Earnings Snapshots 1/22/2023

MSFT, BA, IBM, LVS, TSLA, V

Microsoft (MSFT) will announce results 1/24 after the close with the Street expecting $2.30 EPS and $52.97B in Revenues and Q3/FY23 seen at $2.32/$52.47B and $9.55/$212.24B. MSFT shares fell sharply last quarter on results after being higher the previous four, a six-quarter average max move of 6%. Microsoft continues to represent a rare combination of strong secular positioning and reasonable profitability-based valuation within the software space. Server Products and Windows OEM growth normalization are headwinds, but MSFT remains positioned well in leading IT budget categories and continues to expand margins. Microsoft is well positioned to double its $60B+ commercial cloud business (Azure, Office 365, Dynamics, and LinkedIn Commercial) and Office 365 could potentially double its installed base from 255mn+ to 500mn given the massive number of knowledge workers worldwide. Alignment to key secular trends and benefits from vendor consolidation point to continued share gains. Microsoft is not immune to the weaker IT spending environment though recent actions to cut costs and the weaker USD are likely to provide a lift into 2H23. Azure is not immune to the weaker demand trends we are seeing, particularly considering its consumption model, with the Street expecting mid-to-high 30% constant currency growth this quarter. Earnings durability is a critical factor for shares moving forward. The FX impact on reported results may come in below that of management's guide of a 5 point headwind. Gartner's preliminary global PC market (including Chromebooks) data indicates further deterioration of demand, with growth expected to be down 28.5% Y/Y. MSFT has a $1.728 trillion market cap and trades 21.6X Earnings, 8.5X Sales and 38.6X FCF with a 1.13% dividend yield. Analysts have an average target of $290 with short interest low at 0.5% of the float. Evercore lowered its target to $280 but sees MSFT positioned well for a downturn with improving cost structure and a likely share gainer. Guggenheim cut to sell last week. MSFT bottomed at a key $220 VPOC and 200-week EMA. Shares moved back insider monthly value to close last week and above $242 should work to $253 or potentially its 200-MA at $256. A move under $230 likely targets $215/$220. MSFT options are pricing in a 3.66% earnings move and 30-day IV at +5.8 is in-line with the 52-week average. MSFT had a buyer of 4000 Feb. 3rd (W) $232.5 calls last week but does have a large Feb. 235 short call position in OI while 10K Feb. 210 calls bought and 10K March 250 calls bought. MSFT put/call open interest ratio at the 20th percentile and average IV30 crush is -15.5%.

Trade to Consider: Long the **MSFT** February $245/$235/$225 Put Butterfly at $1.30 Debit

Boeing (BA) will release earnings 1/25 before the open with the Street looking for $0.24 EPS and $20.28B in Revenues (+37%) while Q1/FY23 seen at $0.05/$18.84B and $2.38/$81B as Boeing returns to profitability. BA shares have closed lower eight of its last ten reports and a six-quarter average max move of 6.9%. Boeing segments are Commercial Aero, Defense/Space/Security and Services (BGS). The commercial jet aircraft in production includes the 737 narrow-body model and the 747, 767, 777 and 787 wide-body models. Development continues on the 777X program and certain 737 MAX derivatives. Boeing was hit hard by the pandemic and is now positioned well for the Aerospace cycle recovery while it gains momentum with new plane deals and some regulatory overhangs being removed. BGS sustains aerospace platforms and systems with a full spectrum of products and services, including supply chain and logistics management, engineering, maintenance and modifications, upgrades and conversions, spare parts, pilot and maintenance training systems and services, technical and maintenance documents, and data analytics and digital services. Boeing remains a longer-term turnaround story focused on FCF recovery. Pandemic travel restrictions no longer exist across most of the globe, and air travel has rebounded steadily on strong demand to fly. This is driving a strong new order cycle for aircraft. Cash flow has inflected to positive, will accelerate over the coming years, and Boeing has taken an equity raise and near-term new aircraft development off the table - which will drive rapid delevering. BA has a market cap of $123B and trades 23.5X EBITDA with a 3.3% FCF yield. BA's key catalyst for the report will be its $2.5B FCF target, if achieved, the stock likely rallies. Analysts have an average target of $210 with short interest low at 1.5% of the float. MSCO cut shares to Neutral and expects BA to trade on execution of its 2025/2026 aircraft production rate targets and FCF generation. MSCO sees supply chain bottlenecks weighing on key milestones. CSFB upgraded recently seeing Q4 FCF of $3B on strong order activity. On the chart, Boeing has shown impressive relative strength holding the 8-MA on dips and the weekly has worked above VWAP off highs. On weakness shares likely find support at $200 or retest upper value at $191.5. Shares face resistance in the $225/$230 zone. BA options are pricing in an earnings move of 3% and 30-day IV Skew at +4.2 compares to a +5.6 52-week average. BA recently with 8000 June $225/$245 call spreads bought and 3000 March $220/$245 call spreads bought. BA last week with a buyer 1500 April $210 calls to open. BA's put/call open interest ratio is at the 98th percentile and average IV30 crush is -5.7%.

Trade to Consider: Long the **BA** February/March $225 Call Calendar Spreads at $2.35 Debit

IBM (IBM) will report earnings 1/25 after the close with the Street expecting $3.59 EPS and $16.37B in Revenues (-1.9%) and Q1/FY23 seen at $1.63/$14.06B and $9.64/$60.67B implying growth of 0.8% and 5.6% respectively. IBM shares have closed lower the last two reports after being higher four of the previous five, a six-quarter average max move of 6.3%. IBM has primarily been focused on Software with digital transformation but also continues to have large Consulting and Infrastructure segments. IBM has been optimizing its portfolio via acquisitions, notable the Red Hat deal that positioned it well in the cloud and saw 21% growth last quarter. The consulting business could be further pressured by a competitive and inflationary labor market which will impact profitability. IBM is taking the proper steps to align its portfolio with the strategic priorities of hybrid cloud, AI/automation, security, and quantum. IBM views quantum as critical technology as we move into the back-half of the decade, with many applications across physics, chemistry, materials sciences, finance, optimization, and machine learning. The weak USD in Q4 will removed a major headwind to earnings. IBM outperformed in 2022 as a more defensive name but in 2023 will face a tougher Macro backdrop and tougher comps. Consulting revs will benefit from better pricing, streamlined go-to-market, utilization rates improving, acquisitions gaining scale, increased collaboration with the partner eco-system, and streamlined G&A. IBM may need to reset its $35B FCF target for FY22-24 in light of Russia and FX. IBM has a $127B market cap and trades 14.65X Earnings, 2.1X Sales and 75X FCF with a 4.67% dividend yield. Analysts have an average target of $143.50 with short interest at 3.3% of the float rising 32% Q/Q. MSCO recently downgraded on valuation and the late cycle outperformance running its course expecting decelerating revenue growth. IBM laps its mainframe and ELA renewal cycles, and macro uncertainty persists. IBM historically underperforms IT Hardware and its peers in an early cycle environment. The 2023 key debate is whether IBM can sustain 4-6% CC Y/Y revenue growth. IBM 1) laps the z16 mainframe cycle, 2) laps a Software ELA renewal cycle, and 3) sees Consulting demand moderate off of record highs as hiring slows. On the chart IBM cleared a major downtrend in November and now sits above the big $115/$140 range break but looks vulnerable under $139 to return to the 200-MA at $135. IBM options are pricing in a 4.1% earnings move and 30-day IV Skew at +4 compares to the +3.3 52-week average. IBM has seen stock buyers hedge with February $135 puts and overall lacks much upside positioning. IBM's put/call open interest ratio is at the 90th percentile and average IV30 crush is -26.9%.

Trade to Consider: Long the **IBM** February $145/$135/$125 Put Butterfly at $3 Debit

Las Vegas Sands (LVS) will release results 1/25 after the close with the Street consensus at ($0.09) EPS and $1.18B in Revenues (+17.5%) while Q1/FY23 seen at $0.08/$1.56B and $1.09/$8.14B implying 93% revenue growth and 199% EPS growth. LVS is a leading global developer of destination properties that feature premium accommodations, world-class gaming, entertainment and retail malls, convention and exhibition facilities, celebrity chef restaurants and other amenities. LVS owns properties in the US and Asia with a focus on mass market, the most profitable gaming segment. LVS shares have outperformed on the China reopening with a quick recovery in Macau visitation. Las Vegas Strip Gaming and RevPAR are +24% vs. preCOVID, regional revenues are up ~7% with margins up ~1,000bps vs. pre-COVID. LVS has a market cap of $41.55B and trades 17X FY23 EBITDA and remains in an upward revision cycle on Macau recovering. Analysts have an average target of $55 with short interest low at 2.2% of the float. BAML raised its target to $52 last week seeing Macau estimates too low. On the chart LVS long-term nearing a major channel top and VPOC near 56.25. Shares are near-term overbought as well and could look to work back to the 21-day at $50.80. LVS options are pricing in a 4% earnings move and 30-day IV Skew at +4.6 compares to the +4.5 52-week average. LVS recently with 10,000 March $60 calls bought and 2000 of the $57.50 calls bought while low Delta put sales also been popular. LVS with 6500 June $55/$65 call spreads bought on 1/3. LVS put/call open interest ratio is at the 76th percentile and an average IV30 crush of -9.66%.

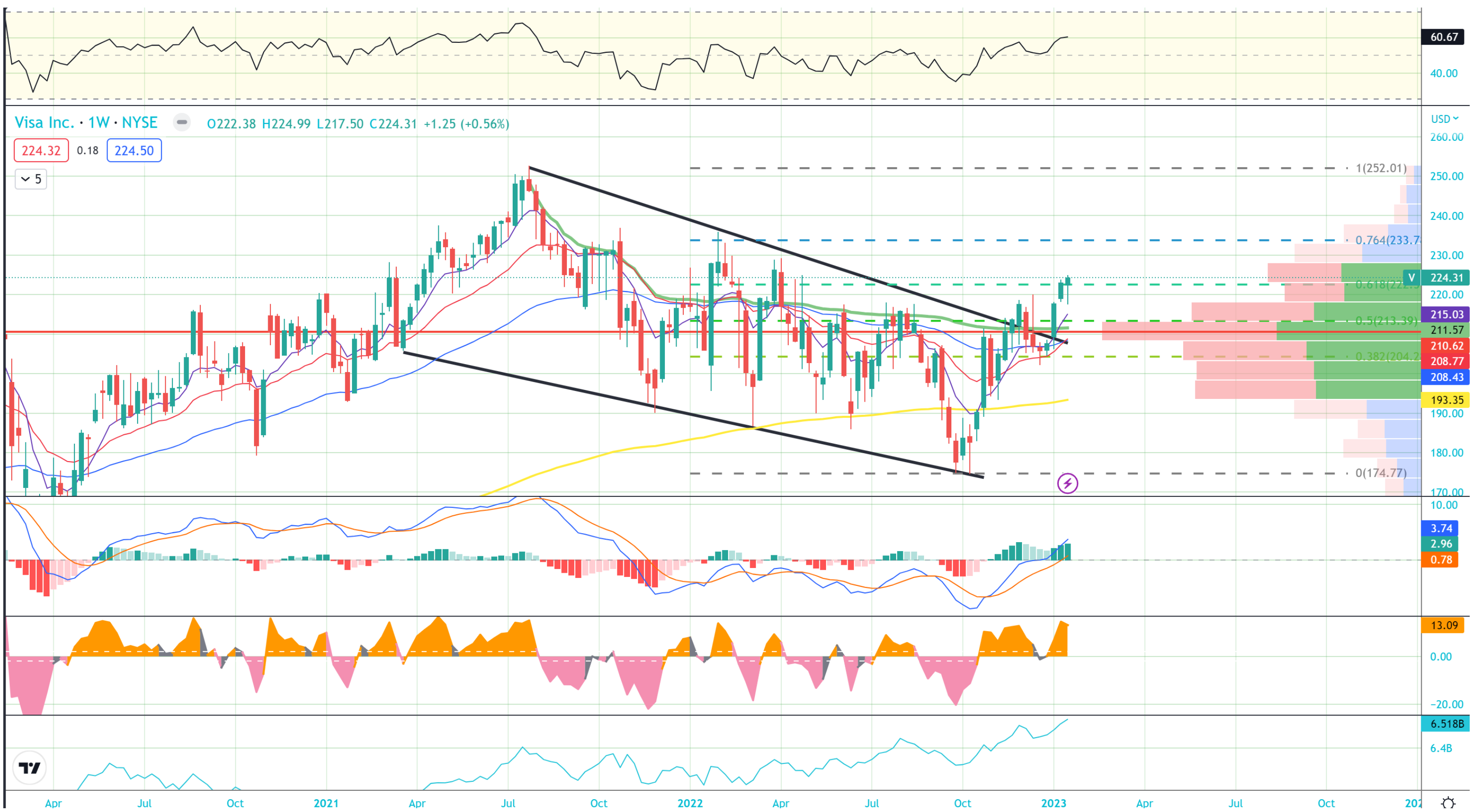
Trade to Consider: Long **LVS** February $55/$60 Call Spreads at $1.65 Debit

Tesla (TSLA) will announce quarterly results 1/25 after the close with the Street view at $1.14 EPS and $24.16B in Revenues (+36.3%) and Q1/FY23 seen at $1.01/$23.4B and $4.30/$106.3B implying 30% revenue growth and 7% EPS growth. TSLA shares have closed lower five of the last eight reports with a six-quarter average max move of 8.55%. TSLA only crossed 1 million units in the past 12 months and aspires to head to 20 million units a year, still early in its journey as an EV leader. The importance of Optimus will become apparent in the coming years as it estimates that business will be worth more than the car business and FSD. Tesla has been in the news a lot cutting prices on weaker demand and will likely face margin compression which weighed on its premium multiple. 2023 is shaping up to be a 'reset' year for the EV market where the last 2 years of demand exceeding supply will be substantially inverted to supply exceeding demand. Between a worsening macro backdrop, record high unaffordability, and increasing competition, there are hurdles to overcome. Q4 deliveries of 405K came in just below the low-end of buy-side expectations. TSLA's self-funding status is a notable advantage versus some start-up EV automaker competitors (much less so versus incumbent automakers). Lower pricing on EVs could spur stronger demand, driving higher volumes and thereby accelerating the shift away from internal combustion engine (ICE) vehicles. Auto demand in general appears to be easing given the difficult macro backdrop, including high interest rates, lower used pricing and risks of a recession. TSLA has a $400B market cap and now trades 31X Earnings, 18.8X EBITDA and 25X FCF, relatively cheap considering expectations of strong profitability growth resuming in 2024. Analysts have an average target of $196 on shares with short interest at 8.1% of the float climbing 28.7% Q/Q. OpCo notes the company is making a proactive move to capture incentives but also to reset prices on EVs in key markets to help protect the company's market position and apply pressure on competition from a cash flow perspective. BAML lowered its target to $130 noting the stock is facing several headwinds, including concerns on demand and increased competition in the electric vehicle market, which have been further fed by price cut announcements on its vehicles across China, the U.S. and Europe, and the stock appears fairly valued. TSLA recently held the $100 level though under $95 lacks much support until the $65 level. Shares recently bounced back into monthly value and $142 the 8-week while a key VPOC near $155 if shares follow through higher. TSLA options are pricing in a 6.15% earnings move and 30-day IV Skew at +5.6 compares to the +8.4 52-wek average. TSLA put/call open interest is at the 2nd percentile and average IV30 crush is -11.1%. After many months of bearish options positioning TSLA recently with a large buy of 15,000 May $110 calls and 25,000 April $80 calls bought on 1/6. Put selling flow indicates a likely floor in the $90-$80 zone.

Trade to Consider: Sell the **TSLA** February $145/$140/$115/$110 Iron Condor for $2.70 Credit

Visa (V) will report earnings 1/26 after the close with the Street consensus at $2.01 EPS and $7.7B in Revenues (+9.1%) and Q2/FY23 seen at $1.97/$7.66B and $8.29/$31.88B implying 10.5% EPS growth and 8.8% Revenue growth. V shares have closed higher three of the last five reports with a six-quarter average max move of 6.66%. Visa is the global leader in payments with attractive leverage to the long-term secular growth driver from payment electronification. Visa's business mix has greater leverage to the US and greater skew towards debit and will likely continue to deliver HSD revenue growth and high-teens EPS growth for many years to come, supported by persistent tailwinds and the nascent growth initiatives in areas like new flows and value-added services (for both card and non-card spending). Visa also has near-term tailwinds from the recovery in cross-border volumes. Leading indicators generally decelerated in 4Q, but still reflect a backdrop of generally healthy consumer spending. Average US card issuer volume growth (total of credit+debit) was 6.9% in 4Q vs. 9.3% in 3Q, while First Data SpendTrend growth modestly decelerated to 6% in 4Q vs. 8% in 3Q, and gas prices remained a y/y tailwind (but declined q/q). FX headwinds abated to some extent in 4Q, but high FX volatility should be positive for cross-border revenue, especially for V. V has a market cap of $455B and trades 23.3X Earnings, 21X EBITDA and 14.7X EV/Sales. Analysts have an average target of $250 with short interest low at 2.2% of the float. Baird raised its target to $270 last week expecting a beat and FX incremental benefits. Jefferies raised its target to $260 on cross-border recovery. KeyBanc upgraded to Overweight at 1/9 on growth durability and diversification efforts. On the chart V shares are strong near highs and have worked out of a weekly falling wedge pattern and above VWAP off the highs. On weakness I would expect the $213 level to be supportive. On the upside V has some room to $230 before meeting some resistance. Visa options are pricing in a 3.25% earnings move with 30-day IV Skew at +5.6 comparing to the +5.1 52-week average. V's put/call open interest ratio is at the 36th percentile and average IV30 crush is -11.45%. V has seen mostly bull flow with 5000 January 2024 $250 calls bought, March $220 and $240 size call buys and sellers of the March $185 puts.

Trade to Consider: Long the **V** February/March $230/$235 Call Diagonal for $0.20 Debit



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