

MORNING NEWS CALL

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Earnings Roundup

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TOP NEWS

• Musk pushes plan for China data to power Tesla's AI ambitions

Tesla is pushing ahead with plans to power the global development of its self-driving system with data from China that could be processed within the country, part of a strategic shift by Elon Musk, according to people with knowledge of the work.

• Departing Boeing CEO's board status faces Friday vote by shareholders

Boeing shareholders will vote whether outgoing CEO Dave Calhoun should remain on the board, adding intrigue to an annual general meeting where investors are expected to seek clarity on future leadership of the planemaker.

• Reddit stock jumps after OpenAI partnership

Shares of Reddit rose, following a partnership with artificial intelligence firm OpenAI that is expected to draw in more users for the social media platform with AI-enhanced experience and attract more advertising revenue.

• Applied Materials' third-quarter forecast disappoints investors, shares fall

Applied Materials forecast third-quarter results above Wall Street estimates on Thursday, following strong demand for its semiconductor tools, but failed to meet lofty investor expectations.

• UAW's influence tested in pivotal Alabama Mercedes-Benz factory union vote

The outcome of a vote by workers at a Mercedes-Benz factory in Alabama will be a key referendum on whether the United Auto Workers can maintain momentum in the historically anti-union South.

BEFORE THE BELL

Futures for the **S&P 500** and the **Dow** slipped as Fed officials remained cautious about inflation amid persisting labor market tightness. Investors will also parse comments from Fed officials Christopher Waller and Mary Daly later in the day. The global interest rate outlook weighed on **European shares** too, with declines in technology and industrials stocks adding to the downward pressure. In Asia, **Nikkei** ended lower on BOJ policy uncertainty, while **Chinese blue-chips** rallied on government's rescue plan for the property sector. The **dollar** edged up, but was on track for a weekly fall amid speculation on Fed rate cuts timing, while **gold** prices rose and headed for second weekly gain. Separately, **oil** prices held steady with Brent set for its first weekly gain in three weeks on signs of improving global demand.

STOCKS TO WATCH

Results

- **Applied Materials Inc:** The company forecast third-quarter results above Wall Street estimates on Thursday, following strong demand for its semiconductor tools, but failed to meet lofty investor expectations. Applied Materials forecast third-quarter revenue of about \$6.65 billion, plus or minus \$400 million, compared with analysts' estimates of \$6.58 billion. The company expects third-quarter adjusted profit per share between \$1.83 and \$2.19, compared with estimates of \$1.98. The company reported second-quarter revenue of \$6.65 billion, beating estimates of \$6.54 billion. On an adjusted basis, Applied Materials earned \$2.09 per share, compared with estimates of \$1.99.
- **Copart Inc:** The online vehicle auction services provider marginally beat third-quarter revenue estimates on Thursday as vehicle sales increased. The Dallas-based company has benefited from robust volumes of salvage vehicles. Copart reported total revenue of \$1.13 billion in the third quarter, compared with analysts' estimates of \$1.11 billion. Revenue from the company's vehicle sales division rose 3.5% to \$180.6 million. Copart's net income rose to \$382.1 million, or 39 cents per share, in the third quarter, from \$350.4 million, or 36 cents per share, a year earlier.
- **DXC Technology Co:** The company forecast first-quarter and full-year revenue below estimates on Thursday as it anticipates cautious spending by clients due to macroeconomic uncertainty, sending its shares down 18%. The performance of the company's global IT infrastructure system segment was down 9% to \$1.67 billion in the quarter, hurt by revenue declines in cloud and IT outsourcing offerings. The company now expects first-quarter revenue in the range of \$3.10 billion to \$3.15 billion, below analysts' average expectation of \$3.30 billion. DXC forecast full-year 2025 revenue in the range of \$12.67 billion to \$12.95 billion, which is also below analysts' average expectation of \$13.19 billion. For the fourth-quarter, DXC reported a 5.7% fall in revenue to \$3.39 billion, slightly above analysts' average estimate of \$3.37 billion.
- **Take-Two Interactive Software Inc:** The company tempered expectations for fiscal 2025 bookings on Thursday, after setting the release of "Grand Theft Auto VI" in the fall of calendar 2025. The forecast reflects the new launch timing for the hotly-anticipated title, the company said, which is expected to be an instant hit with billions of dollars in sales each year according to several analysts. The video game publisher now expects fiscal 2025 bookings between \$5.55 billion and \$5.65 billion, down from its prior forecast of just over \$7 billion. Take-Two has a pipeline of about 40 titles through fiscal 2027 while it has 16 titles in its fiscal 2025, company executives said on a post-earnings conference call. Take-Two's fourth-quarter bookings fell 3% to \$1.35 billion, but beat the average analysts' estimate of \$1.30 billion.

In Other News

- **Alphabet Inc:** Google in a court filing on Thursday is seeking a non-jury trial in the U.S. Justice Department's lawsuit accusing the advertising and search giant of anticompetitive practices in the online advertising marketplace. Google said the Justice Department's request for a jury trial breaks "with all historical precedent" and noted the department itself has said the technical nature might be difficult for a prospective juror to understand. Google has said the Justice Department's case went "beyond the boundaries of antitrust law," saying it does not regulate the internet company's conduct at issue.
- **Boeing Inc:** Shareholders will vote on whether outgoing CEO Dave Calhoun should remain on the board, adding intrigue to an annual general meeting where investors are expected to seek clarity on future leadership of the planemaker. Former Qualcomm chief Steve Mollenkopf will make his first public appearance as chairman at the virtual gathering. Mollenkopf is leading the search to replace Calhoun, who said he would retire by year-end as part of a management shakeup following a January mid-air blowout on a new 737 MAX 9. Investors have also been waiting to hear progress on choosing Calhoun's successor. Management experts said the company needs to find a new leader by mid-year as its current leadership does not have the credibility to make bold changes.
- **Chevron Corp & Hess Corp:** Hess shareholders should vote in favor of Chevron's \$53 billion all-stock offer at the oil company's May 28 special meeting, proxy adviser Glass Lewis said on Thursday. The proposed deal terms provide a reasonable valuation and offer the potential for upside to Hess shareholders, while the strategic and financial merits of the proposed merger "are sound and reasonable, on balance," Glass Lewis said. Chevron could walk away from the purchase agreement without paying any compensation to Hess shareholders if Exxon and CNOOC win their arbitration case, Glass Lewis said.
- **Ford Motor Co:** The company has asked its electric-vehicle suppliers to reduce costs in an attempt to support profitability, saying "everything is on the table," according to a company memo seen by Reuters. "Everything is on the table. Consider this a call to action," Liz Door, Ford's chief supply-chain officer, said in the memo, which was

earlier reported by Crain's Detroit Business. "To ensure affordability, it is of paramount importance that our portfolio achieves further levels of material cost efficiency." Door asked suppliers to ensure efficient manufacturing operations and reduce capital spending. She also called for further cost-reduction proposals on such vehicles as the Ford F-150 Lightning electric pickup truck, Transit electric van and Mustang Mach-E SUV, to be presented in face-to-face meetings soon, including ideas that might require investment but support profitability.

• **Fresenius Medical Care AG:** Investors demanded more clarity from Fresenius SE regarding its plans to cede strategic control over dialysis group Fresenius Medical Care. "The volatility at Fresenius Medical Care seems to repeatedly overshadow the recent positive operating developments at Fresenius and is also deterring many potential shareholders from investing in Fresenius," said Hendrik Schmidt, corporate governance expert at fund manager DWS. Though the change to FMC's legal structure and the deconsolidation of Fresenius mark a first step, the complete separation is still pending and there is no clear timeline for the move, Schmidt said. "Thus, despite the deconsolidation, the share price of Fresenius SE remains vulnerable to operational and strategic difficulties at Fresenius Medical Care."

• **General Motors Co:** The company and South Korea's LG Energy Solution, LG Electronics reached a settlement to establish a \$150 million fund to provide relief to Chevrolet Bolt EV owners affected by defective batteries, documents filed in a U.S. court on Thursday showed. "As a result, Bolt owners who received a battery replacement or who have installed the latest advanced diagnostic software may qualify for compensation," GM said in an emailed statement to Reuters. Owners of the recalled Bolt EVs who installed the final software remedy at a GM-authorized dealership before Dec. 31, 2023 may receive up to \$1,400, according to documents filed with Michigan eastern district court. Owners who sold or terminated the lease of their vehicle before the software remedy became available and those who already received a battery replacement will receive a minimum \$700 payment, according to the filing.

• **Goldman Sachs Group Inc:** The U.S. investment bank is muscling into the lending market for private equity and asset managers, planning an overseas expansion as it helps fill a void left by turmoil at regional banks and the sale of Credit Suisse. The Wall Street bank and rivals JPMorgan Chase and PNC Financial Services are stepping up in this \$800 billion to \$1 trillion market as private equity deal activity is expected to pick up due to record-high fund-raising. "The focus is to lend to large alternate asset managers, private equity sponsors," Maheshwar Saireddy, Goldman Sachs' global head of mortgage and structured products, told Reuters. After bolstering the U.S. business, Goldman plans to expand in Europe, the UK and Asia, and has added staff in Dallas and Bangalore to service these loans, Saireddy said. The Signature portfolio included loans to private-equity firms and venture capital funds to manage their working capital, known as capital call facilities or subscription line loans.

• **GSK PLC & Haleon PLC:** British drugmaker GSK has raised 1.25 billion pounds from a sale of its remaining stake in consumer healthcare company Haleon to institutional investors. The sale will allow GSK to sharpen its focus on vaccines, cancer and infectious diseases, which are part of CEO Emma Walmsley's plans to boost earnings at the drugmaker. GSK sold around 385 million shares at 324 pence each, amounting to a 4.2% stake in Haleon. Friday's sale was at a discount of about 2.5% to Haleon's last close of 332.4 pence on Thursday. GSK said total proceeds from sales of its Haleon holdings - four in just over a year - stood at 3.9 billion pounds.

• **Microsoft Corp:** The company said on Thursday it plans to offer its cloud computing customers a platform of AMD artificial intelligence chips that will compete with components made by Nvidia, with details to be given at its Build developer conference next week. It will also launch a preview of new Cobalt 100 custom processors at the conference. Microsoft's clusters of Advanced Micro Devices' flagship MI300X AI chips will be sold through its Azure cloud computing service. Separately, the Cobalt 100 processors Microsoft plans to preview next week offer 40% better performance over other processors based on Arm Holdings' technology, the company said. Meanwhile, The European Commission said it had given Microsoft until May 27 to provide information on risks stemming from generative AI features in search engine Bing.

• **Reddit Inc:** Reddit has partnered with OpenAI to bring its content to popular chatbot ChatGPT, the companies said on Thursday, sending the social media platform's shares up in extended trade. The deal underscores Reddit's attempt to diversify beyond its advertising business, and follows its recent partnership with Alphabet to make its content available for training Google's AI models. ChatGPT and other OpenAI products will use Reddit's application programming interface, the means by which Reddit distributes its content, following the new partnership. OpenAI will also become a Reddit advertising partner, the company said.

• **Shell PLC:** Norway's \$1.6 trillion sovereign wealth fund urged Shell to give investors more information about its revised climate targets but said it would not back a call by a group of 27 shareholders for the oil company to strengthen those targets. "Shell's energy transition strategy has evolved under the new CEO. We nevertheless believe that it sufficiently retains the core components of a Paris-aligned transition plan," the fund said on its

website, referring to the 2015 Paris Agreement on tackling climate change. "We have encouraged Shell to make additional strategy disclosures that could reduce uncertainty about the company's direction in the mid-2030s," it added.

- **Tesla Inc:** The company is pushing ahead with plans to power the global development of its self-driving system with data from China that could be processed within the country, part of a strategic shift by Elon Musk, according to people with knowledge of the work. As part of that effort, Tesla has been developing plans for a data center in China to train the algorithm needed for more fully autonomous vehicles, according to two people, who asked not to be named because the work remains private. It was not clear if Tesla would proceed with both options for handling self-driving data from China or if it was developing parallel plans as a hedge. Setting up a data center in China for FSD development would require Tesla to work with a Chinese partner, two of the sources said. It has had talks with Nvidia about acquiring graphic processing units for a China data center, according to one of the people, who was briefed on the discussions.

- **T-Mobile US Inc:** The company must face a proposed consumer class-action lawsuit challenging its \$26 billion purchase of rival Sprint in 2020, after a court on Thursday turned down the telecom giant's bid to appeal a key ruling that let the case move forward. In a brief order, the Chicago-based 7th U.S. Circuit Court of Appeals denied T-Mobile's request to appeal a decision that said the plaintiffs have legal "standing" to pursue their claims that the merger has driven up prices for wireless services. Brendan Glackin, an attorney for the plaintiffs, said they welcomed the appeals court's ruling. "We look forward to developing the record and trying the case to a jury in Chicago," he said.

- **Toyota Motor Corp:** Toyota Motor was forced to repeatedly halt production at a Mexico plant in February and March after local labour shortages snarled output at suppliers, according to people with knowledge of the automaker's operations. The stoppages, details of which were corroborated by documents from Toyota and suppliers reviewed by Reuters, illustrate a potential choke point for the automaker. Toyota halted production for a total 19 days in February and March at its plant in Tijuana, Mexico, according to two of the people. Technical issues at the plant were also a factor in the stoppage, they said. In response to questions from Reuters, Toyota Motor North America, the automaker's subsidiary, said: "Toyota's North American plants continue to face intermittent production delays due to supply chain disruptions. To minimise the impact, our teams are working diligently to do everything possible to lessen the inconvenience to our customers."

- **Xpeng Inc:** The Chinese electric vehicle maker said new U.S. tariffs on Chinese EVs are detrimental to achieving carbon neutrality and green energy transition. "It will result in higher costs," Xpeng co-President Brian Gu told media in Hong Kong where the company launched two EV models. "This has no impact on Xpeng Motors at the moment, but for such a large market as a whole, I hope that in the future it can become more open, allowing global products to enter and compete." "What is the flexibility or room for margins that we can have in order to meet changes in tariffs in other regimes," Gu said, adding it that was still assessing the level of EU tariffs that would make the company shift production overseas.

GRAPHIC

The Dow's climb to a record 40,000 points

The Dow Jones Industrial Average, a laggard among the major U.S. stock indexes this year, got its moment in the spotlight on Thursday as it briefly broke above 40,000 points for the first time in its history.

ANALYSTS' RECOMMENDATION

- **Advanced Drainage Systems Inc:** Barclays raises target price to \$202 from \$189, expecting volume growth to drive earnings higher.

- **Deere & Co:** Daiwa Capital Markets raises target price to \$440 from \$400, after the company announced plans to under-produce demand to reduce inventories.

- **Under Armour Inc:** JPMorgan cuts rating to underweight from neutral, as the company lags its peers in product innovation and profitability.

- **Viking Therapeutics Inc:** Raymond James raises rating to strong buy from outperform, pointing to its potential obesity treatment holding up well against its closest competition from Roche.

- **Walmart Inc:** Jefferies raises target price to \$75 from \$70, anticipating AI and automation to drive meaningful growth.

ECONOMIC EVENTS (All timings in U.S. Eastern Time)

1000 **Leading index change mm** for Apr: Expected -0.3%; Prior -0.3%

CORPORATE EVENTS (All timings in U.S. Eastern Time)

0830 **Intercontinental Exchange Inc**: Annual Shareholders Meeting

1000 **Alliant Energy Corp**: Annual Shareholders Meeting

1100 **Boeing Co**: Annual Shareholders Meeting

EX-DIVIDENDS

Bunge Global SA: Amount \$0.68

Cognizant Technology Solutions Corp: Amount \$0.3

Evergy Inc: Amount \$0.6425

Gen Digital Inc: Amount \$0.125

Phillips 66: Amount \$1.15

Snap-On Inc: Amount \$1.86

Southern Co: Amount \$0.72

Wynn Resorts Ltd: Amount \$0.25

(All analysts' estimates are according to LSEG IBES data)

PICTURE OF THE DAY



Gwen Stefani and Blake Shelton perform at the 59th Academy of Country Music (ACM) Awards in Frisco, Texas, May 16. REUTERS/Mario Anzuoni

(Compiled by Anjana J Nair and Malini K in Bengaluru)

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