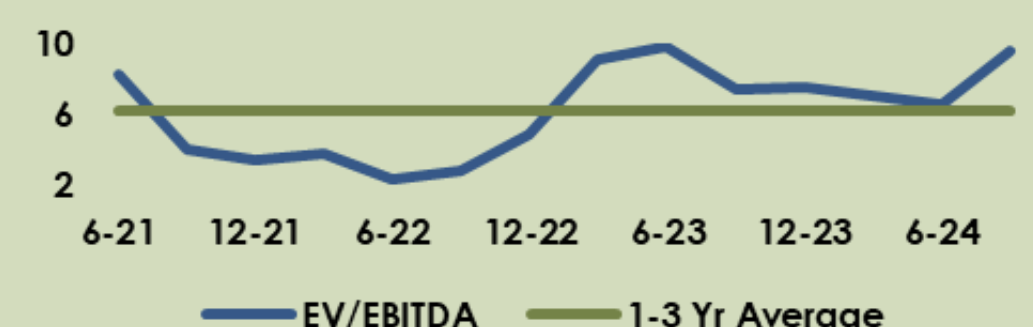


Figure 3

North American Light Vehicle Production (Millions of Vehicles)

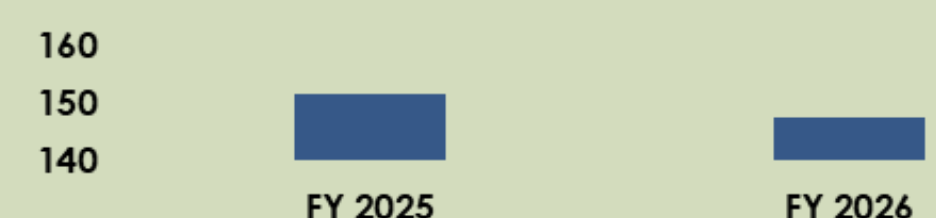
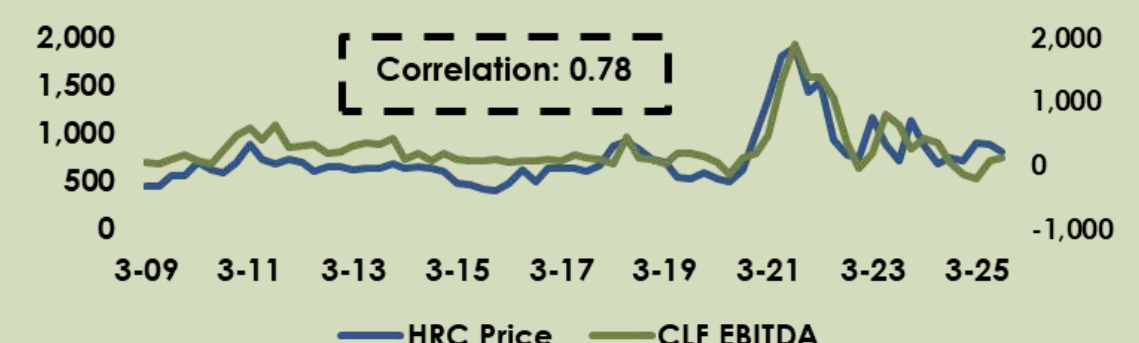


Figure 4

Quarterly HRC Price vs CLF EBITDA





The Flat Rolled EAF Capacity Wave is Underpriced in Timing and Competitive Impact

The market is broadly aware that new U.S. capacity is coming, but it is not fully pricing the near-term ramp risk and the pricing behavior that follows. Over the next 18 to 30 months, North America is effectively absorbing ~4.5 million more tons/year of incremental flat-rolled EAF capacity from two major projects alone: Nucor’s West Virginia sheet mill (~3M tons/year, targeted for 2027) and Arcelor Mittal’s Calvert EAF melt shop (~1.5M tons/year, ramping through 2026). This new supply will directly overlap with CLF’s core flat-rolled exposure, and Calvert has explicitly framed the site as capable of producing high-quality steels “including automotive” and Nucor’s project will step-up their capacity by 25% (Figure 5). CLF is in a bad position here because the incremental supply is meaningful relative to CLF’s own volume and because CLF’s cost structure is less able to absorb pricing pressure during ramps. CLF is expected to ship 16.7M net tons of steel this year , with flat-rolled steel representing 54% of that. ~4.5M tons/year of new flat-rolled capacity equates to ~50% of CLFs run-rate. Where this starts to really trouble CLF is in pricing behavior. New EAF sheet mills have powerful incentives to protect utilization as they ramp, which often means competing harder on price if demand isn't where they want it. By contrast, CLF, runs a footprint that is still blast-furnace integrated, which comes with high fixed costs and less ability to flex production, which is a risk the company itself flags in its 2024 Annual Report (Figure 6). That structural disadvantage is compounded by CLF’s contract mix. ~30-35% of their volumes come from fixed price contracts, which hedges against downside, but also makes it harder to fully reprice upward or respond when competitors start lowering prices. If incremental EAF supply forces price to move, CLF’s higher fixed-cost base and heavier sheet concentration reduce its competitive power and make its earnings more sensitive to price pressure.

RISK ANALYSIS

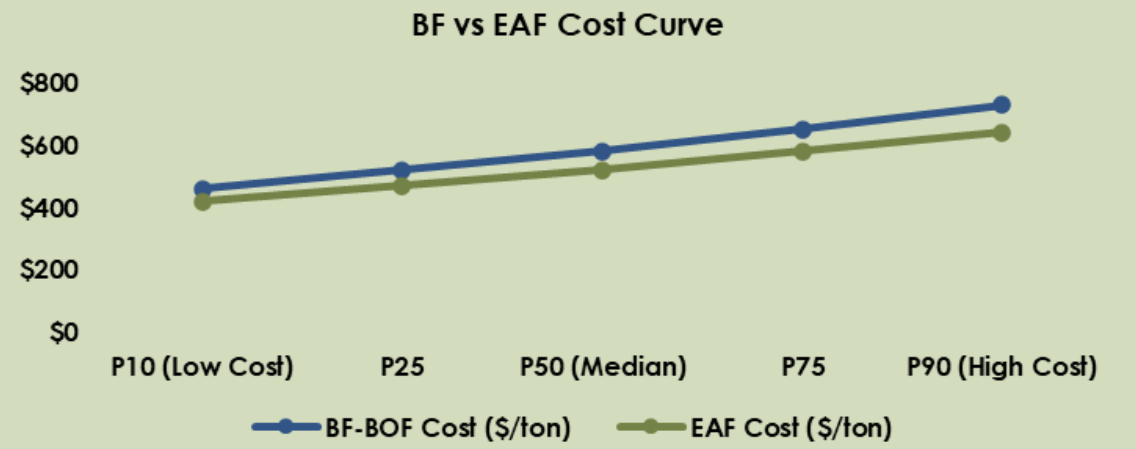
Key risks are stronger pricing, execution upside, and auto demand recovery.

The primary risk to the short thesis is a more durable steel pricing environment than currently expected. Given CLFs high operating leverage, upside in benchmark HRC pricing would flow directly to EBITDA and free cash flow. This risk is heightened by the potential for tighter domestic supply conditions, whether they be tariff driven or by improved demand. Any operational issues at competing US steel producers like plant outages could tighten supply and lift spot pricing. In this scenario relative rather than intrinsic value would dominate behavior and move against the short. A second major risk is that improved CLF execution materializes. The POSCO MOU could evolve into a joint venture, offtake arrangement, or utilization partnership that improves margins. At the same time their vertically integrated platform built through AK Steel, ArcelorMittal USA, FPT, and Stelco creates the potential for margin stabilization. If targeted cost reductions are fully realized and synergy capture exceeds expectations, CLF could generate EBITDA growth without strong steel tape. A third risk is stronger than expected auto demand, with ~40% of CLFs shipments tied to autos, a rebound in North American vehicle production, improved OEM pricing power, or normalization of inventories could lift volumes. Such a recovery would support margins and weaken the case that flat-rolled capacity additions will pressure CLF’s earnings trajectory.

Figure 5

Producer	Flat-Rolled	Coated Steel	Automotive-Grade
Cleveland-Cliffs	✓✓✓	✓✓✓	✓✓✓
Nucor (West Virginia)	✓✓	✓✓	✓
ArcelorMittal (Calvert)	✓✓✓	✓✓✓	✓✓

Figure 6



COMPANY NEWS / EARNINGS TEASER

CLF heads into the next earnings report with limited margin for error as weakening macro and soft auto demand pressure EBITDA. Management has guided for stability, so we see downside risk if pricing or auto volumes disappoint.

COMPETITOR ANALYSIS

CLF competes primarily with Nucor, Steel Dynamics, U.S. Steel, and Commercial Metals, with CLF and U.S. Steel focus on flat-rolled steel while Nucor SDI, and CMC are EAF-based and offer a range of products, CLF is concentrated in automotive and high-value flat-rolled grades, whereas Nucor and SDI are more diversified across flat and long products, and CMC is concentrated in rebar and infrastructure. Relative to peers, CLFs model benefits from vertical integration but carries higher fixed costs and lower margins, with their leverage and capital intensity being more comparable to U.S Steel than to Nucor or SDI. Overall CLF differentiates based on auto dominance and raw material control, but peers like Nucor and SDI do better on costs, balance sheet strength, and margin stability.

VALUATION & ADDITIONAL ASSUMPTIONS

Actuals & Projections FY Ends December 31st	Actuals								Projections									
	2018A	2019A	2020A	2021A	2022A	2023A	2024A	2025E			2026E		2027E	2028E	2029E	2030E		
	FY	FY	FY	FY	FY	FY	FY	1Q4	2Q4	3Q4	4Q4	FY	FY	FY	FY	FY		
	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23	Dec-24	31-Mar-25	30-Jun-25	30-Sep-25	31-Dec-25	Dec-25	Dec-26	Dec-27	Dec-27	Dec-27		
YoY % Chng							(0.7%)											
As % of Total Revenues						(0.1%)	(0.1%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%		
Severance								\$0.0	(\$19.0)	(\$5.0)	(\$5.0)	(\$29.0)	(\$20.0)	(\$20.0)	(\$20.0)	(\$20.0)		
YoY % Chng									(1,600.0%)	50.0%		31.0%	0.0%	0.0%	0.0%	0.0%		
As % of Total Revenues								0.0%	(0.4%)	(0.1%)	(0.1%)	(0.2%)	(0.1%)	(0.1%)	(0.1%)	(0.1%)		
Other, Net	(\$122.6)	(\$10.0)	(\$185.0)	(\$224.0)	(\$58.0)	\$6.0	(\$60.0)	(\$6.0)	(\$3.0)	(\$5.0)	(\$35.9)	(\$49.9)	(\$107.7)	(\$44.7)	\$61.5	\$190.4		
YoY % Chng		21.8%	(1,750.0%)	(21.1%)	74.1%	110.3%	(1,100.0%)	(50.0%)		78.3%	(8.7%)	(15.0%)	(115.9%)	(6.5%)	237.5%	200.7%		
As % of Total Revenues	(5.3%)	(0.3%)	(3.5%)	(1.1%)	(0.3%)	0.0%	(0.3%)	(0.1%)	(0.1%)	(0.1%)	(0.8%)	(0.3%)	(0.5%)	(0.2%)	0.3%	0.8%		
Projection Basis											(0.6%)							
Adjusted EBITDA	\$766.3	\$525.0	\$353.0	\$5,277.0	\$3,169.0	\$1,911.0	\$780.0	(\$179.0)	\$94.0	\$143.0	\$126.9	\$184.9	\$1,238.9	\$1,880.6	\$2,695.8	\$3,624.1	\$4,811.7	
Key Balance Sheet Metrics																		
Cash and Cash Equivalents	\$823.2	\$352.6	\$112.0	\$48.0	\$26.0	\$196.0	\$54.0	\$57.0	\$61.0	\$66.0	\$59.9	\$59.9	\$62.3	\$66.6	\$72.2	\$79.9	\$90.8	
Total Current Assets	\$1,479.6	\$897.9	\$5,298.0	\$7,653.0	\$7,422.0	\$6,636.0	\$6,907.0	\$6,964.0	\$6,687.0	\$6,689.0	\$6,710.1	\$6,710.1	\$6,573.3	\$6,872.7	\$7,310.1	\$7,933.3	\$8,843.5	
Current Assets (Non-Cash)	\$656.4	\$545.3	\$5,180.0	\$7,605.0	\$7,396.0	\$6,438.0	\$6,853.0	\$6,907.0	\$6,626.0	\$6,623.0	\$6,650.1	\$6,650.1	\$6,511.1	\$6,806.1	\$7,237.9	\$7,853.4	\$8,752.7	
Total Current Liabilities	\$468.2	\$409.4	\$2,929.0	\$3,561.0	\$3,549.0	\$3,508.0	\$3,361.0	\$3,266.0	\$3,277.0	\$3,280.0	\$3,259.9	\$3,259.9	\$3,269.1	\$3,518.4	\$3,865.7	\$4,336.9	\$4,998.9	
Current Liabilities (Non-Debt)	\$468.2	\$409.4	\$2,929.0	\$3,561.0	\$3,549.0	\$3,508.0	\$3,361.0	\$3,266.0	\$3,277.0	\$3,280.0	\$3,259.9	\$3,259.9	\$3,269.1	\$3,518.4	\$3,865.7	\$4,336.9	\$4,998.9	
Key Cash Flow Metrics																		
Change in Working Capital		(\$52.3)	\$2,121.1	\$1,787.0	(\$197.0)	(\$917.0)	\$562.0	\$149.0	(\$292.0)	(\$6.0)	\$47.3	(\$101.7)	(\$148.3)	\$45.8	\$64.4	\$144.4	\$237.2	
Cash Flow from Operating Activities	\$478.5	\$562.5	(\$258.0)	\$2,785.0	\$2,423.0	\$2,267.0	\$105.0	(\$351.0)	\$45.0	(\$143.0)	\$75.5	(\$373.5)	\$1,240.1	\$1,581.2	\$2,257.1	\$2,997.7	\$3,939.8	
Capital Expenditure	\$208.6	\$656.0	\$525.0	\$706.0	\$943.0	\$946.0	\$695.0	\$152.0	\$112.0	\$157.0	\$104.3	\$525.3	\$523.7	\$523.0	\$520.9	\$524.4	\$537.6	
Free Cash Flow	\$269.9	(\$93.5)	(\$783.0)	\$2,080.0	\$1,480.0	\$1,621.0	(\$590.0)	(\$503.0)	(\$67.0)	(\$300.0)	(\$28.8)	(\$898.8)	\$716.4	\$1,058.1	\$1,736.1	\$2,473.3	\$3,402.1	
PV of FCF												(\$812.66)	\$716.40	\$1,058.14	\$1,736.13	\$2,473.35	\$3,402.13	
TV																	33700.12	
PV of TV																	20365.8	
EV																	\$9,386.14	
+cash																	\$72.2	
-debt																	\$3,259.9	
QV																	6,198.471	
FDSO																	575.85	
Implied Share Price																	10.76441	

Intrinsic Value

Enterprise Value	\$9386.14 MM
Plus: Excess	\$72.20 MM
Less: Debt	\$3259.9 MM
Equity Value	6189.47 MM
Est. Share Price	\$10.76

Rate of Return

Upside/Downsid	-16.70%
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Market Vs Intrinsic Value

Market Value	\$12.52
Downside	-\$1.76
Intrinsic Value	\$10.76