December 11, 2017

ANALYSTS' BEST PICKS FOR 2018

Alaska Air Group, Inc.
(ALK:NYSE)

Alibaba Group Holding Ltd.
(BABA:NYSE)

Becton, Dickinson and Company
(BDX:NYSE)

Broadcom Limited
(AVGO:NASDAQ)

Continental Resources Inc.
(CLR:NYSE)

Dollar Tree, Inc.
(DLTR:NASDAQ)

Fastenal Company
(FAST:NASDAQ)

First Horizon National Corporation
(FHN:NYSE)

FLIR Systems, Inc.
(FLIR:NASDAQ)

ICU Medical, Inc.
(ICUI:NASDAQ)

The Progressive Corporation
(PGR:NYSE)

ProPetro Holding Corp.
(PUMP:NYSE)

ServiceNow, Inc.
(NOW:NYSE)

SS&C Technologies Holdings, Inc.
(SSNC:NASDAQ)

SVB Financial Group
(SIVB:NASDAQ)

UnitedHealth Group Incorporated
(UNH:NYSE)

Weyerhaeuser Company
(WY:NYSE)

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Company Overviews

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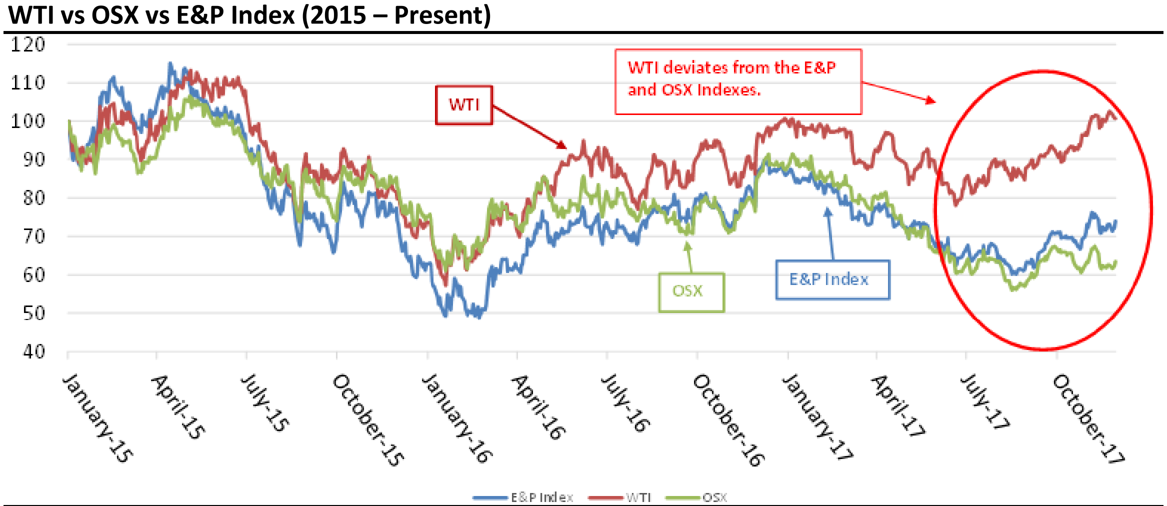
December 11, 2017

Dear Investors,

We are pleased to present Raymond James' 23rd annual *Analysts' Best Picks®* list – ABP18. This annual list is a focused, static selection of stocks with an objective to produce above-average price appreciation over the next year. The list's long-term record is good, outperforming the S&P 500 in 17 of the last 22 years. Over the past five years, the ABP list returned a simple average of 17.9% annually, compared with an average total return of 16.8% for the S&P 500. Since its inception in 1996, the ABP list has produced an average annual return of 27.6% (not compounded) versus 11.9% for the S&P 500, as shown on page 5.

2017 has been a more challenging year for the ABP list. The list has thus far returned 9.5%, but lags the 19.7% return of the S&P 500, as we write. Only seven of 17 stocks are outpacing the index since the list's pricing on December 9, 2016. An overweight in the Energy sector has been the primary culprit and accounts for the vast majority of the relative underperformance. That overweight was predicated on our energy team's bullish forecast for 2017 oil prices. Interestingly, oil prices have staged a sharp recovery in recent weeks, and Raymond James' bullish mid-year forecast for $60 oil is now within reach. Equally interesting is the fact that energy equities haven't followed suit. Normally, energy stocks closely track the price of oil. More recently, that relationship has decoupled, as shown in the figure below. A resumption of that long-term correlation would be a welcome assist before year end.

WTI vs OSX vs E&P Index (2015 – Present)



Source: Raymond James research, FactSet, Bloomberg As of 12/8/17

The Best Picks selection process first screens eligible analysts based on experience and stock rating accuracy, as measured by Thomson Reuters StarMine. Analysts meeting the criteria are then invited to propose one name. As in all previous ABP selections, company fundamentals, growth prospects, downside risks, and liquidity are taken into account, along with the analyst's view of management's ability to execute on investor expectations. This process has typically resulted in reasonably balanced lists with respect to broad industry exposure and other characteristics.

A brief discussion of each of the 17 selections comprising the *Analysts' Best Picks® for 2018* is presented on pages 9-25 of this publication. As always, all of the ABP18 selections currently carry a Strong Buy rating. These selections will remain on the list until December 31, 2018, unless the company is acquired or delisted and no longer trades publicly.

The process of identifying stocks likely to outperform over the next year was once again challenging. Optimism surrounding tax reform has pushed market indices to all-time highs in a short period of time and caused many recommendations to approach published price targets. While tax reform has provided a tailwind, we note several concerns regarding potential headwinds, including: the near hyperbolic move in equities coupled with the absence of a material correction; a widely expected rise in interest rates as the Fed reduces its balance sheet and remains in a tightening mode; the recent flattening of the yield curve; and the rotation away from growth toward value and cyclical. While potentially healthy for lagging sectors of the market, this could presage a more material change in investor sentiment.

Dr. Scott Brown, Raymond James' Chief Economist, has a broader discussion of the macroeconomic outlook on page 6, including his insights on the U.S. economy, Fed policy, and some of the associated risks requiring navigation during 2018. Comments from Eric Yates of Equity Structured Products also follow and discuss why the 2018 *Analysts' Best Picks®* equity-linked notes are a very efficient way to invest in the entire list.

Robert P. Anastasi, CFA, Chm., Global Equity Research

Brian G. Alexander, CFA, Senior Managing Director, Director of Equity Research

Shawn Borgeson, Managing Director, Product Development

Bryan C. Elliott, CFA, Senior Supervisory Analyst

Best Picks Performance Record

Year	Best Picks List [a]	S&P 500 [f]	Excess Return
1996	37.2%	22.6%	14.7%
1997	53.5	37.1	16.4
1998	38.9	30.8	8.2
1999	143.9	25.4	118.6
2000	46.9	-4.8	51.7
2001	11.6	-15.0	26.6
2002	-0.6	-22.7	22.2
2003	37.2	24.3	12.9
2004	27.7	14.9	12.9
2005	17.2	7.1	10.1
2006	5.9	14.9	-9.0
2007	30.5	6.2	24.2
2008	-35.0	-38.6	3.5
2009	62.5	35.4	27.1
2010	31.2	16.8	14.4
2011	0.5	5.3	-4.8
2012	9.5	18.3	-8.9
2013	49.3	33.7	15.6
2014	13.1	17.9	-4.8
2015	4.6	0.9	3.7
2016	12.8	11.8	1.0
2017 [b]	9.5	19.7	-10.2
5 Yr. Avg. [c]	17.9	16.8	1.1
10 Yr. Avg. [d]	15.8	12.1	3.7
22 Yr. Avg. [e]	27.6	11.9	15.7

a. Total returns are shown as if an equal dollar allocation was made to each stock at the December pricing date and held until 12/31 of the following year.

b. ABP 2017 and S&P 500 performance reflect total return through the close of 12/8/17.

c. Simple average of returns for 2013 through 2017.

d. Simple average of returns for 2008 through 2017.

e. Inception (1996) simple average of returns through the close of 12/8/17.

f. S&P total return with dividends reinvested over the same time periods as ABP inception and liquidation periods. Source: Bloomberg LLC

Since 1996 a total of 268 stocks have been recommended through the Analysts' Best Picks® list. Of this total, 175 advanced (65%) and 93 declined (35%) within the recommended holding period. The holding period for each year's list is approximately 55 weeks from the inception date to 12/31 of the following year.

Annual results are before commissions or fees. The results presented should not and cannot be viewed as an indicator of future performance. Individual results will vary and transaction costs related to investing in these stocks will affect overall performance. There is no assurance that the list will achieve the results expected and investors may incur profits or losses. The performance returns in 1999 were extraordinary and it is unlikely that these unrealistically high returns will be repeated. The S&P is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market. A complete list of all Analysts' Best Picks® since 1996 is available upon request.

Economic Outlook for 2018
A Positive View, but New Uncertainties

The economic fundamentals remained in good shape in 2017, with most sectors closing out the year with positive momentum. The job market has remained strong, helping to fuel growth in consumer spending and residential homebuilding. Business fixed investment has strengthened, reflecting a rebound in energy exploration and increased business confidence. The global economy has been picking up as well, supporting U.S. exports. While the near-term outlook for the U.S. economy is rosy, there are some key uncertainties in the outlook. Personnel changes at the Federal Reserve shouldn't disrupt the course of monetary policy in the near term, but the picture is cloudier beyond the middle of 2018. Not much usually happens in Washington during an election year, but we could see a misstep on trade policy, and the Mueller investigation could be a wildcard for investors. Still, there are few signs of the types of excesses that would normally lead to a recession.

The workforce is projected to expand at a fraction of the pace of a few decades ago, when the baby-boom generation entered and female labor force participation was on the rise. Currently, nonfarm payroll growth of a little less than 100,000 per month would be consistent with the growth in the working-age population. We have been operating well beyond that as the slack generated from the financial crisis has been taken up. The unemployment rate has continued to decline. Involuntary part-time employment has been trending lower. There may be more remaining slack than we think, but eventually labor market constraints will become binding.

Labor productivity (output per worker) is the other key factor in the economic outlook. Faster productivity growth would help to offset some of the impact of slower labor force growth. Productivity growth has been weak over the last several years, partly reflecting slower capital spending following the financial crisis. Business fixed investment had begun to trend higher in the middle of 2016, but was boosted further following the presidential election. Capital spending and faster productivity growth have also been observed outside of the U.S. Tighter labor markets ought to lead to more efficient use of labor. Hence, GDP growth could remain moderately strong as labor market constraints begin to pinch.

Consumer spending accounts for nearly 70% of Gross Domestic Product. Job and wage growth have been supportive, but average inflation-adjusted wage growth has been lackluster. That largely reflects an increase in gasoline prices over the last year. In addition, higher rents and healthcare costs have restrained household budgets.

Business fixed investment picked up in 2017. Some of the improvement over the last year may have been in anticipation of a lowering of corporate tax rates or reductions in regulations. Firms have generally been flush with cash and borrowing costs have been low in recent years.

Monetary policymakers will likely face a challenging environment in 2018. Economic growth is good, but the Federal Reserve risks higher inflation as labor market constraints become binding. Personnel changes should not be disruptive to the near-term policy track. Increases in short-term interest rates should remain gradual and data-dependent. However, the outlook is more uncertain beyond the middle of next year. Financial market participants have traditionally focused on monetary policy, but changes in the regulation of the financial system will likely overshadow what happens to short-term rates.

After April, the current economic expansion will be the second longest on record. The likelihood of an economic contraction does not depend on the length of the expansion. Typically, the Fed waits too long to tighten policy or doesn't tighten rapidly enough. The economy overheats. The Fed continues to tighten and a correction follows. Hence, market participants should focus on the job market, wage growth, and the Fed's response in 2018.

Scott Brown, Ph.D.
Chief Economist

Equity-Linked Notes

Raymond James is again pleased to have offered an equity-linked note designed to provide our retail clients a vehicle to invest in the names on the *Analysts' Best Picks®* (ABP) report published by our Equity Research department. This year we created two distinct notes, one issued in conjunction with the release of the list to the public in December and a second one approximately one month later. Additionally, this coming year we are offering two versions of each note, one for commission accounts and one for fee-based accounts. The notes are structured to offer clients the ability to invest in the ideas in a more efficient manner than purchasing each individual stock*. The following paragraphs review the performance of the notes through December 7, 2017, in comparison to the broader equity markets. Please note these securities were not designed to offer clients the exact performance figures published by Equity Research. These securities offer an efficient solution for investing in the ideas presented in the list over a specified time period. Performance returns of this product will differ from the returns published by Equity Research or returns obtained in other investments in the *Analysts' Best Picks®* list due to the time period of investment and fees.

Each client's specific return on each note will depend on how many notes were purchased originally, as the impact of the $5.95 handling charge will vary as the number of notes changes. Comparisons of this year's notes (assuming a $10,000 notional investment) versus the S&P 500 are illustrated in the following table. The notes are currently underperforming the S&P 500 Index. The final performance of this year's notes will be determined by what happens through the final valuation periods ending December 19, 2017, for the December Note and January 25, 2018, for the January Note.

When comparing returns, it is important to consider equivalent periods of investment. In the performance chart below, we have included comparable performance figures for the S&P 500 Index based on the specific investment period of each note.

	Cost	**Price** (as of 12/7/2017)	**Total Return** (after fees)
2017 ABP Note Maturing Dec 21, 2017**	**100.0595%**	**103.47%**	**3.41%**
S&P 500 Index (Dec 13, 2016 to Dec 7, 2017)			18.99%
2017 ABP Note Maturing Jan 27, 2018**	**100.0595%**	**102.63%**	**2.57%**
S&P 500 Index (Jan 20, 2017 to Dec 7, 2017)			18.45%

Equity Structured Products
Equity Capital Markets
Ext. 71857

*Account structures and fees will vary by account and should be taken into consideration before making an investment decision.
**Please note that the prices shown for the 2017 ABP Notes in this report are NAV and the price shown on client statements is a bid price, which includes the aftermarket liquidation spread on the security. Clients who hold to maturity will receive the NAV. The NAV represents the underlying value of the securities multiplied by the participation rate (indicative of the fees associated with the product).

Analysts' Best Picks® for 2018 Statistical Overview

Company Name	Sym.	RJ&A Rank	SR	12/8/2017 Close	12 Mo. Trail. Price Range High	Low	Proj. 12-Mo. Price Target	Current Year P/E	2016A	2017E	2018E	Div. Yld.	BV/ Shr.	FY	Mkt. Cap. (Mil)
S&P 500 #	SPX	NA	NA	2,651.50	2,665.19	2,233.62	NA	21.2	106.26	124.99	144.41	1.9%	NA	DEC	NA
Alaska Air Group, Inc. (m, ng, o)	ALK	1	H/GRW	69.74	101.43	61.10	80.00	10.5	7.32	6.64	6.55	1.7%	28.10	Dec	8,605
Alibaba Group Holding Ltd. (m, ng, o)	BABA	1	H/GRW	177.62	191.75	86.01	220.00	35.5	2.62	3.45A	5.00	0.0%	16.04	Mar	463,055
Becton, Dickinson and Company (ce, hs, m, o)	BDX	1	M/GRW	219.68	229.69	161.50	260.00	20.7	8.59	9.48A	10.60	1.3%	56.80	Sep	50,065
Broadcom Limited (m, ng, o)	AVGO	1	M/GRW	259.91	285.68	173.31	335.00	13.3	11.30	16.01A	19.47	2.7%	48.59	Oct	115,920
Continental Resources Inc. (m, ng, o)	CLR	1	H/GRW	47.93	57.81	29.08	62.00	92.2	(0.88)	0.52	2.13	0.0%	11.47	Dec	17,983
Dollar Tree, Inc. (f, hn, m, ng, o)	DLTR	1	H/GRW	108.67	108.90	65.63	124.00	22.2	3.91	4.89	5.26	0.0%	25.72	Jan	22,571
Fastenal Company (m, ng, o)	FAST	1	H/GRW	53.78	55.35	39.79	61.00	27.7	1.73	1.94	2.16	2.4%	7.05	Dec	15,467
First Horizon National Corporation (hs, m, ng, o)	FHN	1	H/GRW	19.94	20.84	15.84	24.00	18.0	0.94	1.11	1.27	1.8%	10.64	Dec	4,670
FLIR Systems, Inc. (hs, m, ng, o)	FLIR	1	H/GRW	46.39	48.06	33.75	60.00	25.1	1.69	1.85	2.01	1.3%	12.52	Dec	6,439
ICU Medical, Inc. (hs, m, ng, o)	ICUI	1	H/GRW	210.80	218.45	127.00	248.00	47.4	4.93	4.45	6.35	0.0%	64.73	Dec	4,448
The Progressive Corporation (hn, m, ng, o)	PGR	1	H/GRW	54.99	54.99	33.86	65.00	22.9	1.71	2.40	2.90	1.2%	15.78	Dec	32,224
ProPetro Holding Corp. (h, I, ng, o)	PUMP	1	H/GRW	18.87	19.62	10.84	22.00	43.9	(1.72)	0.43	2.05	0.0%	4.85	Dec	1,566
ServiceNow, Inc. (m, ng, o)	NOW	1	H/GRW	121.81	130.05	73.66	142.00	99.0	0.70	1.23	1.83	0.0%	3.19	Dec	21,573
SS&C Technologies Holdings, Inc. (hn, m, ng, o)	SSNC	1	H/GRW	40.63	42.48	28.43	48.00	21.1	1.64	1.93	2.20	0.7%	11.81	Dec	8,585
SVB Financial Group (m, ng, o)	SIVB	1	H/GRW	232.27	236.18	159.44	272.00	24.0	7.31	9.69	11.75	0.0%	77.00	Dec	12,241
UnitedHealth Group Incorporated (hs, m, ng, o)	UNH	1	M/GRW	223.91	231.77	156.09	250.00	22.4	8.05	10.00	10.76	1.3%	46.67	Dec	216,969
Weyerhaeuser Company (g, m, o, z)	WY	1	M/INC	35.43	36.92	29.81	40.00	47.2	1.39	0.75	1.40	3.5%	10.02	Dec	26,817

ce - EPS is cash EPS.

f - Fiscal years ending before May are treated as previous year.

g - EPS is GAAP EPS.

hn - Raymond James & Associates received non-securities-related compensation from the issuer within the past 12 months.

hs - Raymond James & Associates received non-investment banking securities-related compensation from the issuer within the past 12 months.

I - Initial public offering within last 12 months; trailing 12-month share price figures represent range since that time.

m - Raymond James & Associates makes a market in shares of the issuer.

ng - EPS is non-GAAP EPS.

o - Security is optionable.

z - Book value represents the depreciated value of real estate. Real estate values increase with inflation widening the gap between real value and book value over time. Thus, we regard stated book value as not meaningful.

- S&P 500 EPS estimates are bottom up operating estimates from S&P.

Alaska Air Group, Inc. (ALK:NYSE)

12-Month Target Price **$80.00**
Current Price (12/8/2017) **$69.74**
Suitability .... **High Risk/Growth**

FY (Dec)	2016A	2017E	2018E
Non-GAAP EPS	$7.32	$6.64	$6.55
P/E	9.5x	10.5x	10.6x
Revenue (mil)	$5,931	$7,912	$8,586

Hist.12-month Price Range .... $101.43 - $61.10
Dividend/Yield $1.20/1.7%
Market Capitalization (mil.) $8,606
Shares Outstanding (mil.) 123.4
Book Value (09/17) $28.10
ROE .... NM
Adj. Net Debt (mil.) $2,921/46%

Non-GAAP EPS excludes mark-to-market fuel hedge adjustments for future periods and special items.

Alaska Air Group, headquartered in Seattle, Washington, provides passenger and cargo air transportation services. Following its acquisition of Virgin America on December 14, 2016, the combined airlines serve more than 110 destinations in the United States, Canada, Mexico, and Cuba. Alaska Airlines operates a fleet of 153 Boeing 737 aircraft, Virgin America operates a fleet of 65 Airbus aircraft, and its regional subsidiary, Horizon, operates a fleet of 52 Q-400s and 10 E-175s.

Merger Synergies Coming of Age

While we expect y/y declines in earnings in 4Q17-2Q18 at Alaska, there is a favorable setup starting 2H18 with slowing capacity growth, lower mix of new markets, easing competitive capacity headwinds, and realization of benefits from the Virgin America (VA) acquisition following the planned system integration in late-April. We rate Alaska Air Group Strong Buy due to our belief that, long term, the VA acquisition will strengthen Alaska's West Coast position, with the long history of shareholder value creation set to continue as a result of its low-cost focus, fortress balance sheet, and strong brand loyalty. Our $80.00 target price is based on ~12x our 2018E EPS of $6.55. The multiple is slightly above the three-year historical average of ~11x due to the anticipated earnings recovery in 2H18. Further, it compares to the ~18x 2018E P/E multiple for the S&P 500.

Realizing Merger Synergies

Wasting no time executing on realizing revenue synergies from its VA acquisition (closed late-December 2016), Alaska embarked on an aggressive capacity strategy in order to increase its utility in California and introduced 19 new markets during 3Q17 alone, 17 of which were entered in the second half of the quarter. As such, new markets (i.e., those launched within the last 12 months) as a percentage of total available seat miles (ASMs) will remain high, but peak in 1Q18 at 9% before trending downward. Much of Alaska's future growth will be focused on connecting cities already served and increasing frequencies, both of which are lower-risk and more cost efficient.

In late April, Alaska will cut over to a single PSS (passenger service system). While it is an operationally challenging process, Alaska plans to lower the risk by eliminating the need for data migration at the cutoff (similar to Southwest and American vs. United). Moreover, it will unlock the bulk of revenue synergy opportunities, including "metal neutrality" between the legacy VA and Alaska fleets, enabling network optimization by allocating the right aircraft to the right market.

Capacity Trends

We expect 2018 capacity growth of 7%, which is in line with levels seen in 2017. However, much of the growth is front loaded (largely due to new markets introduced in 2H17), with growth tapering in 2H18. Competitive capacity remains elevated, particularly in 1H18 from Delta in Seattle (Alaska's #1 hub and representing ~24% of departing seats) and United and Southwest in the San Francisco Bay area (Alaska's #2 hub and representing ~9% of departing seats). However, while competitive capacity remains a headwind in early 2018, we expect these levels to moderate beginning in 2Q18.

Cost Escalation Risks

Excluding the recently announced pilot deal, we are assuming flat non-fuel unit cost (CASM) growth in 2018. However, our assumption is heavily predicated on removing excess costs after the reservation system integration as well as the removal of operational issues at Horizon, which we expect to be addressed fully by year-end 2017.

— *Savanthi Syth, CFA*

Alibaba Group Holding Ltd. (BABA:NYSE)

12-Month Target Price	**$220.00**
Current Price (12/8/2017)	**$177.62**
Suitability	**High Risk/Growth**

FY (Mar)	**2017A**	**2018E**	**2019E**
Non-GAAP EPS	$3.45	$5.00	$6.05
P/E	51.5x	35.5x	29.4x
Revenue (mil)	$22,994	$36,504	$48,780

Non-GAAP EPS excludes SBC, amortization, investments.

Hist.12-month Price Range	$191.75 - $86.01
Dividend/Yield	$0.00/0.0%
Market Capitalization (mil.)	$463,055
Shares Outstanding (mil.)	2,607.0
Book Value (09/17)	$16.04
ROE	17%
LT Debt (mil.)	$11,156/19%

Headquartered in Hangzhou, China, Alibaba Group Holding Ltd. is the largest online and mobile commerce company in the world on a gross merchandise volume (GMV) basis. Its core consumer marketplace businesses consist of Taobao Marketplace (China's largest consumer-to-consumer online shopping destination), Tmall.com (China's largest third-party platform for brands and retailers), and Juhuasuan (China's largest group buying marketplace by monthly users). In addition to these China retail marketplaces, Alibaba operates Alibaba.com, 1688.com, AliExpress, and Alibaba Cloud Computing Services. Alibaba also has several strategic investments, as well as contractual arrangements, including Alipay and China Smart Logistics.

Continued eCommerce and Cloud Strength Combined With Attractive Valuation

We expect continued fundamental strength and share outperformance from Alibaba in 2018, driven by: 1) strong core commerce revenue growth; 2) Cloud leadership; 3) option value in other assets (e.g., Digital Media); and 4) valuation that remains attractive, in our view, at ~25x CY18 core Commerce EPS (vs. ~30%+ organic core Commerce growth in CY18).

Expect continued core Commerce momentum. We expect continued core Commerce momentum in CY18, driven by: 1) strength in eCommerce GMV (~30% y/y), with Alibaba as the largest beneficiary of this growth, including both its Tmall and Taobao platforms. In the September quarter, mobile traffic increased 22% y/y; 2) continued monetization improvements, driven by mobile and personalization initiatives; 3) international Commerce strength, driven by Southeast Asia (Lazada) and AliExpress; 4) Cainiao (logistics/fulfillment) consolidation, which should drive a better experience for users and sellers; and 5) new retail initiatives (combining offline and online stores). We would note that for Singles Day 2017 (11/11), Alibaba reported RMB 168.2B ($25.3B) in GMV transacted on its China retail marketplaces (Taobao and Tmall) as well as AliExpress, representing growth of 39% y/y in local currency (vs. 32% growth in 2016).

Leading China Cloud player. Alibaba's Cloud business is evolving from Infrastructure as a Service (IAAS) to Software as a Service (SaaS) with numerous cloud-based services from sales, customer management, customer service, and inventory management. Alibaba noted that, according to IDC data, its cloud business ($1B in FY17) was equal to the next seven players in China combined. In the September quarter, Cloud revenues increased 99% y/y (vs. 96% y/y last quarter), with strong growth in paying customers and higher revenue per customer.

Option value in other assets. We believe there remains significant upside in other areas for Alibaba Group, including its Digital Media initiatives, which are at an earlier stage of monetization. Alibaba also owns approximately one-third of Alipay (leading China payment platform valued at ~$60B).

Valuation. We use a sum-of-parts analysis to value Alibaba shares given the different stages of Alibaba's businesses as well as its various investment holdings. We value the core Commerce business at 25x CY18E EBITA at the midpoint, or ~31x P/E (equates to a PEG of ~1). In addition, we value the Alibaba Cloud business at 9.0x revenues given its robust growth, leadership position in cloud in China, and potential for 30+% EBITDA margins (similar to Amazon). For other owned businesses including Mobile Media, Entertainment, and Other, we use acquisition prices and investment value. For equity investments, we use public market prices for Alibaba Pictures, Alibaba Health, and Weibo. Ant Financial is based on recent financing rounds that value Ant Financial at an estimated $60 billion. Other strategic investments are valued at the amount of capital invested. Adding the core Commerce business, Cloud business, investments, and net cash, we arrive at a valuation of $220.00 per share (range of $136.00 to $251.00 for our bear/bull case scenarios).

— *Aaron Kessler, CFA*

Becton, Dickinson and Company (BDX:NYSE)

12-Month Target Price **$260.00**
Current Price (12/8/2017) **$219.68**
Suitability .... **Medium Risk/Growth**

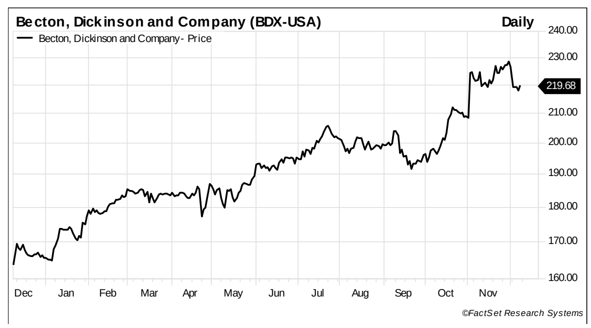
FY (Sep)	2017A	2018E	2019E
Cash EPS	$9.48	$10.60	$11.66
P/E	23.0x	20.7x	18.8x
Revenue (mil)	$12,093	$12,762	$13,394

Cash EPS excludes amortization of intangibles, other one-time items.

Hist.12-month Price Range ....$229.69 - $161.50
Dividend/Yield $2.92/1.3%
Market Capitalization (mil.) $50,065
Shares Outstanding (mil.) 227.9
Book Value (09/17) $56.80
ROE 11%
Net Debt (mil.) $18,667/59%

Becton, Dickinson and Company (BD), based in Franklin Lakes, New Jersey, is a medical technology company engaged principally in the development, manufacture, and sale of a broad range of medical supplies, devices, laboratory equipment, and diagnostic products used by healthcare institutions, life science researchers, clinical laboratories, industry, and the general public.

Attractive Growth Profile and Valuation Drive Solid Three-Year Outlook



Consistent Mid-Teens EPS Growth

We believe that Becton Dickinson (BD) is well-positioned for accelerating top-line growth and cost synergies from the C.R. Bard acquisition driving dependable mid-teens EPS growth over the next several years, representing above-average growth relative to large-cap peers. BD's breadth of product and scale in international markets is likely to increasingly become a competitive advantage relative to smaller competitors. In addition, we expect disciplined capital allocation driven by strong ~$3-4B in annual free cash flow generation, with a near-term focus on deleveraging to 3.0x over the next three years from ~4.7x post-close of the Bard acquisition. As a result, we do not anticipate any large-scale M&A in the near term. Finally, the stock trades at a 5.7% FCF yield, 16.9x our pro forma CY19 EPS estimate, and 14.6x our pro forma CY19E EBITDA. We view the valuation as attractive in the context of solid mid-teens earnings increases and growth challenges in other sectors of healthcare.

Positioned for Solid Growth, Augmented by C.R. Bard

BD should close the acquisition of C.R. Bard in December 2017, which should position the company for favorable growth. On an organic basis, we expect 5%+ constant currency increases and mid-teens EPS growth over the next three years. We see BD as well-positioned to expand upon the company's four strategic pillars of medication management, infection prevention, treatment of chronic disease, and global expansion. We see Bard as a solid fit for BD with market-leading products and strong organic growth prospects in the 6%+ range, driven by a deep R&D pipeline and products with sizeable addressable market opportunities, including DCBs, PICCs, and hernia repair. In fact, we expect BD to become more relevant to investors as the product portfolio strengthens over the next several years. Importantly, we expect Bard's R&D engine to remain strong given the retention of key personnel following the deal, which will augment BD's improving new product portfolio. Combined with BD's sizeable presence in emerging market (EM), we see BD accelerating Bard's efforts to expand into Latin America and Asia ex-China/Japan with combined revenues of ~$1B. Regarding earnings, we expect increasing accretion in fiscal 2019 (estimated to be 7%) as cost synergies and deleveraging kick in.

Multiple Levers for Upside to Bard Accretion Targets

Importantly, we note that BD has multiple levers for upside relative to its three-year financial targets with Bard, including greater cost synergy capture, revenue synergies, and tax rate reduction. Every $20M in incremental cost synergies above the $300M guidance (FY18-FY20) is $0.07 (0.6%) accretion to pro forma (PF) EPS estimate in FY19. Every $100M in revenue synergies would add $0.10 (0.8%) to our FY19E PF EPS. Finally, every 100 bp tax rate reduction drives $0.15 (1.2%) accretion on our FY19 PF EPS. Importantly, we note that revenue synergies and tax rate reductions are incremental to the deal model for the Bard acquisition.

Valuation Looks Attractive

Our price target is $260.00, equal-weighting P/E and EBITDA multiples of 21x (vs. 19x for peers) and 15x (vs. peers at 14x) our calendar pro forma 2019 estimates, justified, in our view, by 5-6% revenue growth and mid-teens EPS growth, above peers. In large part, we see growth driven by accelerating overseas sales for Bard and a solid organic pipeline for BD and cost synergies of $300M through FY21.

— *Lawrence Keusch*

Broadcom Limited (AVGO:NASDAQ)

12-Month Target Price **$335.00**
Current Price (12/8/2017) **$259.91**
Suitability ....**Medium Risk/Growth**

FY (Oct)	2017A	2018E	2019E
Non-GAAP EPS	$16.01	$19.47	$20.80
P/E	16.2x	13.3x	12.5x
Revenue (mil)	$17,665	$20,731	$23,035

Hist.12-month Price Range ....$285.68 - $173.31
Dividend/Yield $7.00/2.7%
Market Capitalization (mil.) $115,920
Shares Outstanding (mil.) 446.0
Book Value (10/17) $48.59
ROE 21%
LT Debt (mil.) $13,572/38%

Non-GAAP EPS excludes stock-based compensation and one-time items as reported. Pro forma EPS reflects non-GAAP results incl. SBC.

Broadcom Limited, a Singapore incorporated company with headquarters in San Jose, California, is a leading designer, developer, and supplier of a broad range of analog, digital, mixed signal, and optoelectronics components and subsystems. These innovations are used in a wide range of wireless, wireline, storage, and industrial applications.

Cash Flow, M&A Set to Drive Significant Returns

Strong cash flow and shareholder returns. Broadcom is on track to generate free cash flow in excess of $9 billion annually, and having surpassed the prior target of generating FCF at a rate of 35% of revenue, recently raised that target to 40%. Additionally, management remains committed to returning 50% of FCF to shareholders via the dividend – which, importantly, has not changed despite M&A activity. The quarterly payout was raised to $1.75 per share as of December (from $1.04), representing an implied yield of 2.7%; we estimate dividend yield to move well above 3% in 2018 on increasing cash flow.

Balanced near- and long-term growth opportunities. The company continues to invest in an expanded portfolio of growth opportunities – both organically and through M&A – tailoring the product portfolio to target a leading position in all focus areas. Having established dominance in the key Wireless and Wired verticals, the company looks toward emerging technologies for industrial, automotive, and even deep learning to drive the long-term top-line growth target of 5%.

M&A machine churns on. With the Brocade acquisition recently completed, we expect an incremental ~$850 million in EBITDA from the combination and up to ~$1.75 in non-GAAP EPS (under the current tax rate). The company has a strong track record of successfully integrating acquisitions, extracting significant value through cost and portfolio rationalization. Next up, Broadcom has made an unsolicited move to acquire Qualcomm for $70/share; while Qualcomm has rejected the initial offer, we expect Broadcom to come back to the table with a higher offer price in the future. While Broadcom's terms are the same with or without NXP, our analysis suggests the combination could add $5.00-13.00 in incremental EPS and would be solidly accretive with an offer price up to ~$100/share.

— *Chris Caso*

Continental Resources Inc. (CLR:NYSE)

12-Month Target Price **$62.00**
Current Price (12/8/2017) **$47.93**
Suitability .... **High Risk/Growth**

FY (Dec)	2016A	2017E	2018E
Non-GAAP EPS	$(0.88)	$0.52	$2.13
P/E	NM	92.2x	22.5x
Revenue (mil)	$2,136	$3,080	$4,627

Hist.12-month Price Range ....$57.81 - $29.08
Dividend/Yield $0.00/0.0%
Market Capitalization (mil.) $17,983
Shares Outstanding (mil.) 375.2
Book Value (09/17) $11.47
ROE ....NM
LT Debt (mil.) $6,604/61%

Non-GAAP EPS excludes unrealized hedging losses, property impairments, and other extraordinary items.

Continental Resources, based in Oklahoma City, Oklahoma, is an independent oil and gas company. Principal operations are in the Bakken in North Dakota and Montana, with other operations in the Oklahoma SCOOP/STACK. The company focuses on development of long-lived oil properties using conventional drilling and enhanced recovery. Proved reserves at year-end 2016 were 1,275 MMboe (41% developed).

Best Positioned Large-Cap to Take Advantage of an Oil Price Recovery

In view of our 2018 outlook, calling for average WTI crude oil pricing of $65 (trading as high as $70/bbl), we remain constructive on CLR as it offers among the highest exposure to an oil price recovery in our space. Further, our bullish outlook is boosted by our confidence in the catalysts driving the name. These include 1) Continental has a large acreage foothold in two of the most attractive basins in the U.S., being one of a handful of E&Ps with exposure to the highly economic Mid-Con resource plays (e.g., SCOOP, STACK, and Springer) and having an enviable Bakken position, offering attractive leverage to an expected turn in oil prices. 2) CLR shares trade at a discount considering the company boasts a top-tier debt-adjusted production growth profile (2017-2019) relative to Large-Cap peers. 3) There is a clear line of sight to a stronger balance sheet, which has historically been a headwind, via non-core asset sales and planned free cash flow generation. 4) Management's incentives are clearly aligned with those of investors, as CEO Harold Hamm has a 76% stake in the company. 5) Continental's oil production is virtually unhedged, providing it among the highest leverage to a crude oil price recovery.

Expansive acreage foothold with best-in-class returns. Continental has one of the most enviable acreage positions in our E&P coverage, with ~2M net reservoir acres in the Bakken (807,000 net acres), STACK (413,000 net acres), and SCOOP (781,000 net acres). The company is delivering some of the highest single returns in each respective area utilizing leading-edge drilling and completion tactics. Based on our model assumptions (L/T oil and gas pricing of $60 and $2.75), Continental's weighted average (based on 2018 net well completions) single well IRR (after-tax) is an impressive 71% in 2018, with STACK Meramec Oil and Core Bakken wells leading the pack with 117% and 50% single well ATIRRs, respectively. Under strip, the weighted average single well ATIRR is 63%. Markedly, the 2018 program half-cycle breakeven oil price is ~$25/bbl (assuming a 15% breakeven IRR), while the cash flow breakeven oil price (assuming strip gas pricing) is ~$45/bbl.

Top-tier debt-adjusted growth demands higher valuation. Based on our model, Continental's 2017-2019 debt-adjusted production growth rate is ~22%, top quartile among Large-Cap E&Ps in our coverage and well above the 14% average. Yet, despite its top-tier growth profile, it trades at a discount relative to peers, with a 6.5x EV/2018E EBITDA multiple vs. the peer average of 7.2x. Moreover, the average valuation multiple for Large-Caps in the top half of the debt-adjusted production growth spectrum boast a 9.0x EV/EBITDA multiple. We believe CLR shares are currently undervalued given its projected growth profile and should benefit from multiple expansion looking ahead to 2018. Our $62.00 target price is based on our total company NAV of $62.00.

Clear line-of-sight to erase historic debt overhang. CLR shares have historically carried a debt overhang considering its current leverage multiple of 3.4x, twice that of the Large-Cap mean (1.4x). However, over the course of the last year, the company has taken numerous steps to reduce its overall leverage, selling down non-core assets and operating more or less within cash flow. Looking ahead, we see clear line of sight to an improving balance sheet, continuing the aforementioned strategy. Moreover, the company has taken steps to reduce debt with near-term maturities, having just recently issued senior notes due 2028 to retire near-term debt and pay down its revolver.

Management incentives aligned with investors. Unlike any other company in our coverage, ~77% of shares outstanding are management-owned, with CEO Harold Hamm holding a ~76% interest. As such, it is clear that management's incentives are well aligned with those of investors. With corporate governance receiving much of the spotlight as of late, we view Continental's ownership structure positively. Also of interest, CLR is on the short list of E&Ps that did not issue equity during the downturn, highlighting its shareholder focus.

Peer-leading oil exposure amid RJ projected oil recovery. We believe Continental is one of the best positioned to capitalize on an oil recovery scenario as it operates virtually unhedged (oil-only) and has sizeable exposure to the Williston Basin (Bakken), where wells have some of the highest oil cuts in the U.S..

— *John Freeman, CFA*

Dollar Tree, Inc. (DLTR:NASDAQ)

12-Month Target Price **$124.00**

Current Price (12/8/2017) **$108.67**

Suitability .... **High Risk/Growth**

FY (Jan)	2016A	2017E	2018E
Non-GAAP EPS	$3.91	$4.89	$5.26
P/E	27.8x	22.2x	20.7x
Revenue (mil)	$20,719	$22,291	$23,092

Non-GAAP EPS is operating EPS. UR: Under Review. Fiscal years ending before May are treated as previous year.

Hist.12-month Price Range ....$108.90 - $65.63

Dividend/Yield $0.00/0.0%

Market Capitalization (mil.) $22,571

Shares Outstanding (mil.) 207.7

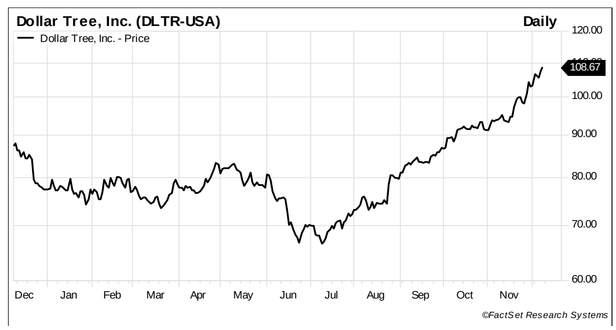
Book Value (10/17) $25.72

ROE 18%

LT Debt (mil.) $8,248/67%

Dollar Tree, Inc., headquartered in Chesapeake, Virginia, is the nation's largest value retailer, operating over 6,134 stores in 48 states and Canada under the Dollar Tree banner in addition to 7,974 stores in 46 states under the Family Dollar banner as of January 28, 2017.

Attractive "Barbell" Investment Thesis



Dollar Tree provides a "barbell" investment thesis that combines the best-in-class growth opportunities with the Dollar Tree banner (~50% of corporate revenues and ~75% of EBIT) along with the "hope trade" of the Family Dollar banner (~50% of revenues and ~25% of EBIT), potentially delivering faster comp sales growth and profit improvement. We see total company EBIT% growing 110 bp in FY17, followed by a 50 bp gain in FY18 and 30 bp in FY19.

The fundamentals for the value retail sector are arguably the strongest in all of retail, with the possible exception of the automotive aftermarket retailers. Comp sales growth for the value sector is improving on fewer headwinds from SNAP benefit reductions, less deflationary pressure on commodities, and improving payroll trends. Further, the sector faces minimal e-commerce risk.

Dollar Tree banner is best-in-class. The Dollar Tree banner continues to deliver industry-leading performance, reflected in comp sales accelerating to 5.2% in F3Q17 and the potential to increase 3.9% for all of FY17. EBIT% for DLTR has improved 50 bp during the past two years, and we see another 50 bp gain in FY17. Dollar Tree is the most uniquely positioned value retail concept and ideally suited to compete against Walmart, grocery stores, drug stores, and online competition.

Family Dollar banner has ample upside opportunity. Valuation for DLTR is diluted by poor results from the Family Dollar acquisition, but sales/ earnings for this segment appear to have bottomed. In addition to merchandise changes and better in-store execution, Family Dollar is investing in new real estate projects that could rejuvenate its comp sales growth. Examples include renovating ~2,000 older Family Dollar stores (~25% of its total store base) that have not been upgraded in five to ten years. Three hundred and fifty remodels will be complete in FY17, and management anticipates more than 350 renovations will be scheduled for FY18. The comp sales growth from renovations could approximate 7% to 9%. EBIT% for the FDO segment could improve 80 bp in FY18 on top an estimated 130 bp gain in FY17E.

GM% poised for further improvement. Dollar Tree does not see promotional pricing as any more intense than a year ago. Second, margins for the Dollar Tree and Family Dollar brands should benefit from improved direct sourcing capabilities, better mix from stronger sales of consumables, fewer clearance markdowns, ongoing vendor negotiations, and lower shrink.

Proposed corporate tax changes should benefit DLTR and the Retail sector. Management commented that it is uncertain if any of its competitors will use a portion of the savings from a 20% federal statuary tax rate as a reason to further reduce pricing in an effort to grow market share. We anticipate most of the tax savings will flow through to net income, enabling DLTR to look at options such as paying down debt at a faster rate. Notably, ongoing debt reduction could lead to investment grade rating by FY18.

Our target price of $124.00 anticipates DLTR's valuation will rise to ~23.0x our FY19 EPS estimate of $5.88, reaching a price of $135, above DLTR's current P/E multiple of 20.1x our FY18 EPS estimate and the three-year historical average of ~21.0x, and then discounted by 8% to reach our 2018 price target of $124. An alternative approach to valuing DLTR is a sum of the parts analysis for the Dollar Tree and Family Dollar segments. Using this method, we estimate the standalone value for the Dollar Tree brand could approximate $108/share, while Family Dollar is worth $17/share – implying a potential total value of $125.

— *Dan Wewer, CFA*

Fastenal Company (FAST:NASDAQ)

12-Month Target Price	**$61.00**
Current Price (12/8/2017)	**$53.78**
Suitability	**High Risk/Growth**

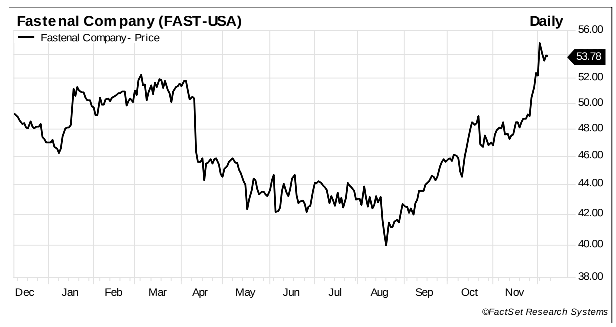
FY (Dec)	2016A	2017E	2018E
Non-GAAP EPS	$1.73	$1.94	$2.16
P/E	31.1x	27.7x	24.9x
Revenue (mil)	$3,962	$4,390	$4,878

Non-GAAP EPS excludes one-time items.

Hist.12-month Price Range	$55.35 - $39.79
Dividend/Yield	$1.28/2.4%
Market Capitalization (mil.)	$15,467
Shares Outstanding (mil.)	287.6
Book Value (09/17)	$7.05
ROE	27%
LT Debt (mil.)	$440/18%

Fastenal Company, based in Winona, Minnesota, is a leading distributor of industrial and construction supplies. The company sells fasteners (screws, nuts and bolts, etc.), tools and equipment, hydraulics, pneumatics, safety, plumbing and HVAC supplies, janitorial goods, and electrical supplies via roughly 2,500 store locations, many located in small- to medium-sized markets, and often employing vending and on-site go-to-market strategies.

High-Growth, High-Return Onsite Program to Drive Outperformance



Fastenal is a well-run, best-in-class distributor of fasteners and MRO products, selling primarily to domestic manufacturing, industrial, and non-residential construction end-markets. Recovering end-markets and the company's internal initiatives are driving outsized sales growth, as demonstrated by (at time of publishing) six straight months of double-digit average daily sales growth. Fastenal also generates highly attractive returns on capital and returns on equity, and these rates of return should continue to be well supported by its asset-light customer "onsite" branch growth. We expect onsite branch-related sales to continue to drive overall double-digit organic growth for the company (or at least well in excess of market), and lagged commodity-related pricing should also be supportive in 2018.

Through initiatives such as vending and onsite, Fastenal has strengthened what is already a high-touch, high-service oriented business model that helps customers save on total MRO procurement and inventory management cost, as opposed to just piece-by-piece product cost. This go-to-market advantage acts as a competitive moat for Fastenal against potential threats by more transaction-oriented players and/or increasing pricing transparency.

This pricing support is particularly important in light of the return of broad commodity inflation, which we believe will continue in 2018. Historically, inflation bodes well for industrial distributor pricing and margins, as the inflation gets passed through to customers at a faster rate than inventory turns. Increased pricing transparency and competition has pressured margins more this cycle, but Fastenal has been able to gain market share while also maintaining margins in this environment.

At the time of print, shares of FAST are still trading below the five- and 10-year median forward multiples relative to the market. Our $61.00 price target represents ~16x our forward EBITDA estimate. This multiple represents the midpoint between the five-year peak and five-year median forward historical multiples – justified by Fastenal's heady expected growth, finally growing end markets, and the ultimate return of inflation after a multi-year hiatus.

— *Sam Darkatsh*

First Horizon National Corporation (FHN:NYSE)

12-Month Target Price **$24.00**
Current Price (12/8/2017) **$19.94**
Suitability .... **High Risk/Growth**

FY (Dec)	2016A	2017E	2018E
Non-GAAP EPS	$0.94	$1.11	$1.27
P/E	21.2x	18.0x	15.7x
Revenue (mil)	$1,287	$1,351	$1,808

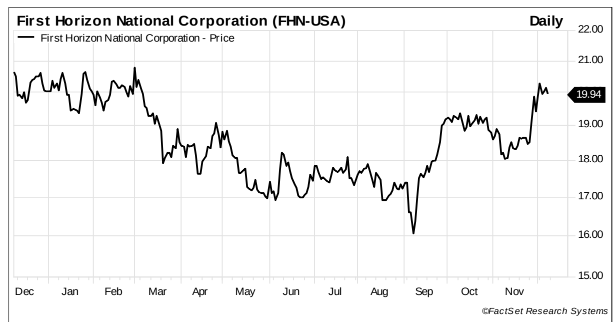
Non-GAAP EPS are operating earnings.

Hist.12-month Price Range ....$20.84 - $15.84
Dividend/Yield $0.36/1.8%
Market Capitalization (mil.) $4,670
Shares Outstanding (mil.) 234.2
Book Value (09/17) $10.64

Headquartered in Memphis, Tennessee, First Horizon National Corporation is a +$40 billion bank holding company that operates offices in TN, NC, SC, FL and VA as well as capital markets offices in the U.S. and abroad.

Improving Return Story, Operating/Regulatory Backdrop Warrants Multiple Re-Rating

We believe First Horizon shares represent an attractive risk-reward dynamic heading into 2018 following the recent completion of its acquisition of Capital Bank Financial on November 30. In short, we see its discounted 2019E P/E valuation as not appropriately reflecting the growth and profitability benefits from the acquisition when integration is complete and cost savings are fully achieved in 2019. Moreover, we believe the recent increase in its cost savings expectations from 30% to 40% of Capital Bank's expense base, the potential for ~$25-30 million of revenue synergies from the acquisition in 2019 not built into its expectations, and net interest margin expansion occurring in excess of our forecasts (where its outlook calls for just two Fed rate hikes from here through 2019) provide greater confidence, in our view, that it is likely to exceed its 15% ROTCE target in 2019.



Operating/regulatory environment steady to improving. Management recently noted at an investor conference (link) that the operating environment remains steady, but it remains optimistic for 2018 given its solid loan pipeline, benign credit trends, and benefit from higher interest rates. Additionally, the increasing likelihood that the SIFI threshold is moved higher (link) bodes well from a cost buildout and perception perspective around potential future M&A. Finally, while we have not yet included a lower tax rate in our model, passage also appears increasingly likely (link) near term.

P/E multiple expansion should result from profitability improvement. FHN shares plunged following the announcement of the Capital Bank acquisition on May 4 given the notable tangible book dilution and long earn-back period associated with the deal. While management quoted a 4.9-year earn-back on tangible book value dilution on the deal using the crossover method, the static earn-back equates to approximately eight years. However, as investors move further past the initial dilution for the deal and focus on the improved profitability it brings (similar to what happened following KeyCorp's acquisition of FNFG and Huntington Bancshares' acquisition of FMER), we believe shares will re-rate to a higher multiple (link). To this end, we currently estimate its profitability will improve from an operating ROTCE of ~13.5% in 3Q17 to our current estimate of 16.2% for full-year 2018 (excluding any potential impacts from tax reform).

"Bonefish" targets in sight. For years, management has outlined its long-term "bonefish" targets as noted in its most recent investor presentation (link). With the Capital Bank deal closed, a few more rate hikes, and an improved operating/regulatory backdrop, we see achievability of all of its targets in 2019. Tax reform (not currently incorporated into our forecasts) and any pickup in its capital markets business would accelerate the timing of achievability and ability, in some cases, to notably exceed a few of its targets.

Valuation: Our $24.00 price target assumes FHN shares trade at 2.6x 4Q18E TBV, a 20% premium to regional peers, which compares to its one-, three-, and five-year averages of 0%, 3%, and -3%, respectively. It also implies FHN shares trade at 15.5x 2019E EPS, a ~5% premium to its regional peers. A premium P/E multiple is justified, in our view, from ongoing progress toward its longer-term profitability targets, which will be accelerated by the integration of the Capital Bank acquisition, potential future interest rate hikes, and tax reform.

— *Michael Rose*

FLIR Systems, Inc. (FLIR:NASDAQ)

12-Month Target Price	**$60.00**
Current Price (12/8/2017)	**$46.39**
Suitability	**High Risk/Growth**

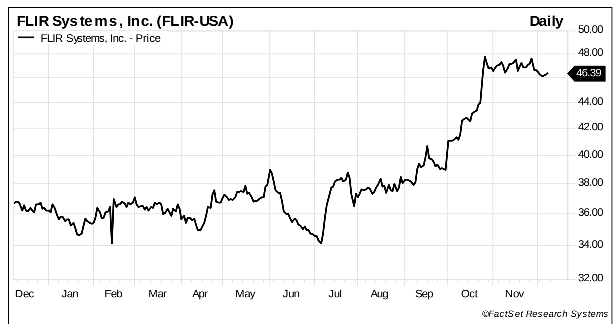
FY (Dec)	2016A	2017E	2018E
Non-GAAP EPS	$1.69	$1.85	$2.01
P/E	27.4x	25.1x	23.1x
Revenue (mil)	$1,662	$1,798	$1,858

Non-GAAP EPS excludes one-time gains/expenses and restructuring costs.

Hist.12-month Price Range	$48.06 - $33.75
Dividend/Yield	$0.60/1.3%
Market Capitalization (mil.)	$6,439
Shares Outstanding (mil.)	138.8
Book Value (03/17)	$12.52
ROE	12%
LT Debt (mil.)	$94/5%

FLIR Systems, headquartered in Portland, Oregon, develops and manufactures infrared technology. FLIR provides thermal imaging systems for reconnaissance, surveillance, and commercial applications.

FLIR Sees the Light



FLIR is a pioneer in thermal imaging technology enabling military, industrial, and commercial users to see and measure heat to identify objects, automate processes, and measure outputs that are invisible to human eyes. We see constructive changes in FLIR's product portfolio, an accelerating demand outlook, improving margin profile, and ultimately a re-rating of the company's trading multiple as pillars to our bullish outlook on shares of FLIR. To the first point, we believe FLIR will selectively exit low-margin commoditized consumer oriented businesses over the next 12 months while expanding its portfolio in the industrial technology domain. Second, robust industrial output and increasing demand for military technology augur for an accelerating top line. Third, cost cuts, incremental margins on revenue growth, and an improving mix toward higher-margin products provide a multi-year runway for margin expansion. Finally, as growth accelerates, margins improve, and the company exits low-margin units, we believe the company's Defense & Industrial portfolio will harvest a re-rating of FLIR's trading multiple. Longer term, FLIR is a an open-ended growth story with significant barriers to entry, an attractive margin profile that could stretch towards 30% vs. 17% in CY17, and potentially an increasing mix away from commoditized markets and into high-value horizontal applications such as automation and machine vision.

Poised for appreciation. After years of lackluster equity performance, FLIR's stock has had an impressive move over the last six months, but we believe this move is just the beginning and that better execution will lead to broader investor appreciation and further share price appreciation. FLIR shares are at their strongest when defense budget growth intersects with strong industrial output, which are precisely the ingredients that we see catalyzing momentum in sales in 2018. Improving organic results in FLIR's industrial/automation/machine vision businesses and growing backlog support our view of improving growth in 2018.

Change is on the way. As we laid out in our upgrade note on 7/10/17, we view FLIR's new CEO, Jim Cannon, as a positive change agent, and with less than a year in the saddle, we believe his perspective as an outsider could begin to focus the business in ways that would have been difficult from the inside. Moreover, we believe Cannon could focus on the trimming of lower gross margin, commoditized, consumer businesses where differentiation and distribution are different from FLIR's historical core. According to our hypothetical model, the divestiture of ~17% of FLIR's revenue base (Maritime and ~50% of Security) would increase operating margins from 17% to 23+% while reducing exposure into commoditized consumer applications from 27% of sales to ~11% of sales. The remaining portfolio would be focused exclusively on high-margin defense electronics/C4ISR business and industrial applications heavily skewed toward automation, machine vision, and test and measurement.

Price Target of $60

Our target of $60.00 is based on 30x our 2018 non-GAAP EPS estimate of $2.01 versus a peer group multiple of ~30x, which we feel is justified given an improving budgetary backdrop, bias to upside earnings revisions, and FLIR's leverage to improving fundamentals.

— *Brian Gesuale*

ICU Medical, Inc. (ICUI:NASDAQ)

12-Month Target Price	**$248.00**
Current Price (12/8/2017)	**$210.80**
Suitability	**High Risk/Growth**

FY (Dec)	2016A	2017E	2018E
Non-GAAP EPS	$4.93	$4.45	$6.35
P/E	42.8x	47.4x	33.2x
Revenue (mil)	$379	$1,252	$1,341

Non-GAAP EPS excludes one-time items, amortization of intangibles, and stock-based compensation.

Hist.12-month Price Range	$218.45 - $127.00
Dividend/Yield	$0.00/0.0%
Market Capitalization (mil.)	$4,448
Shares Outstanding (mil.)	21.1
Book Value (09/17)	$64.73
ROE	3%

ICU Medical, Inc., based in San Clemente, California, is a leading provider of infusion therapy (IV) equipment and supplies used in vascular procedures and critical care settings. ICU sells the full range of IV products, including IV pumps, software, dedicated and non-dedicated IV sets, and needlefree connectors. ICU also sells automated IV compounding systems and closed system transfer devices for preparing and administering hazardous IV drugs.

Visible Margin Improvement Drives Outsized Earnings Growth

Vivek Jain was hired as CEO of ICU Medical in early 2014. After improving revenue growth and optimizing margins with the legacy ICU business, he spearheaded the acquisition of Hospira's Infusion Systems from Pfizer in late 2016. In our view, the Hospira business had been mismanaged under both Hospira stand-alone and Pfizer, which led to many years of market share declines in most of their businesses. This backdrop created a healthy level of investor skepticism in 1H17, but after three quarters of stabilization and de-risking events, investor sentiment on ICUI has improved. Given the sizeable Hospira integration, we still believe ICU is under-earning and should experience multiple years of margin improvement that should drive above-industry average profit growth over the next two years (and beyond). This growth should bolster investor enthusiasm and drive multiple expansion.

In 3Q17, adj. EBIT margins were ~12%, but we expect over 200 bp of margin expansion in each of the next two years. In 2018, we expect most of the margin expansion to come from right-sizing the cost structure and improving operating efficiency. In 2019, we expect revenue growth to inflect and be more of a contributor to margin expansion. In 2019, we model 17-18% EBIT margins but do not view this level as the ceiling and would expect further expansion in 2020 and beyond.

ICU competes against three to four competitors in each of its key end markets, but the Hospira portion of the business has been losing share for the past few years. We assume this trend continues through 2018 and model ~1% pro-forma revenue growth but believe this could be a conservative assumption. A recent industry shortage of IV Solutions products has opened the door for ICU to gain market share. Our model assumes that these gains are transient, but we are optimistic that this dynamic will provide a longer tailwind to growth. We assume ~5% revenue growth in 2019, which is in line with industry growth (3-5%).

With ~$300 million in net cash exiting 2018, the balance sheet gives management additional flexibility. While we do not expect any material capital deployment, we do expect smaller, tuck-in deals to augment organic revenue growth. ICU's management team has deep industry contacts, and we feel comfortable that they will deploy cash responsibility.

Our 12-month price target of $248.00 is based on a 15.5x EBITDA multiple applied to our 2019 estimate. This is consistent with the current 2018 EV/EBITDA multiple for ICU's diversified med device peer group.

— *Jayson Bedford*

The Progressive Corporation (PGR:NYSE)

12-Month Target Price **$65.00**
Current Price (12/8/2017) **$54.99**
Suitability .... **High Risk/Growth**

FY (Dec)	2016A	2017E	2018E
Non-GAAP EPS	$1.71	$2.40	$2.90
P/E	32.2x	22.9x	19.0x
NPW (mil)	$23,354	$26,953	$29,944

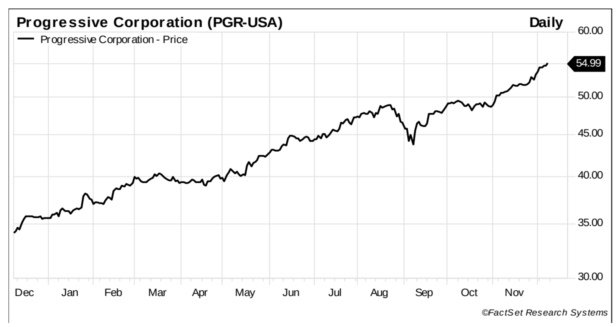
Hist.12-month Price Range ....$54.99 - $33.86
Dividend/Yield $0.68/1.2%
Market Capitalization (mil.) $32,224
Shares Outstanding (mil.) 586.0
Book Value (09/17) $15.78
ROE 17%
LT Debt (mil.) $3,312/26%

Non-GAAP EPS excludes realized investment gains/losses. Progressive pays a variable annual dividend. Dividend yield represents the 2016 dividend, which was paid in 2017.

Progressive Corporation, based in Mayfield Village, Ohio, is a leading provider of personal and commercial auto insurance with operations in all 50 states and the District of Columbia. The company also provides boat, RV, snowmobile, and Segway insurance, in addition to selling homeowners, condo, renters, and other lines of insurance for other companies. Progressive distributes its products through a substantial network of independent insurance agents and via phone/Internet. Progressive is currently rated “A” (Superior) by A.M. Best.

Best Growth Idea in Insurance

We believe Progressive is the best positioned company in our coverage universe to outperform in 2018, considering favorable industry pricing trends and the company’s competitive position that includes a more flexible pricing platform and technology solutions that monitor and price for distracted driving. As a result, we believe the company will continue to report double-digit net premiums written (NPW) growth through 2018.



An Insurance Growth Story

Progressive has been one of the most successful auto insurance companies in terms of market share growth over the last 20 years, reflecting, in part, evolving consumer purchasing habits where call centers and the Internet have become more prevalent. The company is currently growing at a faster rate than the industry. Most recently, Progressive has reported double-digit NPW growth on a y/y basis for seven straight quarters, and became the third largest U.S. writer of private auto insurance in 2Q17 (behind State Farm Mutual and GEICO). We believe Progressive will continue to report double-digit NPW growth through 2018 while maintaining a relatively stable combined ratio (CR), which positions the company to continue generating growth in book value and dividends.

Profitability Outlook

Progressive’s profitability results have been impressive, reporting a combined ratio above 95% only twice in the past 10 years (2012 and 2016), reflecting remarkably attractive underwriting results. In 2017 the company reported quarterly combined ratios well below its 96% target (91.7%, 93.2%, and 91.7% in 1Q17, 2Q17, and 3Q17, respectively). We believe this trend will continue and expect Progressive to report a combined ratio of 93.6% and 93.8% in 2018 and 2019, respectively.

Tech Initiatives

We believe Progressive is uniquely positioned within the personal lines sector to best harness emerging smartphone technology to monitor and price for distracted driving. We estimate up to 15% of the company’s personal auto business could initially begin to report up to a 20% decline in risky driving habits over the next 18 months, which should lead to a reduction in frequency and improvement in underwriting margins. We expect the combination of the rollout of the lower-cost smartphone app (relative to the legacy dongle) and improvement in the incidence rate of distracted driving in its book of business could generate a 10% or greater improvement in its personal auto combined ratio results over the next 18 months (equivalent to an annualized EPS of up to $0.17 or more). Our $65.00 target price assumes PGR trades at 22.4x our 2018 EPS estimate of $2.90, which is equivalent to a 20% premium relative to the S&P 500 multiple. Progressive’s forward P/E is currently at a 6% premium relative to the S&P 500; this compares with the five-year peak of a 25% premium.

— *C. Gregory Peters*

ProPetro Holding Corp. (PUMP:NYSE)

12-Month Target Price	**$22.00**
Current Price (12/8/2017)	**$18.87**
Suitability	**High Risk/Growth**

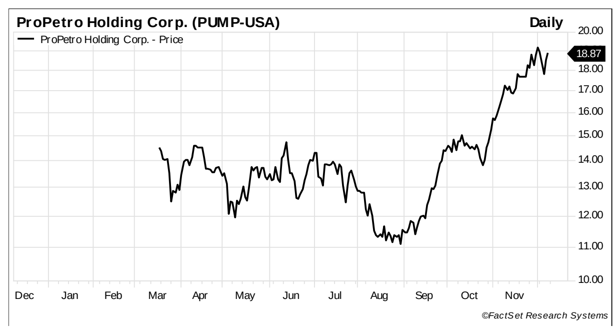
FY (Dec)	2016A	2017E	2018E
Non-GAAP EPS	$(1.72)	$0.43	$2.05
P/E	NM	43.9x	9.2x
Revenue (mil)	$437	$981	$1,514

Hist.12-month Price Range	$19.62 - $10.84
Dividend/Yield	$0.00/0.0%
Market Capitalization (mil.)	$1,566
Shares Outstanding (mil.)	83.0
Book Value (09/17)	$4.85
ROE	NM
LT Debt (mil.)	$34/42%

Non-GAAP EPS excludes one-time items. Initial public offering within last 12 months; trailing 12-month share price figures represent range since that time.

ProPetro Holding Corp. was originally organized April 14, 2007 as a holding company for its wholly owned subsidiary ProPetro Services, Inc. (''Services''), a Texas corporation. ProPetro provides a broad range of specialized oilfield services, primarily to independent and major oil and gas companies engaged in the exploration, production, and development of oil and gas properties in the U.S., particularly in the Permian Basin. Services and equipment provided include, among others, 1) pressure pumping services, 2) coiled tubing services, 3) flowback services, and 4) surface drilling (also known as managed pressure drilling). Currently, ProPetro operates 10 frac fleets with a combined 420,000 hydraulic horsepower.

Picking the Premier Permian Pressure Pumper for Top Leverage to Our Bullish Thesis



Raymond James carries a differentiated and bullish oil commodity price call ($65 WTI in 2018), which boosts PUMP earnings estimates substantially above consensus estimates. The U.S. pressure pumping space should be one of the biggest beneficiaries of an oil-price-driven U.S. activity surge in 2018. Our group has done extensive proprietary work (as noted in our Stat of the Week from October 23, 2017) on these U.S. pressure pumping supply/demand fundamentals. ProPetro checks all the right boxes for us, as it carries premier leverage to our pressure pumping call, has consistently grown ahead of expectations, and is attractively priced at today's valuation.

Leverage to Our Bullish Pressure Pumping Call

ProPetro carries substantial leverage to the already tight pressure pumping market. We expect this market to tighten further in the coming years as newbuild capacity fails to keep up with horsepower attrition. The company is positioned solely in the Permian Basin, which should be "ground zero" of rising U.S. frac demand, improving pricing, and higher margins. This should allow the company to outperform peers on a full cycle utilization basis by ~10%, with downside protection on a potential slowdown in oilfield activity.

Outsized Growth and Margin Potential

Given rising Permian frac demand this year, ProPetro has added six pressure pumping fleets in 2017, while we expect an additional four fleets could be added in 2018. As pricing continues to improve through 2018, we model the company as achieving 2018 adjusted EBITDA margins (expensing fluid ends) of 18%, up from 14% in 3Q17. We note that we still believe our margin assumptions are conservative given peer projections in the high 20% to low 30% EBITDA margin range. Additionally, even with the aggressive newbuild expansion program, we expect the company to generate over $15 million in free cash flow in 2018, with an ROIC of 22% for the year.

Conservative Valuation Brings 25% Upside

ProPetro currently trades at an attractive 5.4x 2018 consensus EBITDA vs. the peer group at 6.5-7.5x. Our price target of $22.00 implies 17% upside from the current share price. This target price is based on a 7x valuation, which we feel is conservative given peer multiples and the segment's growth and earnings potential, a well-maintained pressure pumping fleet without reactivation costs, the company's opportunities to take advantage of the cycle upside through acquisitions or newbuilds due to its strong balance sheet, and better utilization in the past cycle. Furthermore, we examine the valuation of ProPetro and peers on an EV/HHP basis and would note that PUMP trades at a discount to the peer average.

— Praveen Narra, CFA

ServiceNow, Inc. (NOW:NYSE)

12-Month Target Price **$142.00**
Current Price (12/8/2017) **$121.81**
Suitability .... **High Risk/Growth**

FY (Dec)	2016A	2017E	2018E
Non-GAAP EPS	$0.70	$1.23	$1.83
P/E	NM	99.0x	66.6x
Revenue (mil)	$1,391	$1,921	$2,489

Non-GAAP EPS excludes stock-based compensation.

Hist.12-month Price Range .... $130.05 - $73.66
Dividend/Yield $0.00/0.0%
Market Capitalization (mil.) $21,573
Shares Outstanding (mil.) 177.1
Book Value (09/17) $3.19
ROE .... NM
LT Debt (mil.) $1,157/57%

ServiceNow is a mid-sized software vendor that specializes in automating and standardizing business processes, inside and outside of enterprise IT departments. The company is a pioneer in software-as-a-service (SaaS)-based delivery of IT service management (ITSM) with its proprietary platform, and in 2016, generated $1.4 billion in revenues. ServiceNow was founded by Fred Luddy and is headquartered in San Diego, California with over 3,600 employees.

Emerging Strategic Enterprise SaaS Leader

We see SaaS (Software as a Service) based IT Service Management (ITSM) and enterprise workflow leader ServiceNow (NOW) as one of both the top near-term and secular investment opportunities in our infrastructure software universe. ServiceNow as a SaaS-based service offering disrupted the on-premise ITSM market and now has 33% share of what Gartner calls the $3.4 billion "experience management" market, nearly twice that of former leader BMC.

While ITSM still makes up ~50% of new annual contract value (ACV) each quarter, the driver to take ServiceNow from $1.9B in 2017E revenue to its target of $4.0B by 2020 is the broad range of SaaS enterprise workflow applications that ServiceNow offers to customers as cross-sell that run on the same platform, including HR Service Delivery, Facilities Management, call center Customer Service Management, and Security Operations Management. In line with discussions we've held with a broad range of CIOs and IT decision makers, we see ServiceNow emerging as one of a small handful of key, strategic enterprise SaaS providers able to deliver this breadth of SaaS applications.

Even at nearly $2B in 2017E revenue, ServiceNow continues to grow revenue at nearly 40% y/y, and to do so profitably at expected 16% non-GAAP EBIT margins this year and 25% free cash flow margins. Given strong secular growth, as well as profitability, NOW trades at a 8.6x EV/2018E revenue multiple, a one-point premium to the 7.3x mean for a universe of 30%+ software vendors. Our $142.00 target price is based on a 7.8x multiple applied to our 2019E revenues of $2.5 billion and affords 19% upside from current levels.

— *Michael Turits, Ph.D.*

SS&C Technologies Holdings, Inc. (SSNC:NASDAQ)

12-Month Target Price **$48.00**
Current Price (12/8/2017) **$40.63**
Suitability .... **High Risk/Growth**

FY (Dec)	2016A	2017E	2018E
Non-GAAP EPS	$1.64	$1.93	$2.20
P/E	24.8x	21.1x	18.5x
Revenue (mil)	$1,524	$1,676	$1,761

Hist.12-month Price Range .... $42.48 - $28.43
Dividend/Yield $0.28/0.7%
Market Capitalization (mil.) $8,585
Shares Outstanding (mil.) 211.3
Book Value (09/17) $11.81
ROE 17%
LT Debt (mil.) $2,217/47%

Non-GAAP EPS excludes stock compensation, amortization, and other non-cash/non-operational items.

SS&C Technologies Holdings, Inc. was founded in 1986 and is based in Windsor, Connecticut. The firm is one of the largest fund administrators in the world, with a strength catering to alternative asset managers, and also is a provider of portfolio accounting software to asset managers.

Recurring Revenue Business Model, Talented Management Team, and M&A Optionality

SS&C provides services and software for the global financial services industry. Approximately half its revenue is generated from providing fund administration services to alternative asset managers, with the remainder from providing accounting and other mission-critical software to asset managers, financial advisors, and other financial services firms.

M&A a Core Competency and SS&C Has Significant Financial Flexibility

Led by a disciplined and experienced management team, SS&C has consistently delivered EBITDA and EPS growth over the past 30 years, with much of this growth coming from more than 40 acquisitions. The formula that SS&C has used repeatedly with great success is to acquire businesses that boast recurring revenues and high switching costs and then dramatically improve profit margins by extracting major cost synergies. SS&C is currently levered at 3.2x debt-to-EBITDA, and management has indicated that it would be willing to lever 6.0x for the right deal. Assuming a mid-teens EV/EBITDA target multiple, this suggests roughly $3 billion in M&A capacity, which we've estimated could drive north of $0.50 of run-rate EPS accretion.

SS&C's Stable, Recurring-Revenue Businesses Feed the M&A Machine

The high switching costs inherent in SS&C's businesses, combined with industry-leading technology and track record of strong customer service, have historically led to very high (>95%) client retention rates. SS&C's ability to drive 40%+ EBITDA margins from these businesses allows the firm to generate the cash flow required to support its aggressive M&A strategy. To be sure, SS&C has posted middling organic growth of late, with 3% organic, FX-neutral revenue growth in 2016 and an expected 4% in 2017. That said, we believe that even this level of organic growth is perfectly sufficient to support SS&C's M&A ambitions, while better sales execution combined with easier non-recurring revenue comps in 2018 could lead to improvement going forward.

If M&A Opportunities Don't Materialize, Optionality to Be Taken Private

In June 2017, *Bloomberg* reported that SS&C had reached out to private equity firms to gauge buyout interest, although clearly nothing materialized at the time. Should SS&C's acquisition aspirations be foiled by lack of opportunities or valuation, however, we believe there is a reasonable likelihood that SS&C could be taken private in 2018 as it once was in 2005. In our view, SS&C's recurring revenue model, Chairman and CEO Bill Stone's 16% insider ownership, and continued debt reduction make this a feasible scenario.

Price Target $48

Our 12-month price target is $48.00, reflecting a weighted average of three valuation scenarios: an organic scenario, an acquisition(s) scenario, and a private equity takeout scenario. Please see our Company Comment published on December 10, 2017, for more details.

— *Patrick O'Shaughnessy, CFA*

SVB Financial Group (SIVB:NASDAQ)

12-Month Target Price **$272.00**

Current Price (12/8/2017) **$232.27**

Suitability .... **High Risk/Growth**

FY (Dec)	2016A	2017E	2018E
Non-GAAP EPS	$7.31	$9.69	$11.75
P/E	31.8x	24.0x	19.8x
Revenue (mil)	$1,608	$1,968	$2,277

Non-GAAP EPS excludes the sale of certain securities.

Hist.12-month Price Range ....$236.18 - $159.44

Dividend/Yield $0.00/0.0%

Market Capitalization (mil.) $12,241

Shares Outstanding (mil.) 52.7

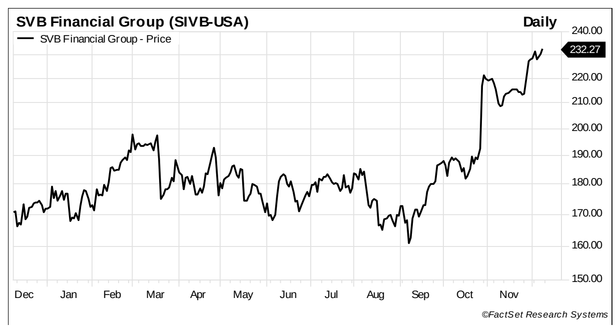
Book Value (09/17) $77.00

ROE 12%

SVB Financial Group, headquartered in Silicon Valley, utilizes a unique business model, which provides a wide range of financial services targeted primarily to businesses and individuals in the technology, life sciences, private equity (PE), and venture capital (VC) communities. The company has $52 billion in total assets, and its operations extend to offices located throughout the world.

Unique Bank Model With Leverage to Tax/Regulatory Reform

Niche lender to tech industry generates strong growth and profitability. SVB Financial Group utilizes a unique business model, which provides a wide range of financial services targeted primarily to businesses and individuals in the technology, life sciences, private equity, and venture capital communities. The company has $52 billion in total assets, and its operations extend to offices located throughout the world. It grew EPS at a strong 12% CAGR from 2006-2016, while maintaining relatively strong profitability metrics (11% ROE). We expect a strong operating backdrop to lead to continued strong growth and profitability in 2018 and beyond. See our report detailing EPS forecasts published December 5 (Link).



One of the most asset-sensitive banks. SVB has one of the most asset-sensitive balance sheets in the industry, driven by a large percentage of variable-rate loans tied to short-term interest rates and a low-cost deposit base, as it arguably carries the lowest deposit beta in the industry. Each 25 bp increase in short-term interest rates increases EPS by approximately $0.60, all else equal, before any impacts of tax reform (which would enhance the impact). Recall that management's guidance for net interest income in 2018 of mid-teen to low-twenties growth assumes no rate hikes; please see our asset sensitivity analysis published December 5 (Link).

Highly levered to tax and regulatory reform. With an effective tax rate near 38% and few tax strategies implemented, SVB is poised to capture most of the reduction in the corporate tax rate in its effective tax rate, positioning it as one of the biggest winners from tax reform. This is particularly true if state and local tax deductions are included in the reform, as its primary markets are in the high-state-tax state of California. Additionally, it would benefit from no longer being designated a Systemically Important Financial Institution (SIFI) if the minimum is raised from $50 billion in assets (which the bank just exceeded).

Pristine credit quality. SVB has seen net charge-offs of just 0.64% of average loans on average, from 2006-2016, proof of its intimate knowledge of the tech space and strong underwriting standards. Additionally, its significant growth in the private equity/venture capital call lines lending business has improved the overall credit quality of its portfolio, as losses are negligible in the portfolio and it has grown the portfolio significantly in recent years.

Favorable operating environment. SVB benefits from strong equity markets due in part to its ownership of warrants in early stage companies, which it can monetize through IPOs or acquisitions, and which are recognized as securities or derivatives gains. Recall that SVB benefitted in 3Q17 from its ownership in Roku (ROKU) shares, contributing to large gains on equity warrants (likely converted to common equity shares); thus far in 4Q, ROKU shares have appreciated 69%.

EPS estimates conservative. Recall that our EPS estimates include no rate hike in 2017, two hikes in 2018 (June and September), and one hike in 2019 (June) and do not include any potential benefit from tax reform. With the high likelihood of a rate hike in December and consensus expectations for at least two more hikes in 2018, combined with corporate tax reform now likely to be finalized in the near-term, we believe our EPS estimates may be conservative.

Should trade at a premium valuation multiple to peers. SIVB trades at 19.8x our 2018 EPS estimate of $11.75, a premium to its high-growth bank peer average of 16.7x. Our 12-month price target of $272.00 assumes shares trade at 20x our 2019 EPS estimate of $13.60, a premium to higher-growth bank peers due to its unique model, stronger loan and EPS growth, and significant asset sensitivity.

— *David J. Long, CFA*

UnitedHealth Group Incorporated (UNH:NYSE)

12-Month Target Price **$250.00**
Current Price (12/8/2017) **$223.91**
Suitability .... **Medium Risk/Growth**

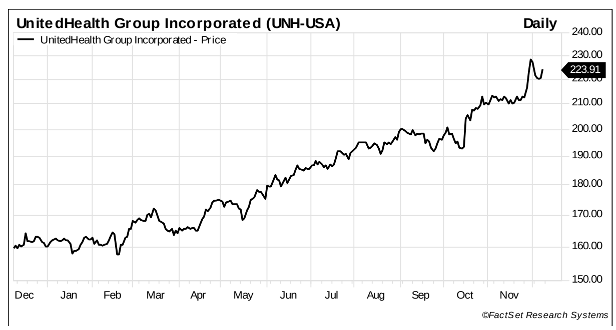
FY (Dec)	2016A	2017E	2018E
Non-GAAP EPS	$8.05	$10.00	$10.76
P/E	27.8x	22.4x	20.8x
Revenue (mil)	$184,000	$199,643	$222,587

Hist.12-month Price Range .... $231.77 - $156.09
Dividend/Yield $3.00/1.3%
Market Capitalization (mil.) $216,969
Shares Outstanding (mil.) 969.0
Book Value (09/17) $46.67
ROE 21%
LT Debt (mil.) $24,723/39%

Non-GAAP EPS exclude one-time items, as well as non-cash amortization expense pertaining to acquisition-related intangible assets. Actual revenue results exclude investment income.

UnitedHealth Group, based in Minneapolis, Minnesota, provides a diverse and comprehensive array of health and well-being services to people through all stages of life. The company consists of six market-facing business segments: UnitedHealthcare Employer & Individual providing health benefit products and services to businesses and individuals; UnitedHealthcare Medicare & Retirement offering health benefit products and services to senior citizens; UnitedHealthcare Community & State serving state sponsored programs including Medicaid; OptumHealth providing population health management solutions that address the physical, mental and financial needs of organizations and individuals; OptumInsight offering technology services, information, analytics, business services and consulting; and OptumRx specializing in the delivery, clinical management and affordability of prescription medications and consumer health products.

Well-Positioned to Benefit From Dynamic Healthcare Backdrop



Leading Diversification and Scale

UnitedHealth continues to benefit from industry-leading scale and diversification that allows the company to drive sustained share gains and above-average growth, despite its larger size. UnitedHealth leverages its fast-growing health services arm, Optum, to address the three major healthcare trends occurring in the U.S.: rising consumerism, shift to value-based care, and utilizing data to improve outcomes and the consumer experience.

Outgrowing Peers in Key Markets

UnitedHealth's strong projected growth for Medicare Advantage (MA) and Pharmacy Benefit Management (through OptumRx) in 2018 demonstrate how the company leverages greater scale/capabilities to drive above-market growth – 10-11% membership growth in MA compared to high-single digits for the industry and 2-4% adjusted script growth in OptumRx compared to flat PBM industry growth. In addition, the company has been gaining share in the Health Transformation Alliance, with five new commercial employer clients emerging from its contract with the employer coalition. Finally, UnitedHealth has an opportunity to drive further gains in the PBM and insurance businesses due to the pending CVS/Aetna merger, which could potentially be as disruptive as the now-failed insurer-to-insurer mega mergers (Anthem/Cigna and Aetna/Humana).

Continued Investment in Optum Bolsters Growth Opportunity

The acquisitions of Surgical Care Affiliates (outpatient surgical centers) for OptumHealth and The Advisory Board (healthcare research and advisory) for OptumInsight represent a continued commitment to invest in Optum, given its robust long-term growth opportunity and large/growing addressable market, $600B in the U.S. and $800B internationally. In 2018, all three Optum segments are pegged to grow operating earnings by double-digits (16-19% in total), a trend we see continuing for the foreseeable future. OptumCare (part of OptumHealth), which currently has ~$12B in revenue, could potentially grow to ~$160B over time given the growing demand for lower-cost provider options that address an increasingly consumer-oriented market.

Valuation

UNH trades at ~18x our 2019 adjusted EPS estimate of $12.30, at the high end of the two-year historical range of 10-18x forward estimated earnings. Our price target of $250.00 assumes the stock will trade at ~20x our 2019 adjusted EPS estimate of $12.30. We believe our view is justified by the company's scale advantage, share gains, and conservative guidance.

— *Michael J. Baker*

Weyerhaeuser Company (WY:NYSE)

12-Month Target Price **$40.00**
Current Price (12/8/2017) **$35.43**
Suitability .... **Medium Risk/Income**

FY (Dec)	2016A	2017E	2018E
GAAP EPS	$1.39	$0.75	$1.40
P/E	25.5x	47.2x	25.3x
Revenue (mil)	$6,795	$7,181	$7,247

Hist.12-month Price Range .... $36.92 - $29.81
Dividend/Yield $1.24/3.5%
Market Capitalization (mil.) $26,817
Shares Outstanding (mil.) 756.9
ROE 8%

Weyerhaeuser Company, based in Seattle, Washington, is one of the world's largest owners of timberlands. The company is also one of the largest manufacturers of wood products. Weyerhaeuser is the largest timber REIT based on equity market capitalization.

Further Improvements in Single-Family Construction Poised to Drive Additional Upside

Weyerhaeuser is uniquely positioned given its platform. Weyerhaeuser, the largest private owner of timberland in the U.S. with 12.8 million acres, is an attractive and increasingly efficient company (due to its cost savings and operational excellence initiatives, as well as its unmatched scale) that benefits from a favorable U.S. housing backdrop. In addition to its timberland operations, the company has a sizable wood products business that we believe will benefit from the particularly favorable supply/demand dynamics for lumber given the supply constraints associated with Canada, healthy demand from overseas markets, and the upward trend in single-family construction activity. We expect log prices to only improve slightly in the U.S. South and the oriented strand board market to feel the effects of new supply in 2018. That said, we believe the company's cash flow generation, healthy log prices in the Pacific Northwest, exposure to lumber prices, and unmatched scale are key differentiators relative to timber REIT peers. Additionally, we would reiterate that Weyerhaeuser is uniquely positioned as a REIT that could directly benefit from corporate tax reform given its sizable wood products business/taxable REIT subsidiary. We believe it is important to highlight the strong correlation between WY shares and fluctuations in lumber prices (+0.85) over the last year.

Outlook for the timber REITs remains encouraging. Approaching 2018, we remain constructive on the timber REIT sector as we anticipate 1) further improvements in single-family residential construction (driven by limited existing inventory), 2) lumber prices will be supported by the countervailing/antidumping duties on softwood lumber imports into the United States from Canada, 3) the sector will be less impacted by the headwinds weighing on the broader REIT universe, and 4) lumber production in the U.S. South will increase – helping set the stage for upward pressure on log prices in select wood baskets (we continue to anticipate any lift will be gradual). Moreover, Vanguard recently announced voters approved changes to the Vanguard REIT Index Fund and the Variable Insurance Fund-REIT Index Portfolio. The new benchmark includes the timber REITs and we view the vote result as a positive (albeit largely expected) as it relates to potential future inflows into the sector. All of these factors contribute to our positive stance and **Strong Buy** rating on Weyerhaeuser.

Cash flow and balance sheet offer flexibility. In our view, the flexibility offered by Weyerhaeuser's balance sheet and cash flow is enviable and will become increasingly visible in 2018. Net debt/EBITDA stands at a conservative 2.9x. In turn, we expect the company's strong balance sheet and cash flow to translate into debt reduction, accretive investment activity (especially with Weyerhaeuser recently terminating the management agreements associated with the Twin Creeks joint venture and growth opportunities emerging into the market), share repurchases ($500 million remains under its existing authorization), and/or further dividend increases (the company announced a 3% bump in November) over the next few years.

Upside still exists, despite strong performance in 2017. The timber REITs have performed well thus far in 2017 and are collectively up 18% YTD, (while the broader REIT universe has only posted a 4.2% increase). Specifically, WY shares have climbed 18% YTD. Our long-held view is that well-run, publicly traded REITs typically trade within a 20% range (above or below) of net asset value, with the wide range attributable to the various stages of the real estate cycle and a variety of company-specific factors (such as growth prospects, management, and balance sheet quality). Given the strength in lumber pricing we expect in 2018, the healthy log price environment in the Pacific Northwest, steady progress on Weyerhaeuser's operational excellence initiatives, and the flexibility offered by the company's balance sheet/cash flow, we believe WY shares should warrant a healthy premium to our current NAV estimate of $34.00. Our $40.00 price target reflects WY shares trading closer to a 20% premium in the current environment.

— *Collin Mings, CFA*

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	Coverage Universe Rating Distribution*			Investment Banking Distribution		
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Underperform (Sell)	5%	3%	14%	10%	29%	0%

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