May 14, 2015

North America

30 for 2018
North America

Debate continues to swirl regarding the numerous uncertainties currently affecting markets — factors such as oil prices, currency, Fed policy transition, reflation, and geopolitics. We believe these cross-currents present an ideal opportunity to refresh a cornerstone Morgan Stanley Research analysis: Identifying high-quality companies likely to strengthen and extend a sustainable competitive advantage. The result is '30 for 2018': Stocks for a 3-year holding period.

***30 for 2018* identifies our best long-term picks based on sustainability and quality of business model.** This piece joins the *50 for 2012, 30 for 2013, 30 for 2015,* and *20 for 2016* series, in which we ask our analysts to identify the highest-quality companies in their sectors at times of market dislocations or uncertainty.

The main criterion is sustainability — of competitive advantage, business model, pricing power, cost efficiency, and growth. We selected the companies that scored best on these criteria, paying special attention to RNOA, management's attitude toward capital structure, and clarity and consistency of shareholder remuneration (dividends / buybacks). Additionally, we now incorporate key Environmental, Social, and Governance (ESG) principles, which can shed light on a management team's approach to sustainable and responsible governance over the very long term.

We are taking a long-term view. We have tried to identify the best franchises, not the most undervalued stocks. There was no prerequisite in our analysis that they be rated Overweight, nor specific assumptions about were we are in the economic cycle or any other valuation considerations. Our driving principle was to create a list of companies whose business models and market positions would be increasingly differentiated by 2016.

Of note, Bank of America, BlackRock, Delphi Automotive, HCA, Honeywell, and JP Morgan Chase also screened in the top 2 quintiles in BEST, Chief US Strategist Adam Parker's systematic stock-selection (alpha) model with a 24-month horizon.

Actavis
Amazon.com
Amphenol
Avago Technologies
Bank of America
BankUnited
BlackRock
Costco Wholesale
Delphi Automotive
Esteé Lauder
Google
HCA Holdings
Hilton Worldwide
Honeywell International
J.P. Morgan Chase
L Brands
LinkedIn
McKesson
Medtronic
Nike
Old Dominion Freight Line
Palo Alto Networks
Schlumberger
Sempra Energy
Sherwin-Williams
Starbucks
Visa
Walgreens Boots Alliance
Walt Disney
Workday

‘30 for 2018’ Poll

Analyst Impressions

Stronger → Weaker
● ◕ ◑ ◔

	Mgmt’s Strategic Thinking	Competitive Advantage Trend	Market Share Growth	Multiple Market Share Drivers	Pricing Power	Benefits from Scale	Operating Leverage	Cost Efficiency	Capital Intensity / Working Capital	Incremental Return. on Capital	Capital Allocation / Capital Structure	Resilience to Current Headwinds	Governance	Environm. & Social Risk / Opportunities	Page
Actavis	●	●	◕	●	◕	●	●	●	●	◕	●	◑	●	◑	5
Amazon.com	●	●	◕	●	●	●	◕	◑	◑	◕	◑	◑	◕	◔	6
Amphenol	●	●	◕	●	◕	◕	◕	●	●	●	◕	◑	◕	◔	7
Avago Technologies	●	●	◑	●	◕	◕	◕	◑	●	●	◕	◕	●	◔	8
Bank of America	●	●	◕	◑	●	●	◕	●	●	●	◕	◕	◑	◕	9
BankUnited	●	◕	●	◑	◕	●	●	●	◕	◕	◑	◑	◕	◕	10
BlackRock	◕	●	●	●	●	●	●	●	●	●	◑	◕	◑	◕	11
Costco Wholesale	◑	●	◕	◑	●	◑	◕	●	◑	◕	◑	◑	◕	◔	12
Delphi Automotive	●	●	◕	●	◕	◑	◑	●	●	◕	◕	◑	◕	●	13
Estée Lauder	●	◕	●	●	◕	●	◕	●	●	●	◔	◔	◑	◕	14
Google	●	◕	◑	◑	◕	●	◕	◑	●	◕	◕	◑	◔	◕	15
HCA Holdings	●	●	◕	◑	◕	●	●	●	●	●	◑	◑	◑	◑	16
Hilton Worldwide	●	◕	◕	●	◕	●	◕	●	●	●	◕	◑	◕	◕	17
Honeywell International	●	●	◕	●	●	◕	●	●	●	◕	◕	◕	●	◕	18
J.P. Morgan Chase	◕	●	●	●	●	●	●	●	●	●	◕	◕	◕	◕	19
L Brands	●	◕	◕	◕	◕	◕	◕	◑	●	◕	◕	◑	◕	◑	20
LinkedIn	●	●	●	◕	●	●	●	◑	●	◕	◕	◑	●	◕	21
McKesson	●	●	◕	●	●	●	●	●	◕	◕	◕	◑	◕	◔	22
Medtronic	●	◕	◑	◕	◕	◕	●	●	◕	◕	●	◑	◑	◑	23
Nike	◑	●	●	●	●	●	◑	●	◑	◕	◕	●	●	◕	24
Old Dominion Freight	●	◕	●	◑	◕	◕	◕	●	◑	◕	◕	◑	◕	◔	25
Palo Alto Networks	●	●	●	●	◕	◕	●	●	◕	◕	◔	◕	◕	◔	26
Schlumberger	●	◕	◕	●	●	●	◑	●	●	●	◕	◑	◕	◕	27
Sempra Energy	●	◕	●	●	◕	●	●	●	◕	●	●	◑	◕	●	28
Sherwin-Williams	◑	●	●	●	●	●	◕	●	●	◕	◑	◑	●	◑	29
Starbucks	●	●	●	●	◕	◕	◕	●	◕	●	◕	◕	●	◕	30
Visa	●	◕	●	●	◕	●	◕	●	◕	◕	◕	◑	●	◑	31
Walgreens Boots Alliance	●	●	◕	●	●	◕	●	●	◕	◕	◕	◑	◑	◔	32
Walt Disney	●	◕	◕	●	◕	◕	◕	●	◕	◕	◕	◑	●	◔	33
Workday	●	◕	●	◑	◕	●	●	◑	●	◑	◔	◑	◑	◔	34

All share prices in this report are May 8, 2015 closing prices.

‘30 for 2018’: Financial Metrics

Ticker	Company	Revenue 5-Yr CAGR ('13-18e)	EPS5-Yr CAGR ('13-18e)	EBIT Margin (%) 2015e	EBIT Margin (%) 2018e	RNOA (%) 2015e	RNOA (%) 2018e	Net Debt / EBITDA 2015e	Interest Cover 2015e
ACT.N	Actavis Inc	27%	24%	29.9%	45.1%	12.5%	17.8%	4.1	4.8x
AMZN.O	Amazon.com Inc	18%	67%	0.6%	3.4%	NM	NM	NM	1.9x
APH.N	Amphenol Corp.	8%	11%	20.6%	21.9%	17.8%	20.6%	0.9	23.1x
AVGO.O	Avago Technologies Ltd	28%	29%	41.8%	43.3%	30.4%	40.8%	0.5	14.5x
BAC.N	Bank of America	3%	19%	NA	NA	7.2%	8.8%	NA	NM
BKU.N	BankUnited Inc	13%	16%	NA	NA	9.6%	16.2%	NA	NM
BLK.N	BlackRock Inc.	10%	13%	41.5%	43.8%	12.6%	15.4%	NM	29.3x
COST.O	Costco Wholesale Corp	7%	9%	3.0%	3.1%	23.0%	35.3%	NM	NM
DLPH.N	Delphi Automotive PLC	5%	13%	13.4%	15.2%	32.7%	46.4%	0.1	14.6x
EL.N	Estee Lauder Companies Inc	6%	10%	15.0%	17.7%	30.7%	42.1%	0.0	33.3x
GOOGL.O	Google	16%	11%	38.0%	36.5%	39.8%	43.3%	NM	NM
HCA.N	HCA Holdings Inc.	6%	15%	15.2%	15.9%	17.7%	19.8%	3.5	3.5x
HLT.N	Hilton Worldwide Holdings	8%	22%	17.5%	18.7%	7.7%	11.3%	3.2	3.6x
HON.N	Honeywell International	2%	9%	17.7%	19.1%	40.9%	59.9%	NM	31.8x
JPM.N	J.P.Morgan Chase & Co.	3%	12%	NA	NA	10.5%	11.4%	NA	NM
LB.N	L Brands Inc	6%	11%	17.6%	19.1%	42.5%	38.1%	1.5	6.5x
LNKD.N	LinkedIn Corp	32%	36%	14.1%	25.3%	45.5%	100.2%	NM	28.2x
MCK.N	McKesson Corporation	12%	18%	2.1%	2.2%	17.5%	26.3%	0.5	13.6x
MDT.N	Medtronic Inc.	13%	8%	30.2%	32.8%	9.6%	12.6%	1.1	8.3x
NKE.N	Nike Inc.	8%	14%	14.0%	14.4%	52.4%	60.5%	NM	151.1x
ODFL.O	Old Dominion Freight Line	13%	19%	17.3%	18.2%	21.2%	21.6%	0.2	84.0x
PANW.N	Palo Alto Networks Inc	35%	61%	12.2%	25.5%	NM	NM	NM	NM
SLB.N	Schlumberger	3%	6%	15.1%	19.4%	9.5%	15.9%	0.6	22.1x
SRE.N	Sempra Energy	4%	11%	21.0%	27.4%	6.6%	7.6%	4.1	3.8x
SHW.N	Sherwin-Williams	8%	18%	13.7%	15.0%	37.1%	51.3%	1.2	28.0x
SBUX.O	Starbucks Corp.	11%	17%	18.8%	22.0%	51.3%	50.3%	0.1	109.3x
V.N	Visa Inc.	9%	15%	65.9%	69.8%	27.8%	37.0%	NM	NM
WBA.O	Walgreens Boots Alliance Inc	13%	13%	5.5%	5.6%	20.0%	11.6%	1.6	12.6x
DIS.N	Walt Disney Co	7%	14%	24.4%	26.3%	14.5%	17.9%	0.8	43.3x
WDAY.N	Workday	39%	NM	-3.5%	8.7%	NM	NM	NM	NM

Source: Morgan Stanley Research, ModelWare. Share prices as of May 8th. Metrics are calculated using the "for consensus" methodology. NA = Not Applicable; NM = Not Meaningful
For JPM, BLK, BAC and BKU, figures in RNOA column represent ROE.

'30 for 2018': Valuation Metrics

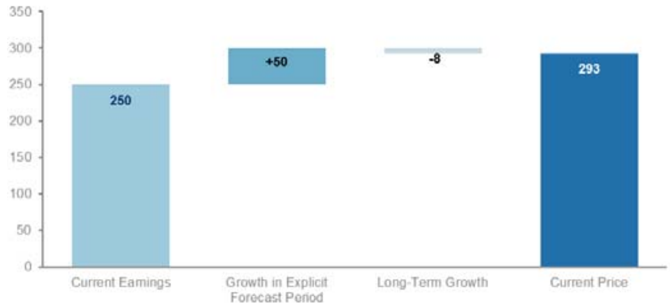
Ticker	Company	P/E 2015e	EV/EBIT 2015e	FCF Yld 2015e	Div Yld 2015e	12-18 month upside/ downside to Base / PT	Bull	Bear
ACT.N	Actavis Inc	16.3	18.5	5.4%	0.0%	17%	37%	-8%
AMZN.O	Amazon.com Inc	NM	330.1	1.7%	0.0%	4%	20%	-31%
APH.N	Amphenol Corp.	23.3	17.0	3.9%	0.9%	2%	23%	-28%
AVGO.O	Avago Technologies Ltd	14.3	13.6	7.6%	1.0%	25%	49%	-21%
BAC.N	Bank of America	11.4	NA	NA	1.2%	22%	64%	-27%
BKU.N	BankUnited Inc	17.3	NA	NA	2.7%	18%	39%	-19%
BLK.N	BlackRock Inc.	18.0	12.2	6.9%	2.4%	16%	43%	-36%
COST.O	Costco Wholesale Corp	27.5	16.8	2.8%	0.7%	12%	23%	-11%
DLPH.N	Delphi Automotive PLC	15.8	13.8	7.2%	1.2%	23%	46%	-30%
EL.N	Estee Lauder Companies	31.2	20.9	3.5%	1.0%	11%	28%	-12%
GOOGL.O	Google	20.7	13.6	2.6%	NA	3%	28%	-27%
HCA.N	HCA Holdings Inc.	14.8	10.4	8.8%	0.0%	11%	38%	-22%
HLT.N	Hilton Worldwide Holdings	37.2	19.9	4.7%	0.0%	13%	30%	-14%
HON.N	Honeywell International	16.7	10.6	5.2%	2.1%	13%	31%	-22%
JPM.N	J.P.Morgan Chase & Co.	10.9	NA	NA	2.6%	8%	30%	-27%
LB.N	L Brands Inc	24.0	13.5	2.7%	4.5%	6%	26%	-25%
LNKD.N	LinkedIn Corp	83.3	56.4	1.1%	NA	51%	81%	1%
MCK.N	McKesson Corporation	18.0	13.7	5.7%	0.4%	6%	27%	-24%
MDT.N	Medtronic Inc.	17.1	13.9	8.5%	2.3%	9%	19%	-19%
NKE.N	Nike Inc.	25.1	18.0	3.8%	0.9%	2%	29%	-27%
ODFL.O	Old Dominion Freight Line	19.4	11.9	1.1%	0.0%	12%	34%	-20%
PANW.N	Palo Alto Networks Inc	195.9	120.1	1.8%	NA	5%	40%	-62%
SLB.N	Schlumberger	27.6	21.0	4.6%	2.1%	35%	100%	-19%
SRE.N	Sempra Energy	22.2	17.4	-3.6%	2.6%	23%	50%	-14%
SHW.N	Sherwin-Williams Co.	24.9	17.5	4.1%	1.0%	11%	34%	-23%
SBUX.O	Starbucks Corp.	31.7	21.0	2.8%	1.3%	6%	21%	-30%
V.N	Visa Inc.	26.9	18.0	3.5%	0.7%	11%	35%	-25%
WBA.O	Walgreens Boots Alliance	23.3	18.1	5.3%	1.6%	7%	21%	-34%
DIS.N	Walt Disney Co	22.4	16.2	3.5%	1.0%	0%	14%	-23%
WDAY.N	Workday	NM	NM	0.2%	NA	14%	56%	-52%

Source: Morgan Stanley Research ModelWare. Share prices as of May 8th. Metrics are calculated using the "for consensus" methodology. NA = Not Applicable; NM = Not Meaningful

Healthcare

Actavis (ACT)

Value of Growth



Cost of Equity uses 3-yr beta, Rf of 2% and MRP of 6%

Return on Net Operating Assets (RNOA) Analysis

RNOA = Net operating profit, after taxes (calculated using the "for consensus" methodology) / Net operating assets (BOP)

Sector Yardsticks

Actavis Inc vs. Sector Peers

	Actavis Inc percentile range (vs. sector peers)					Peer median
Growth	0–20	20–40	40–60	60–80	80–100	
EPS '15-'18 CAGR				15.2%		13.6%
Sales '15-'18 CAGR				9.5%		6.5%
Returns						
RNOA		12.5%				15.7%
EBIT margin					29.9%	22.8%
Valuation						
P/E	16.3x					19.7x
EV/EBIT		18.5x				20.0x
P/FCF	12.9x					19.2x
Leverage						
Net Debt/EBITDA					4.1x	1.8x

Note: Sector Yardstick metrics - Returns: 2015e; Valuation: 2015e; Leverage 2015e. (Net Debt/EBITDA could be NM for some companies.)

Source: Thomson Reuters (historical share price data), Company data, Morgan Stanley Research estimates
Companies with fiscal years ending 1/1-5/31 have been fiscally aligned with the prior year.
For valuation methodology and risks associated with price targets mentioned, please see the appendix beginning on page 35.

Specialty Pharmaceuticals Industry View: In-Line

Morgan Stanley & Co. LLC

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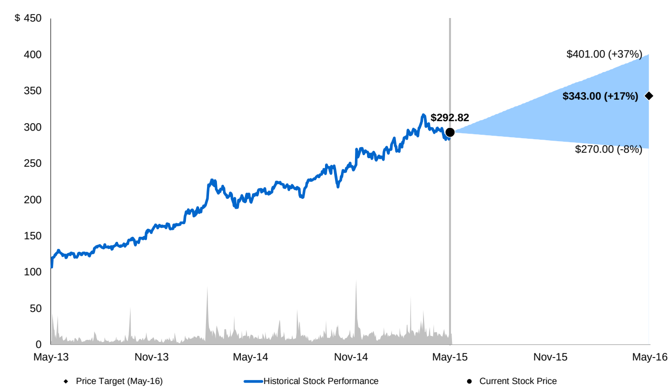
We believe Actavis stands at a unique cross-section between both Specialty and Major Pharmaceuticals. Since August 2013, Actavis has transformed itself from a small, $18 billion market cap generics company into an over-$120 billion market cap branded pharma powerhouse. Actavis recently closed its acquisition of Allergan, which should step up branded pharma earnings from ~56% of 2016e EPS pre-deal to ~77% post-deal. We believe Allergan has several interesting pipeline candidates — DARPin (wet age-related macular degeneration), Botox (in new medical indications such as depression and osteoarthritis pain), and bimatoprost sustained-release (glaucoma). Allergan also plans to refile Semprana (levadex; migraine). Hence, our 2020 Allergan pipeline projection of $1.4 billion could prove conservative.

This transition from value (generics) into growth (brands), we believe, positions Actavis well for long-term growth. Because of its organic growth prospects and pipeline strength, we believe investors will gradually re-rate ACT to Major Pharma comps. We project a 2015-2020 EPS CAGR of 14% vs. the Major Pharma median of 13%. Yet ACT currently trades at 14x 2016e EPS vs the Major Pharma average of 16x.

We see a number of ways ACT stock can work over the next three years. **(1)** EPS could benefit from potentially faster-than-expected capture of Allergan synergies, **(2)** The stock multiple could expand as the company de-levers, **(3)** Actavis could execute further accretive M&A; the company has a long track record of accretive transactions.

Risk Reward on a 12-month view (Overweight, PT $343)



Consumer Discretionary

Amazon.com (AMZN)

Morgan Stanley & Co. LLC

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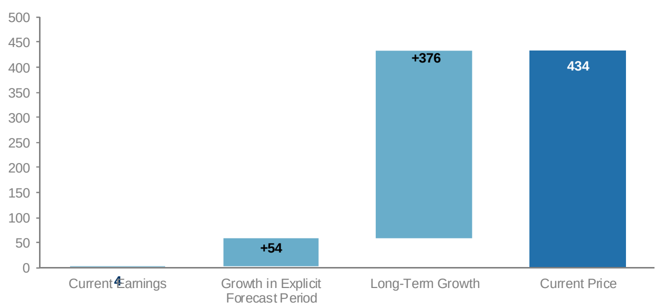
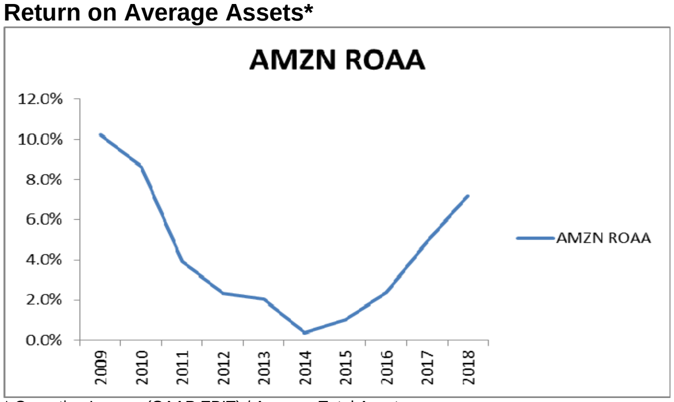
Value of Growth



Cost of Equity uses 3-yr beta, Rf of 2% and MRP of 6%

Return on Average Assets*



* Operating Income (GAAP EBIT) / Average Total Assets

Sector Yardsticks

Amazon.com Inc vs. Sector Peers

	Amazon.com Inc percentile range (vs. sector peers) 0–20	20–40	40–60	60–80	80–100	Peer median
Growth						
EPS '15-'18 CAGR						17.2%
Sales '15-'18 CAGR				19.1%		15.8%
Returns						
RNOA						NA
EBIT margin	0.6%					14.5%
Valuation						
P/E						40.0x
EV/EBIT					330.1x	23.2x
P/FCF					60.0x	31.4x
Leverage						
Net Debt/EBITDA						0.2x

Note: Sector Yardstick metrics - Returns: 2015e; Valuation: 2015e; Leverage 2015e. (Net Debt/EBITDA could be NM for some companies.)

Source: Thomson Reuters (historical share price data), Company data, Morgan Stanley Research estimates
Companies with fiscal years ending 1/1-5/31 have been fiscally aligned with the prior year.
For valuation methodology and risks associated with price targets mentioned, please see the appendix beginning on page 35.

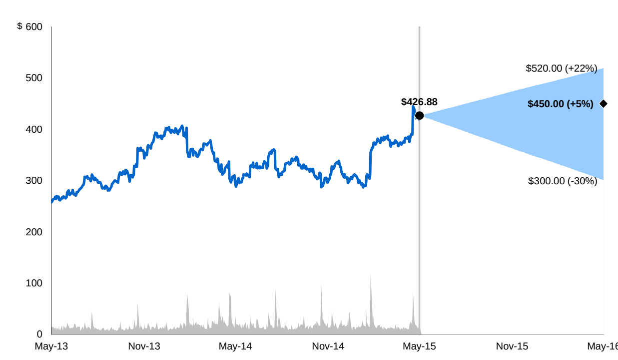
Internet Industry View: Attractive

Amazon's accelerating revenue growth, expanding gross margins, and improving profitability leave us bullish on the core eCommerce business. Its cloud computing business, Amazon Web Services (AWS), is another incremental growth driver. We believe Amazon is unique among large-cap Tech and Retail companies because of its strong brand recognition, customer loyalty (aided by growing Prime membership), a growing base of recurring revenue, and a strong competitive moat.

In the core eCommerce business, Amazon is entering a phase of improving profitability that we believe is sustainable even as Amazon continues to take a larger share of the global eCommerce pie. We saw this in 1Q:15 as Amazon's organic revenue growth accelerated globally Y/Y in all four of its main business segments for only the second time in 36 quarters. Over the next 4 years, we expect 18% annualized sales growth. Profitability is flowing through as well, as Amazon is benefiting from leverage across its fulfillment network.

Amazon's gross margins also continue to expand, which provides Amazon with more dollars to invest in improved product selection and more categories, more fulfillment and sortation centers near major metropolitan areas, and international expansion. These investments should increase the value of Amazon to consumers and in turn lead to an increasing number of Amazon Prime members. We estimate Prime members have a higher average basket size, have more recurring orders, and buy in higher take-rate categories than non-Prime members, all of which should drive margin expansion. Even through these investments, Amazon is still generating profits in its core North American retail business, which is operating at a 5% adjusted EBITDA margin. We think current top line and expense trends should drive these margins higher over time. AWS adds another leg to its growth story — it is rapidly growing and profitable. AWS generated $4.6 billion of revenue in 2014 (+49% Y/Y) and operated at a 50% non-GAAP EBITDA margin.

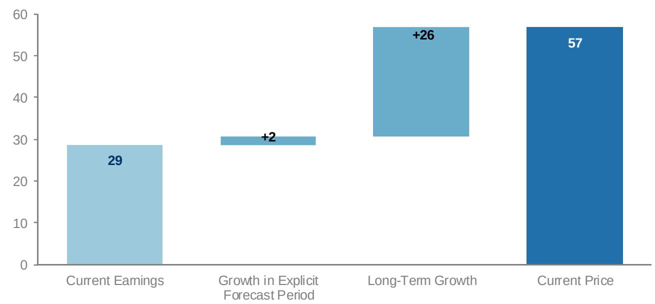
Risk Reward on a 12-month view (Overweight, PT $450)



Information Technology

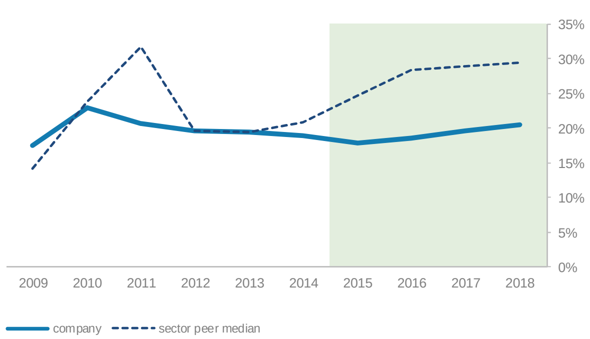
Amphenol (APH)

Value of Growth



Cost of Equity uses 3-yr beta, Rf of 2% and MRP of 6%

Return on Net operating assets (RNOA) Analysis



RNOA = Net operating profit, after taxes (calculated using the "for consensus" methodology) / Net operating assets (BOP)

Sector Yardsticks

Amphenol Corp. vs. Sector Peers

	Amphenol Corp. percentile range (vs. sector peers)					Peer median
	0–20	20–40	40–60	60–80	80–100	
Growth						
EPS '15-'18 CAGR				10.7%		10.2%
Sales '15-'18 CAGR				6.2%		5.4%
Returns						
RNOA		17.8%				24.7%
EBIT margin		20.6%				22.1%
Valuation						
P/E					23.3x	19.0x
EV/EBIT					17.0x	15.2x
P/FCF					26.5x	21.7x
Leverage						
Net Debt/EBITDA	0.9x					1.1x

Note: Sector Yardstick metrics - Returns: 2015e; Valuation: 2015e; Leverage 2015e. (Net Debt/EBITDA could be NM for some companies.)

Source: Thomson Reuters (historical share price data), Company data, Morgan Stanley Research estimates
Companies with fiscal years ending 1/1-5/31 have been fiscally aligned with the prior year.
For valuation methodology and risks associated with price targets mentioned, please see the appendix beginning on page 35.

Semiconductors Industry View: In-Line

Morgan Stanley & Co. LLC

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We view Amphenol as a premier franchise in the connector space with superior revenue growth and strong track record. Connectors represent a $50 billion market and grow at 2x GDP. More so, the industry is characterized by benign pricing and low capital intensity, leading to attractive FCF and returns. Despite being top-heavy with top 10 companies representing 60% share, the connector market remains fragmented with hundreds of regional companies that operate in niche markets and lack geographical presence or resources to scale. This provides many opportunities for larger companies such as Amphenol to gain share through M&A. Amphenol has more than doubled its market share over the last 10 years to 9% and the combination of strong organic growth and meaningful M&A activity has led to a 13% CAGR over the 2004-14 period, nearly 3x the market's growth rate. Further, the company has entered the larger and faster growing $70 billion sensor market, through its acquisition of GE's Advanced Sensors business. We expect Amphenol to make further acquisitions as well as invest organically in sensors, which should help sustain its above-average growth.

Amphenol has a reputation for strong execution, missing earnings just once over the past decade. The company's margin profile is also remarkably consistent, with gross margin ranging between 30.8% and 32.6% over the last 10 years. Amphenol has driven 300bps of operating margin expansion since 2003 and we expect further OM expansion over the coming years, consistent with management's target of 25% conversion margin on incremental sales. Finally, Amphenol operates with low leverage (~1x), providing ample room on the balance sheet for opportunistic acquisitions in the connector and sensor markets. In addition, we expect the company to generate robust FCF (~$3 billion over 2014-18, we estimate) supporting a healthy balance between its acquisition program and cash return to shareholders.

Risk Reward on a 12-month view (Equal-weight, PT $58)

Information Technology

Avago Technologies (AVGO)

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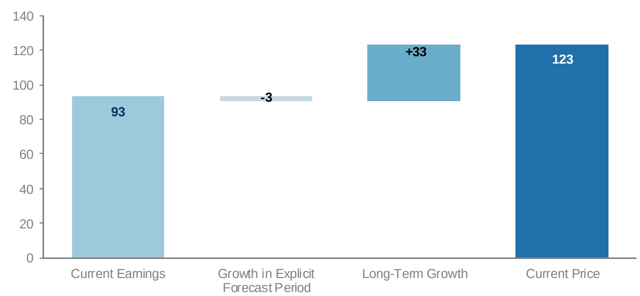
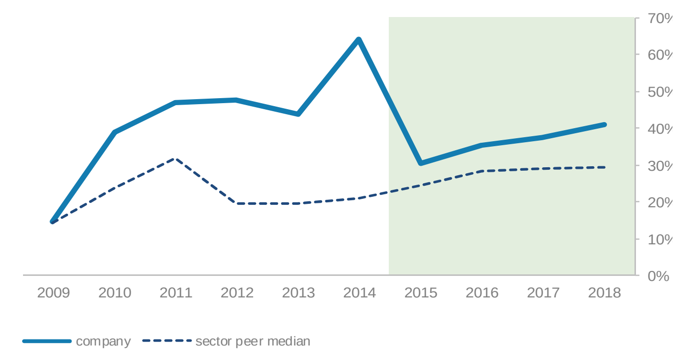
Craig.Hettenbach@morganstanley.com

Value of Growth



Cost of Equity uses 3-yr beta, Rf of 2% and MRP of 6%

Return on Net operating assets (RNOA) Analysis



RNOA = Net operating profit, after taxes (calculated using the "for consensus" methodology) / Net operating assets (BOP)

Sector Yardsticks
Avago Technologies Ltd vs. Sector Peers

	Avago Technologies Ltd percentile range (vs. sector peers)					Peer median
Growth	0–20	20–40	40–60	60–80	80–100	
EPS '15-'18 CAGR		6.8%				10.2%
Sales '15-'18 CAGR					7.6%	5.4%
Returns						
RNOA				30.4%		24.7%
EBIT margin					41.8%	22.1%
Valuation						
P/E	14.3x					19.0x
EV/EBIT	13.6x					15.2x
P/FCF	14.3x					21.7x
Leverage						
Net Debt/EBITDA	0.5x					1.1x

Note: Sector Yardstick metrics - Returns: 2015e; Valuation: 2015e; Leverage 2015e. (Net Debt/EBITDA could be NM for some companies.)

Source: Thomson Reuters (historical share price data), Company data, Morgan Stanley Research estimates
Companies with fiscal years ending 1/1-5/31 have been fiscally aligned with the prior year.
For valuation methodology and risks associated with price targets mentioned, please see the appendix beginning on page 35.

Semiconductors Industry View: In-Line

Avago is one of the fastest growing companies in the Technology sector, led by 20%-plus growth in its wireless segment (40% of sales). We stress that it is one of the few companies in the smartphone supply chain that is benefiting from an expansion in total available market (TAM), driven by a sharp uptick in radio frequency (RF) content. We see a long runway for growth in premium filters, Avago's stronghold in wireless, driven by 3 factors: (1) Rise in LTE penetration in mobile devices globally from 30% today to 50% by 2017; (2) Continued increase in frequency bands supported by LTE-capable smartphones as devices transition from local to regional/global; (3) A pickup in adoption of carrier aggregation. We expect the premium filter market, dominated by Avago with ~75% market share, to grow at a 36% CAGR from ~$1.6 billion in 2014 to~$4 billion in 2017.

We think Avago will sustain its leading position in premium filters, with the next biggest competitor Qorvo at 18% share. Notably, Avago has a significant lead in technology and its IP provides a wide moat vs. potential competitors in the space. In addition, Avago's manufacturing know-how is another competitive advantage. Finally, Avago has strong competence in providing integrated products (PAiDs), which we see adding to its increasing dollar content story as adoption of these products at leading OEMs continues to rise.

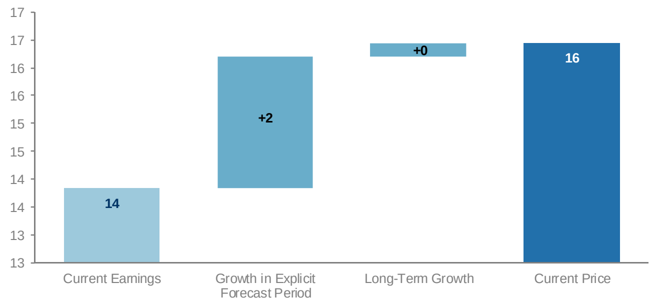
In addition to strong growth, we still see room for more margin expansion even after impressive gross (up 700 bp) and operating margin expansion (up 800 bp) in C2014. Incremental margin expansion will likely be driven by improving mix (increasing exposure to higher-margin FBAR filters) and solid opex management. Finally, we expect the company to generate strong FCF, providing optionality for accretive M&A, building off of the LSI transaction. For F2014-15, we model FCF to increase 160% and 35% to $2 billion and $2.7 billion, respectively, and reach $3 billion in F2018.

Risk Reward on a 12-month view (Overweight, PT $154)

Financials

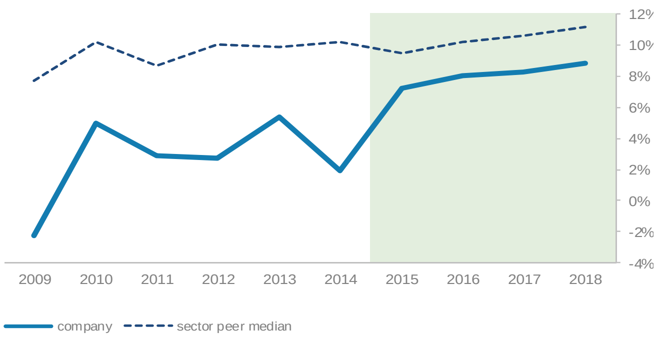
Bank of America (BAC)

Value of Growth



Cost of Equity uses 3-yr beta, Rf of 2% and MRP of 6%

Return on Equity (ROE) Analysis



ROE = Net income (calculated using the "for consensus" methodology) / Common equity (beginning of period)

Sector Yardsticks

Bank of America vs. Sector Peers

	Bank of America percentile range (vs. sector peers)					Peer median
Growth	0–20	20–40	40–60	60–80	80–100	
EPS '15-'18 CAGR					15.0%	11.3%
Sales '15-'18 CAGR		5.6%				6.3%
Returns						
ROE	7.2%					9.5%
EBIT margin						
Valuation						
P/E		11.4x				12.9x
EV/EBIT						
P/FCF						
Leverage						
Net Debt/EBITDA						

Note: Sector Yardstick metrics - Returns: 2015e; Valuation: 2015e; Leverage 2015e. (Net Debt/EBITDA could be NM for some companies.)

Source: Thomson Reuters (historical share price data), Company data, Morgan Stanley Research estimates
Companies with fiscal years ending 1/1-5/31 have been fiscally aligned with the prior year.
For valuation methodology and risks associated with price targets mentioned, please see the appendix beginning on page 35.

Large Cap Banks Industry View: Attractive

Morgan Stanley & Co. LLC **Betsy Graseck**
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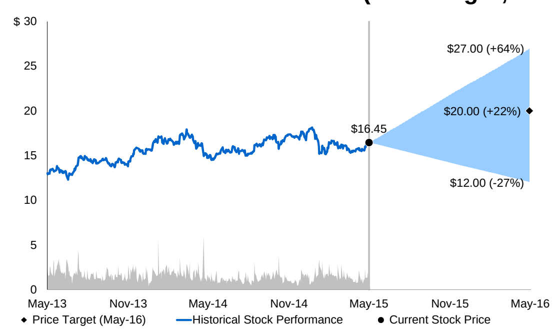
We believe Bank of America will outperform peers over the next 3 years as expense management, rising rates, and higher capital return together drive a 15% EPS CAGR 2015-18e.

Expense declines are the primary reason to own BAC, we believe. We expect Legacy Asset Servicing (LAS) costs to decline from the current $1 billion quarterly run-rate to $0.6B by 4Q16 en route to below $0.5B in 2017 as BAC works out pre-crisis delinquent loans. Outside of LAS, we expect BAC to improve efficiency through lower comp ratios, increased automation, and more branch consolidation. BAC's comp / revenue ratio of 40% in 2014 was highest among both money centers and super-regionals (median 34% at peers), and we see room for BAC to bring this down, particularly in the investment bank. To be clear, management has not said they are planning to lower comp ratios, only that they will manage expenses to grow slower than revenues. Our view is that BAC will hold the core expense CAGR at 3% over the next 3 years while driving a 5% core revenue CAGR by paying out less on incremental revenues, as their investment banking peers have been doing. We expect BAC's core expense ratio (ex-legal and LAS) to fall from 59% in 2015 to 55% in 2018, while the overall expense ratio declines from 67% to 59%.

Among the biggest beneficiaries of rising rates. BAC sources 52% of its deposits from consumers, above the peer median of 35%; has 47% of its loans tied to front-end floating rates (peers 41%); and has been marking its bond portfolio through its Net Interest Income line due to FAS 91, setting up for a sharp rise in NII as short and long term rates rise. If the forward curve shifts up 100bp from March 31 levels, BAC estimates NII would increase by $4.6B, or $0.27 (or 16%) upside to EPS, highest in our coverage group. We model 2018 NII to be $7B above 2015 (5% CAGR), with one-third of the increase from rising rates and two-thirds from earning asset growth.

Expect payout ratios to rise as strong earnings drive capital accretion. BAC already has a strong 9.1% Basel 3 Common Tier 1 ratio, and we expect 35-40bps in capital accretion per quarter from earnings and deferred tax asset utilization. Model approvals and active risk-weighted asset mitigation are also likely benefits going forward. These should drive net payout ratios up from 27% in 2015 to 65% in 2018, boosting total yield from 2.5% to 8.7%.

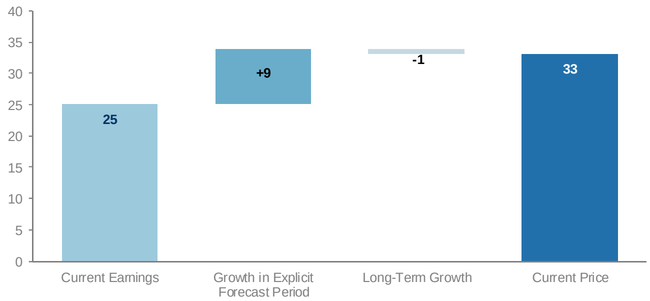
Risk Reward on a 12-month view (Overweight, PT $20)



Financials

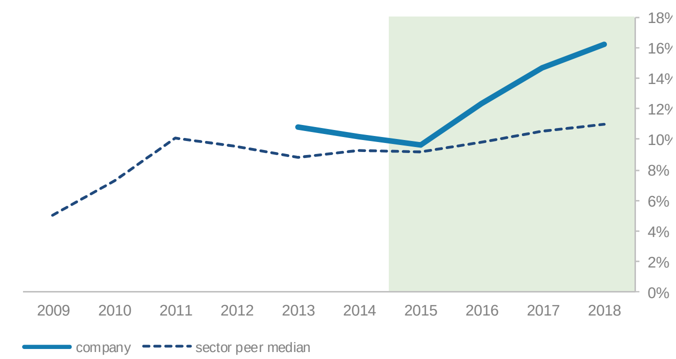
BankUnited (BKU)

Value of Growth



Cost of Equity uses 3-yr beta, Rf of 2% and MRP of 6%

Return on Equity (ROE) Analysis



ROE = Net income (calculated using the "for consensus" methodology) / Common equity (beginning of period)

Sector Yardsticks

BankUnited Inc vs. Sector Peers

	BankUnited Inc percentile range (vs. sector peers) 0–20	20–40	40–60	60–80	80–100	Peer median
Growth						
EPS '15-'18 CAGR					28.9%	15.4%
Sales '15-'18 CAGR					17.6%	7.7%
Returns						
ROE				9.6%		9.2%
EBIT margin						
Valuation						
P/E				17.3x		16.2x
EV/EBIT						
P/FCF						
Leverage						
Net Debt/EBITDA						

Note: Sector Yardstick metrics - Returns: 2015e; Valuation: 2015e; Leverage 2015e. (Net Debt/EBITDA could be NM for some companies.)

Source: Thomson Reuters (historical share price data), Company data, Morgan Stanley Research estimates
Companies with fiscal years ending 1/1-5/31 have been fiscally aligned with the prior year.
For valuation methodology and risks associated with price targets mentioned, please see the appendix beginning on page 35.

Midcap Banks Industry View: In-Line

Morgan Stanley & Co. LLC

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BankUnited is a best-in-class growth story in the Midcap Banks, in our view. We expect its strong loan growth (24% CAGR from 2015-18e) to drive above-peer net interest income growth, more than offsetting a decline in earnings from its covered portfolio. This should lead to better earnings visibility and sharply higher long-term profitability.

We see four key catalysts that could drive both better profitability and a higher valuation multiple for the stock:

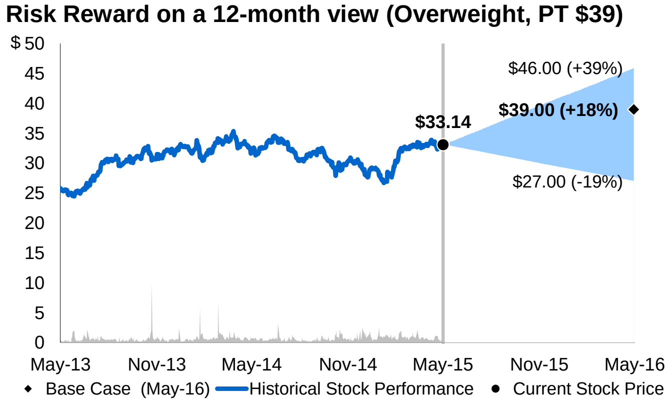
1. Core loan growth well above peers. BKU's loan growth has been exceptional, up 55% in 2014 (vs. peers at 8%), and we believe management has done a good job of building credibility in its guidance for $4-5 billion of loan growth this year. We expect BKU can deliver a 24% average loan CAGR from 2015-18 as it continues expanding its presence in New York and maintains solid growth in its other markets.

2. Reduction in FDIC accounting noise improves earnings visibility. The earnings noise related to BKU's FDIC-covered loan portfolio, and its downward pressure on EPS, is diminishing as higher-yielding covered loans run-off. We should see new loan earnings more than offset the lost FDIC income by 2H15.

3. Earnings growth should inflect higher. Per guidance, we expect 2Q15 to represent the bottom for EPS, after which it should inflect meaningfully higher (we expect a 29% EPS CAGR from 2015-18) as core loan growth overwhelms the diminishing negative offset from the remaining covered loans.

4. Above-peer profitability driven by growth and expense discipline. We believe BKU could improve its ROA by 37 bps from 2015 to 2018 on expense ratio improvement, while its ROTCE could rise 600 bps as it levers up its balance sheet, utilizing its above-peer Tier 1 Common ratio (of 14.9%).

Risk Reward on a 12-month view (Overweight, PT $39)



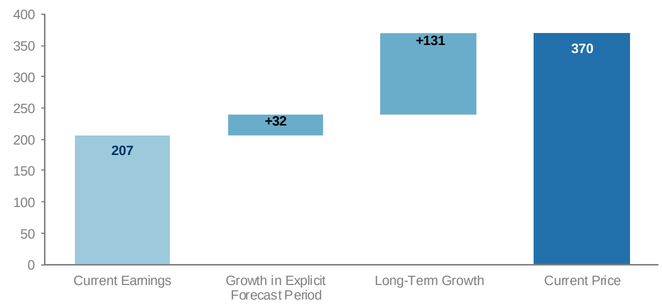
Morgan Stanley

Financials

BlackRock (BLK)

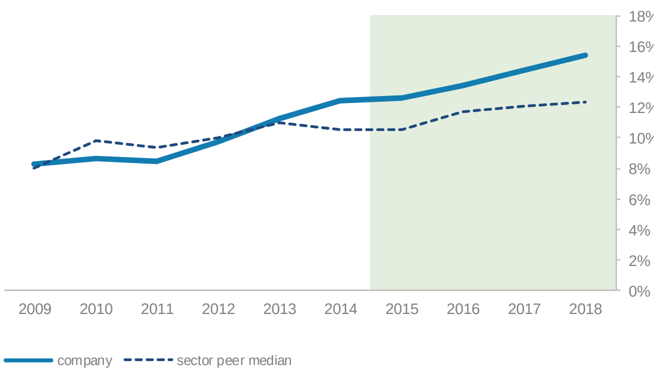
Morgan Stanley & Co. LLC **Betsy Graseck, CFA**
Betsy.Graseck@morganstanley.com

Value of Growth



Cost of Equity uses 3-yr beta, Rf of 2% and MRP of 6%

Return on Equity (ROE) Analysis



ROE = Net income (calculated using the "for consensus" methodology) / Common equity (beginning of period)

Sector Yardsticks

BlackRock Inc. vs. Sector Peers

	BlackRock Inc. percentile range (vs. sector peers)					Peer median
Growth	0–20	20–40	40–60	60–80	80–100	
EPS '15-'18 CAGR				13.7%		10.9%
Sales '15-'18 CAGR					11.7%	7.0%
Returns						
ROE				12.6%		10.5%
EBIT margin					41.5%	33.7%
Valuation						
P/E					18.0x	13.8x
EV/EBIT				12.2x		9.7x
P/FCF				14.6x		13.9x
Leverage						
Net Debt/EBITDA						0.7x

Note: Sector Yardstick metrics - Returns: 2015e; Valuation: 2015e; Leverage 2015e. (Net Debt/EBITDA could be NM for some companies.)

Source: Thomson Reuters (historical share price data), Company data, Morgan Stanley Research estimates
Companies with fiscal years ending 1/1-5/31 have been fiscally aligned with the prior year.
For valuation methodology and risks associated with price targets mentioned, please see the appendix beginning on page 35.

US Asset Managers Industry View: In-Line

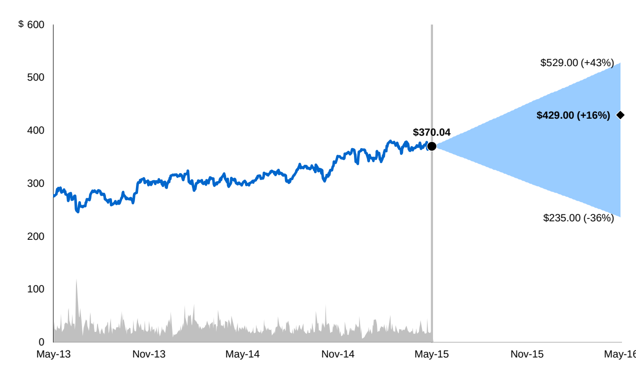
BlackRock is well positioned, in our view, given its industry-leading ETF platform, multi-asset/retirement footprint (the largest defined contribution investment only player), and presence in alternatives. We expect BlackRock's fixed-income ETFs to drive accelerating flows as bond investors look to add liquidity to funds without giving up performance in a rising-rate environment. We model total net flows as a percent of assets under management (AuM) at 5.3% over 2015-2018, double the peer group median of 2.4%. We expect these factors to continue to drive organic growth, margin expansion, and a 10% EPS CAGR from 2015–18. With flows sustainably higher than peers, we expect BLK's premium to peers to gradually expand.

ETFs driving outperformance. We maintain that fixed-income ETFs are in the very early innings of a multi-year ramp. With dealer liquidity sharply down due to banking regulations (Volcker Rule, leverage ratios, liquidity ratios, etc.), fixed-income managers need to find new sources of liquidity in their fund structures. ETFs can help provide liquidity in markets (ex extremis) while contributing to returns, unlike cash. Fixed-income ETF flows are up from 4% in 2013 to 5% in 1Q15. We bake accelerating flows into an 8.0% CAGR 2015-18e. (For more, please see our recent Blue Paper "*Liquidity Conundrum: Shifting risks, what it means*" (March 19, 2015).

We view the Aladdin risk management platform as an underappreciated business line contributing to EPS growth. Buried within BlackRock Solutions revenue, Aladdin appears to have become the go-to risk management platform for investment managers around the globe, with over $14 trillion in assets already on board. We conservatively model Aladdin revenues grow at an 11% CAGR from 2015-18 vs 10% over the past 2 years. Highly scalable, we expect growth in Aladdin will drive 5% of EPS growth over next 3 years.

BLK's premium to peers should gradually expand as organic growth outpaces peers and operating margin expands. This outperformance, coupled with BlackRock successfully navigating regulatory uncertainty, should lead to investors focusing on BlackRock's above industry organic growth.

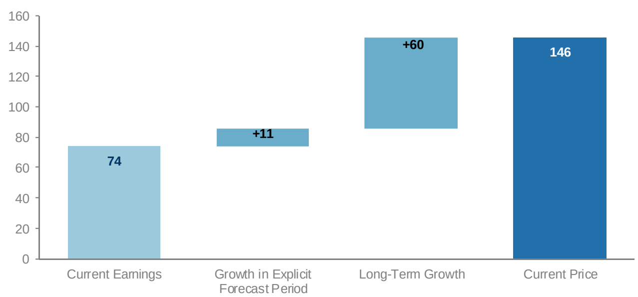
Risk Reward on a 12-month view (Overweight, PT $429)



Consumer Discretionary

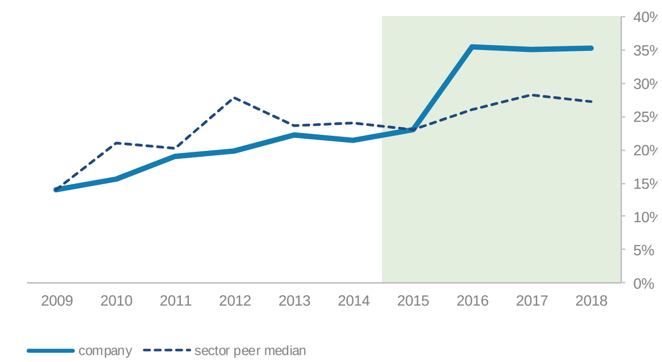
Costco Wholesale (COST)

Value of Growth



Cost of Equity uses 3-yr beta, Rf of 2% and MRP of 6%

Return on Net operating assets (RNOA) Analysis



RNOA = Net operating profit, after taxes (calculated using the "for consensus" methodology) / Net operating assets (BOP)

Sector Yardsticks

Costco Wholesale Corp vs. Sector Peers

	Costco Wholesale Corp percentile range (vs. sector peers) 0–20	20–40	40–60	60–80	80–100	Peer median
Growth						
EPS '15-'18 CAGR	9.0%					10.9%
Sales '15-'18 CAGR				8.4%		3.9%
Returns						
RNOA			23.0%			23.0%
EBIT margin	3.0%					9.4%
Valuation						
P/E					27.5x	19.0x
EV/EBIT					16.8x	12.0x
P/FCF					36.3x	19.6x
Leverage						
Net Debt/EBITDA						1.4x

Note: Sector Yardstick metrics - Returns: 2015e; Valuation: 2015e; Leverage 2015e. (Net Debt/EBITDA could be NM for some companies.)

Source: Thomson Reuters (historical share price data), Company data, Morgan Stanley Research estimates
Companies with fiscal years ending 1/1-5/31 have been fiscally aligned with the prior year.
For valuation methodology and risks associated with price targets mentioned, please see the appendix beginning on page 35.

Hardlines/Discount Retail Industry View: In-Line

Morgan Stanley & Co. LLC

Simeon Gutman
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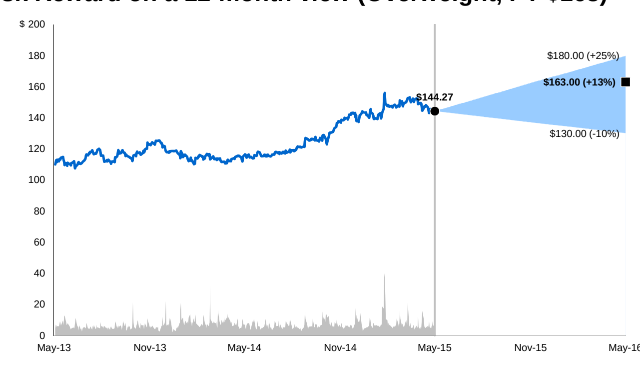
We view Costco as one of the best-positioned companies in all of Retail. We favor strong cultures and mission-driven businesses — and in our view, Costco embodies both. In contrast to 99% of the industry, in which retailers hope their key customers shop frequently with greater basket sizes, customers pay Costco for the right to shop in their stores. For the customer, the anchor is the consistent value that the shopping experience delivers. That this model continues to work is borne out by strong membership renewal figures. Customers appreciate these attributes and most of them profess their loyalty to Costco by renewing their memberships every year. Costco's EBIT per member has risen every year except for 2009. We argue that the company's unmatched value proposition should continue driving even stronger results.

Long expansion runway in US and abroad. We see room for an additional 100 US warehouses (7 years of domestic growth), plus 110 potential International warehouses. In total, Costco's footprint should double over time with earnings likely to more than double due to the higher margin International business.

Organics, whitegoods, and beauty represent untapped category growth opportunities, in our view, helped by Costco's merchandising acumen. Applying Costco's US retail share (1.7% in 2014) to these categories ($140 billion total) implies a $2.4 billion sales opportunity.

Transition to Millennials does not appear problematic. Though Millennials spend the least, they are the fastest growing segment. Gen Xers and Baby Boomers spend the most and should remain the greatest contributors to growth over the next 10 years. Costco is already seeing its business expand via delivery services like Instacart and Google Express and is indifferent as to how members shop its warehouses.

Risk Reward on a 12-month view (Overweight, PT $163)



Consumer Discretionary

Delphi Automotive PLC (DLPH)

Morgan Stanley & Co. LLC

Ravi Shanker
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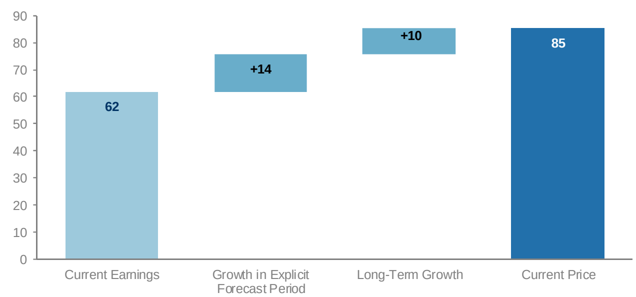
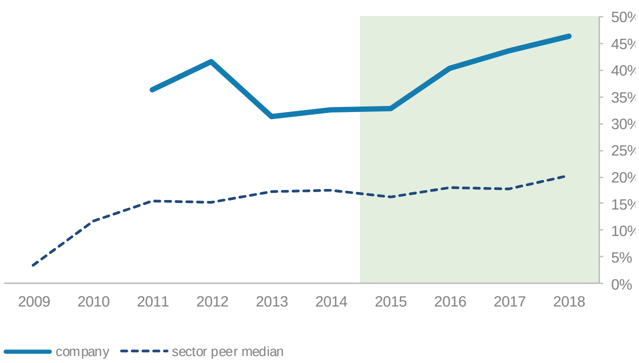
Value of Growth



Cost of Equity uses 3-yr beta, Rf of 2% and MRP of 6%

Return on Net operating assets (RNOA) Analysis



RNOA = Net operating profit, after taxes (calculated using the "for consensus" methodology) / Net operating assets (BOP)

Sector Yardsticks

Delphi Automotive PLC vs. Sector Peers

	Delphi Automotive PLC					Peer
	percentile range (vs. sector peers)					median
Growth	0	20	40	60	80 100	
EPS '15-'18 CAGR					14.9%	6.3%
Sales '15-'18 CAGR					10.2%	4.8%
Returns						
RNOA					32.7%	16.2%
EBIT margin					13.4%	7.1%
Valuation						
P/E			15.8x			14.5x
EV/EBIT					13.8x	10.4x
P/FCF		15.6x				19.0x
Leverage						
Net Debt/EBITDA	0.1x					1.5x

Note: Sector Yardstick metrics - Returns: 2015e; Valuation: 2015e; Leverage 2015e. (Net Debt/EBITDA could be NM for some companies.)

Source: Thomson Reuters (historical share price data), Company data, Morgan Stanley Research estimates
Companies with fiscal years ending 1/1-5/31 have been fiscally aligned with the prior year.
For valuation methodology and risks associated with price targets mentioned, please see the appendix beginning on page 35.

Autos & Shared Mobility Industry View: Cautious

A 'mega-supplier' in the making. We believe Delphi is one of only a handful of global automotive suppliers that can become so big and powerful over time that they can sit alongside or even above the OEM in the automotive supply chain. We call this select class "Tier-0 mega suppliers."

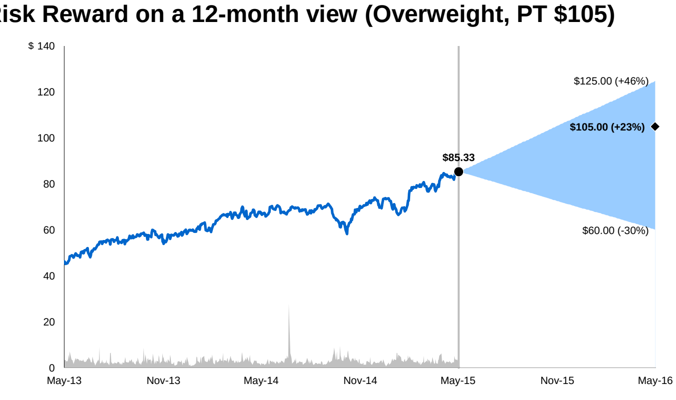
We expect Delphi's focus areas to grow at multiples of overall industry growth (~3%). These include Electrical distribution systems (6% CAGR though 2020e), connectors (7%), diesel (7%) and gas (9%) injection systems, infotainment (17%) and active safety (50%). Delphi has a top-5 position in each of these segments, and a top-3 position in its larger/less fragmented businesses.

In the past year, Delphi has expanded its presence in Silicon Valley — it employs over 5,000 software engineers, contributes to over 100 million lines of code in each luxury vehicle today, has partnered with leading Silicon Valley players (including Apple, Google, semiconductor makers, and startups), and focuses on developing proprietary software. Software today makes up $0.5 billion of revenue at Delphi, though it is expected to grow 5-6x in the next 3-5 years.

Solid near-term performance plus potential to be a long-term disruptor. Management has shown that it is able and willing to stay on a path that delivers near-term earnings improvement and shareholder value while keeping an eye on long term growth through technology disruption.

Delphi thus displays all characteristics of a "Tier-0 supplier," which fortifies our conviction that it can achieve revenue growth CAGR of 8% through 2017 vs. industry growth of 3%; operating margins of 14% by 2017, which would be close to best-in-class; and potential for upside surprise if it can close on its strong pipeline of M&A.

Risk Reward on a 12-month view (Overweight, PT $105)

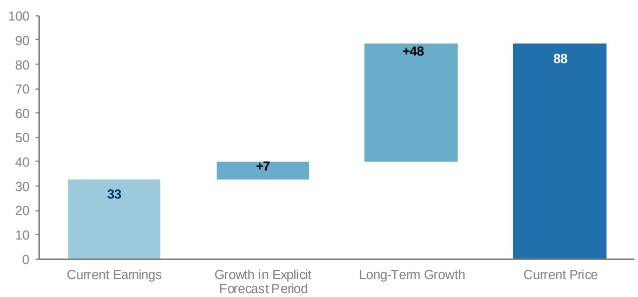


Morgan Stanley

Consumer Staples

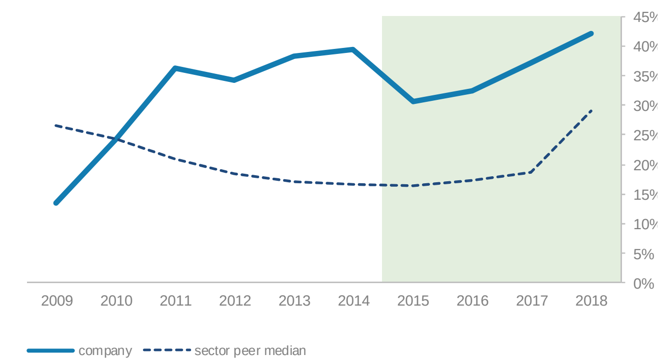
Estée Lauder (EL)

Value of Growth



Cost of Equity uses 3-yr beta, Rf of 2% and MRP of 6%

Return on Net operating assets (RNOA) Analysis



RNOA = Net operating profit, after taxes (calculated using the "for consensus" methodology) / Net operating assets (BOP)

Sector Yardsticks

Estee Lauder Companies Inc vs. Sector Peers

	Estee Lauder Companies Inc percentile range (vs. sector peers)					Peer median
	0–20	20–40	40–60	60–80	80–100	
Growth						
EPS '15-'18 CAGR					15.0%	5.8%
Sales '15-'18 CAGR					7.1%	2.9%
Returns						
RNOA					30.7%	16.3%
EBIT margin	15.0%					19.0%
Valuation						
P/E					31.2x	22.4x
EV/EBIT					20.9x	16.2x
P/FCF				28.9x		23.0x
Leverage						
Net Debt/EBITDA	0.0x					1.7x

Note: Sector Yardstick metrics - Returns: 2015e; Valuation: 2015e; Leverage 2015e. (Net Debt/EBITDA could be NM for some companies.)

Source: Thomson Reuters (historical share price data), Company data, Morgan Stanley Research estimates
Companies with fiscal years ending 1/1-5/31 have been fiscally aligned with the prior year.
For valuation methodology and risks associated with price targets mentioned, please see the appendix beginning on page 35.

Household & Personal Care Industry View: In-Line

Morgan Stanley & Co. LLC

Dara Mohsenian
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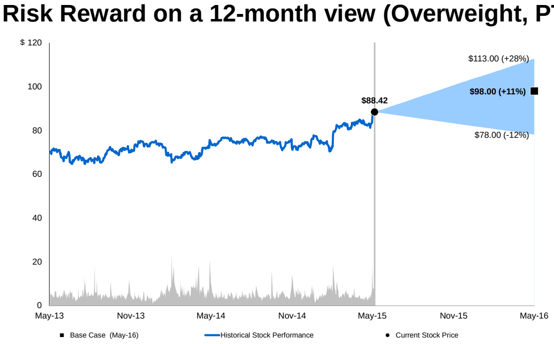
We believe that favorable channel, geographic, product category, and brand mix at Estée Lauder will support sustainable top- and bottom-line outperformance vs Household & Personal Care peers longer term.

Compared to HPC peers, EL has much greater exposure to high-growth and higher-margin areas with respect to channel and geographic mix. We estimate that nearly half of EL's sales and 69% of profit are derived from high-growth areas including emerging markets, specialty retail and freestanding stores, eCommerce, and travel retail, which we expect to grow at a double-digit rate in aggregate in the long term.

From a category perspective, EL looks well positioned to take advantage of greater long term emerging markets expansion potential within beauty relative to other consumer packaged goods (CPG) categories. Our country-by-country analysis highlights that as disposable income rises, spending per capita on beauty products rises to a greater extent than within other CPG categories, driven by the aspirational nature of the category, which enables higher price points than other CPG categories. Within beauty, EL is favorably positioned given its skew toward skin care, which we believe remains the most attractive beauty sub-category given favorable demographic trends with an aging population, a greater ability to drive value through functional innovation, and greater brand loyalty.

Finally, we believe EL has a unique opportunity to drive significant shareholder value through potential self-help levers, such as (1) working capital opportunities, (2) margin improvements, (3) leveraging a strong balance sheet for M&A or share repurchases, and (4) an opportunity to lower its tax rate. Post the installation of SAP recently, EL now has greater visibility into working capital and cost-cutting opportunities, and we have seen EL pursue more M&A and share repurchases recently, giving us greater confidence in management's focus on these self-help levers.

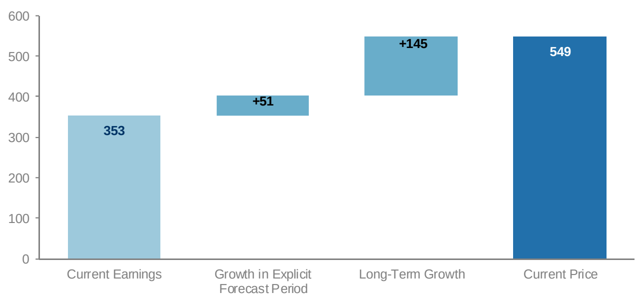
Risk Reward on a 12-month view (Overweight, PT $98)



Information Technology

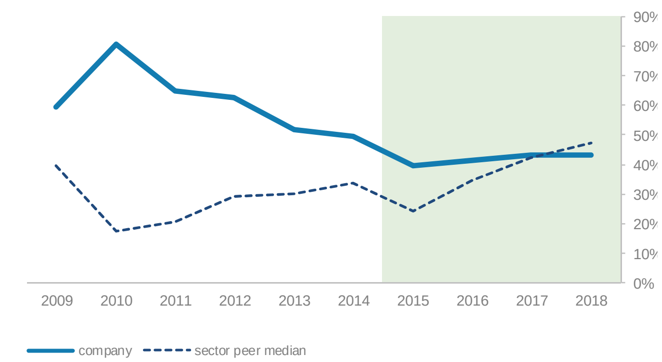
Google (GOOGL)

Value of Growth



Cost of Equity uses 3-yr beta, Rf of 2% and MRP of 6%

Return on Net operating assets (RNOA) Analysis



RNOA = Net operating profit, after taxes (calculated using the "for consensus" methodology) / Net operating assets (BOP)

Sector Yardsticks

Google vs. Sector Peers

	Google percentile range (vs. sector peers) 0–20	20–40	40–60	60–80	80–100	Peer median
Growth						
EPS '15-'18 CAGR		13.5%				17.2%
Sales '15-'18 CAGR			15.6%			15.8%
Returns						
RNOA					39.8%	24.1%
EBIT margin					38.0%	14.5%
Valuation						
P/E	20.7x					40.0x
EV/EBIT	13.6x					23.2x
P/FCF			37.9x			31.4x
Leverage						
Net Debt/EBITDA						0.2x

Note: Sector Yardstick metrics - Returns: 2015e; Valuation: 2015e; Leverage 2015e. (Net Debt/EBITDA could be NM for some companies.)

Source: Thomson Reuters (historical share price data), Company data, Morgan Stanley Research estimates

Companies with fiscal years ending 1/1-5/31 have been fiscally aligned with the prior year.

For valuation methodology and risks associated with price targets mentioned, please see the appendix beginning on page 35.

Internet Industry View: Attractive

Morgan Stanley & Co. LLC

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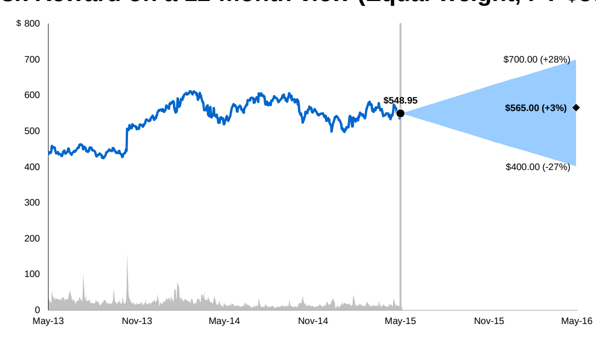
We see investments in opportunities outside of the core search business driving impressive growth on the horizon, and with the imminent arrival of a new CFO, longer-term we believe Google's position as one of the leaders in the technology space is largely unmatched. Our Equal-weight view on the stock on a 12-18 month horizon is based on a balance of GOOGL's undemanding valuation among large-cap growth stocks, offset by a view that the underlying and highly profitable search business is slowing faster than expected.

Mobile and online video to drive digital advertising. In the context of our overall US ad outlook, we believe mobile and online video will be the key growth drivers in the next few years. We regard YouTube as a high-growth, valuable asset and a major driver of change in the advertising and content industries, where distribution is key. While the shift to mobile continues to pose challenges to overall search monetization, we estimate the Google Play app Paid Search opportunity can grow to a largely incremental $5 billion business by 2018.

Could the new CFO make a difference? Much of the debate revolves around a desire for greater visibility into investment spending, margins, and hopes for capital returns from an under-levered balance sheet. While we are guarded about anticipating a change in philosophy, we think newly appointed CFO Ruth Porat can be a positive force along these lines. Management has been signaling to the investor community that the company continues to exercise discipline with opex spend.

Indeed, during the 4Q14 earnings call in January, the company said "Our projects start with small dedicated teams that are given clear milestones to hit before they can get further investments… And in those situations where projects don't have the impact we had hoped for, we do take the tough calls. We make the decision to cancel them, and you've seen us do this time and time again… From an investment perspective, we'll continue to seek a healthy balance between growth and discipline and a willingness to throw a little back when we reach the limits of what we believe we can manageably absorb."

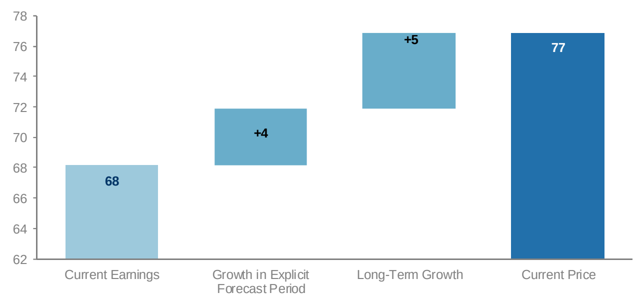
Risk Reward on a 12-month view (Equal-weight, PT $565)



Healthcare

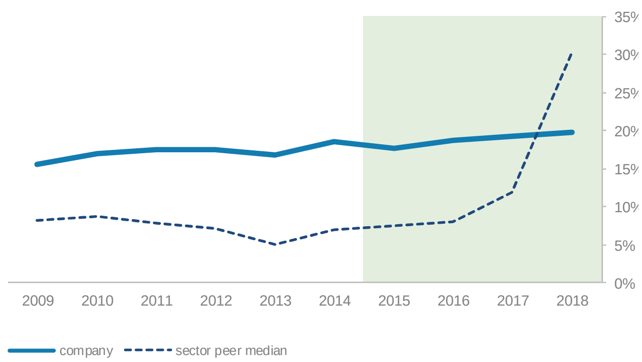
HCA Holdings (HCA)

Value of Growth



Cost of Equity uses 3-yr beta, Rf of 2% and MRP of 6%

Return on Net operating assets (RNOA) Analysis



RNOA = Net operating profit, after taxes (calculated using the "for consensus" methodology) / Net operating assets (BOP)

Sector Yardsticks

HCA Holdings Inc. vs. Sector Peers

	HCA Holdings Inc. percentile range (vs. sector peers) 0–20	20–40	40–60	60–80	80–100	Peer median
Growth						
EPS '15-'18 CAGR	9.6%					32.0%
Sales '15-'18 CAGR	5.0%					8.0%
Returns						
RNOA					17.7%	7.5%
EBIT margin					15.2%	9.5%
Valuation						
P/E	14.8x					19.9x
EV/EBIT	10.4x					11.9x
P/FCF			11.5x			11.5x
Leverage						
Net Debt/EBITDA			3.5x			3.5x

Note: Sector Yardstick metrics - Returns: 2015e; Valuation: 2015e; Leverage 2015e. (Net Debt/EBITDA could be NM for some companies.)

Source: Thomson Reuters (historical share price data), Company data, Morgan Stanley Research estimates
Companies with fiscal years ending 1/1-5/31 have been fiscally aligned with the prior year.
For valuation methodology and risks associated with price targets mentioned, please see the appendix beginning on page 35.

Healthcare Facilities Industry View: Attractive

Morgan Stanley & Co. LLC

Andrew Schenker
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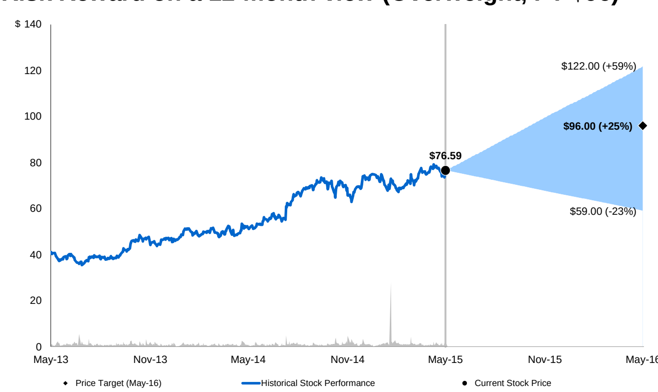
We believe HCA is differentiated from other large-cap Healthcare Services companies due to its scale, diversification and urban market positioning of its portfolio. In contrast to its peers, HCA benefits from its exposure to more vibrant local economies, which allow for a more focused approach to creating value in existing markets. In addition, HCA has positioned itself well to capitalize on longer-term structural shifts in healthcare delivery that are expected to drive greater integration and alignment of incentives between health systems and payors.

Specifically, HCA will continue to direct capital to expand access points, broaden its service offerings, and establish greater depth in existing service lines to capture higher-intensity or more complex cases. Not only should these investments yield higher margins, but they should allow the company to capture share and keep patients within the HCA system. As such, HCA's disciplined approach to investment is expected to continue to yield mid- to high-teens return on invested capital and support its long term organic EBITDA growth of 3-5% — even before incorporating benefits from reform and capital deployment.

Simply, we believe HCA is best positioned to capitalize on positive secular trends in the industry including healthcare reform, the aging of the US population, and increased government spending on healthcare programs over the next few years. In addition, HCA should benefit from an improving economy driving higher levels of utilization, which should lead to margin expansion given the high fixed cost nature of hospital care. As such, we estimate that HCA will generate 5-year (2013–18) CAGRs of 9.2% for EBITDA and 15% for EPS.

Risk Reward on a 12-month view (Overweight, PT $96)



Consumer Discretionary

Hilton Worldwide (HLT)

Morgan Stanley & Co. LLC

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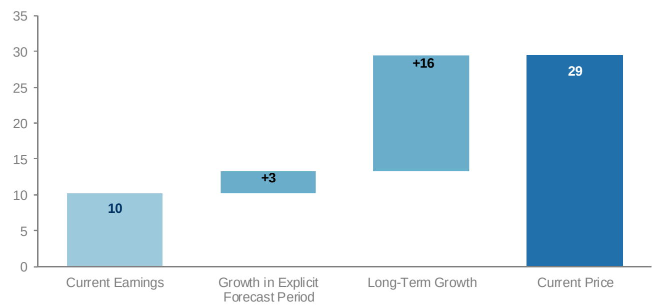
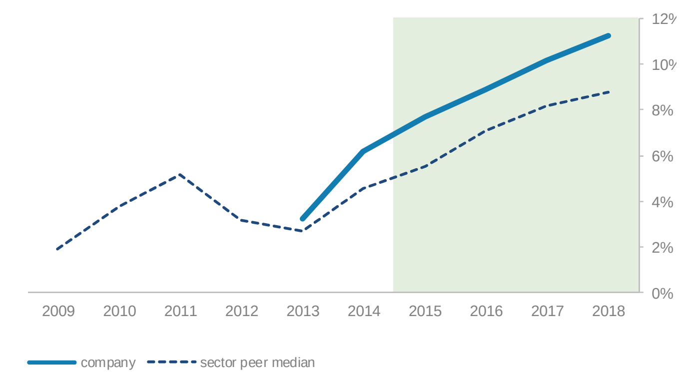
Value of Growth



Cost of Equity uses 3-yr beta, Rf of 2% and MRP of 6%

Return on Net operating assets (RNOA) Analysis



RNOA = Net operating profit, after taxes (calculated using the "for consensus" methodology) / Net operating assets (BOP)

Sector Yardsticks

Hilton Worldwide Holdings Inc vs. Sector Peers

	Hilton Worldwide Holdings Inc percentile range (vs. sector peers)					Peer median
Growth	0–20	20–40	40–60	60–80	80–100	
EPS '15-'18 CAGR				21.8%		14.3%
Sales '15-'18 CAGR					7.5%	5.0%
Returns						
RNOA				7.7%		5.5%
EBIT margin			17.5%			17.3%
Valuation						
P/E				37.2x		27.0x
EV/EBIT		19.9x				19.3x
P/FCF				21.5x		20.5x
Leverage						
Net Debt/EBITDA		3.2x				3.5x

Note: Sector Yardstick metrics - Returns: 2015e; Valuation: 2015e; Leverage 2015e. (Net Debt/EBITDA could be NM for some companies.)

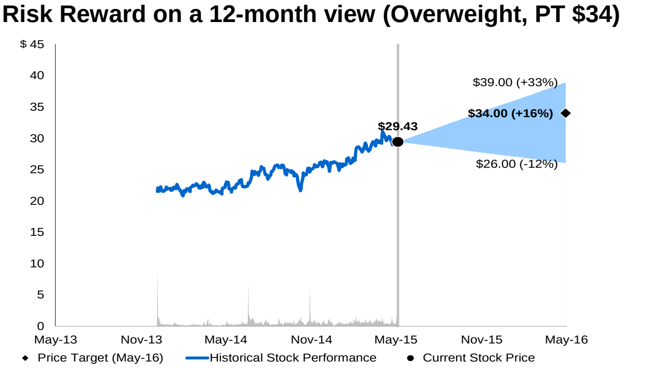
Source: Thomson Reuters (historical share price data), Company data, Morgan Stanley Research estimates
Companies with fiscal years ending 1/1-5/31 have been fiscally aligned with the prior year.
For valuation methodology and risks associated with price targets mentioned, please see the appendix beginning on page 35.

Lodging Industry View: Attractive

We maintain that the US lodging industry is earlier in the cycle than many believe, and we view Hilton as best positioned to benefit. We believe the lodging cycle is elongated given low supply and strong demand. Supply growth should be ~1.3% and ~1.6% in 2015 and 2016, respectively (vs. a long-term average of 2%). Demand should run in line with to above GDP growth. This should lead to continued occupancy growth, and with strengthening pricing power, past cycles suggest lodging stocks should continue to outperform well into 2017.

We favor Hilton based on best-in-class positioning, leadership, and optionality. (1) Positioning: Hilton generates more EBITDA from owned hotels than peers do, which implies more operating leverage. It is the largest hotel operator in the world, across diverse price points, so network effects along with strong execution are helping it generate some of the strongest unit growth (6-7%) in the industry: Hilton's current pipeline comprises 240k rooms, more than 50% of which are under construction, which makes up ~20% of total hotel rooms under construction globally (Hilton's current footprint is only 5%). **(2) Leadership:** Blackstone, the pre-eminent investor in Lodging, owns 45% of Hilton. The company also hired the management team of Host Hotels when it LBO'd in 2007. Since then, Hilton has grown its number of rooms by 45% (vs. Marriott +34%, Starwood +30%), while more than doubling its rewards members to 44 million. **(3) Optionality:** Hilton's asset ownership allows it to take advantage of rising real estate values, which it has done recently — selling the Waldorf Astoria in NYC for $2 billion (32x EBITDA) and the Hilton Sydney for $354 million (15x EBITDA). In addition, Hilton generates ~12% of EBITDA today from timeshare; although it has moved to an asset-light model, we'd argue that neither timeshare nor the owned business may be necessary to Hilton long-term. We think Hilton could start paying a dividend, perhaps as soon as 2H15, and now that Blackstone's ownership is below 50%, Hilton is eligible for S&P 500 inclusion.

Risk Reward on a 12-month view (Overweight, PT $34)



Industrials

Honeywell International (HON)

Morgan Stanley & Co. LLC

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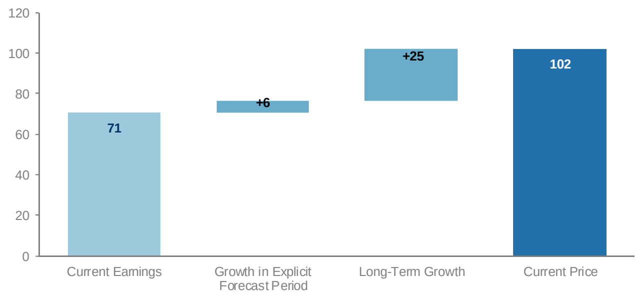
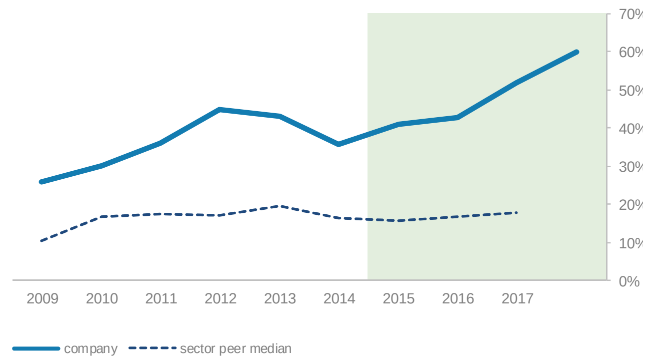
Value of Growth



Cost of Equity uses 3-yr beta, Rf of 2% and MRP of 6%

Return on Net operating assets (RNOA) Analysis



RNOA = Net operating profit, after taxes (calculated using the "for consensus" methodology) / Net operating assets (BOP)

Sector Yardsticks

Honeywell International vs. Sector Peers

	Honeywell International percentile range (vs. sector peers) 0–20	20–40	40–60	60–80	80–100	Peer median
Growth						
EPS '15-'18 CAGR					8.3%	8.3%
Sales '15-'18 CAGR					3.0%	3.0%
Returns						
RNOA					40.9%	15.7%
EBIT margin				17.7%		15.5%
Valuation						
P/E	16.7x					18.0x
EV/EBIT	10.6x					12.8x
P/FCF				19.2x		18.3x
Leverage						
Net Debt/EBITDA						1.6x

Note: Sector Yardstick metrics - Returns: 2015e; Valuation: 2015e; Leverage 2015e. (Net Debt/EBITDA could be NM for some companies.)

Source: Thomson Reuters (historical share price data), Company data, Morgan Stanley Research estimates
Companies with fiscal years ending 1/1-5/31 have been fiscally aligned with the prior year.
For valuation methodology and risks associated with price targets mentioned, please see the appendix beginning on page 35.

Multi- Industry View: In-Line

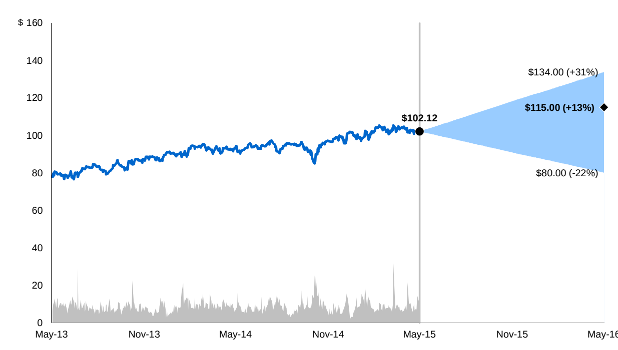
We see a credible path to $9+ EPS by 2018, with the company continuing to benefit from its growth initiatives, productivity enablers and balance sheet deployment. Management is targeting a 4-6% organic CAGR through 2018, driven by end market tailwinds, such as continued recovery in US non-residential construction (driving 4-5% CAGR at ACS), platform wins and installed base upgrade opportunities at Commercial Aerospace (4-6%), rising turbo penetration at Transportation (6-9%) and over $1 billion incremental sales from catalysts and Fluorines capacity expansion at Performance Materials and Technologies. The Honeywell User Experience initiative (a retooled customer-centric approach to new-product introduction) and Capability Maturity Model Integration-driven software capacity expansion are also expected to contribute a top-line tailwind of more that 50bps p.a..

HON looks likely to reach the low end of its 2018 core margin target of 18.5-20% in 2015 (vs. 16.6% in 2014). We see further upside going forward driven by continued restructuring payback (~$400 mn in the funnel), deeper penetration of HOS Gold (HON's lean six sigma initiative), fixed cost management and operating leverage visibility in high-growth regions (as it harvests investments made over the last 10 years).

Ample FCF flexibility. With Honeywell likely to reach its net cash ceiling of $1-2 bn by year-end, we believe HON will start returning surplus capital to shareholders via share repurchases — $10-11 bn over 2016/18, we estimate. Importantly, this would not cut into M&A capacity, so if management does execute on the $10 bn M&A target by 2018 (with $1 bn estimated accretion), we see earnings power in the range of $9.30–9.40.

Assuming a 16x P/E on HON's 2018 plan midpoint implies a year-end 2017 valuation of $150. While much rests on execution, this scenario of implied mid-teens total return should keep HON as a core US large-cap holding.

Risk Reward on a 12-month view (Overweight, PT $115)

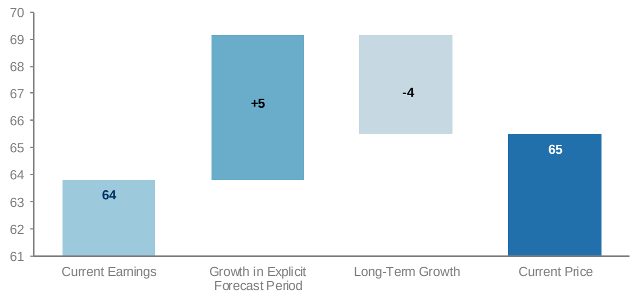


Financials

JPMorgan Chase & Co. (JPM)

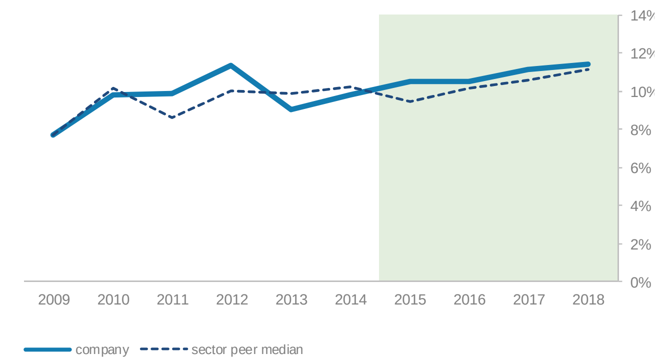
Morgan Stanley & Co. LLC
Betsy Graseck
Betsy.Graseck@morganstanley.com

Value of Growth



Cost of Equity uses 3-yr beta, Rf of 2% and MRP of 6%

Return on Equity (ROE) Analysis



ROE = Net income (calculated using the "for consensus" methodology) / Common equity (beginning of period)

Sector Yardsticks

J.P.Morgan Chase & Co. vs. Sector Peers

	J.P.Morgan Chase & Co. percentile range (vs. sector peers) 0–20	20–40	40–60	60–80	80–100	Peer median
Growth						
EPS '15-'18 CAGR		10.2%				11.3%
Sales '15-'18 CAGR			5.7%			6.3%
Returns						
ROE				10.5%		9.5%
EBIT margin						
Valuation						
P/E	10.9x					12.9x
EV/EBIT						
P/FCF						
Leverage						
Net Debt/EBITDA						

Note: Sector Yardstick metrics - Returns: 2015e; Valuation: 2015e; Leverage 2015e. (Net Debt/EBITDA could be NM for some companies.)

Source: Thomson Reuters (historical share price data), Company data, Morgan Stanley Research estimates
Companies with fiscal years ending 1/1-5/31 have been fiscally aligned with the prior year.
For valuation methodology and risks associated with price targets mentioned, please see the appendix beginning on page 35.

Large Cap Banks Industry View: Attractive

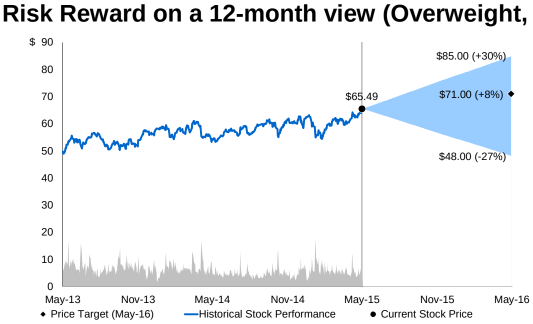
We believe JPM will outperform peers over the next 3 years as share gains, expense management, and higher capital return together drive a strong 10% EPS CAGR over 2015-18.

Client wallet share to rise in target businesses: We expect JPM to drive a 6% revenue CAGR (2015-18) as it reallocates resources to select businesses. Growth driven by the Consumer Bank (6% CAGR), accelerating from 2% as more confident US consumers increase borrowing (JPM is the largest US credit card issuer). Asset Management should deliver an 8% revenue CAGR with solid market appreciation and higher flows from international and retail following investments in distribution. We model a strong 11.5% CAGR in Commercial Banking. The only headwind we see is Investment Banking (IB), where we model only a 2% CAGR. We expect upside to these numbers if pricing improves given the constrained market liquidity.

Consumer and Investment Banking to drive expense saves: JPM has been consistently beating its consumer expense targets through headcount reductions, branch optimization, vendor rationalizations, and lower mortgage costs. Management recently indicated it expects to achieve a majority of its 2016 cost-save target of $2 billion in 2015. For the consumer division, we expect cost saves drive 3.5% expense CAGR vs. a 6% revenue CAGR (2015-18). For IB, we expect JPM can reach its $2.8 billion cost save target by year end 2016 through electronification (driving less active clients to electronic trading platforms), back office optimization, lower comp and business simplification. Overall, we expect JPM's core expense ratio (ex legal and foreclosure costs) to decline from 60% in 2014 to 54% in 2018.

Capital optimization to drive payouts higher: JPM's Basel 3 Common Tier 1 ratio is already at 10.8% and we expect JPM to reach its 12% long-term target by 2016. JPM is also targeting a $100 billion reduction in risk-weighted assets (RWA) over the next 2-3 years through model approvals and active RWA mitigation, which we are not fully baking in. Supplementary Leverage Ratio is at 5.7%, well above the 5% minimum. JPM is also making progress on reducing non-operating deposits. All this should allow JPM to accelerate payout ratios from 50% in 2015/16e to 60-70% 2017/18e. A risk is that the Fed requires even higher capital requirements under their stress test.

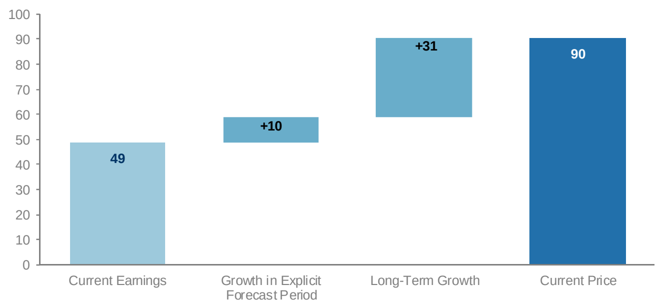
Risk Reward on a 12-month view (Overweight, PT $71)



Consumer Discretionary

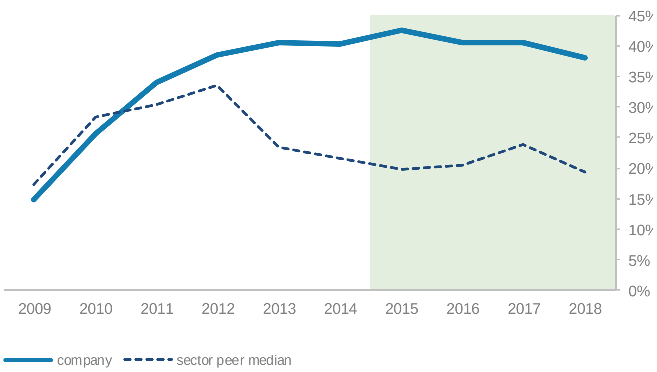
L Brands (LB)

Value of Growth



Cost of Equity uses 3-yr beta, Rf of 2% and MRP of 6%

Return on Net operating assets (RNOA) Analysis



RNOA = Net operating profit, after taxes (calculated using the "for consensus" methodology) / Net operating assets (BOP)

Sector Yardsticks

L Brands Inc vs. Sector Peers

	L Brands Inc percentile range (vs. sector peers): 0–20	20–40	40–60	60–80	80–100	Peer median
Growth						
EPS '15-'18 CAGR			10.7%			10.6%
Sales '15-'18 CAGR		5.8%				6.1%
Returns						
RNOA				42.5%		19.9%
EBIT margin				17.6%		10.3%
Valuation						
P/E					24.0x	20.2x
EV/EBIT					13.5x	12.0x
P/FCF					34.5x	22.5x
Leverage						
Net Debt/EBITDA				1.5x		1.4x

Note: Sector Yardstick metrics - Returns: 2015e; Valuation: 2015e; Leverage 2015e. (Net Debt/EBITDA could be NM for some companies.)

Source: Thomson Reuters (historical share price data), Company data, Morgan Stanley Research estimates
Companies with fiscal years ending 1/1-5/31 have been fiscally aligned with the prior year.
For valuation methodology and risks associated with price targets mentioned, please see the appendix beginning on page 35.

Retail, Softlines Industry View: In-Line

Morgan Stanley & Co. LLC

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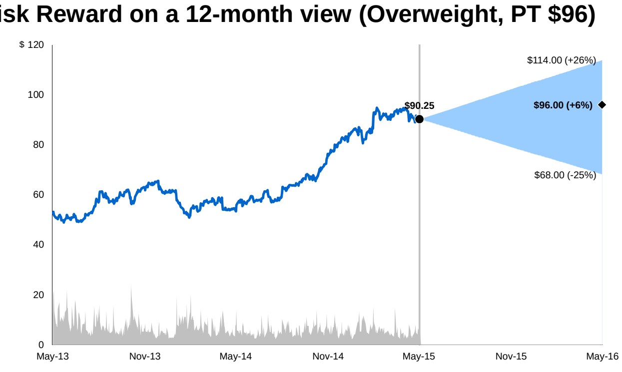
Significant US and international sales growth opportunities, consistent execution, and EBIT margin expansion potential drive our 10%-plus 5-year EPS CAGR outlook, which we view as conservative. We see over $5 in EPS power in 2018 with many foreign markets yet unpenetrated. We believe LB is operated better today than ever before.

Continued US market share gain potential: Victoria's Secret currently has ~27% US intimate apparel market share, which we expect to increase slowly over time. We also forecast continued growth in other categories, specifically PINK, sport, and swim. We believe PINK alone represents a $3 billion opportunity from ~$1.8 billion today in North America. Sport also remains a significant potential growth avenue. Only ~190 stores out of 1,049 have any Sport merchandise currently and could be a $1 billion opportunity from $200-250 million today. We also see opportunity for ongoing share gains within swim, currently a $500 million business (stores and eCommerce).

Long runway for international growth: LB has proved its international operations are replicable, scalable, capital-light, and extremely profitable. Specifically, we think China could be a $1 billion business at POS within 5 years. Mexico could also generate $1.5 billion at POS from essentially zero today. Notably, we expect incremental international revenue to flow through at a 30-35% EBIT rate over time, double the total company rate today. International contributed 1.1% of F2014's +6.3% revenue growth, 2.3% of F2014's +11% operating income dollar growth, and now represents 3% of total sales.

We expect 20% EBIT margins long-term: We believe LB's "20/20 Vision" ($20 billion in POS sales at a 20% operating margin) is achievable given a mix shift toward international, initiatives to reduce lead times, and increased full price selling. The operating margin has already improved to ~17% from 2010's 13.4%, and we forecast a 19% EBIT margin by F2018.

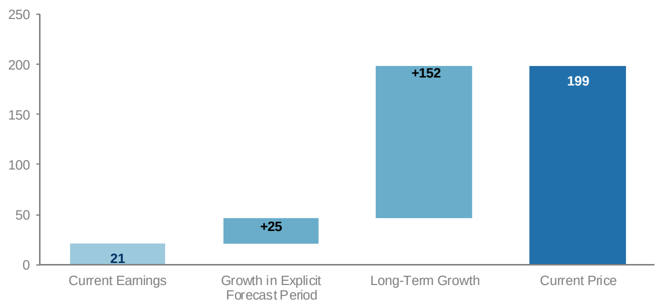
Risk Reward on a 12-month view (Overweight, PT $96)



Information Technology

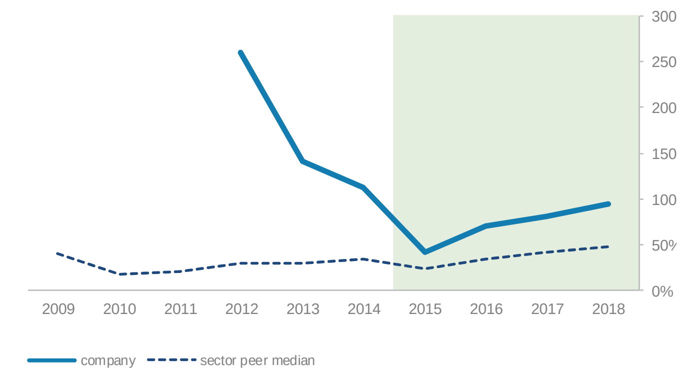
LinkedIn (LNKD)

Value of Growth



Cost of Equity uses 3-yr beta, Rf of 2% and MRP of 6%

Return on Net operating assets (RNOA) Analysis



RNOA = Net operating profit, after taxes (calculated using the "for consensus" methodology) / Net operating assets (BOP)

Sector Yardsticks

LinkedIn Corp vs. Sector Peers

	LinkedIn Corp percentile range (vs. sector peers) 0–100	Peer median
Growth		
EPS '15-'18 CAGR	47.0% (80–100)	17.2%
Sales '15-'18 CAGR	27.1% (80–100)	15.8%
Returns		
RNOA	45.5% (80–100)	24.1%
EBIT margin	14.1% (40–60)	14.9%
Valuation		
P/E	83.3x (80–100)	40.0x
EV/EBIT	56.4x (60–80)	23.2x
P/FCF	89.2x (80–100)	31.4x
Leverage		
Net Debt/EBITDA		0.2x

Note: Sector Yardstick metrics - Returns: 2015e; Valuation: 2015e; Leverage 2015e. (Net Debt/EBITDA could be NM for some companies.)

Source: Thomson Reuters (historical share price data), Company data, Morgan Stanley Research estimates
Companies with fiscal years ending 1/1-5/31 have been fiscally aligned with the prior year.
For valuation methodology and risks associated with price targets mentioned, please see the appendix beginning on page 35.

Internet Industry View: Attractive

Morgan Stanley & Co. LLC

Brian Nowak
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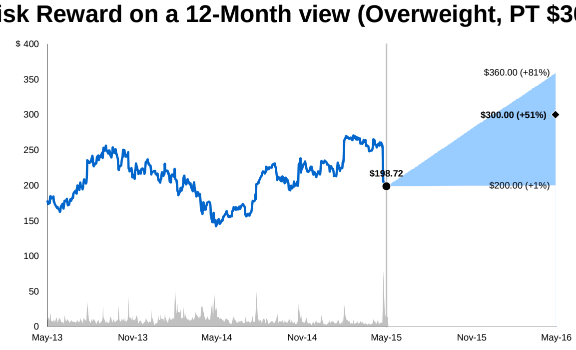
We believe LinkedIn's monetization is only starting to bloom, as we see Talent Solutions, Marketing Solutions and (in time) Sales Navigator driving material upside and higher overall earnings power. In all, we see LinkedIn growing revenue at a 27% CAGR over four years, driven by 28%-plus growth from Talent Solutions, where we estimate the Corporate Customers runway is larger than many think, and 26% growth from Marketing Solutions, which we view as an underappreciated product that makes LinkedIn "the Facebook for professional/B2B advertising." We see LinkedIn's Sales Navigator product and its targeting of the 5-6 million global professional sales people also starting to contribute.

LinkedIn's 27%-plus revenue growth will drive margin expansion, too, on our estimates. While LinkedIn delivered ~27% adjusted EBITDA margins in 2014, we believe the long-term margins of its businesses are materially higher. The incremental EBITDA margins on large enterprise Talent Solutions, Marketing Solutions advertising revenue, and Sales Navigator revenue are 65%-plus. SMB talent solutions margins are likely lower (around 40-50%) but are still materially higher than current levels of 20's margins.

LinkedIn continues building its Talent Solutions sales force, Marketing Solutions offerings, Sales Navigator product, and mobile app technologies. It is bringing its servers in house, and is developing in China. Despite high incremental spending, we believe LinkedIn can still deliver 36% EBITDA growth as the core business's growth drives margins higher. Over time we expect these budding investments to drive incremental revenue or cost save opportunities, accelerating margin expansion. LinkedIn's management team has high visibility on its revenue (60%-plus from SaaS-like recurring streams) and has shown an ability to manage its investment spending and still deliver upside to expectations. We don't see that changing anytime soon.

Risk Reward on a 12-Month view (Overweight, PT $300)



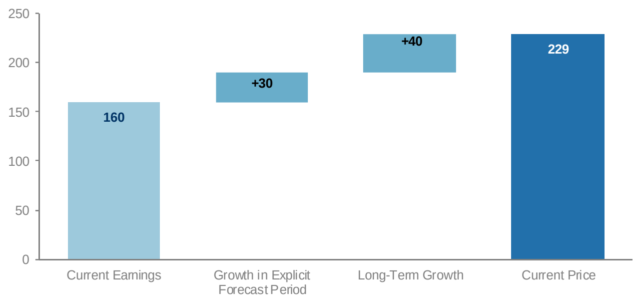
Healthcare

McKesson (MCK)

Morgan Stanley & Co. LLC

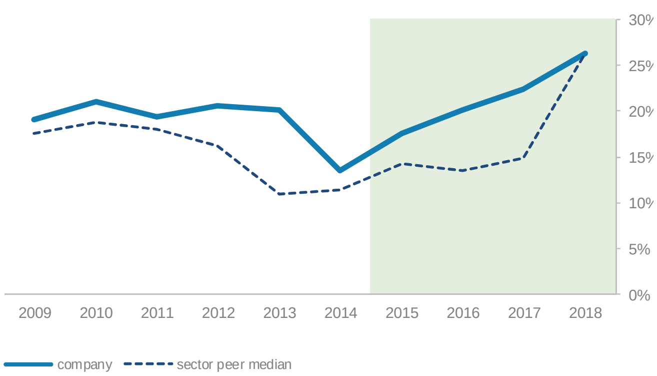
Ricky Goldwasser
Ricky.Goldwasser@morganstanley.com

Value of Growth



Cost of Equity uses 3-yr beta, Rf of 2% and MRP of 6%

Return on Net operating assets (RNOA) Analysis



RNOA = Net operating profit, after taxes (calculated using the "for consensus" methodology) / Net operating assets (BOP)

Sector Yardsticks

McKesson Corporation vs. Sector Peers

	McKesson Corporation percentile range (vs. sector peers)					Peer median
Growth	0–20	20–40	40–60	60–80	80–100	
EPS '15-'18 CAGR					15.1%	15.1%
Sales '15-'18 CAGR					9.5%	9.5%
Returns						
RNOA			17.5%			14.2%
EBIT margin	2.1%					8.8%
Valuation						
P/E		18.0x				22.9x
EV/EBIT		13.7x				16.0x
P/FCF		18.1x				19.4x
Leverage						
Net Debt/EBITDA	0.5x					1.5x

Note: Sector Yardstick metrics - Returns: 2015e; Valuation: 2015e; Leverage 2015e. (Net Debt/EBITDA could be NM for some companies.)

Source: Thomson Reuters (historical share price data), Company data, Morgan Stanley Research estimates

Companies with fiscal years ending 1/1-5/31 have been fiscally aligned with the prior year.

For valuation methodology and risks associated with price targets mentioned, please see the appendix beginning on page 35.

Healthcare Services & Distribution Industry View: In-Line

McKesson is well positioned to nearly double earnings over the next 3 years, in our view, as it continues to build scale in the US and global pharmaceutical distribution market while benefitting from the high-growth specialty market.

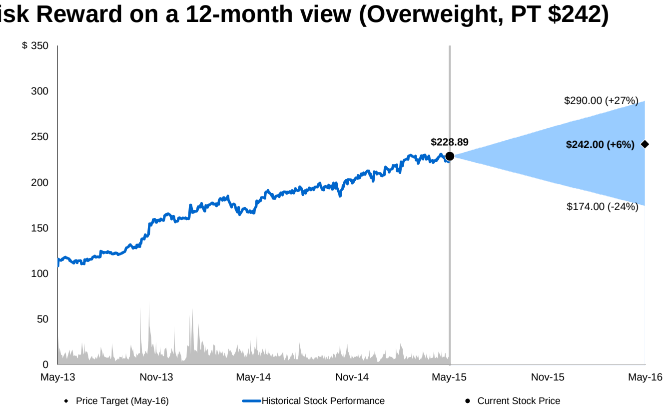
McKesson is the largest pharmaceutical distributor in the US market, accounting for an estimated ~38% market share. Over the next three years, we think McKesson will continue to grow its share in generics — the most profitable class of drugs for distributors in the US market — through expansion of current customer contracts, notably WalMart and Target, as traditional retailers look to distributors with larger scale to get better pricing and manage new regulatory burdens. We think these opportunities could which add an additional 3-5% to McKesson's generics share and be ~$0.20 (~2%) accretive to EPS.

McKesson's recent acquisition of European wholesaler Celesio provides the company an opportunity to leverage its global scale and brings operating and purchasing efficiencies. Company estimates reflects ~3% synergy upside for Celesio — we think McKesson could see greater synergies.

In addition, McKesson's unique alignment with the specialty pharmaceutical market, the fastest-growing area of pharmaceutical spend, as a practice management platform for community oncologists, should be a source of topline growth.

Optionality and capital deployment could translate to additional earnings upside. As a strong generator of FCF (~$3 billion annually), McKesson could also either make accretive acquisitions (such as Celesio and PSS Medical), or buy back shares, which could help offset risk associated with customer loss from potential consolidation, which we estimate could be as much as ~5% dilutive to earnings power longer term.

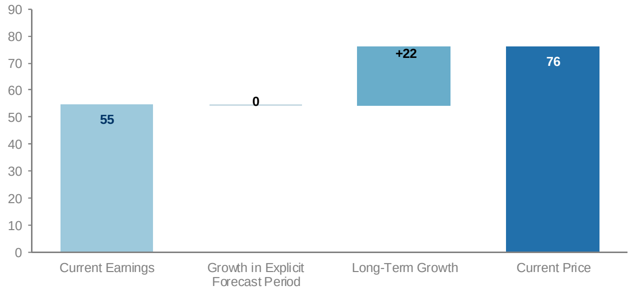
Risk Reward on a 12-month view (Overweight, PT $242)



Healthcare

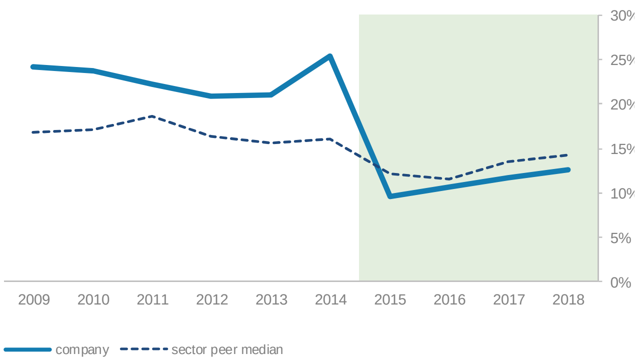
Medtronic (MDT)

Value of Growth



Cost of Equity uses 3-yr beta, Rf of 2% and MRP of 6%

Return on Net operating assets (RNOA) Analysis



RNOA = Net operating profit, after taxes (calculated using the "for consensus" methodology) / Net operating assets (BOP)

Sector Yardsticks
Medtronic Inc. vs. Sector Peers

	Medtronic Inc. percentile range (vs. sector peers) 0–20	20–40	40–60	60–80	80–100	Peer median
Growth						
EPS '15-'18 CAGR			10.0%			9.1%
Sales '15-'18 CAGR		3.5%				3.9%
Returns						
RNOA		9.6%				12.1%
EBIT margin					30.2%	22.3%
Valuation						
P/E	17.1x					19.6x
EV/EBIT		13.9x				15.3x
P/FCF	8.2x					21.1x
Leverage						
Net Debt/EBITDA		1.1x				1.6x

Note: Sector Yardstick metrics - Returns: 2015e; Valuation: 2015e; Leverage 2015e. (Net Debt/EBITDA could be NM for some companies.)

Source: Thomson Reuters (historical share price data), Company data, Morgan Stanley Research estimates
Companies with fiscal years ending 1/1-5/31 have been fiscally aligned with the prior year.
For valuation methodology and risks associated with price targets mentioned, please see the appendix beginning on page 35.

Medical Technology Industry View: In-Line

Morgan Stanley & Co. LLC

David Lewis
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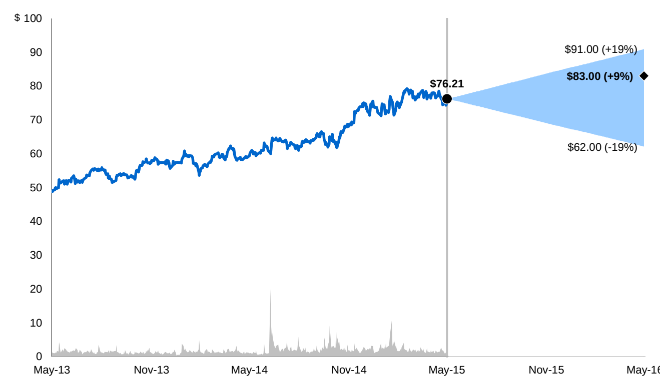
Our thesis on Medtronic is predicated on three elements - faster growth, higher returns to shareholders, and greater consistency of results.

In our view, Medtronic's unmatched product breadth and business scale create a competitive advantage as Med Tech customers drive toward bundling. The transformational acquisition of Covidien has laid the foundation for execution on all three items. Multiple senior management changes have occurred, and we believe these may not be widely understood by the Street.

Improving access to cash flow should increase returns to shareholders. We expect Medtronic to have US access to up to 80% of its global free cash flow (vs. 30-40% pre-Covidien). Further, Medtronic's new Ireland domicile should improve access to global capital. This should fuel greater repurchases and a potentially material increase in the dividend. From a 25-30% payout ratio today, we expect a modest raise in mid-2016 to a 35-40% payout ratio plus a commitment to grow the dividend faster than earnings over the next several years. In addition, capital deployment is smarter and more disciplined, in our opinion.

Recent results demonstrate improving execution and multi-quarter growth consistency, which we expect to be rewarded with multiple expansion. We believe the Street does not fully appreciate the change in this dynamic or the impact of multiple senior management changes that could foster a growing culture of execution in the coming years. While structural growth rates languished in the low single digits over F2011-14, improving markets and better recent pipeline product has driven growth into the mid-single-digits, and we see potential upside going forward.

Risk Reward on a 12-month view (Overweight, PT $83)



Consumer Discretionary

Nike (NKE)

Morgan Stanley & Co. LLC

Jay Sole
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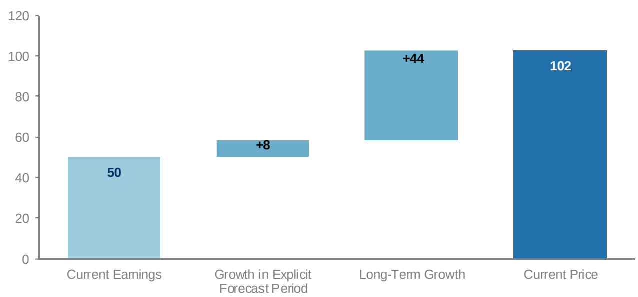
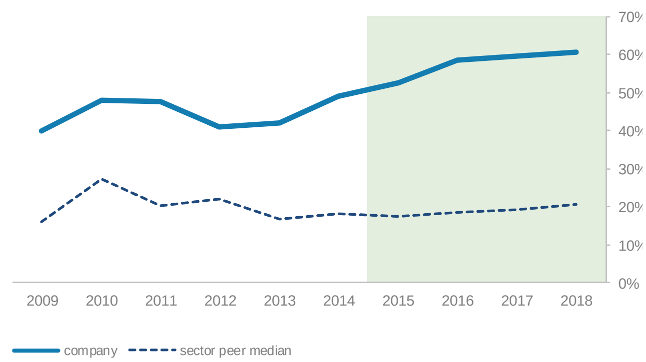
Value of Growth



Cost of Equity uses 3-yr beta, Rf of 2% and MRP of 6%

Return on Net operating assets (RNOA) Analysis



RNOA = Net operating profit, after taxes (calculated using the "for consensus" methodology) / Net operating assets (BOP)

Sector Yardsticks
Nike Inc. vs. Sector Peers

	Nike Inc. percentile range (vs. sector peers) 0–100	Peer median
Growth		
EPS '15-'18 CAGR	12.1%	11.6%
Sales '15-'18 CAGR	7.4%	4.5%
Returns		
RNOA	52.4%	17.3%
EBIT margin	14.0%	10.7%
Valuation		
P/E	25.1x	19.3x
EV/EBIT	18.0x	13.1x
P/FCF	27.7x	21.6x
Leverage		
Net Debt/EBITDA		1.7x

Note: Sector Yardstick metrics - Returns: 2015e; Valuation: 2015e; Leverage 2015e. (Net Debt/EBITDA could be NM for some companies.)

Source: Thomson Reuters (historical share price data), Company data, Morgan Stanley Research estimates
Companies with fiscal years ending 1/1-5/31 have been fiscally aligned with the prior year.
For valuation methodology and risks associated with price targets mentioned, please see the appendix beginning on page 35.

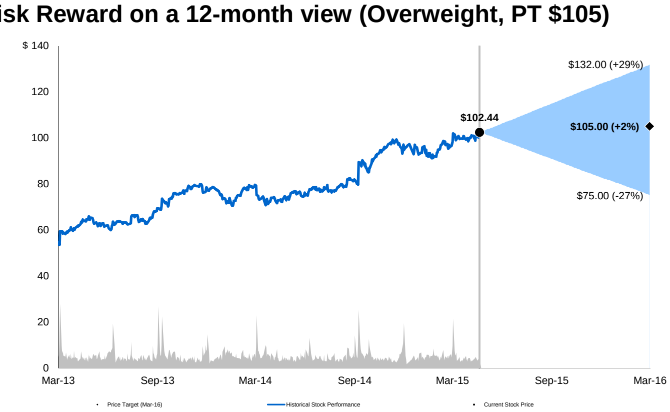
Branded Apparel & Footwear Industry View: In-Line

We believe Nike benefits from secular and company specific drivers as the leader in the global athletic apparel and footwear. Rising global incomes lead to more prevalent sports participation and a larger global athletic apparel market. Athletic share of the total apparel and footwear market has grown to 15.4% from 14% over the last 7 years. Despite being the market leader, Nike's continued focus on innovation has driven customer enthusiasm and growth. New and evolving technologies such as Free, Flyknit, Roshe and others should drive a substantial percentage of company growth. Through 2018, we forecast companywide annual sales growth company in excess of 7%.

Margins also have ongoing tailwinds. As the company becomes increasingly international (from 58% of sales today), consumers demand more premium product, and more of the business shifts toward Nike's own retail and online channels — which we expect to drive operating margins higher over time. Combined with Nike's healthy share buyback, this should generate robust EPS growth in the low teens or higher, and we see returns on equity at or above 20%.

Other catalysts could boost Nike's growth. Major global events including the 2016 Olympics in Brazil and 2018 World Cup in Russia are key areas for Nike's growth, particularly Brazil. We believe Nike is well positioned digitally, and success in the wearable tech category could be a boon for Nike as consumers opt to be more active and demand more athletic goods.

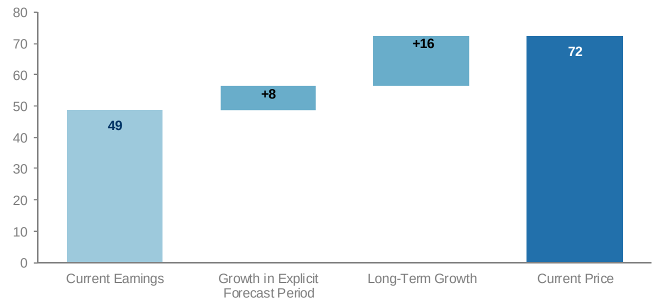
Risk Reward on a 12-month view (Overweight, PT $105)



Industrials

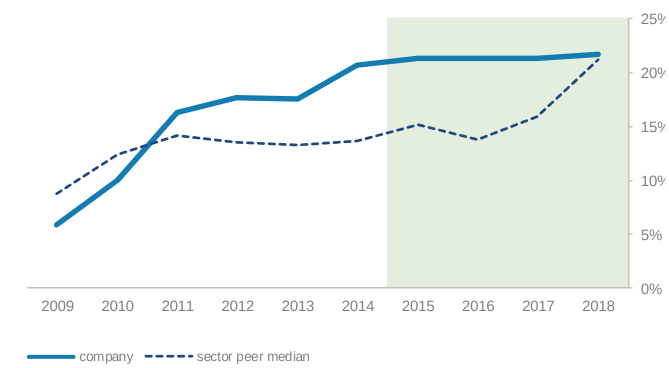
Old Dominion Freight Line (ODFL)

Value of Growth



Cost of Equity uses 3-yr beta, Rf of 2% and MRP of 6%

Return on Net operating assets (RNOA) Analysis



RNOA = Net operating profit, after taxes (calculated using the "for consensus" methodology) / Net operating assets (BOP)

Sector Yardsticks

Old Dominion Freight Line Inc vs. Sector Peers

	Old Dominion Freight Line Inc percentile range (vs. sector peers) 0–20	20–40	40–60	60–80	80–100	Peer median
Growth						
EPS '15-'18 CAGR	15.9%					17.9%
Sales '15-'18 CAGR					12.4%	11.1%
Returns						
RNOA				21.2%		15.1%
EBIT margin				17.3%		10.3%
Valuation						
P/E			19.4x			19.4x
EV/EBIT		11.9x				12.9x
P/FCF					90.4x	27.1x
Leverage						
Net Debt/EBITDA	0.2x					1.3x

Note: Sector Yardstick metrics - Returns: 2015e; Valuation: 2015e; Leverage 2015e. (Net Debt/EBITDA could be NM for some companies.)

Source: Thomson Reuters (historical share price data), Company data, Morgan Stanley Research estimates

Companies with fiscal years ending 1/1-5/31 have been fiscally aligned with the prior year.

For valuation methodology and risks associated with price targets mentioned, please see the appendix beginning on page 35.

Freight Transportation Industry View: Attractive

Morgan Stanley & Co. LLC

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ODFL is our top pick in trucking, and one of the most compelling long-term investment opportunities in Freight Transport broadly, in our view. We believe ODFL benefits from a number of sustainable advantages over peers, all of which should drive continued secular volume growth through market share gains. Ultimately we believe the following competitive advantages should support mid-to-high teens EPS growth and continuously improving ROIC for the foreseeable future:

(1) **Structural cost advantages:** ODFL has no pension plan and a non-unionized labor force that is substantially more productive than other less-than-truckload (LTL) carriers. In addition, ODFL has long invested in technology to improve both operational efficiency and the "right" kind of revenue mix. The combination of these factors should allow the company to provide leading service levels at a cost that is below peers, ultimately driving sustainable, outsized market share gains.

(2) **Higher productivity:** ODFL's non-union status offers some advantages, but the company's cost performance also reflects a productivity advantage as evidenced by ODFL's ability to achieve a load factor 40-45% higher than peers — an important productivity metric that reflects network density and efficiency.

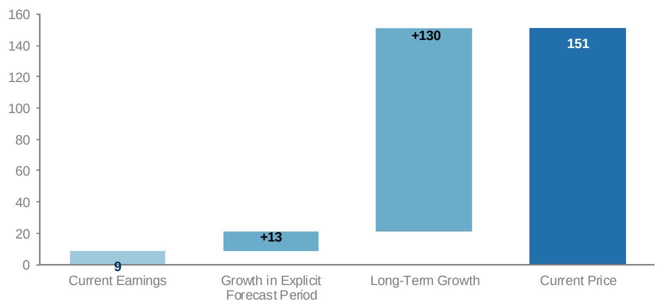
(3) **Favorable revenue mix:** Our sense is that management has a strong understanding of ODFL's cost structure, which has allowed the company to price freight correctly and choose a revenue mix that maximizes margins and returns. Specifically, we believe this ability has proven to be a significant competitive advantage in that it has allowed ODFL to grow share profitably among third-party logistics companies.

Risk Reward on a Year-End View (Overweight, PT $81)

Information Technology

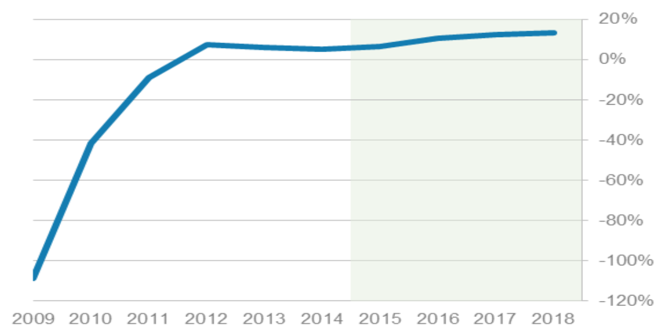
Palo Alto Networks (PANW)

Value of Growth



Cost of Equity uses 3-yr beta, Rf of 2% and MRP of 6%

Return on Average Assets*



* Operating Income (non-GAAP EBIT) / Average Total Assets

Sector Yardsticks

Palo Alto Networks Inc vs. Sector Peers

	Palo Alto Networks Inc percentile range (vs. sector peers) 0–20	20–40	40–60	60–80	80–100	Peer median
Growth						
EPS '15-'18 CAGR					53.3%	32.1%
Sales '15-'18 CAGR					26.5%	16.3%
Returns						
RNOA						NA
EBIT margin			12.2%			12.5%
Valuation						
P/E					195.9x	42.9x
EV/EBIT					120.1x	29.6x
P/FCF					55.2x	18.8x
Leverage						
Net Debt/EBITDA						0.3x

Note: Sector Yardstick metrics - Returns: 2015e; Valuation: 2015e; Leverage 2015e. (Net Debt/EBITDA could be NM for some companies.)

Source: Thomson Reuters (historical share price data), Company data, Morgan Stanley Research estimates

Companies with fiscal years ending 1/1-5/31 have been fiscally aligned with the prior year. For valuation methodology and risks associated with price targets mentioned, please see the appendix beginning on page 35.

Software Industry View: In-Line

Morgan Stanley & Co. LLC

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Palo Alto Networks offers a disruptive platform built from the ground up to specifically address the evolving security landscape. We are positive on PANW given our view that: (1) Palo Alto Networks is addressing a larger total addressable market (TAM) than we've seen with other security leaders in the past; (2) Palo Alto is an effective fast follower, driving our confidence that Palo Alto will be able to sustain growth in an evolving security market.

As the leading next generation firewall vendor, we believe PANW will sustain over 21% revenue growth through C2020 as it takes share in the $16 billion network and endpoint security market, to reach ~71,000 customers in C2020, still below CheckPoint's and Fortinet's >150K customer bases.

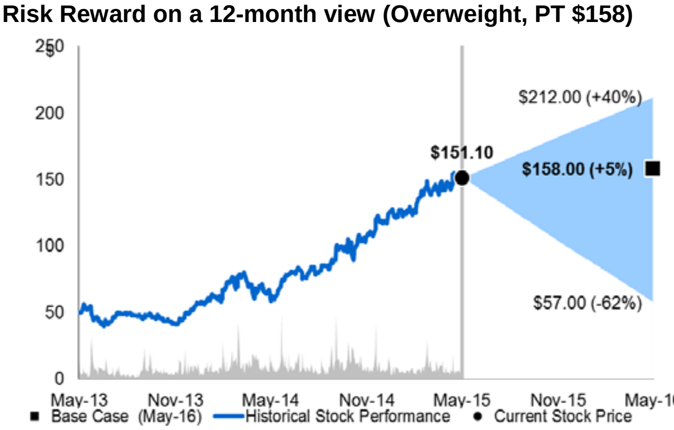
Key value drivers for PANW are likely to include new customer wins, higher growth driven by sales investments, increased existing customer penetration, and ramping adoption for additional subscription services.

With a technology lead and a large market opportunity, we believe PANW is correctly investing for growth. However, improved sales productivity, scale in recent investments, and a ramping installed base should enable PANW to reach its near-term margin targets of 22-25% exiting F2016 vs. ~12% in F2015.

Longer term, we see operating margins improving to 30% by C2020 through continued sales and marketing leverage.

We forecast FCF as a percentage of revenue to be 35% by C2020, with a robust FCF growth rate.

Risk Reward on a 12-month view (Overweight, PT $158)

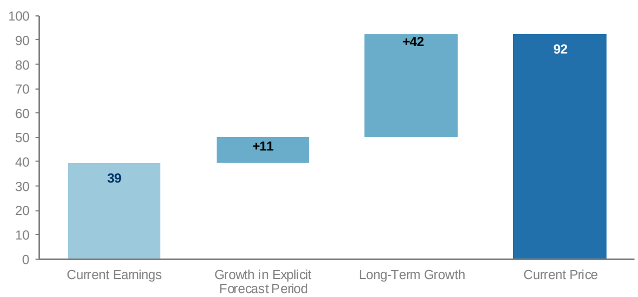


Morgan Stanley

Energy

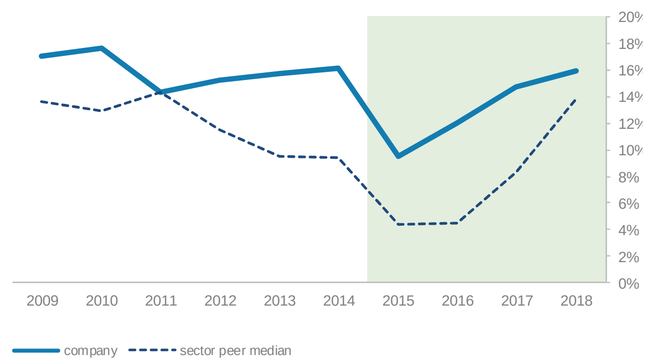
Schlumberger (SLB)

Value of Growth



Cost of Equity uses 3-yr beta, Rf of 2% and MRP of 6%

Return on Net operating assets (RNOA) Analysis



RNOA = Net operating profit, after taxes (calculated using the "for consensus" methodology) / Net operating assets (BOP)

Sector Yardsticks

Schlumberger vs. Sector Peers

	Schlumberger percentile range (vs. sector peers) 0–100	Peer median
Growth		
EPS '15-'18 CAGR	23.5%	31.7%
Sales '15-'18 CAGR	10.3%	12.2%
Returns		
RNOA	9.5%	4.4%
EBIT margin	15.1%	10.5%
Valuation		
P/E	27.6x	18.7x
EV/EBIT	21.0x	17.7x
P/FCF	21.9x	8.7x
Leverage		
Net Debt/EBITDA	0.6x	2.2x

Note: Sector Yardstick metrics - Returns: 2015e; Valuation: 2015e; Leverage 2015e. (Net Debt/EBITDA could be NM for some companies.)

Source: Thomson Reuters (historical share price data), Company data, Morgan Stanley Research estimates
Companies with fiscal years ending 1/1-5/31 have been fiscally aligned with the prior year.
For valuation methodology and risks associated with price targets mentioned, please see the appendix beginning on page 35.

Oil Services, Drilling & Equipment Industry View: Attractive

Morgan Stanley & Co. LLC
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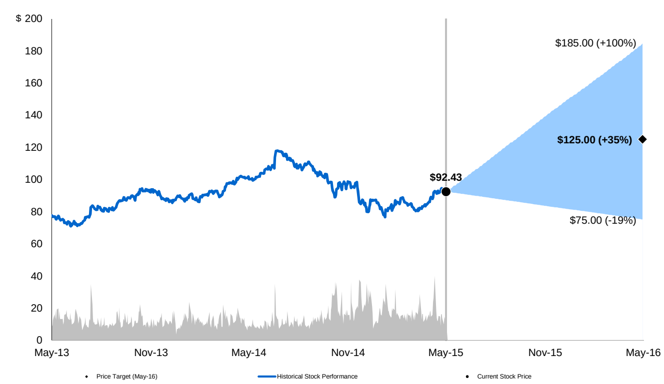
We believe Schlumberger offers top-quality exposure to a multi-year OSX rally, as global oil supply looks likely to undershoot following a 2015 drop in US rig count and delay of deepwater projects. After several years of negative free cash flow and poor returns, oil majors and E&Ps are likely to emerge from the 2015 downturn with a preference for service providers that can help them cut total development costs and time to "first oil," and improve total recovery. This favors providers like Schlumberger that **(1)** can deliver technology, **(2)** have an integrated offering, **(3)** are willing to take on greater risk alongside the oil company, in exchange for production-driven upside.

Schlumberger's technology leadership, operating structure, integrated offering, and healthy balance sheet play directly into the changing paradigm of customer needs, in our view. The company has also initiated a major push to improve product reliability and employee productivity, while reducing inventory and support costs. These attributes are clearly visible through the company's superior margins, returns, and free cash flow generation, which we believe warrants a premium FCF-yield valuation. We further believe that Schlumberger's strong balance sheet, as well as its increased adoption of its new technologies like Broadband, enables it to offer customers new solutions with up-front funding in exchange for production upside.

Industry consolidation should offer Schlumberger increasing upside in the upcoming cycle. We argue that the pending merger of its two largest competitors should help Schlumberger **(1)** increase market share as certain National Oil Companies look to redistribute share more symmetrically, and **(2)** compete in a more rational bidding environment for large offshore projects.

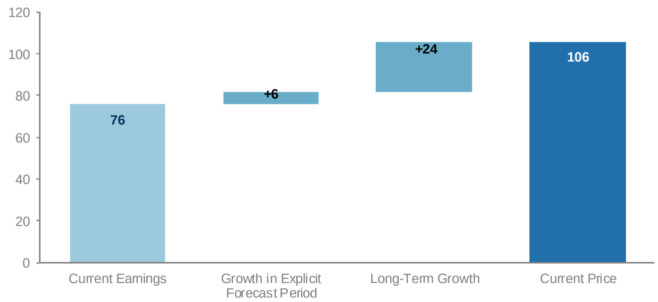
Risk Reward on a 12-month view (Overweight, PT $125)



Utilities

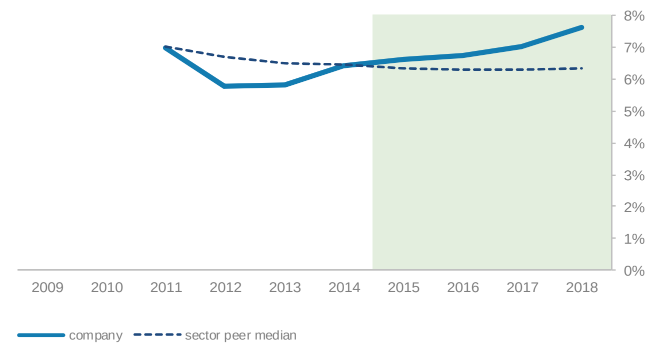
Sempra Energy (SRE)

Value of Growth



Cost of Equity uses 3-yr beta, Rf of 2% and MRP of 6%

Return on Net operating assets (RNOA) Analysis



RNOA = Net operating profit, after taxes (calculated using the "for consensus" methodology) / Net operating assets (BOP)

Sector Yardsticks

Sempra Energy vs. Sector Peers

	Sempra Energy percentile range (vs. sector peers) 0–20	20–40	40–60	60–80	80–100	Peer median
Growth						
EPS '15-'18 CAGR					13.1%	7.3%
Sales '15-'18 CAGR		2.8%				3.0%
Returns						
RNOA			6.6%			6.3%
EBIT margin			21.0%			21.4%
Valuation						
P/E					22.2x	16.6x
EV/EBIT					17.4x	14.5x
P/FCF		(27.7x)				(14.4x)
Leverage						
Net Debt/EBITDA		4.1x				4.5x

Note: Sector Yardstick metrics - Returns: 2015e; Valuation: 2015e; Leverage 2015e. (Net Debt/EBITDA could be NM for some companies.)

Source: Thomson Reuters (historical share price data), Company data, Morgan Stanley Research estimates
Companies with fiscal years ending 1/1-5/31 have been fiscally aligned with the prior year.
For valuation methodology and risks associated with price targets mentioned, please see the appendix beginning on page 35.

Regulated Utilities Industry View: Cautious

Morgan Stanley & Co. LLC

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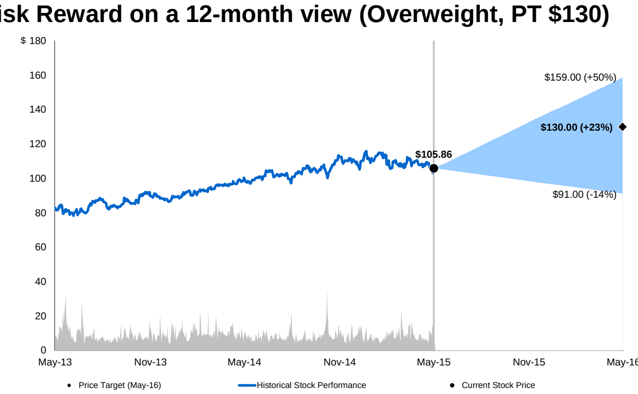
We see Sempra as uniquely positioned within the Utilities sector due to robust investment opportunities we expect to drive an 11%-plus EPS growth rate through decade end, 2-3x the rate we see for its peers. Sempra's attractive growth pipeline is based on high-visibility projects that have been approved, contracted, or are already under construction and have limited commodity exposure. The opportunities are spread across business segments and include US pipeline additions, expansion of LNG export capacity, renewables, potential deployment of a financial structure (Total Return Vehicle), international electric and gas transmission build-out, along with a number of other potential investments.

$7-8 billion-plus of identified investment opportunities could drive growth higher. Incremental to the base capital plan, which we forecast to drive ~11% average annual EPS growth through 2019, are $7-8 billion in additional investment opportunities. These include: Mexican gas pipeline bids, hydro projects in Peru, LNG storage, and additional renewables projects. Furthermore, this figure does not include the potential for additional trains at the highly cost-competitive Cameron LNG terminal, which management also noted as an opportunity.

Potential formation of a Total Return Vehicle (TRV) could further improve Sempra's competitive position and cash flow. We believe Sempra could launch a TRV over the next 12 months, structured similarly to an MLP. While we have no knowledge of any potential TRV plans, it's conceivable that a number of assets could be included in this entity: LNG export and marketing (including Cameron trains 1-3 and any expansion), midstream gas (including REX pipeline), and renewables. The vehicle could allow Sempra to access additional attractive and low cost capital, as well as generate sizeable cash flow from asset drop-downs, Limited Partner distributions, and Incentive Distribution Rights (IDR) payments.

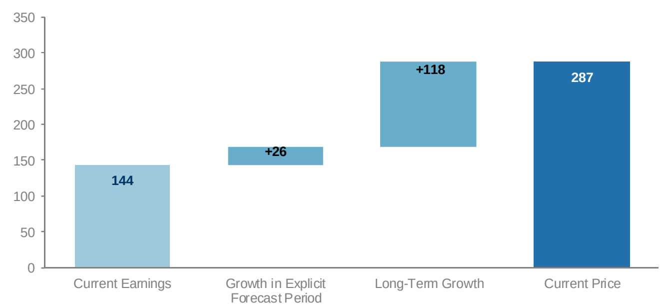
Risk Reward on a 12-month view (Overweight, PT $130)



Materials

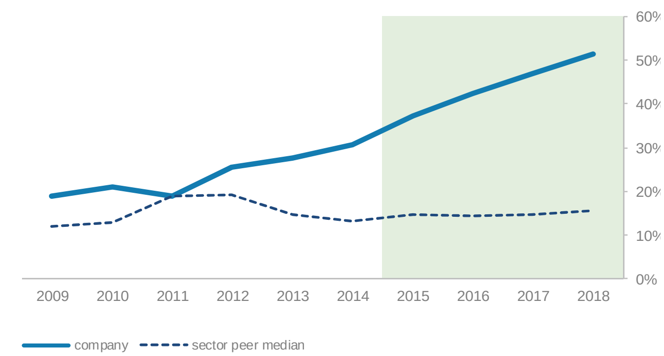
Sherwin-Williams (SHW)

Value of Growth



Cost of Equity uses 3-yr beta, Rf of 2% and MRP of 6%

Return on Net operating assets (RNOA) Analysis



RNOA = Net operating profit, after taxes (calculated using the "for consensus" methodology) / Net operating assets (BOP)

Sector Yardsticks

Sherwin-Williams Co. vs. Sector Peers

	Sherwin-Williams Co. percentile range (vs. sector peers)					Peer median
Growth	0–20	20–40	40–60	60–80	80–100	
EPS '15-'18 CAGR					14.7%	8.0%
Sales '15-'18 CAGR					7.2%	4.1%
Returns						
RNOA					37.1%	14.6%
EBIT margin		13.7%				15.3%
Valuation						
P/E					24.9x	16.4x
EV/EBIT					17.5x	12.2x
P/FCF					25.1x	16.1x
Leverage						
Net Debt/EBITDA		1.2x				1.7x

Note: Sector Yardstick metrics - Returns: 2015e; Valuation: 2015e; Leverage 2015e. (Net Debt/EBITDA could be NM for some companies.)

Source: Thomson Reuters (historical share price data), Company data, Morgan Stanley Research estimates

Companies with fiscal years ending 1/1-5/31 have been fiscally aligned with the prior year. For valuation methodology and risks associated with price targets mentioned, please see the appendix beginning on page 35.

Chemicals Industry View: Attractive

Morgan Stanley & Co. LLC **Vincent Andrews**
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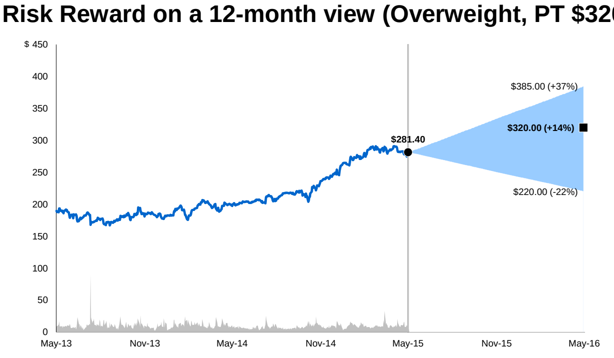
We believe Sherwin-Williams is likely to continue to grow in excess of an accelerating US architectural paint market, as a product of its leverage to the professional contractor, aggressive store count expansions, and unique capacity to provide more convenient and holistic service to the nation's largest paint consumers.

The professional contractor, which represents ~85% of Sherwin's Paint Store sales, is growing in excess of the broader architectural paint market due to: (1) a cyclical recovery in both new construction and non-residential end markets, (2) secular trends away from homeowners desiring to paint their houses themselves (i.e., DIY), and (3) a shift toward rentership whereby more properties are maintained by institutional owners who are more likely to outsource paint jobs to pros.

Sherwin plans to continue to expand its already expansive store count, at an average annual cadence of ~100 new locations, as the company grows largely at the expense of independent dealer counterparts. Independent dealers tend to be less sophisticated operators, are often family-run businesses, and represent 15% of the US architectural paint market from which we believe Sherwin will continue to siphon share.

Pricing power remains strong. The contractor serviced architectural market in which Sherwin operates has historically been characterized by robust levels of pricing power. This is due to the low representation of paint as a percentage of the total cost of a contractor job (generally 10-15%), the lack of awareness on the part of the end-consumer of the price of the underlying product, and the lack of comparability of one job to another (i.e., what your friend paid versus what you paid). Sherwin's company-owned store platform represents an additional differentiating source of pricing power, whereby it is able to bypass negotiations with big box retailers and other independent dealers.

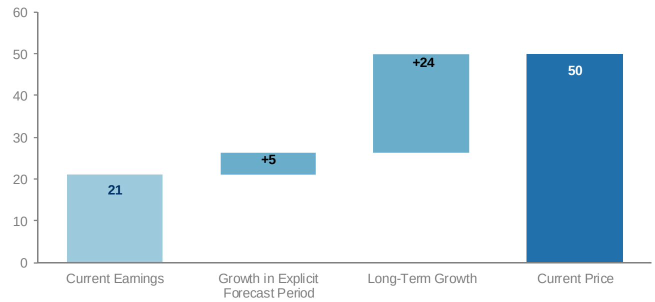
Risk Reward on a 12-month view (Overweight, PT $320)



Consumer Discretionary

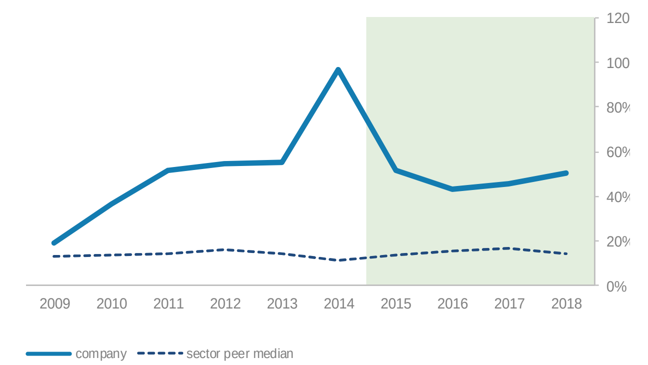
Starbucks (SBUX)

Value of Growth



Cost of Equity uses 3-yr beta, Rf of 2% and MRP of 6%

Return on Net operating assets (RNOA) Analysis



RNOA = Net operating profit, after taxes (calculated using the "for consensus" methodology) / Net operating assets (BOP)

Sector Yardsticks

Starbucks Corp. vs. Sector Peers

	Starbucks Corp. percentile range (vs. sector peers)					Peer median
Growth	0–20	20–40	40–60	60–80	80–100	
EPS '15-'18 CAGR				16.0%		15.6%
Sales '15-'18 CAGR				10.1%		7.0%
Returns						
RNOA					51.3%	13.5%
EBIT margin				18.8%		11.7%
Valuation						
P/E				31.7x		29.1x
EV/EBIT				21.0x		19.7x
P/FCF				36.3x		29.3x
Leverage						
Net Debt/EBITDA	0.1x					1.9x

Source: Thomson Reuters (historical share price data), Company data, Morgan Stanley Research estimates
Companies with fiscal years ending 1/1-5/31 have been fiscally aligned with the prior year.
For valuation methodology and risks associated with price targets mentioned, please see the appendix beginning on page 35.

Restaurants Industry View: In-Line

Morgan Stanley & Co. LLC

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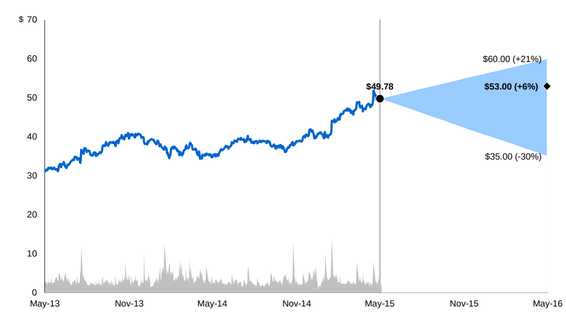
We believe Starbucks remains a best-in-class secular growth story, with significant potential for revenue growth and margin expansion in the near- and long-term. After learning from missteps in 2008/09, Starbucks has demonstrated consistent revenue and EPS growth over the past five years and is poised to continue at 15-20%, one of the strongest rates among its Restaurant peers, on our forecasts. Not only does Starbucks benefit from an addictive and habitual core business (coffee), we also see multi-channel growth opportunities within its sub-brands. Through a string of acquisitions, Starbucks has filled out its product offering to include tea, food and health and wellness products. Starbucks is now beginning to leverage these multiple channels through retail and grocery. Further, as a clear early leader in mobile pay and ordering, Starbucks should be able to garner a disproportionate share of usage on the platform and win increased loyalty and frequency. Aside from sales drivers, strong unit economics support rapid growth in Asia and solid growth in the Americas.

Core domestic business is strong, and is aided by food product expansion and mobile/delivery rollout. The domestic business (over 70% of overall profits) has seen consistent 5-8% same-store sales (SSS) growth over the past four years and we expect it to continue at a mid single digit pace (4-5%) going forward, driven in part by a continued focus on food (La Boulange) and mobile ordering/pay/delivery.

Consumer packaged goods and China Asia Pacific segments add incremental growth. While currently only 15% and 11% of operating profits respectively, we expect a 10-20% CAGR for both channels over the next several years as (1) new grocery and specialty store products (Teavana, Evolution Fresh) ramp up, and (2) branding as an aspirational product and investment in development and supply chain infrastructure continue to drive strong SSS growth, 10-15% unit growth, and margin expansion.

Balance sheet poised for increased return of capital. Starbucks is under-levered relative to its peers and could raise debt in the near term. While some cash has gone to acquisitions recently, management is committed to using any new cash to increase dividends and buybacks.

Risk Reward on a 12-month view (Overweight, PT $53)



Information Technology

Visa (V)

Morgan Stanley & Co. LLC

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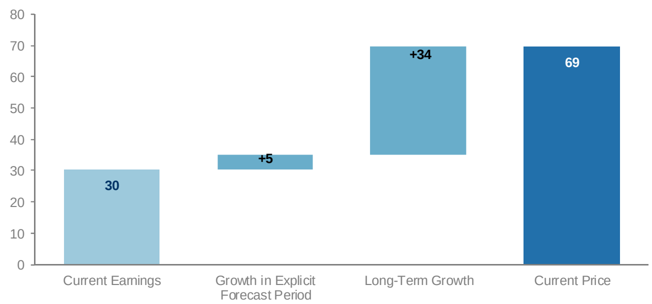
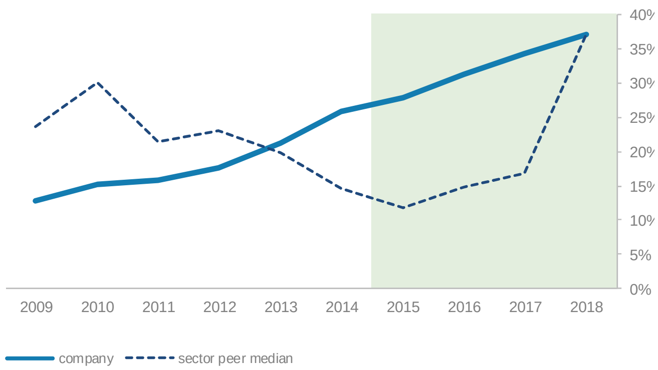
Value of Growth



Cost of Equity uses 3-yr beta, Rf of 2% and MRP of 6%

Return on Net operating assets (RNOA) Analysis



RNOA = Net operating profit, after taxes (calculated using the "for consensus" methodology) / Net operating assets (BOP)

Sector Yardsticks

Visa Inc. vs. Sector Peers

	Visa Inc. percentile range (vs. sector peers) 0–20	20–40	40–60	60–80	80–100	Peer median
Growth						
EPS '15-'18 CAGR					14.0%	14.0%
Sales '15-'18 CAGR					9.1%	9.1%
Returns						
RNOA				27.8%		11.9%
EBIT margin					65.9%	19.0%
Valuation						
P/E					26.9x	20.0x
EV/EBIT				18.0x		16.7x
P/FCF					28.4x	21.0x
Leverage						
Net Debt/EBITDA						1.5x

Note: Sector Yardstick metrics - Returns: 2015e; Valuation: 2015e; Leverage 2015e. (Net Debt/EBITDA could be NM for some companies.)

Source: Thomson Reuters (historical share price data), Company data, Morgan Stanley Research estimates
Companies with fiscal years ending 1/1-5/31 have been fiscally aligned with the prior year.
For valuation methodology and risks associated with price targets mentioned, please see the appendix beginning on page 35.

Payments & Processing Industry View: In-Line

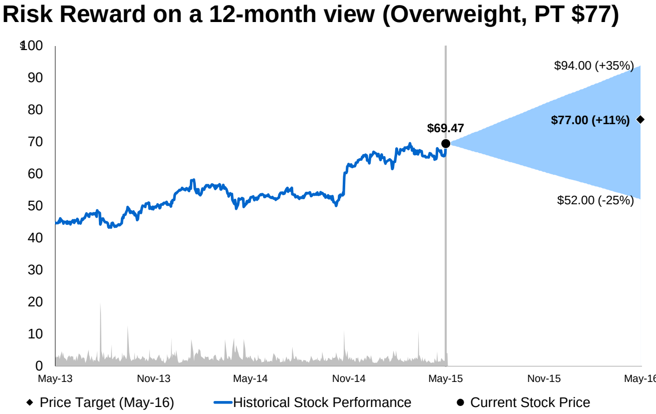
Visa is a prime beneficiary of the ongoing secular shift from cash to electronic forms of payment, globally, and with several tailwinds over the coming five years we have high conviction that it can sustain high single/low double-digit revenue growth and mid-teens EPS growth over the foreseeable future.

Cash comprises 85% of purchase transactions and 55% of global retail purchase volume, underscoring the long runway for growth. Over the next several years, we expect several catalysts — such as mobile payments, financial inclusion, increasing share of eCommerce, etc. — to help drive increased penetration of electronic spend, especially in developing markets where the emergence of a middle class, combined with government initiatives to formalize economies to assist with tax collection, are enabling the use of electronic forms of payment. We believe the recently announced opening up of the China domestic payments market, currently dominated by state-owned China Union Pay, notably enhances Visa's growth potential over the longer-term, though we expect minimal impact in the near-term.

The potential acquisition of Visa Europe (according to media reports), subject to exercise of the put option by the banks that own Visa Europe, is another potential catalyst, though we note that timing of a deal is uncertain. Our math suggests that such a deal could be 6-8% accretive to Visa Inc.'s EPS over a period of 3-4 years.

On mobile payments, we believe the company's moat within the payments ecosystem positions it well to partner with device manufacturers, social/commerce networks, and other digital innovators to be a net beneficiary of the changing technology environment.

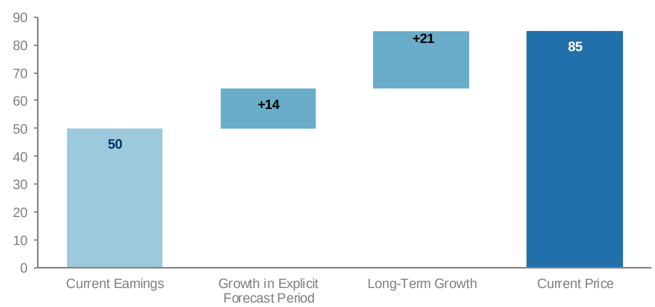
Risk Reward on a 12-month view (Overweight, PT $77)



Healthcare

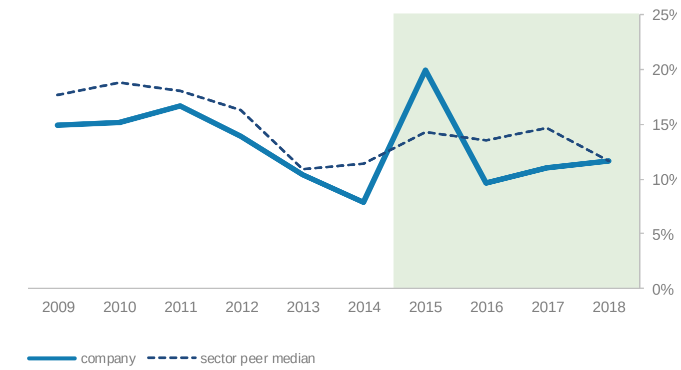
Walgreens Boots Alliance (WBA)

Value of Growth



Cost of Equity uses 3-yr beta, Rf of 2% and MRP of 6%

Return on Net operating assets (RNOA) Analysis



RNOA = Net operating profit, after taxes (calculated using the "for consensus" methodology) / Net operating assets (BOP)

Sector Yardsticks

Walgreens Boots Alliance Inc vs. Sector Peers

	Walgreens Boots Alliance Inc percentile range (vs. sector peers)					Peer median
Growth	0–20	20–40	40–60	60–80	80–100	
EPS '15-'18 CAGR					16.5%	16.5%
Sales '15-'18 CAGR					7.5%	7.5%
Returns						
RNOA				20.0%		14.2%
EBIT margin		5.5%				8.8%
Valuation						
P/E				23.3x		22.9x
EV/EBIT				18.1x		16.0x
P/FCF			19.6x			19.4x
Leverage						
Net Debt/EBITDA			1.6x			1.5x

Note: Sector Yardstick metrics - Returns: 2015e; Valuation: 2015e; Leverage 2015e. (Net Debt/EBITDA could be NM for some companies.)

Source: Thomson Reuters (historical share price data), Company data, Morgan Stanley Research estimates
Companies with fiscal years ending 1/1-5/31 have been fiscally aligned with the prior year.
For valuation methodology and risks associated with price targets mentioned, please see the appendix beginning on page 35.

Healthcare Services & Distribution Industry View: In-Line

Morgan Stanley & Co. LLC

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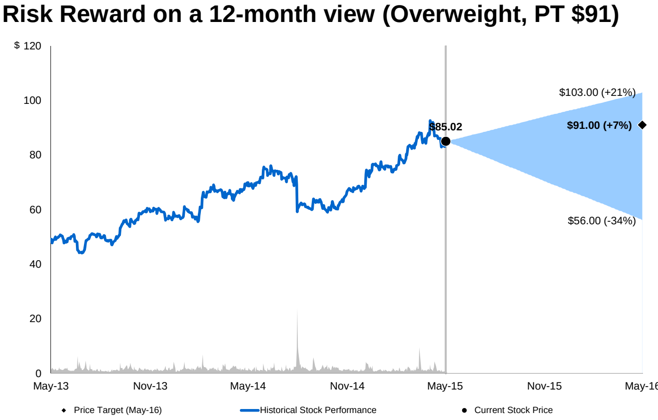
Potential for 15% annual earnings growth through F2020. Walgreens Boots Alliance is the largest US drug retailer by store count, accounting for ~21% of total prescriptions in 2014. While over the last few years WBA's operating metrics have lagged its largest peer, under a new management team and the leadership of CEO Stefano Pessina we see opportunities for WBA to successfully turn around the company, lower its cost structure, drive margin expansion and reaccelerate top line growth. Notably, if successful, we estimate the company could close a large portion of the ~340 bps margin gap to rival CVS Health translating to over 15% annual earnings growth through F2020.

Beneficiary of generics growth. WBA's global footprint and joint venture with AmerisourceBergen make it one of the largest scale purchasers of generics globally. This has been a significant source of synergies and helps offset to general reimbursement pressure in the US pharmaceutical market.

M&A opportunities could provide additional upside. The current management team has a track record of making accretive M&A and expanding into new markets and geographies. Given Walgreens Boots Alliance's current portfolio of assets and what we believe is needed for the evolution of the US healthcare system, it's plausible that management could acquire or partner with assets that expand WBA's access to lives into the payor space (including pharmacy benefits managers) and specialty pharmaceuticals.

Risk Reward on a 12-month view (Overweight, PT $91)



Consumer Discretionary

Walt Disney (DIS)

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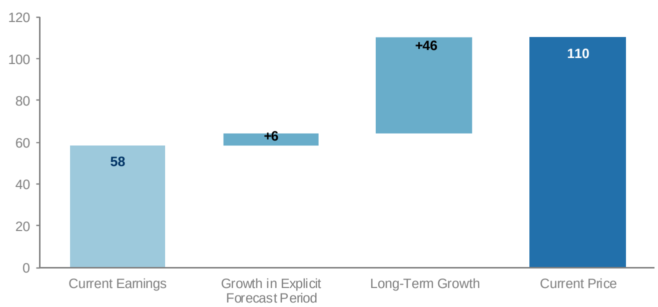
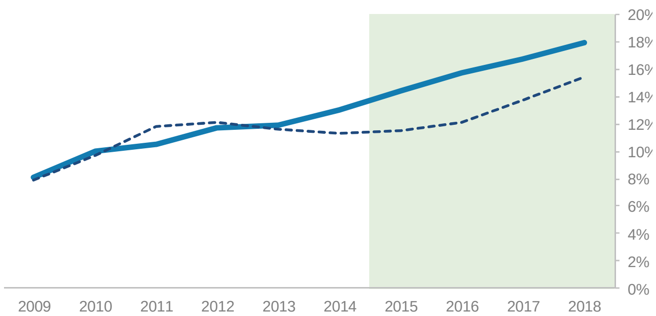
Value of Growth



Cost of Equity uses 3-yr beta, Rf of 2% and MRP of 6%

Return on Net operating assets (RNOA) Analysis



RNOA = Net operating profit, after taxes (calculated using the "for consensus" methodology) / Net operating assets (BOP)

Sector Yardsticks
Walt Disney Co vs. Sector Peers

	Walt Disney Co percentile range (vs. sector peers) 0–20	20–40	40–60	60–80	80–100	Peer median
Growth						
EPS '15-'18 CAGR		9.9%				15.4%
Sales '15-'18 CAGR				5.6%		4.9%
Returns						
RNOA				14.5%		11.5%
EBIT margin				24.4%		20.3%
Valuation						
P/E			22.4x			22.1x
EV/EBIT				16.2x		13.8x
P/FCF					28.6x	17.5x
Leverage						
Net Debt/EBITDA	0.8x					2.8x

Note: Sector Yardstick metrics - Returns: 2015e; Valuation: 2015e; Leverage 2015e. (Net Debt/EBITDA could be NM for some companies.)

Source: Thomson Reuters (historical share price data), Company data, Morgan Stanley Research estimates
Companies with fiscal years ending 1/1-5/31 have been fiscally aligned with the prior year.
For valuation methodology and risks associated with price targets mentioned, please see the appendix beginning on page 35.

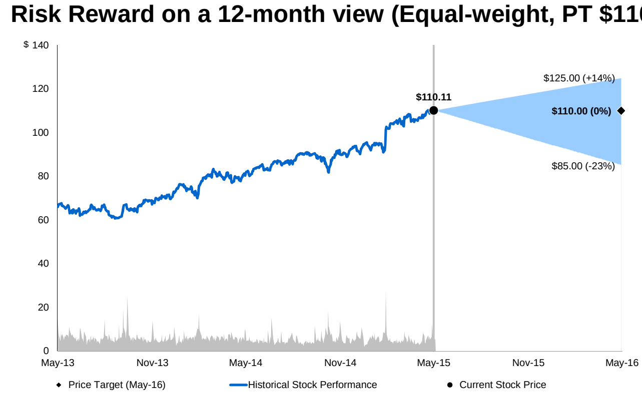
Media Industry View: Cautious

Strong multi-year content outlook, rooted in past intellectual property acquisitions. Over the last few years, Disney's M&A strategy has primarily focused on acquiring "pure" content (rather than distribution) assets, spending ~$15 billion in aggregate to acquire Pixar, Marvel, and Lucasfilm. Disney is now earning returns on this capital investment, with acquired "franchise" properties anchoring a robust film slate (e.g. *Avengers*, *Star Wars*). We project that *Star Wars VII* will help replace declining *Frozen*-related revenue, leading to studio to roughly repeat in F2016 the record EBIT levels seen in F2014 (~$1.6 billion). Longer-term, we expect the combination of Marvel, Pixar, and Lucasfilm franchises, plus *Frozen*, should continue to support a $1 billion-plus annual EBIT level in F2017 and beyond.

We believe Disney's ability to monetize its intellectual property is unmatched in US Media, with intellectual property (most commonly) generated in the film studio, then used to drive earnings across the Theme Parks, Consumer Products, Media Networks, and Interactive segments. Looking ahead, we believe Star Wars will drive additional CP segment growth, with projected segment EBIT showing a low-teens CAGR for the next 3 years (F2015-17). Finally, Disney's last round of capital investment in the Parks was generally successful. We believe the addition of Star Wars content to the parks could lead to another round of profitable reinvestment.

With secular concerns rising in the TV ecosystem, Disney's diversification stands out. We are cautious on the TV ecosystem given rising pressures on TV advertising and potential disruption to the pay-TV bundle. While Disney generates significant earnings from TV, it has relatively less exposure than large-cap Media peers. Advertising is less than 20% of total revenue (at the low end of large-cap peers). Additionally, in F1Q15, Disney's Studio and Consumer Products accounted for over 60% of incremental EBIT and, together with Parks, should represent over 45% of total segment EBIT by F2016.

Risk Reward on a 12-month view (Equal-weight, PT $110)

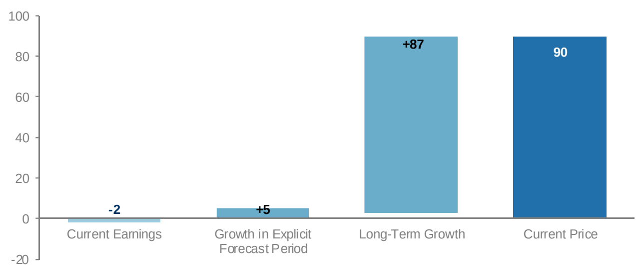


Morgan Stanley

Software

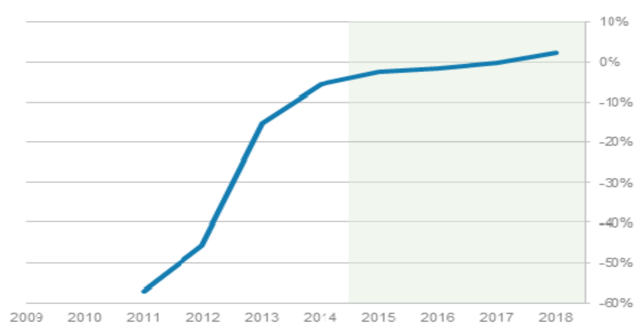
Workday (WDAY)

Value of Growth



Cost of Equity uses 3-yr beta, Rf of 2% and MRP of 6%

Return on Average Assets*



* Operating Income (non-GAAP EBIT) / Average Total Assets

Sector Yardsticks
Workday vs. Sector Peers

	Workday percentile range (vs. sector peers) 0–20	20–40	40–60	60–80	80–100	Peer median
Growth						
EPS '15-'18 CAGR						18.2%
Sales '15-'18 CAGR					29.6%	13.9%
Returns						
RNOA						NA
EBIT margin			(3.5%)			(5.2%)
Valuation						
P/E						61.0x
EV/EBIT						34.1x
P/FCF					424.6x	31.6x
Leverage						
Net Debt/EBITDA						3.3x

Note: Sector Yardstick metrics - Returns: 2015e; Valuation: 2015e; Leverage 2015e. (Net Debt/EBITDA could be NM for some companies.)

Source: Thomson Reuters (historical share price data), Company data, Morgan Stanley Research estimates
Companies with fiscal years ending 1/1-5/31 have been fiscally aligned with the prior year.
For valuation methodology and risks associated with price targets mentioned, please see the appendix beginning on page 35.

Software Industry View: In-Line

Morgan Stanley & Co. LLC

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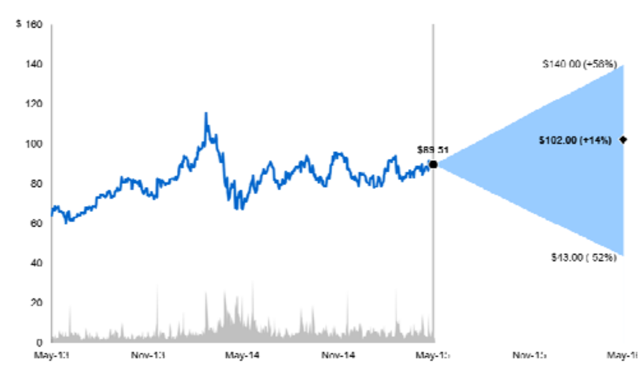
We believe Workday is well-positioned to benefit from the shift of IT dollars away from legacy on-premise software towards software-as-a-service (SaaS) applications. The company's early success has been in the $11 billion market for Human Capital Management software, putting Workday on track to exceed $1 billion in revenue this year with ample room for further growth. However, we also see potential for newer product areas like Financials/ERP and Data/Analytics to become meaningful revenue contributors over the coming years, quintupling Workday's addressable market opportunity to over $50 billion and providing a runway for 25%-plus sustained top-line growth for the next decade or more.

Two common pushbacks to the Workday story are (1) the slower uptake of SaaS solutions in the ERP market outside of HR; and (2) competition from legacy leaders like Oracle and SAP. While both likely remain overhangs in the near-term, we also expect these concerns to ease in the medium-to-long-term. Workday took a fundamentally different approach when developing its solution, building on a proprietary in-memory database that offers key architectural advantages in analytics and data management. We think these advantages will become increasingly apparent over time as Workday builds out its analytics suite, acting as a catalyst to speed migrations to the cloud in ERP and widening the competitive moat between Workday and peers looking to deliver legacy solutions via a cloud model.

We also anticipate improving profitability over the next 3-5 years as Workday's revenue mix shifts toward highly profitable renewals and as R&D investments scale. After breaking roughly even on FCF last year, we look for Workday to trend toward mid-teens free cash flow margins in F2018, which in turn should lend greater valuation support to the stock.

Risk Reward on a 12-month view (Equal-weight, PT $102)



Stock	Valuation Methodology	Risks
Actavis	Our price target of $343 assumes ACT shares will trade at 16x 2016e pro forma EPS in a year (representing no expansion from the stock's current 2015e multiple), as Actavis integrates Allergan effectively and drives results at or slightly above expectations.	Downside risks include: integration missteps, disappointing organic growth, unfavorable legal rulings, negative new drug candidate developments, and heightened competitive pressures. Upside risks to our price target include: better-than-expected revenue growth and synergy capture drive earnings and P/E multiple upside.
Amazon.com	Our price target of $450 represents 22x Base Case 2015e EV/EBITDA, and is derived using relative valuation based on a comparable peer group set of global brands for core eCommerce and cloud-related technologies.	Price wars with IaaS competitors may lead Amazon to cut AWS prices further while incremental AWS investment offsets cuts elsewhere. Weakness in core market retail sales could hurt growth. Write-downs from struggling investments (e.g. Fire phone) could continue to be a margin drag.
Amphenol	Our $58 price target values APH at 21x CY15 EPS of $2.74, a 3x premium to its 10-year median, a touch higher than the multiple expansion our strategists expect for the S&P 500, which we believe is justified by APH's higher EPS growth.	Heightened expectations, with the stock trading at the high end of its historical valuation range. Any execution missteps on M&A; slowing growth and/or margin pressure in mobile devices (16% of sales).
Avago Technologies	Our $154 price target represents 17x C2016e EPS of $9.07. We view this multiple as conservative relative to analog/RF peers trading at 17-20x and the S&P 500 (17.5x), based on AVGO's stronger earnings growth.	Stronger-than-expected competition or margin pressure in FBAR filters, an important growth driver; execution on the LSI acquisition.
Bank of America	Our price target is based on a blend of valuation methodologies including residual income, P/E, P/B relative to ROE, P/TBV relative to ROTCE and sum-of-the-parts. Our residual income valuation assumes a 5.0% risk-free rate and a 4.5% equity market risk premium.	For BAC shares specifically, downside risks to our thesis and price target include home price appreciation stalls, short end rates remain low until 2H16, inability to repurchase shares, higher than expected litigation and reps/warranties costs, stricter than expected regulatory interpretation of financial reform legislation, and cost saves don't fall to the bottom line. Upside risks include short end rates rise 2H15, additional cost saves with minimal impact to revenues, higher home price appreciation, faster than expected reduction in legacy asset servicing costs, faster/steeper decline in net charge-offs and higher capital return.
BankUnited	Our price target of $39 is based on a residual income model. We assume a 10% cost of equity and a beta of 1.3.	We believe the biggest risk to the BKU thesis is a slowdown in the New York or Florida economies, leading to slower-than-expected core loan growth. Other risks include higher credit losses, particularly in NYC commercial real estate, and persistent low interest rates.
BlackRock	Our price target of $429 is derived from a DCF analysis, which backs into an implied multiple; we assume a cost of equity of 14.3% and terminal growth of 2.6%.	Greater-than-expected share loss or pricing declines in ETFs; lack of positive op leverage if markets decline. Regulatory uncertainty (e.g. MMF reform, SIFI designation) resulting in more capital held or higher expenses. Lack of any turnaround in active equities performance or flows.
Costco Wholesale	Our $163 price target is derived using a historic and relative P/E multiple framework. It represents ~29x our F2016e EPS of $5.54, slightly above the current valuation, reflecting the strength of Costco's top line.	Sustained food inflation keeps gross margin pressures elevated for several quarters. Competitive pressures in the food delivery business. Slowed membership growth
Delphi Automotive	In deriving our $105 price target, we triangulate to valuation based on our DCF analysis as well as historical and peer-group multiples. For our DCF, we use a risk-free rate of 4%, beta of 1.1, equity risk premium of 5.5% for a cost of equity of 10% and a pre-tax cost of debt of 9%, resulting in a WACC of 9.0%. We use a terminal growth rate of 1.5%.	Macro remains uncertain particularly in Europe and Latin America. Execution in transitioning to a "mega supplier" with software at the core of each business. Technical overhangs, including tax rate uncertainty.
Estée Lauder	Our $98 price target assumes a 15.0x C2016e EV/EBITDA multiple, at the high end of peers given EL's greater top-line/EPS growth, higher ROIC, superior balance sheet, and strategic potential.	Risks include macro conditions, travel retail volatility, China results, category growth trends, and currency.
Google	Our price target of $565 reflects 12x EV to 2016e EBITDA, a modest discount to current trading but in line with our DCF-driven fair market value (which employs a WACC of 9.7% and a long-term growth assumption of 2.5%).	Deterioration in ad market, particularly as vast majority of revenue driven by advertising; Elevated investment in R&D and dilution from additional restricted stock grants. Resolution of the EU anti-trust probe, potentially lowering Google's share of search advertising spend in the region; Global tax reform, given Google's 15-20% effective tax rate; currency headwinds.

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Stock	Valuation Methodology	Risks
HCA Holdings	We calculate our $96 price target by applying a ~8.5x EV/EBITDA multiple to our 2016 base case EBITDA forecast. The multiple is a slight premium to the 10-year industry average and is a ~10% premium to the current FY15 group average. Historically HCA has traded at a premium to the group in part based on its market leading scale and volume growth.	State or federal government imposes cuts or fees on the hospital industry. • Utilization could turn negative. Benefits from health reform delayed or limited due to further government regulations.
Hilton Worldwide Holdings	Our price target of $34 assumes a 13.8x EV / 2016e EBITDA multiple. The multiple is above the company's pre-takeout historical trading range (~11x) but below its takeout multiple of 14x and certain peers. We feel a premium to the company's historical average / range is justified given HLT's numerous transformations since it went private.	Downside Risks Secondary offerings overhang (Blackstone still owns ~45% of the shares). Slower-than-expected economic growth and corporate spending drive RevPAR disappointments. Decreased consumer confidence and/or lower marketing spend slow timeshare sales growth. FX headwinds. •Increasing costs (such as Healthcare) weigh on margins. Upside Risks: An improving economy drives better-than- expected RevPAR growth. Margin expansion accelerates more than anticipated, benefiting from higher exposure to owned assets. Asset sales (though management's current focus on operating leverage of owned assets). Timeshare re-rating.
Honeywell International	Our target represents 16.5x April 2016 NTM EPS, and assumes partial reversion to HON's 1-year median valuation. We cross-check with our DCF model, which uses an 8% WACC, a terminal ROIC of 25% and 10.0x EBITDA exit multiple. This derives $93 fair value.	Oil weakness: Continued weakness in oil prices could impact UOP/ HPS downstream markets
J.P.Morgan Chase	Our price target is based on a blend of valuation methodologies including residual income, P/E, P/B relative to ROE, P/TBV relative to ROTCE and sum-of-the-parts. Our residual income valuation assumes a 5.0% risk-free rate and a 4.5% equity market risk premium.	For JPM shares specifically, upside risks include rising rates in 2H15, certainty on LIBOR investigations/penalty, faster loan growth, faster expense reductions, more reserve release, higher share buybacks. Downside risks include lower for longer rates (with short term rates rise extended beyond 1H16), stricter than expected regulatory interpretation of financial reform legislation (e.g., GSIFI, Volcker, internal model approvals, Single-Counterparty limitation, TLAC, STWF, CCAR), higher credit losses than we are currently anticipating, stymied market share gains in global markets, higher foreclosure, legal/regulatory related costs (including LIBOR related litigation/penalties) and inability to repurchase stock.
L Brands	Our $96 price target assumes a 23x multiple on our $4.20 2016 EPS outlook; the multiple is based on global brands peer group with slight premium for LB's superior growth potential (conservative 11% 3-year EPS forecast vs. peers 10%) applied to our F2016 EPS estimates in each case.	New competition in intimate apparel: Concepts like aerie and Soma have failed to take share from Victoria' Secret, but new competition could emerge. Operational execution: The next leg of margin expansion depends in part on supply chain improvements. LB could experience growing pains near term, similar to 2007 inventory management and point-of-sale upgrade. Personnel risk: In our opinion, an effective, cohesive leadership team has emerged over the past 4-6 years. Turnover could disrupt execution and performance.
LinkedIn	Price target of $300 derived from a DCF, assuming a WACC of 8.8% and 3% perpetual growth rate (terminal value 17x EV / EBITDA). We treat stock-based compensation as a cash expense in our DCF.	LinkedIn has consistently beaten its guidance and Street numbers. Any slowing in growth that stops this trend could lead to multiple compression and underperformance. Materially slower than expected Talent Solutions customer growth could call into question the addressable market. Execution risk of multiple new investments, including Marketing Solutions, Sales Navigator, and China.
McKesson	Our $242 price target is based on a target multiple of 16x applied to our C2016 EPS estimate of $15.12, approximately in with ABC and CAH and Morgan Stanley's Strategy team's target multiple for the S&P 500.	Celesio synergies fail to materialize, generic sourcing benefits fail to materialize; customer losses due to M&A.
Medtronic	Our price target of $83 assumes a C2016e P/E multiple of ~17x, the high end of the range for the large-cap medical device space (15-17x). We expect greater visibility on higher cash flow, capital deployment, and potential earnings upside will support modest valuation expansion.	Failure to execute on cost synergies as planned. Deal-related disruption drives downside to prior revenue growth trends. CRM market share pressures accelerate. Data for key pipeline products looks weaker than expectations.

(continued)

Stock	Valuation Methodology	Risks
Nike	We derive our $105 price target by applying a multiple based on historical averages and peers, adjusting for growth and the economic cycle, to our FY3 estimates in each case.	Under Armour – Strongly growing US athletic brand could continue to take share in the kids demographic, potentially taking loyal long-term customers away from Nike. China – Changing consumer tastes may challenge Nike's ability to sell apparel in China. Valuation – Slower-than-expected growth could cause significant multiple contraction.
Old Dominion Freight Line	We apply a multiple of 18.5x to our 2016 EPS estimate of $4.37 to generate a price target of $81. Our 2015 year-end 12-months-forward P/E multiple is in line with ODFL's historical trading range.	Peak margins limit the degree of margin expansion opportunity vs. peers. Best of breed operator - can productivity get any better? Significant investment for growth is risky if macro slows. Efforts by peers to follow parts of ODFL's playbook could make the competitive landscape more challenging.
Palo Alto Networks	Our $158 price target is 20x 2020e FCF, discounted back at a 12.5% rate; we believe this multiple is justified by a robust growth rate and margin expansion potential, vs, the current multiple of 28X EV/C2016e FCF, which we believe undervalues the 40%+ sustained FCF growth we expect.	Increased competition from large and established tech vendors. Wildfire could fail to gain significant traction
Schlumberger	Our $110 price target is based on a ~4% FCF yield on our 2015e FCF of ~$4.40/share. This is at the "low-end" of SLB's 2-4% historical range, given the currently weak oil price environment. Our price target translates into ~11x 2016e EBITDA, or 1.5x above the 7-year average due to increased FCF conversion and improving efficiencies.	Key risks include global macroeconomic events, further and longer than expected oil price slump pressuring E&P cash flows and increasing price competition.
Sempra Energy	Our $130 price target is based on valuing the regulated utility by applying the regulated group P/E multiple and our 2017 Utility EPS. We value Cameron using an MLP approach, use market value for Ienova, and a DCF for generation.	(1) Cameron LNG export approvals are not received or delayed; (2) FERC rate resolution on transmission; (3) Execution on growth for the LatAm, gas, and renewables businesses.
Sherwin-Williams	Our price target of $320 is derived from our Base Case 2020e $23.69 per share FCF estimate discounted back to year-end 2015 at an 8.0% cost of equity; this implies an ~5% FCF yield at year-end 2020, on our forecasts.	Raw material tailwind could be mitigated by value dilution through the supply chain, as direct oil-derived inputs are several steps removed from the wellhead. Any significant negative data-point that calls the US housing recovery into question could lead to a multiple de-rating. Lead paint liabilities are an ongoing overhang.
Starbucks	We derive our $53 price target from 27.5x our C2016e EPS of $1.94. The multiple reflects 2 turns above SBUX's 5-year average, which we believe is justified given our expectations for low 20%+ EPS growth over the next few years. Our DCF of $52 supports this valuation (assumes an 8% WACC and a 3% terminal growth rate).	Decelerating US same-store sales; higher green coffee costs; increased competition and slowing ramp-up in the single-serve market; lack of turnaround in EMEA; investment "costs" related to new initiatives could limit EPS upside; new advertising weights; promotions gain top line traction.
Visa	Our $77 price target is derived from a 75%/25% weighted average of our base-case P/E multiple based analysis (23.5x CY16e EPS) and DCF (assumes an 8% WACC and a 4% terminal growth rate).	Material slowdown in consumer spend; slowdown in cross-border volume; regulatory risk from countries such as Russia setting up domestic payment schemes.
Walgreens Boots Alliance	Our price target is based on a 19.1x multiple applied to our base case C2016 EPS estimate; the 19.1x multiple is the same multiple as CVS, its closest peer, and is based on CVS's historic 13% premium to the S&P 500 applied to the Morgan Stanley's Strategy team's S&P 500 target multiple.	Key risks to our price target include synergies from the Alliance Boots deal failing to materialize, and accelerating margin compression from pharmacy reimbursement challenges and generic inflation. Failure to execute front-end turnaround initiatives would represent a downside risk to our estimates.
Walt Disney	Our $110 price target implies 19-20x C2016e EPS, reflecting a premium relative to large-cap Media peers currently trading at ~14x on average. This assumes modest multiple compression vs. DIS's current ~21x fwd P/E with growth expected to moderate following low double-digit EBIT growth in F2015/16.	Macroeconomic weakness would negatively affect DIS, particularly the Parks segment. Pay-TV cord-cutting remains a risk, given Disney generates ~$15 monthly revenue per pay-TV household. ESPN programming rights costs could grow more quickly than expected.
Workday	Our $102 price target is derived from our base case valuation: 13.5x C2016e revenue, a premium to its high-growth peer group at 8.5x, which we believe is warranted by Workday's higher growth profile. Adjusting for growth, $102 represents 0.35x EV/Sales/Growth, a premium to the high growth peer group avg of 0.27x.).	Competition from legacy vendors and/or competing SaaS offerings. Faster growth & higher investments slow the path to profitability. Financials software does not migrate to SaaS, limiting market.

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Company Name	Ticker	Price May 8
Actavis Inc	ACT.N	$ 292.82
Amazon.com Inc	AMZN.O	433.69
Amphenol Corp.	APH.N	56.81
Avago Technologies Ltd	AVGO.O	123.33
Bank of America	BAC.N	16.45
BankUnited Inc	BKU.N	33.14
BlackRock Inc	BLK.N	370.04
Costco Wholesale Corp	COST.O	145.88
Delphi Automotive PLC	DLPH.N	85.33
Estee Lauder Companies Inc	EL.N	88.42
Google	GOOGL.O	548.95
HCA Holdings Inc.	HCA.N	76.90
Hilton Worldwide Holdings Inc	HLT.N	30.10
Honeywell International	HON.N	102.12
J.P.Morgan Chase & Co.	JPM.N	65.49
L Brands Inc	LB.N	90.27
LinkedIn Corp	LNKD.N	198.72
McKesson Corporation	MCK.N	229.08
Medtronic Inc.	MDT.N	76.21
Nike Inc.	NKE.N	102.44
Old Dominion Freight Line Inc	ODFL.O	72.39
Palo Alto Networks Inc	PANW.N	151.10
Schlumberger	SLB.N	92.43
Sempra Energy	SRE.N	105.86
Sherwin-Williams Co.	SHW.N	287.20
Starbucks Corp.	SBUX.O	49.78
Visa Inc.	V.N	69.47
Walgreens Boots Alliance Inc	WBA.O	85.02
Walt Disney Co	DIS.N	110.11
Workday	WDAY.N	89.51