



Weekend Thoughts 10/1/22

- Information Technology
 - Progress Software Corporation (PRGS)
 - “As a result of our stringent standards, we have passed a number of deals that did not meet recurring revenue or retention rate criteria. Some sellers have tried to reengage at significantly lower asking price. . .And while deteriorating macro factors are working in our favor with respect to valuation multiples, private company valuations are still not where we believe they should be. While lower than a year ago, their valuation expectations remain out of line with public markets”
 - “So we are seeing a healthy demand. We are not seeing demand fall off”
- Consumer Discretionary
 - Cracker Barrel Old Country Store, Inc.(CBRL)
 - “Across the restaurant industry right now, management teams are confronting the challenge of navigating an environment of softer consumer demand and higher costs coupled with the uncertainty about when either of these dynamics will abate.”
 - “While we do not believe that labor costs will ease in the future substantially, we do believe that food commodity costs will ease. As such, we made the decision, especially in the face of a potential recession to take moderately less price than we might have to offset this inflation.”
 - “We anticipate commodity inflation of approximately 8% for the fiscal year. We anticipate mid-teens commodity inflation will continue in Q1. And by the end of Q4, we anticipate slight deflation. So what we're anticipating is a markdown rate being higher than last year, but lower than pre-pandemic, meaningfully lower than the pre-pandemic.”
 - CarMax, Inc. (KMX)
 - “This quarter reflects widespread pressure the used car industry is facing. Macro factors, including vehicle affordability that stem from persistent and broad inflation, climbing interest rates and low consumer confidence, all led to a market-wide decline in used auto sales. In addition, wholesale values were affected by steep depreciation in the quarter.”
 - “We believe industry sales were also impacted by a shift in consumer spending prioritization from large purchases to smaller discretionary items. In response to the current environment and consumer demand, we have continued to offer a higher mix of lower-priced vehicles. We began the second quarter with a low single-digit decline in comp sales during the June that reflected a continuation of softer although improving sales, which we discussed on our last earnings call. Comp then fell sharply at the beginning of July with August ending in mid-teen declines. . .we saw a big dropoff in July. And then that softness continued into August, where we ended up in a mid-teen decline for comps.”
 - “Moving into September, we're seeing the same softness that we saw in August. And I would tell you even more recently, just given the hurricane, as you can imagine, that's contributing to additional softness as well.”
 - “I believe this is probably the first quarter where the gap between used and new got a little bit wider in, gosh, probably 6 or 7 quarters. So it will take some time. But

I think depreciation and prices correcting on unused will absolutely benefit the used market over time. But I think we got to keep in perspective, this quarter was challenging. I mean we haven't seen \$2,500 in depreciation. That rivals -- in absolute dollars, that rivals back what we saw at the height of the Great Recession, that rivals what we saw at the peak of Omni. So it's a very unusual thing"

- "Wholesale would be coming under pressure. And if we're going to enter into a depreciating environment, that's going to cause the pressure like I talked about before."
- "So if you think about it, we ended last year with an appreciation of about \$7,500. We've only experienced about \$2,500 in depreciation. So that dynamic will become less and less as we get later into the year. But you're still -- there just wasn't enough to offset that overall appreciation, which is why you still see us above last year. I think the other thing that you got to think about is a lot of the cars that were sold in the second quarter were bought -- actually, a majority of them were bought prior to the quarter even starting. So they're at a higher price."
- MillerKnoll (MLKN)
 - "During the first quarter, we experienced the impact of economic softening in various parts of the world"
 - "We are feeling the impact that the economic uncertainty is having on our customers, particularly in the U.S. They are voicing concerns about inflation, piloting smaller orders and requiring more revisions to projects as they learn to operate in a mostly hybrid environment. Given this macroeconomic backdrop, we are proactively taking actions, including continued pricing increases and careful management of discretionary spending."
 - "we're seeing is a lot of hesitation on the part of customers in terms of pulling the trigger on a new and more hybrid-focused work environment and also probably some hesitation in terms of the size of projects going forward in terms of what's going to be required."
 - "So in the Americas, it wouldn't surprise me to see unit volume demand declining 20%, 25% in that hunt, 25%, whereas order entry levels in dollar terms were down 17%. I think that's directional."
 - "But the encouraging thing for me is, when you look across the book of business in the Americas segment, day-to-day business activity has been relatively healthy. That's maintained quite nicely. And if you just consider past cycles, that has been one of the things that has been kind of a leading indicator of significant decline. So I'm not saying that it's not down but it's hung in there better than in past down cycles."
- Industrials
 - Cintas (CTAS)
 - "But as far as the sales cycle, I haven't seen anything that would lead me to believe that the sales cycle is elongating."
 - "we've seen such good growth in volume over the course of the last year, and we're able to be pretty flat overall in gross margins while we're investing in the business."
 - "Today, our customer base is more diversified today than it was in the past. Today, we're 70% services and 30% goods producing, so that diversification, we think, will help us."
 - Paychex (PAYX)
 - "We continue to regularly monitor our key leading indicators for signs of changes to

the macroeconomic trends. And while we have seen some moderation in key issues, we have not yet seen any significant changes. As an example, the latest Paychex IHS Small Business Employment Watch showed that workers of U.S. small businesses continue to benefit from higher wages. New jobs continue to grow but at a more moderated pace, and job growth at U.S. small businesses remains resilient even in the face of a tight labor market and inflation pressures. Employment levels at our existing clients have continued to increase as they're finding more people to fill those positions, consistent with these findings of our HR -- of our Small Business Index."

- "There was a lot of new business growth, new start-up business growth over the last couple of years during the pandemic. And so you're seeing a few more of those go out of business, and you're seeing a few more bankruptcies that way. And the other thing that we're seeing in the small business index is while wages are going up, they're starting to slow down and moderate. So while job growth is still growing and moderating some for small businesses, wage growth is starting to moderate slightly. So that's maybe a good sign that some of the actions being taken by the Fed are working, and maybe that will continue to improve."
- "I don't think there's anything we're seeing at this point that we'd see as a sign of a recession. . .there was moderation that we expected going into this year on the retention because of the business charge. But when I look at it, employment levels continue to be -- increase. We see that in our checks. We see that in worksite employees per customer. The labor market continues to be tight."

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