Top 25 Tactical Trades for Earnings Season

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Call buying is unusually attractive this quarter as (1) Elevated put prices in single stocks show that investors are nervous ahead of earnings, (2) Earnings expectations are just in-line with last quarter, and (3) our analysts' price targets suggest more upside potential than at any time since 4Q19. In this report, we leverage our equity analysts' fresh estimates and qualitative comments to identify the 25 most out-of-consensus opportunities from our Americas coverage. Our analysts see potential for upward earnings revisions to drive upside in 19 names including BAC, CF, CG, CVE and MRVI; they expect downward earnings revisions to drive downside in six names including ABNB and TAP.

- **Our analysts' price targets are at a 3-year high ahead of earnings.** Our analysts' weighted average price target implies +14% upside over the next 12 months to S&P 500 stocks in our coverage (vs 8-year average of +9% upside implied). Based solely on this metric's relationship with quarterly returns in the past, we would expect stocks to be up 6% this quarter.
- **3Q21 earnings estimates appear undemanding in the context of economic growth.** Analyst estimates for 3Q21 earnings have been revised up 12% over the past 3 months, but are 2% below 2Q21 (ex-Financials). S&P earnings have grown at 2x the rate of GDP for the past 4 quarters and our economists estimate GDP grew 3.25% in 3Q.
- **Single Stock put-call skew is at its highest level in over a year.** Given investors are well hedged, even modest earnings beats are likely to drive a relief rally in specific stocks (on earnings day) and the broad index (over the next three months; email us for historical evidence).
- **Equity inflows have been solid over the past three months;** our model suggests the SPX should have traded up 7% (vs its flat total return).

Our 25 most differentiated ideas for the next 3 months of earnings

Exhibit 1: Companies where our analysts are most out-of-consensus for the coming quarter and expect shares to move
Goldman Sachs analyst estimates vs. consensus; options chosen are monthly expiry closest to first out of the money calls, puts

Upside to estimates

					EPS: GS vs Consensus		Chg in EPS consensus	Stock Move		Options : (buy calls)		
Company	**Ticker**	**Sector**	**Earnings date (e)**	**GS Rating**	**Current Q**	**Next 4 Q's**	**vs 2 months ago**	**Implied Move %**	**8Q avg move %**	**Term**	**strike**	**cost**
Lowe's Cos.	LOW	**Discretionary**	17-Nov	B	> 20%	5%	0%	4.9	4.0	November	210.00	3.4%
Starbucks Corp.	SBUX	**Discretionary**	28-Oct	B	8%	6%	(0%)	3.5	3.6	November	115.00	1.5%
YETI Holdings	YETI	**Discretionary**	11-Nov	B	8%	3%	0%	8.4	6.0	November	85.00	5.9%
Canadian Natural	CNQ	**Energy**	4-Nov	B	15%	> 20%	0%	2.8	2.6	November	41.00	4.0%
Cenovus Energy	CVE	**Energy**	3-Nov	B	> 20%	> 20%	1%	7.7	4.3	November	12.00	5.2%
Bank of America	BAC	**Financials**	14-Oct	B*	10%	4%	(0%)	3.2	2.8	October	44.00	1.1%
Carlyle Group	CG	**Financials**	28-Oct	B	> 20%	12%	3%	3.1	3.3	November	50.00	4.0%
Intercontinental Exc	ICE	**Financials**	28-Oct	B*	8%	3%	1%	4.1	1.4	November	130.00	1.9%
Signature Bank	SBNY	**Financials**	20-Oct	B	7%	5%	0%	4.5	4.7	November	300.00	5.0%
Align Tech	ALGN	**Healthcare**	27-Oct	B	2%	3%	(0%)	8.2	12.5	November	630.00	6.1%
Maravai Life	MRVI	**Healthcare**	3-Nov	B	> 20%	7%	(1%)	4.9	1.7	November	40.00	11.0%
Fortune Brands	FBHS	**Industrials**	26-Oct	B	5%	7%	(0%)	5.0	2.9	November	95.00	2.9%
Republic Services	RSG	**Industrials**	28-Oct	B*	5%	6%	0%	3.3	1.7	November	130.00	1.3%
Shoals Tech	SHLS	**Industrials**	10-Nov	B	16%	14%	(1%)	10.4	2.7	November	30.00	7.6%
CF Industries	CF	**Materials**	3-Nov	B	> 20%	17%	(1%)	6.1	3.8	November	62.50	4.0%
Freeport-McMoRan	FCX	**Materials**	21-Oct	B*	1%	> 20%	0%	8.8	4.0	November	35.00	5.7%
Okta Inc	OKTA	**TMT**	6-Dec	B	> 20%	> 20%	11%	5.3	5.0	January	240.00	7.3%
Playtika	PLTK	**TMT**	12-Nov	B	2%	1%	0%	6.2	4.4	November	30.00	2.0%
Uber Technologies	UBER	**TMT**	5-Nov	B	> 20%	8%	2%	9.1	7.1	November	47.50	5.1%
Average					**12%**	**10%**	**1%**	**5.8**	**4.1**			**4.5%**

Downside to estimates

					EPS: GS vs Consensus		Chg in EPS consensus	Stock Move		Options : (buy puts)		
Company	**Ticker**	**Sector**	**Earnings date (e)**	**GS Rating**	**Current Q**	**Next 4 Q's**	**vs 2 months ago**	**Implied Move %**	**8Q avg move %**	**Term**	**strike**	**cost**
Williams-Sonoma	WSM	**Discretionary**	22-Nov	S	(10%)	(8%)	4%	15.2	10.1	December	170.00	7.2%
A.O. Smith Corp	AOS	**Industrials**	28-Oct	S	(7%)	(12%)	(0%)	6.0	4.3	November	60.00	2.3%
Huntington Ingalls	HII	**Industrials**	4-Nov	S	< -20%	(10%)	(0%)	5.7	4.1	November	210.00	4.5%
Molson Coors	TAP	**Staples**	28-Oct	S	(7%)	(12%)	(1%)	6.9	5.4	November	45.00	3.8%
Airbnb Inc	ABNB	**TMT**	16-Nov	S	(3%)	(20%)	10%	1.8	6.1	November	170.00	4.9%
Pinnacle West	PNW	**Utilities**	5-Nov	S	(5%)	(8%)	(0%)	4.3	2.0	November	65.00	3.2%
Average					**(9%)**	**(12%)**	**2%**	**6.6**	**5.3**			**4.3%**

*Indicates the stock is on the Conviction List. See the following content for drivers of our analysts' views. Prices as of Oct 12, 2021. CNQ, CVE, MRVI, FBHS, RSG, SHLS, CF, FCX, OKTA, PLTK, UBER, AOS and ABNB estimates are based on EBITDA. ALGN estimates are based on Revenue.

Source: Goldman Sachs Global Investment Research, Thomson Reuters, Bloomberg

Options risks: Call buyers risk losing their premium paid if shares close below the strike price at expiration. Put buyers risk losing their premium paid if shares close above the strike price at expiration.

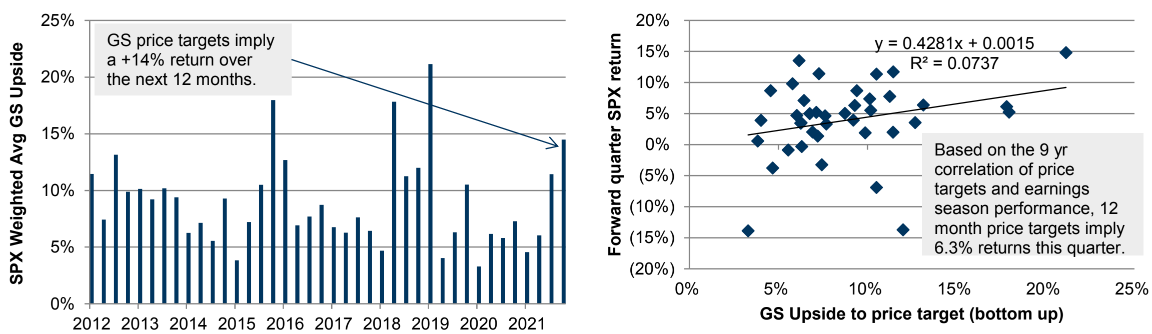
Options prices and volatility levels in this note are indicative only, and are based on our estimates of recent mid-market levels and exclude transaction costs, unless otherwise stated. Practical implementation of any trading strategy discussed herein may not be achievable and as a result, any projected results of any such trading strategy discussed herein may not be replicable.

GS Price Targets: Above average for S&P 500, Biotech/Semis have high risk-adjusted upside

Our single stock analysts' price targets imply 14% upside over the next year for the weighted average of S&P 500 companies in our coverage. This is well above the 8-year average of +9% at this time ahead of earnings, and it is higher than all but three quarters over the past 8 years.

We find that the bottom up calculation of the weighted average upside to the S&P 500 (based on individual stock price targets from our analysts) has been a useful guide for assessing the potential for upside in the broad equity market ahead of earnings season. **A model based solely on the historical correlation between GS price targets and the S&P 500 performance during the subsequent quarter suggests the S&P 500 should trade up 6.3% over the next three months.** Of course, there are other "top-down" factors that should be considered when coming up with a forecast for the S&P 500 that are not included here.

Exhibit 2: Weighted average upside to price targets suggests 6.3% SPX return this quarter
Weighted average price target for S&P 500 companies (bottom up) vs. quarterly SPXTR performance



Source: Goldman Sachs Global Investment Research

Biotech and Semiconductors stand out with the elevated upside relative to January 2022 call prices. We compare the weighted average single stock price targets to sector and factor Jan 2022 call prices to identify attractive risk-adjusted upside opportunities. For example, our analysts cover 49% of the weight of the iShares NASDAQ Biotech ETF (IBB) and have a weighted average upside to price target of +44%, this implies a return of 766% on buying an IBB Jan 2022 at-the-money call for 5.1%. While this would be a shorter time-frame than implied by the 12-month single stock price targets, it helps to give perspective on risk-adjusted return expectations.

The upside implied by our analysts' price targets is low relative to the cost of options for the Energy E&P (XOP), S&P Energy (XLE) and S&P Financials (XLF) ETFs.

Exhibit 3: IBB and SMH have the highest implied call return based on our analysts' single stock price targets
Weighted average valuation for major ETFs and implied return on buying Jan-2022 ATM calls if ETFs reach their implied valuation

						Jan-2022 OTC ATM call	
ETF Type	Name	Ticker	Implied wgted upside	% of ETF wgt covered by analysts	Current ETF Price	Cost of call	Implied call return
Sector	iShares NASDAQ Biotechnology	IBB	44.0%	49%	155.12	5.1%	**766%**
Sector	VanEck Vectors Semiconductor	SMH	31.5%	89%	254.66	3.8%	**724%**
Sector	SPDR S&P Biotech	XBI	42.6%	49%	123.44	6.3%	**572%**
Sector	Communication Services SPDR	XLC	25.0%	85%	80.98	4.1%	**515%**
Sector	Materials SPDR	XLB	19.0%	88%	81.18	4.1%	**361%**
Sector	Industrial SPDR	XLI	17.0%	94%	100.95	4.0%	**325%**
Sector	Consumer Staples SPDR	XLP	11.5%	96%	70.05	2.7%	**320%**
Sector	Consumer Discretionary SPDR	XLY	17.3%	89%	182.63	4.2%	**317%**
Broad Index	Vanguard Total Stock Market	VTI	14.9%	71%	226.39	3.7%	**308%**
Broad Index	SPDR S&P 500	SPY	14.5%	77%	437.86	3.6%	**304%**
Sector	Health Care SPDR	XLV	13.7%	39%	126.94	3.5%	**291%**
Broad Index	Invesco QQQ	QQQ	17.5%	85%	361.11	4.6%	**284%**
Smart Beta	Invesco S&P 500 Equal Weight	RSP	13.2%	73%	153.10	3.7%	**260%**
Sector	SPDR S&P Retail	XRT	19.8%	35%	90.84	5.6%	**256%**
Sector	iShares PHLX Semiconductor	SOXX	19.6%	93%	443.82	5.8%	**238%**
Smart Beta	Invesco S&P 500 Low Volatility	SPLV	9.6%	75%	61.88	3.3%	**195%**
Smart Beta	iShares Select Dividend	DVY	8.7%	66%	117.73	3.2%	**168%**
Sector	Technology Select Sector SPDR	XLK	11.9%	79%	151.96	4.6%	**159%**
Sector	Utilities SPDR	XLU	8.2%	97%	64.77	3.3%	**147%**
Sector	Financial SPDR	XLF	9.2%	67%	39.02	4.4%	**109%**
Sector	SPDR S&P Metals & Mining	XME	15.4%	48%	42.45	7.8%	**99%**
Sector	Energy SPDR	XLE	4.2%	100%	56.57	6.4%	**(35%)**
Sector	SPDR S&P Oil & Gas E&P	XOP	0.3%	67%	105.37	9.5%	**(97%)**

Pricing as of 8-Oct-21 close

Source: Goldman Sachs Global Investment Research, Bloomberg

Methodology: We calculate the sum of the weight of each stock in each index that underlies each ETF and multiply by the upside to price target and divide by the total weight that is covered by our analysts.

Analysts' estimates have been conservative for the past 4 quarters

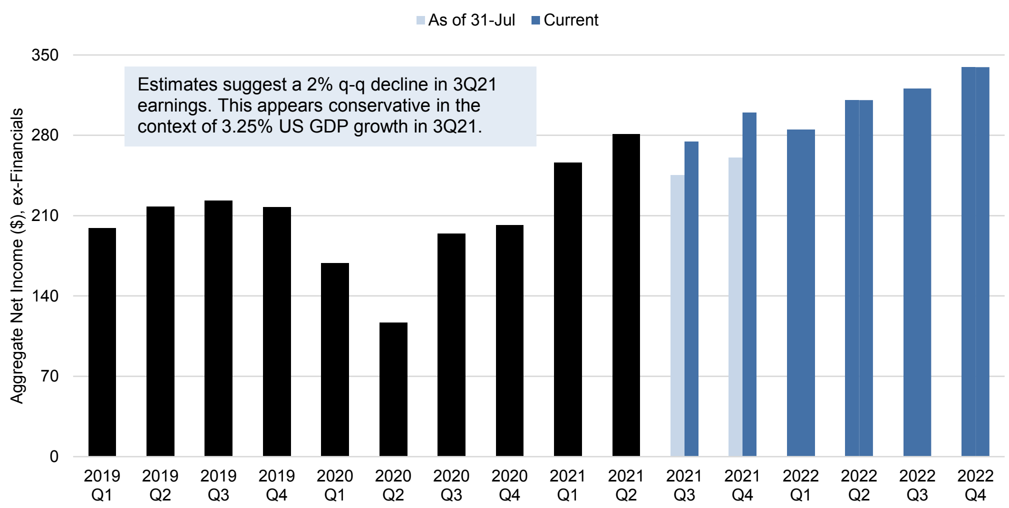
This section authored by Tactical Research analyst Deep Mehta

Our analysts' bottom up forecasts for 3Q21 earnings have been revised up 12% over the past 2.5 months (ex-financials), while the SPX total return has been flat. Even after these upward revisions, our analysts are expecting a 2% decline in earnings from last quarter. This is a similar set-up as the past 4 quarters; and in each of the past 4 quarters, companies topped conservative estimates (in aggregate). While we agree that economic growth is likely to slow in the next several quarters (see our economists' latest estimates), we believe (roughly) flat earnings estimates over the next three quarters likely underestimates the potential for large companies to outperform the broad economy through gaining share from smaller private companies. In fact, over the past 4 quarters, profit growth for S&P 500 companies has been more than double US GDP growth. Our economists estimate 3Q21 US GDP grew 3.25%.

Given the increasing relative scarcity of positive earnings revisions, we expect investors to reward beats and raises more than in recent quarters. Our analysis of small-cap estimate revisions and stock reactions show that positive revisions are increasingly being rewarded vs. negative even as upward earnings revisions have been smaller than in 2Q21.

Exhibit 4: Earnings estimates are undemanding for this quarter, despite significant upward revisions over the past 3 months

Aggregate quarterly net income estimates based on GS bottom up estimates (ex-Financials)



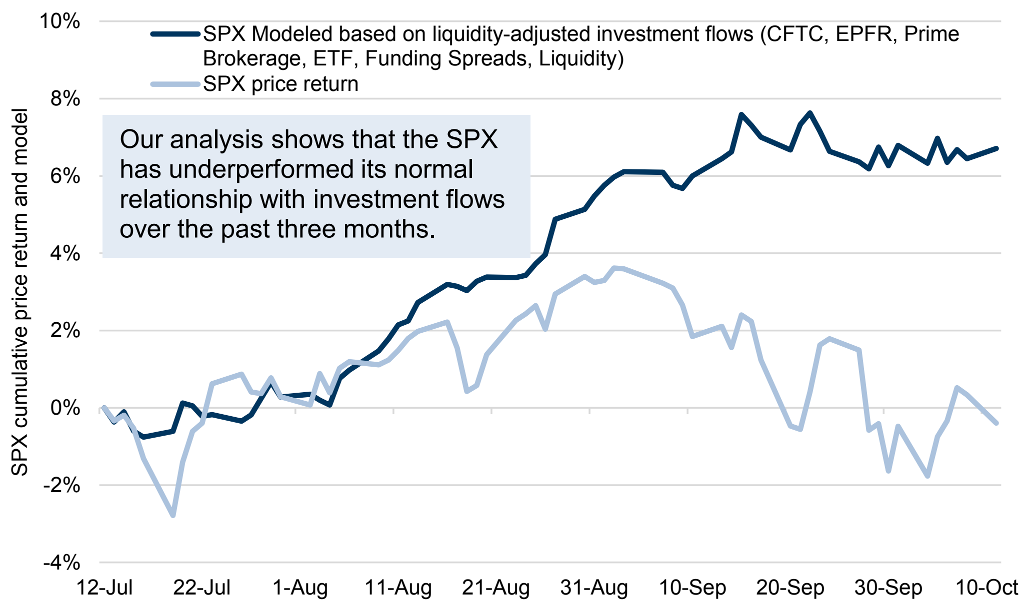
Source: Goldman Sachs Global Investment Research

Methodology: *The analysis above includes 324 names under GS coverage.*

SPX lagged investment flows this quarter; Options show bearish positioning

We have found that S&P 500 daily returns are positively correlated with flows. In the context of solid flows across ETFs, mutual funds, hedge funds and other derivatives, we would have expected the SPX to have rallied 7% over the past three months, but it was flat. When SPX returns and flows deviate, they tend to mean-revert in subsequent periods (see methodology for more details). Our methodology contrasts with many market participants which use flows as contrarian indicators. While others assume that cash available to invest is roughly fixed, we believe factors can drive an expansion or contraction in assets to invest.

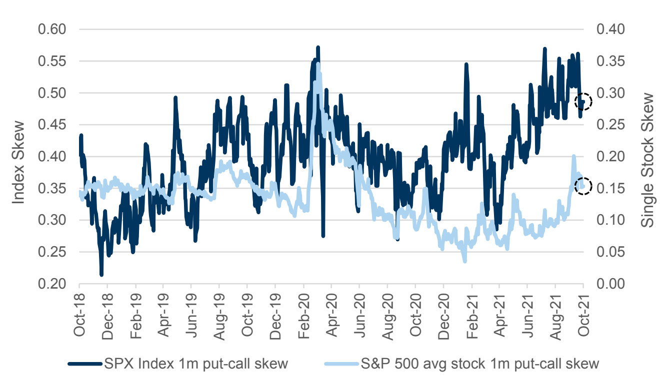
Exhibit 5: Strong investment inflows suggest the S&P 500 should have risen more than it did this quarter
Modeled SPX return based solely on liquidity-adjusted investment flows (see 2-Jul-2020 report for methodology)



Source: Goldman Sachs Global Investment Research, Goldman Sachs Group Inc., Bloomberg, CFTC, EPFR

Investors appear positioned for downside asymmetry in single stocks and index options. S&P average stock put-call normalized skew is one of the best indicators of investor sentiment as it the cost of hedging downside risk vs upside risk across 500 separate underliers. We view this metric as a "crowd-sourced" view of risk aversion as it is difficult for any one large investor to drive single stock skew (unlike index where one large position can color the market's perception of risk). Single stock put skew is highly correlated with forward SPX returns and currently suggests we should be more bullish than average.

Exhibit 6: Both index and single stock skew are elevated vs recent history
S&P 500 index and average stock put-call normalized skew (25dp-25dc)/50dc

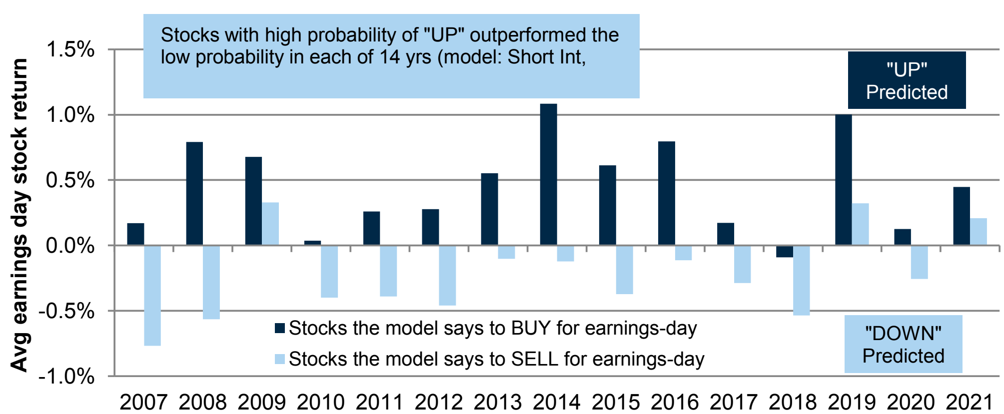


Source: Goldman Sachs Group Inc., Goldman Sachs Global Investment Research

Predicting Earnings Day Direction: Recent performance and highlights

We collaborate closely with our equity analysts to identify which stocks are likely to see positive or negative earnings revisions. In our study, we find this has been the most important factor for predicting the direction of a stock's move on earnings-day; however, we find that almost as much predictive power can be gained by using a handful of other positioning and fundamental variables that can be known ahead of each earnings-event. **Our four favorite variables (Implied Move, Short Interest, Upside to Price Target, the Growth Factor) have been useful for predicting earnings day direction over the past 14 years.** Below, we show the standout names among the 175 S&P 500 companies under coverage reporting in October. Our logistic regression uses the four variables to mechanically estimate the probability of an up-move on earnings-day using the latest available data (important: data below should not be confused with a fundamental call on earnings or the stock this quarter). Probabilities of above 53% have been top quintile over the past 14 years and suggest that positioning is such that the stock has an elevated probability of going up on earnings-day. Probabilities of below 47% have been bottom quintile and suggest the opposite. See Predicting Earnings Day Direction: a 20-year Study for more details on the predictive power of positioning data.

Exhibit 7: Positioning data is consistently useful for predicting earnings-day direction
Avg stock return on earnings day: Top quintile, Bottom quintile by year



Source: Goldman Sachs Global Investment Research, Bloomberg

Exhibit 8: UAL, ENPH, AMD, LVS and FB look more likely to rise than other stocks due to high implied moves, price targets, growth

Probability of an up-move on earnings-day based solely on positioning data (for stocks reporting through Oct 30)

Ticker	Name	Earnings Date	Implied Move (+/-)	Short Int (DTC)	Upside to GS PT	IP Growth %-ile	Prob of UP move
Elevated Probability of UP move on earnings days based solely on Positioning data							
UAL	United Airlines Holdings	19-Oct	11.1%	1.3	32%	85.2	**55.6%**
ENPH	Enphase Energy Inc.	25-Oct	13.5%	2.7	30%	70.6	**55.2%**
AMD	Advanced Micro Devices Inc.	25-Oct	8.5%	1.4	21%	84.6	**54.6%**
LVS	Las Vegas Sands Corp.	19-Oct	8.3%	1.2	82%	72.2	**54.2%**
FB	Facebook Inc.	25-Oct	7.4%	1.2	40%	74.2	**53.9%**
ALK	Alaska Air Group Inc.	21-Oct	6.9%	1.3	56%	79.8	**53.8%**
LRCX	Lam Research Corp.	19-Oct	6.9%	1.6	29%	83.2	**53.8%**
SLB	Schlumberger Ltd.	22-Oct	8.0%	2.0	14%	74.0	**53.7%**
SIVB	SVB Financial Group	21-Oct	7.4%	1.8	16%	74.8	**53.6%**
AMZN	Amazon.com Inc.	27-Oct	6.1%	1.5	31%	81.0	**53.5%**
Elevated Probability of DOWN move on earnings days based solely on Positioning data							
FFIV	F5 Networks Inc.	26-Oct	6.6%	8.8	-16%	12.8	**45.9%**
TAP	Molson Coors Beverage Co.	28-Oct	6.9%	8.6	-6%	9.0	**46.0%**
BXP	Boston Properties Inc.	26-Oct	3.4%	6.7	-4%	24.2	**46.1%**
KHC	Kraft Heinz Co.	27-Oct	3.7%	4.8	-8%	4.6	**46.6%**
WHR	Whirlpool Corp.	21-Oct	6.1%	9.8	46%	7.8	**46.8%**
ITW	Illinois Tool Works	28-Oct	3.1%	4.9	12%	24.0	**47.0%**
KMB	Kimberly-Clark Corp.	25-Oct	3.3%	3.9	7%	8.8	**47.0%**
KEY	KeyCorp	21-Oct	2.3%	3.9	9%	26.8	**47.3%**
TROW	T. Rowe Price Group	28-Oct	5.0%	5.0	-11%	21.2	**47.5%**
HSY	Hershey Co.	28-Oct	3.2%	3.4	7%	17.6	**47.5%**

Pricing as of 11-Oct

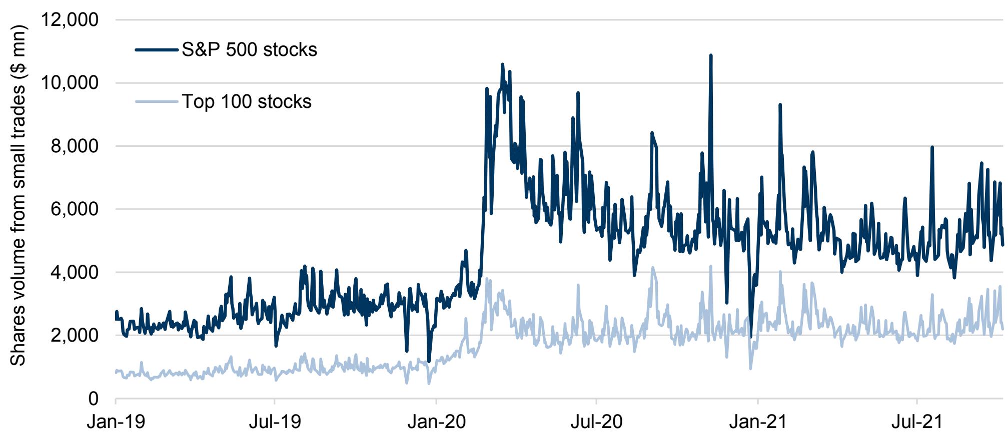
Source: Goldman Sachs Global Investment Research, Goldman Sachs Group Inc.

Individual investor volumes remain elevated

Retail trading volumes remain elevated relative to history. We continue to see the potential for "small-lot" trading activity to decline from current levels, but we expect retail trading activity to settle at a higher level relative to professional investor trading activity than in 2019.

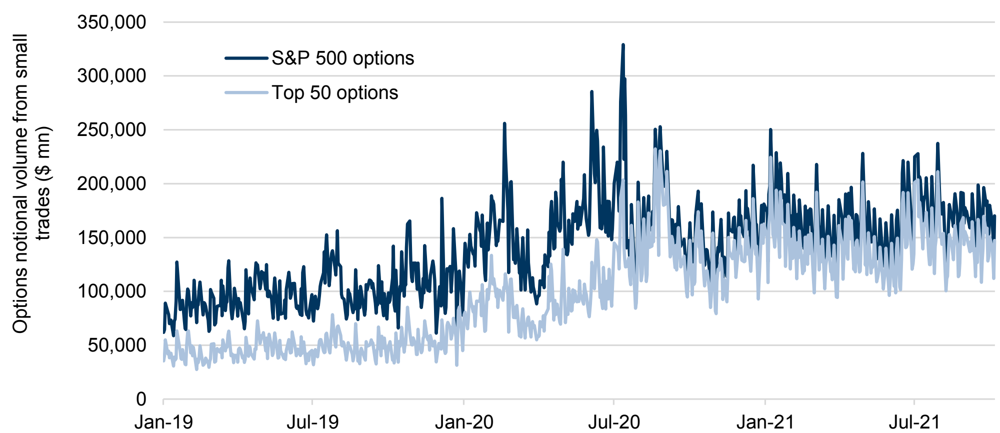
The real story is the huge increase in single stock options volumes relative to shares volumes. The notional value of single stock options traded on a daily basis was around 50% of shares volumes in 2019, but has increased to 140% of shares volumes for much of last quarter.

Exhibit 9: Individual investor activity has declined YTD
Shares dollar volume from small trades ($ mn)



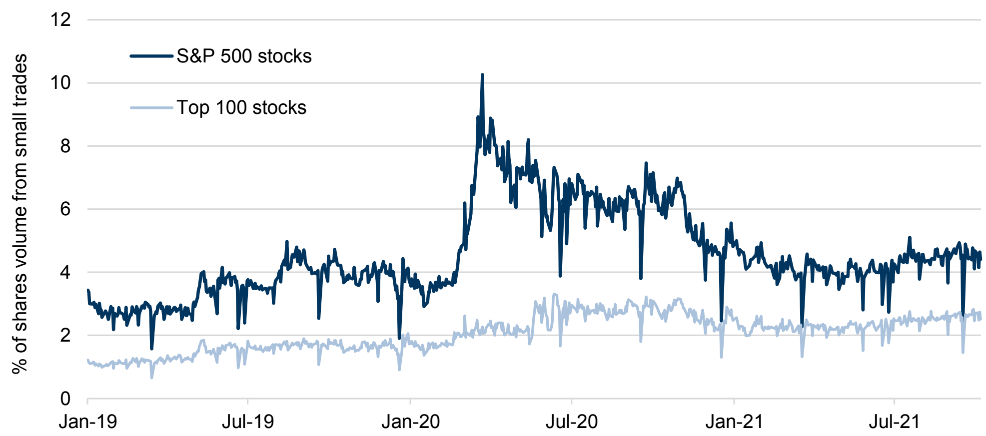
Source: Goldman Sachs Global Investment Research, Bloomberg

Exhibit 10: Individual Investors activity in options has declined recently
Options notional traded volume from small trades ($ mn)



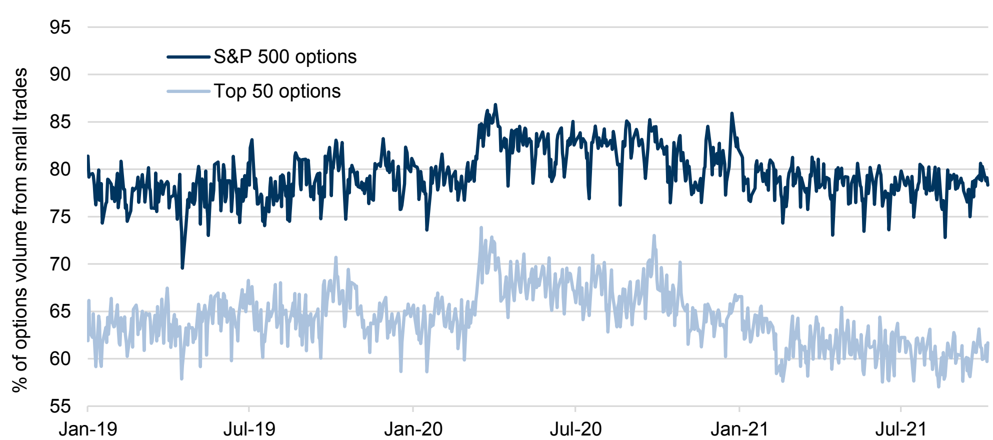
Source: Goldman Sachs Global Investment Research, Bloomberg

Exhibit 11: Individual investor activity in % of volume has declined YTD
Percentage of daily volume from small trades



Source: Goldman Sachs Global Investment Research, Bloomberg

Exhibit 12: Individual Investors account for a slightly lower percentage of options volume in recent days
Percentage of options volume from small trades



Source: Goldman Sachs Global Investment Research, Bloomberg

Methodology:

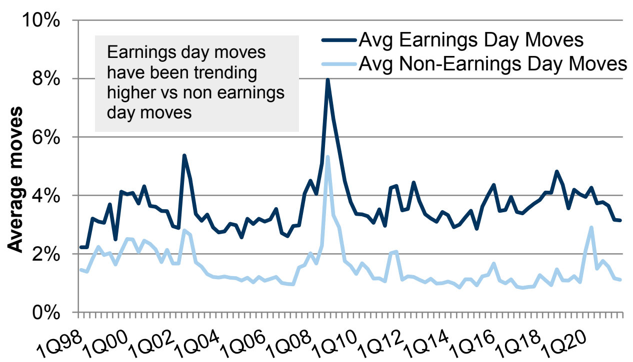
What is a "small lot trade"? We calculate the notional volume from small shares and options trades on an absolute basis and relative to overall volume. In shares, we identify trades of less than $2,000 as small. If a stock price is > $2,000 then only 1-lot trades are considered as small lot trades. For options, we consider any trade where the number of contracts times the stock price is less than 5,000 as small lot trades. While this clearly includes small professional trades, this threshold is necessary to limit the bias toward high dollar priced stocks.

Earnings day moves were up again relative to non-earnings day moves last quarter

Over the past two decades, single stock volatility on earnings events has been trending higher. In 2020, this was obscured by macro volatility on non-earnings days. Over the past two earnings seasons, earnings-day volatility has climbed back above its long-term average relative to non-earnings day moves. In our view, we are in a period of several quarters where earnings day upside volatility is likely to be larger than what is priced by the options market.

Exhibit 13: Non Earnings day moves have been trending lower after 1H20

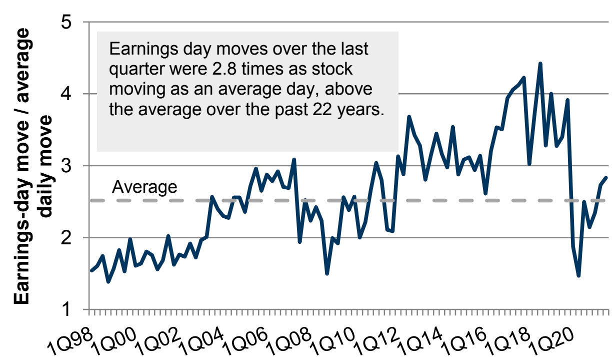
Average earnings day move; Average daily move for 1 month before and after the earnings event; S&P 500 stocks



Source: Bloomberg, Goldman Sachs Global Investment Research

Exhibit 14: Earnings day moves were 2.8 times an average daily move last quarter, above the long term average

Average earnings day move / Average daily move 1-month before and after earnings; S&P 500 stocks



Source: Bloomberg, Goldman Sachs Global Investment Research

Timing of earnings reports by sector

For investors that aim to trade earnings revisions at the sector level with options, it is important to be aware of the timing of reports within the sector. Below, we highlight the percentage of market cap reporting in each week of this earnings season; at the top of the list are the sectors with the highest concentration of earnings reports early in this season.

Exhibit 15: Financials and Industrials are the most concentrated early reporters, while Consumer earnings are well spread over earnings season

% of index weight reporting in each week; Oct options expire Friday Oct 15th

Late <----------> Early	Sector/Wk Ending	15-Oct	22-Oct	29-Oct	5-Nov	12-Nov	later
	Financials (XLF)	46%	15%	21%	18%	0%	0%
	Industrials (XLI)	2%	20%	52%	13%	3%	9%
	Health Care (XLV)	8%	30%	36%	20%	0%	5%
	Communication Services (XLC)	0%	15%	58%	23%	4%	0%
	Materials (XLB)	0%	19%	52%	18%	11%	0%
	Real Estate (XLRE)	10%	8%	48%	29%	5%	0%
	Information Technology (XLK)	0%	5%	61%	9%	0%	25%
	Energy (XLE)	0%	16%	50%	34%	0%	0%
	Consumer Discretionary (XLY)	0%	20%	42%	6%	2%	29%
	Consumer Staples (XLP)	2%	20%	27%	15%	1%	35%
	Utilities (XLU)	0%	17%	17%	65%	1%	0%

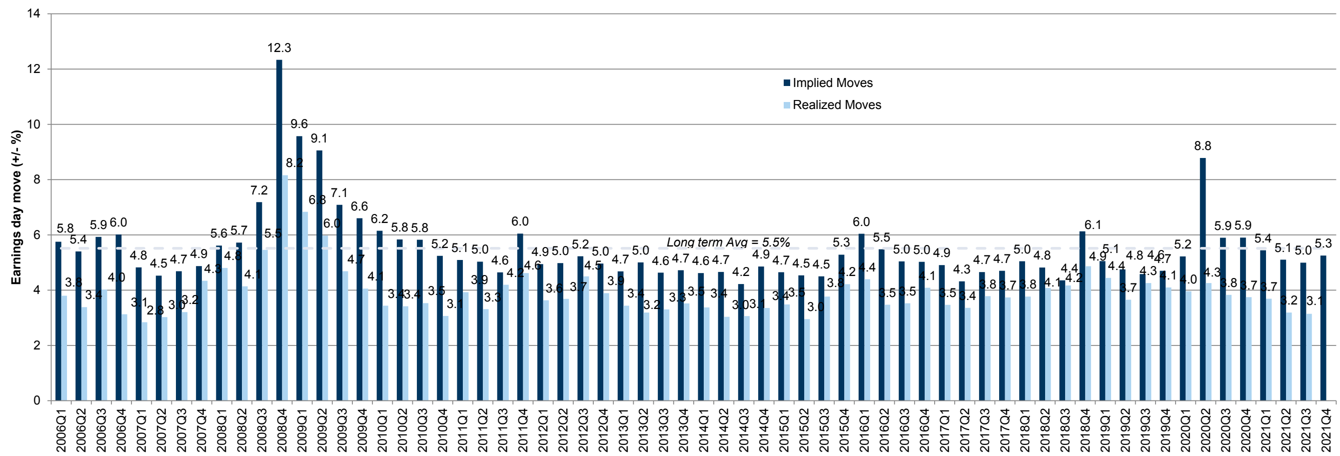
Source: Bloomberg, StreetEvents, Goldman Sachs Global Investment Research

Implied earnings-day moves are in-line with long-term average levels

The average implied earnings day move ahead of this earnings season is +/-5.3%, below the 14-year average. We see buying calls for earnings day as attractive given the fear priced into single stock skew and implied moves at average relative to history.

Exhibit 16: The average stock is implying an earnings-day-move of 5.3%, in-line with its long term average

S&P 500 average stock implied and realized earnings day moves; based on index members in each quarter

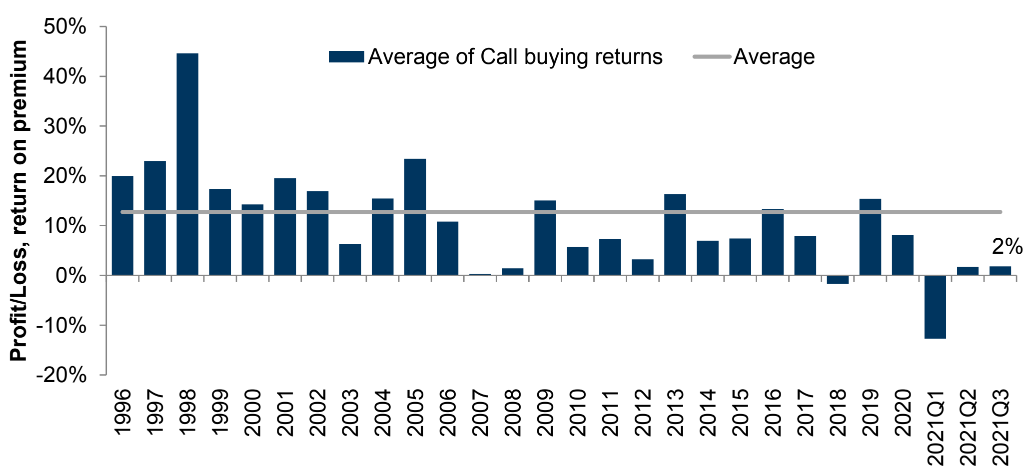


Source: Bloomberg, Goldman Sachs Group Inc.

We continue to see call buying as the <u>most attractive option strategy</u> for single stock earnings events. Low recent realized volatility has pressured options prices setting the stage for profitability if earnings-day moves are consistent with history.

Exhibit 17: Buying calls ahead of last quarter's earnings yielded a +2% return on premium

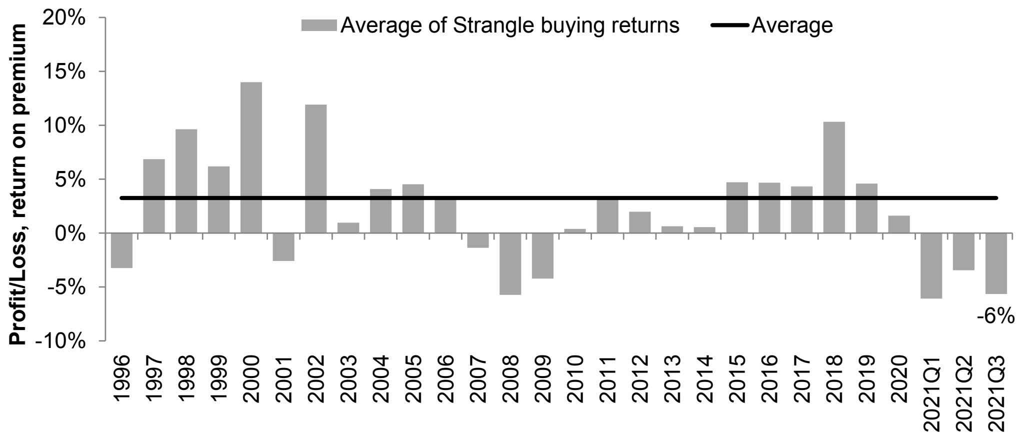
Profit at mid-market for buying first OTM calls, five days before earnings event and selling one day after



Source: Goldman Sachs Group Inc, OptionMetrics

Exhibit 18: Buying strangles ahead of last quarter's earnings yielded a -6% return on premium

Profit at mid-market for buying closest to ATM strangles 5 days before earnings event and selling one day after



Source: Goldman Sachs Group Inc, OptionMetrics

Upside to consensus: Fundamental ideas in brief

Our investment process: We screened for the top 25 opportunities out of the entire Goldman Sachs US coverage universe of approximately 1,000 companies. We focused our analysis on stocks with liquid options to improve the tradability of the view. We generally only considered companies where earnings are greater than $0.05 per share for the next four quarters. These first two criteria reduced the tradable events to 486 stocks. We only considered stocks where our analysts are above/below Thomson Reuters' consensus for the upcoming quarter and for the year on a key financial metric. All of the criteria combined narrowed the list of potential opportunities to 156 stocks.

Discussions with our analysts were the key to narrowing the list of 156 to 25. We spoke with each analyst to understand their reasons for being above or below consensus. We then selected those stocks that our analysts believe are most likely to react in the direction of their earnings view.

Below are brief summaries of the drivers of our analysts' out-of-consensus earnings views for the companies highlighted with "upside to estimates". Please refer to each analyst's recent research for more details.

Discretionary: LOW, SBUX, YETI

Lowe's Cos. (LOW): See positive macro tailwinds

Goldman Sachs Retail analyst Kate McShane sees 12% upside to Buy rated LOW over the next 12 months. Management believes that solid macro indicators, like an aging housing stock, continued low interest rates, tight supply of housing, and home price appreciation can all support demand beyond 2021. By pulling forward seasonal inventory purchases earlier in the year, LOW is now better positioned than they were 6 months or a year ago. Heading into 3Q21 results, she expects the comp strength to continue. Recently, LOW migrated LowesForPros to the cloud and added a rapid reorder feature to their digital Pro offering while also continuing to build out their Pro loyalty program. Management believes their detailed understanding of the small and mid-size Pro customers' needs have allowed for impactful strategic investments in the Pro, like job-lot quantities and better service, as well as an ongoing goal of bringing back key national Pro brands, all in an effort to drive market share.

Starbucks Corp (SBUX): Key re-opening beneficiary

Goldman Sachs Restaurants analyst Jared Garber sees 24% upside to Buy rated SBUX over the next 12 months. Jared believe SBUX remains a key re-opening beneficiary in both the US and Internationally, with its significant scale, market share gains, and operational efficiencies driving strong multi-year earnings power. He is confident in the long term potential of SBUX's international segment as management continues to invest in unit growth (still on track to open 600 units in FY21 and reach 6K units by FY22) and should drive increasingly better returns in lower-tier cities over the medium-term. In F3Q, urban markets ran at positive SSS vs. 2019 for the first time since pre-COVID-19, indicating that Starbucks' central business district sales recovery continues to accelerate and should only continue as mobility and return-to-office dynamics improve. His EPS estimate is 8% above consensus for the current quarter and 6% above for the next 4 quarters.

YETI Holdings (YETI): Expect Brand momentum to continue

Goldman Sachs Apparels & Accessories analyst Brooke Roach sees 44% upside to Buy rated YETI over the next 12 months. She views YETI as a growth compounder with best in class authentic brand positioning. The company has numerous opportunities for sustainable growth, including US market share, category expansion, and international momentum. In her view, the company's authentic and experiential marketing and strong innovation are differentiators and provide pricing power. YETI also has shown strong ability to shift sales from wholesale to Direct-to-consumer (DTC), enabling recapture of the wholesale profit pool and higher margins / returns. She anticipates strong cash flow will allow deleveraging and provide upside from capital allocation, whether share repurchases, dividends, or M&A. She also sees strong growth opportunity for the Drinkware category with opportunity from commuting and back to school. Her EPS estimate is 8% above consensus for the current quarter and 3% above for the next 4 quarters.

Energy: CNQ, CVE

Canadian Natural Resources (CNQ): Low cost producer with industry leading free cash flow

Goldman Sachs Integrated Oil & Refiners analyst Neil Mehta sees 10% upside to Buy rated Canadian Natural Resources (CNQ) over the next 12 months. As a more pure play E&P, he sees CNQ as well positioned to benefit from the higher commodity price environment. He sees the stock generating a 22%/24%/16% FCF yield in 2022/2023/2024 at $81/$85/$70 per barrel Brent pricing. With this level of free cash flow, he expects the company to meaningfully drive leverage lower (from 0.8x in 2021 to 0.4x in 2022) and generate strong cash returns to shareholders, with 15% average annual dividend growth in 2022-2026 and C$3 bn in average annual share repurchases over the same period. Within his Canadian Oils coverage, he sees the most upside to FactSet CFPS for CNQ in 2022.

Cenovus Energy (CVE): Strong FCF generation to drive net debt reduction and capital return

Goldman Sachs Integrated Oil & Refiners analyst Neil Mehta sees 9% upside to Buy rated Cenovus Energy (CVE) over the next 12 months. He remains bullish on CVE given he (1) sees potential for compelling shareholder returns as the company reaches its year-end C$10 bn net debt target with share repurchases likely following in 2022, (2) remains constructive on valuation, with 27% total return to target vs. the Canadian Oils average of 22%, (3) sees additional underappreciated value in the company's Liwan asset, which generates ~C$1 bn of cash flow per year, and (4) remains constructive on CVE's ability to apply operating best practices to legacy Husky Energy (HSE) assets, most recently the Lloyd complex. In this higher oil price environment, he sees CVE particularly well-positioned to benefit from higher oil prices, with FCF yield in 2022 (GS at $81 per bbl Brent) at 28% vs. the Canadian Oils average at 24%. He believes the strong operational performance and an improving 2H21+ Downstream outlook will continue to allow CVE to generate substantial FCF, allowing for deleveraging, with a line of sight to compelling shareholder returns.

Financials: BAC, CG, ICE, SBNY

Bank of America (BAC): <u>Expect higher fee income across both capital markets and consumer fees</u>

Goldman Sachs Banks analyst Richard Ramsden sees 7% upside to consensus PPNR estimates for this quarter and sees near-term upside to Buy rated (on the Conviction List) Bank of America. He believes investors will focus on three key issues during the large bank earnings season: 1) Has loan growth inflected and what is the trajectory for growth and NII from here; 2) The durability of capital markets revenues and expected normalization relative to 2019; and 3) How bank rate sensitivity is evolving and what rate optionality is currently priced into bank stocks. Our analyst is 7% ahead of Street consensus on Pre-provision net revenue (PPNR) driven by fee income (+6%), with particular strength in investment banking (+18%) with strength across underwriting, M&A and modest outperformance in card income and service charges. In terms of banks' remixing securities, if banks were to remix the growth in cash that they saw since the start of 2020, this could represent a further ~15bps NIM uplift in 2021, or 3% to EPS. Among the top banks, he sees PNC and BAC as the largest earnings beneficiaries of significant remixing of cash into securities.

Carlyle Group (CG): <u>Accelerating capital deployment</u>

Goldman Sachs Asset Managers & Capital Markets analyst Alexander Blostein sees 22% upside to Buy rated CG over the next 12 months. Private Equity deployment and realization pipelines are at record levels heading into year-end, supportive positive forward EPS revisions despite a choppier macro backdrop and slower growth in net-accrued carry balances vs. prior periods. Rising velocity of capital is likely to drive FRE growth above Street expectations for most heading into 2022. As capital deployment accelerates, he sees the timing of flagship funds accelerating, with CG likely to deliver the most meaningful upside here relative to consensus fund-raising expectations. He sees another strong income realization quarter for CG, with accelerating opportunities into year-end. Alex notes that accelerating velocity of capital is also driving faster fund-raising and FRE growth across the space which can lead to potential EPS upside for CG.

Intercontinental Exchange (ICE): <u>Underappreciated growth opportunity with multiple levers</u>

Goldman Sachs Asset Managers & Capital Markets analyst Alexander Blostein sees 14% upside to Buy rated (on the Conviction List) Intercontinental Exchange over the next 12 months. Volatility in Sept picked up materially, driving trading volumes higher across the board. Specifically, a handful of asset classes bucked the seasonal trend in 3Q21 — particularly energy at ICE up 16%. ICE is his top pick among Exchanges as (1) the market is missing favorable dynamics, including positive revenue mix shifts, in ICE's

Energy franchise, (2) recent volatility in UK rate markets could be an unexpected source of upside, (3) organic growth in non-trading businesses remains strong, (4) upcoming resumption of the buyback, and (5) attractive valuation with the stock now trading at the lowest multiple among Exchange and Data peers. He notes the company is positioned to benefit from a handful of secular themes like the global shift to de-carbonization, automation, indexation and digitization in mortgage industry. With secular underpinnings, he expects Environmental and Nat Gas products to grow revenues over 20% per year for some time, pushing ICE's total Energy revenue growth to high single digits, >300 bps above consensus.

Signature Bank (SBNY): Expect a strong PPNR beat driven by loan growth

Goldman Sachs Regional Banks/Consumer Finance analyst Ryan Nash sees 15% upside to Buy rated Signature Bank (SBNY) over the next 12 months. Ryan forecasts a Pre-provision net revenue (PPNR) beat in 3Q given his above consensus loan growth expectations driving Net Interest Income (NII). He feels that given the activity capital call has been recently seeing and with mortgage warehouse beginning to ramp up, guidance of $1-2bn loan growth was overly conservative (vs. ~$3.9bn ex PPP in 2Q). He notes deposit growth is likely to remain outsized, with support from crypto, specialized mortgage servicing and venture all contributing outsized growth. Alongside the robust growth, he also notes the company is delivering a slower expense growth, improving its efficiency and operating leverage which Ryan believes will be positively received by investors. He is 7% above EPS consensus this quarter and 5% above for the next 4 quarters.

Healthcare: ALGN, MRVI

Align Technology (ALGN): Large market opportunity and strong consumer demand

Goldman Sachs Healthcare services analyst Nathan Rich sees 29% upside to Buy rated Align Technology (ALGN) over the next 12 months. Nathan thinks investors continue to lean positive on Dental into earnings, with demand remaining stable in 3Q despite the prevalence of the Delta variant. He thinks this supports topline upside across the group, especially for ALGN. He notes that management's commentary suggests upside to its 3Q outlook which assumes a slowdown in the summer that does not appear to have played out and sees this as a buying opportunity. Beyond the seasonality commentary, management indicated that underlying consumer demand remains strong, and it has realized a better than expected ROI on marketing/salesforce investments made this year. Overall, he believes ALGN is well positioned for growth with a large market opportunity, strong consumer demand for treatment and investments to drive utilization. He is 2% above consensus revenue estimate for this quarter and 3% above for the next 4 quarters.

Maravai Life Sciences (MRVI): Strong promise of mRNA therapies provide growth runway

Goldman Sachs Life Sciences Tools and Diagnostics analyst Matthew Sykes sees 44% upside to Buy rated Maravai Lifesciences (MRVI) over the next 12 months. Matthew believes in the long-term application of MRVI's CleanCap technology which should see strong growth as mRNA therapies gain validation. Specifically, on COVID-related pipeline, management's commentary for 2022 indicates the prospect for boosters and the need for increased supply globally has not waned. He believes this continues to extend the duration of the Covid revenue stream for MRVI allowing it additional time to expand its base business organically and inorganically. On non-COVID, Matthew notes a strong demand backdrop for mRNA spanning large pharma to emerging biotech. Cases in point are BioNTech's plans to develop an mRNA vaccine for malaria or Novartis's push into mRNA. He also notes Biologics safety testing was up almost 50% year over year in the quarter with broad demand across the product portfolio. The company continues to build a variety of offerings and scale of manufacturing to support higher sales volume. Further, with multiple supply agreements in pipeline, he sees strong run way for growth in its base business (non-covid). Matthew is 7% above EBITDA consensus for the next 4 quarters.

Industrials: FBHS, RSG, SHLS

Fortune Brands Home & Security (FBHS): Well positioned to navigate the supply chain and inflationary challenges

Goldman Sachs Homebuilders & Building Products analyst Susan Maklari sees 46% upside to Buy rated Fortune Brands Home & Security (FBHS) over the next 12 months. With the stock trading 17% below its 52-week high, she views the current valuation as an attractive entry point into 3Q results given the greater likelihood for outperformance. This is driven by: 1) exposure to faster recovering pro Repair & Remodel (R&R) across its end-markets, 2) the benefit of pricing to offset inflation, and 3) the ability to navigate ongoing supply chain disruptions with its global sourcing network. Our analyst is confident in management's ability to navigate the ongoing complex operating environment, allowing it to leverage underlying strength in housing and broader macro fundamentals to deliver above-industry growth. Susan is 5% above EBITDA consensus for this quarter and 7% above for the next 4 quarters.

Republic Services (RSG): Accelerating unit economics

Goldman Sachs Industrials analyst Jerry Revich sees 22% upside to Buy rated (on the Conviction List) RSG over the next 12 months. He sees significant scope for accelerating unit profitability and high-return green capex to drive positive earnings revisions and multiple expansion for the stock. RSG's current unit profitability is up +28% compared to 2015, and with volumes — driven by industrial production and commercial reopening – also recovering off trough, he sees potential for double digit unit profitability improvement for RSG in 2022E – an indicator that has driven multiple expansion in the Environmental Services and Aggregates industries. He also sees opportunity for accelerating recycling participation to add incremental earnings power, as per ton profitability in recycling tends run higher than landfills. He estimates a ~10% improvement in Disposal earnings if the industry hits Environmental Protection Agency (EPA) targets (50% from 30% currently). Jerry is 5% above EBITDA consensus for this quarter and 6% above for the next 4 quarters.

Shoals Technologies (SHLS): Strong order visibility

Goldman Sachs Clean Energy analyst Brian Lee sees 51% upside to Buy rated Shoals Technologies (SHLS) over the next 12 months. Brian highlights that the company's last quarter results dispelled bearish views heading into the quarter that inflationary pressures could push out demand in the utility-scale market. Based on management commentary, the company appears to be well on track to hit its annual revenue target with 1H revenue accounting for 45% of the midpoint of 2021 guidance. Near-term, with 3Q revenue expected to be comparable to 2Q (or slightly higher), he models for a stronger 4Q. On margins, management expects a lumpy gross margin profile given the product mix. Brian believes SHLS has strong visibility on orders/backlog for the next 12-18 months given orders are most often placed only after a project is well under construction. Looking ahead, management highlighted its priorities to revolve around 1) increasing market share, 2) increasing product offerings in solar electrical balance of systems (EBOS), 3) expanding into battery storage 4) new EV products, and 5) international expansion. He is 16% ahead of EBITDA consensus for this quarter and 14% above for the next 4 quarters.

Materials: CF, FCX

CF Industries Holdings (CF): Strong Nitrogen market outlook

Goldman Sachs Agribusiness analyst Adam Samuelson sees 17% upside to Buy rated CF over the next 12 months. In his view, CF offers a compelling risk/reward for investors amidst more sustained (and still-improving) cyclical dynamics, scope for a material acceleration in cash return to shareholders given current FCF dynamics, and upside optionality on multiples from CF potentially making more significant investments in green ammonia as a source of hydrogen fuel. He expects a substantial increase in 2022 estimates given recent moves in product pricing. He views the increasingly constructive Nitrogen market, where the combination of a steepening global cost curve and strong global demand (from elevated grain prices) points to the recent market strength persisting. Adam also sees the potential for countervailing and antidumping duties on US imports of Russian and Trinidadian Urea Ammonium Nitrate (UAN) as a source of upside to his forecasts. His EBITDA estimate is 17% above consensus for the next 4 quarters.

Freeport-McMoran (FCX): Strong operating leverage to copper prices

Goldman Sachs Metals & Mining analyst Emily Chieng sees 33% upside to Buy rated (on the Conviction List) Freeport-McMoran over the next 12 months. FCX remains her top copper-exposed pick globally, given near-term production growth from Grasberg and Lone Star, geographically diverse assets not subject to uncertain South American mining policies, and balance sheet flexibility to fund a path to strong capital returns in 2022 with the company having reached its stated $3-4bn net debt target in the previous quarter. While Emily continues to look for a disciplined capital allocation strategy from the management team (particularly given the macro volatility), she expects that FCX's balance sheet strength could allow the company to pursue some growth in the coming 12 months, such as the Bagdad expansion. At 3Q21 earnings, she looks for 1) an update on construction progress at both the standalone Gresik smelter and expansion of Java smelter; 2) an update on timeline to sanctioning growth projects in the US (i.e. Bagdad, Lone Star expansion); 3) whether a decision has been made on returning additional capital to shareholders in 2022, including the mechanism (special dividend or share buyback) for doing so.

TMT: OKTA, PLTK, UBER

Okta Inc (OKTA): A Well-Positioned Identity Leader

Goldman Sachs Security software analyst Brian Essex sees 28% upside to Buy rated OKTA over the next 12 months. He believes digital transformation and Cloud adoption will continue to drive demand for cloud native Identity Management technology and sees Okta as one of the best positioned vendors to benefit. Okta has established itself as a cloud native Identity and Access Management leader with the potential for meaningful penetration into adjacent Customer Identity and Access Management (CIAM) markets and complementary exposure into Identity Governance (IGA) and Privileged Access Management (PAM) markets as it develops its Primary Cloud platform. He believes the acquisition of competitor Auth0 was a transformational opportunity that solidified Okta as a dominant vendor in the CIAM market. In addition to organic revenue acceleration in 2Q, he estimates Auth0 contributed approximately $172mm of ARR, putting the segment well on its way to exceeding expectations of $200mm of ARR by the end of the year.

Playtika (PLTK): New game launches and organic growth

Goldman Sachs Video Games analyst Michael Ng sees 33% upside to Buy rated PLTK over the next 12 months. He believes Playtika is executing on its growth strategy driven by organic growth, tuck-in M&A, and new game launches. This includes the 4Q21 launch of Switchcraft, a match 3 game, as well as the recent acquisition of Redecor. Playtika expects to launch an additional new game in 2022 and has several new games in its development pipeline. In his view, PLTK is able to benefit from its direct-relationship with consumers, which is strengthened by its proprietary platform and multi-channel approach to marketing (e.g., mobile, TV, radio, offline), and should be able to navigate through changes in IDFA and steering policies. 3Q bookings should benefit from the previously announced acquisition of Reworks (PLTK expects $30 mn revenue contribution for 2021). He is 2% above consensus EBITDA for the current quarter and 1% above for the next 4 quarters.

Uber Technologies (UBER): Path to profitability

Goldman Sachs Internet analyst Eric Sheridan sees 37% upside to Buy rated UBER over the next 12 months. Across its array of products, he sees Uber as the next large cap platform ecosystem in his coverage universe – scale of user and economic capture around a common theme of local transportation and eCommerce. Eric believes the supply/demand dynamic has improved and is now incrementally more in balance as a result of previous investments the company made in Q2 & the roll-off of unemployment insurance benefits in the US. He sees a more efficient margin structure within Mobility & a core food delivery business (with a growing advertising revenue base) that should underpin consistently improving Delivery segment profitability while being able to invest against long-term growth opportunities in local commerce/logistics. As the gap between supply and demand closes, he believes this should lead to more normalized rider pricing, demand improvements and pre-COVID levels of profitability in the Mobility segment.

Downside to consensus: Fundamental ideas in brief

Below are brief summaries of the drivers of our analysts' out-of-consensus earnings views for the companies highlighted with "downside to estimates". Please refer to each analyst's recent research for more details.

Discretionary: WSM

Williams-Sonoma (WSM): Margins to come under pressure as promotions return

Goldman Sachs Retail analyst Kate McShane sees margins coming under pressure once the promotions return with the revival of the supply-demand balance, most likely in the 2H of 2022. With compares more difficult than other hardlines peers, she thinks consensus estimates for 2022 could be too high after analyzing recent gross margin drivers and performing a sensitivity analysis. She notes WSM benefited significantly in 2020/21 from elevated demand trends from a robust housing market and the shift in wallet share to stay at home categories (2.5% pre-pandemic to 2.9% in May'21) absence of promotions, as supply remains constrained boosting margins. While promotions will likely be more meaningful in 2022, she still expects them to be somewhat lower than 2019 levels as the company has optimized its promotional strategy.

Industrials: AOS, HII

A.O. Smith (AOS): Expect downward revisions in the international segment

Goldman Sachs Homebuilders & Building Products analyst Susan Maklari sees 21% downside to Sell rated AOS over the next 12 months. Although our analyst's latest channel checks indicate demand for water heaters has held in line with expectations in North America, she sees the potential for downward revisions in the Rest of World segment amid greater uncertainty in the Chinese housing market. Recall that this segment accounted for 24% of 2020 revenues. Looking out, she also remains more cautious on the stock given likely pull forward of demand—with US tank water heater shipments up 8% in 2020 and 8% YTD vs the 30-year average of +1%—as well as the likelihood for an increasingly competitive landscape. She considers rising inflationary pressures and supply chain disruptions, along with tougher comps, and potentially pulled forward demand in North America to be risks to AOS estimates. She is 7% below consensus EBITDA for the current quarter and 12% below for the next 4 quarters.

Huntington Ingalls (HII): Long term growth headwinds as govt shifts focus away from shipbuilding

Goldman Sachs Aerospace & Defense analyst Noah Poponak sees 15% downside to Sell rated Huntington Ingalls Industries (HII) over the next 12 months. He highlights shipbuilding end market faces long-term growth headwinds with relatively low margins and returns on capital vs other buckets of DoD budget. As the government shifts shipbuilding priority from carriers to smaller ships and submarines, he expects an even less favorable competitive environment for HII. In his view, the company's guidance implies shipbuilding margins step down in 3Q, given few risk retirements. Noah is below the management's guidance for $3bn in cumulative free cash generation 2020-24 and expects only ~$2.8bn in free cash generation over this time frame. He is 10% below EPS consensus for the next 4 quarters.

Staples: TAP

Molson Coors Beverage (TAP): Skeptical of TAP's premiumization strategy

Goldman Sachs Beverages & Tobacco analyst Bonnie Herzog sees 6% downside to Sell rated TAP over the next 12 months. She maintains a bearish outlook on TAP given distributors' generally downbeat view on its competitive positioning as it sheds a large number of economy brand stock-keeping units (SKUs) and focuses on premiumizing its portfolio, which remains very early stage. She notes that while distributors are still positive on TAP's partnership with Coca-Cola on Topo Chico Hard Seltzer and are also seeing good trends for Miller Lite/Coors Light and Vizzy, many are skeptical of TAP's premiumization strategy (even though economy beer remains the weakest segment of the US beer market). Bonnie views beer distributor contacts lowering their 2021/2022 sales growth expectations for TAP as a metric that gives greater conviction in her below-consensus estimates as well as her concerns about rising inflation and cost pressures. She is 7% below consensus EPS for the current quarter and 12% below for the next 4 quarters.

TMT: ABNB

Airbnb (ABNB): Volatile travel trends and increased competition

Goldman Sachs Internet analyst Eric Sheridan sees 24% downside to Sell rated ABNB over the next 12 months. His Sell rating is a reflection of the stock's negative risk/reward skew from current levels when measured against 1) the potential for a volatile travel environment ahead; 2) a relatively mature end market; 3) what's implied for Airbnb growth over the medium-to-long term & high levels of competitive intensity among industry players. He notes the travel industry saw a demonstrable shift from traditional hotel stays to alternative accommodations during the pandemic, benefiting ABNB. However, he believes the trajectory from here in terms of the market share dynamics is highly uncertain. He is also less constructive on the company's operation in a relatively mature end market, as measured by online penetration of total lodging, compared to its Internet peers (despite shifting supply preferences). He sees competition building up in the space with both Booking & Expedia investing to grow in this sub-segment of travel, limiting growth opportunities for ABNB. Eric is 3% below EBITDA consensus for this quarter and 20% below for the next 4 quarters.

Utilities: PNW

Pinnacle West Capital (PNW): See consensus and equity risks

Goldman Sachs Electric Utilities analyst Insoo Kim is Sell rated on Arizona-based regulated utility Pinnacle West (PNW). Recently, Arizona Corporation Commission (ACC) voted on some key items in the pending rate case for Pinnacle West's electric utility Arizona Public Service (APS), which our analyst views as relatively negative. He continues to see consensus and equity risk, with his 2022E/2023E EPS of $4.55/$4.71

screening 5-6% below FactSet consensus; his model embeds $700mn of equity in 4Q2021, or over 8% of current market cap. Based on his view that more downside risk versus upside potential exists for both earnings and valuations, he expects the stock to underperform further in 2H2021. He believes the ACC could make its final determination on all other matters of the rate case at its next open meeting on October 26.