SPREE CAPITAL
ADVISERS

Weekend Thoughts 11/26/22

Net: In a light news week, the big story was the rally in the US Treasury bond market. Since its October peak, the 10-year treasury yield has fallen more than half a percentage point to 3.68%. Treasuries ignoring hawkish rhetoric from Federal Reserve board members regarding the level of the terminal rates and instead picking up on softening inflationary trends in goods prices, producer costs, and housing costs is telling. Federal Open Market Committee minutes from November 1-2 reiterated the movement to a data dependent focus while they wait for the lags in cumulative monetary policy tightening to come to fruition.

- Information Technology
    - Autodesk (ADSK)
        - “new business growth slightly decelerated in the quarter, most notably in Europe, but overall growth remains good. And we see less demand for multiyear upfront and more demand for annual contracts than we expected. We're hopeful this is a positive signal for our transition next year to annual billings for multiyear contracts.”
        - "when our customers start to exhibit cash conservation behavior, that behavior does tend to be more prevalent with some of the larger deal sizes. And remember, they're still signing multiyear contracts, they're just signing multiyear contracts and asking for annual billings, which for those larger deals, we are going to accommodate”
        - "retention rates continue to be strong and maintain steadiness. I think we're going to continue to see us steadiness in the next year. The one area where we expect to see softness with macro headwinds is at the low end of our market. So the low end of the market is low ASPs, but high volume.”
        - "So we're in better shape than some of our competitors that are not profitable. In certain situations, people are going to be chasing, I think, long-term things that kind of boost revenue or pull revenue forward. They'll be doing customer unfriendly things to try to pull things forward. We're not in that position right now, especially in certain types of sectors. We're maintaining customer-friendly practices, we're focusing on the long term. We're investing in the long term. And that will actually provide competitive advantage as we move out of the slowdown. It's always great to be in a position to invest during a slowdown and to not have to pull short-term levers to try to achieve profitability, maintain profitability or get in the way of things. We'll probably have more dry powder for inorganic activity than some of our competitors as we head through this. So yes, strong balance sheet actually helps us invest ahead of the curve while we go through these things. So I'm pretty confident that we're ahead of the game in a lot of places."
    - Hewlett Packard Enterprise Company (HPE)
        - "We are continuing the process of digitizing the company. We plan to capitalize on the infrastructure investments we made over the past 3 years to simplify and accelerate many processes through automation and end-to-end management. . .Our digital transformation will also drive productivity, speed and quality of our execution across supply chain, customer support and go-to-market. In addition, our

new digital backbone will enable us to scale key growth businesses by delivering new customer value propositions such as personalized services and solutions that allow us to capture more value per customer.”

        - “In the current environment, I believe it's essential that we zero in on businesses where we can drive significant competitive advantage and market leadership."
        - "we will temporarily reduce our share repurchase activity in the near term.”
        - "We also saw pricing competition increased sequentially due to high-channel inventory across the industry."
        - "while supply availability has improved significantly, constraints persisted in some pockets of the business."
        - “we will continue to rigorously manage our OpEx spend while continuing to prioritize investments where we see opportunities for growth.”
        - “we expect the overall PC market to see an approximate 10- point unit decline versus FY '22. Many of the recent challenges we have seen in FY '22 will likely continue into FY '23, including softer demand in both consumer and commercial and higher channel inventory levels across the industry."
- Consumer Discretionary
    - Best Buy (BBY)
        - "The promotional environment continues to be considerably more intense than last year. Like Q2, the level of promotionality in Q3 was similar to pre-pandemic levels and in some areas was even more promotional as the industry works through excess inventory in the channel as well as response to softer customer demand. From a merchandising perspective, we saw year-over-year sales declines across most product categories."
        - "As I step back at the highest macro level across retail, each customer is making trade-offs, especially with the significant impact of inflation on the basics like food, fuel and lodging. This disproportionately impacts lower- income consumers as a much larger proportion of their spend is on those basics. Across consumers, we can also see that savings are being drawn down and credit usage is going up. And value clearly matters to everyone. During Q3, we continue to see more interest in sales events geared at exceptional value. As a result, there is no one way to describe all customers, and we have repeatedly referred to the impacts of the current macro environment on consumers as uneven and unsettled.”
        - “Within some specific categories, we can see some cohorts of customers trading down but it is not aggregating into an overall impact.”
        - “The job market remains strong, consumer spending continues, and inflation appears to be slowing a bit, but savings are starting to erode. Consumer confidence is low."
        - "The housing market is cooling and inflation remains a particular concern on the basics like food, fuel and lodging, all of which have a profound and sustained impact."
        - "As you would expect, we are planning for multiple scenarios given the very unsettled and uneven consumer response to these varied indicators. We are adjusting our cost structure as we respond to current and potential future conditions. We are also making strategic decisions and trade-offs to continue to advance our initiatives. We are doubling down on our ability to lead the future of omnichannel retail and capitalize on opportunities as the industry moves through this downturn and eventually returns to growth again. We are as confident and

excited about our future as ever."
    - "Technology demand over the past few years has resulted in a larger install base, and customers will want and need to replace and upgrade their tech devices, particularly as we near the 3-year mark since the start of the pandemic."
- Caleres (CAL)
    - "I think we're expecting an increased level of promotional activity, certainly versus last year. . .inventories in the industry are higher. We know that the consumer wallet is a bit more stretched than it was last year. I think those 2 factors are inclining us to think that this is going to be a more promotional period. We also have versus last year, we had very little inventory last year because of some of the supply chain constraints. So for those reasons, we're expecting, I think, to get to a more normalized level of pricing and promotional activity in the quarter, and that's factored into our guidance."
- DICK'S Sporting Goods, Inc. (DKS)
    - "While consumers continue to face macroeconomic uncertainties, our athletes have held up very well"
    - "during the quarter, we saw three important consumer trends. More athletes purchased from us, they purchased more frequently and they spent more each trip compared to the same period last year."
    - "our updated outlook continues to incorporate an appropriate level of caution given the uncertain macroeconomic backdrop. For the year, we now expect comparable store sales in the range of negative 3% to negative 1.5% compared to our prior expectation of negative 6% to negative 2%. In addition, we now expect non- GAAP earnings per diluted share in the range of $11.50 to $12.10 compared to our prior expectation of $10 and $12."
    - "Each of our the consumer income demographic that we have within our store did really, really well in third quarter."
    - "every single one of our income demographic levels has grown meaningfully in the past quarter."
    - "We are not seeing people trade down."
    - "I don't see any slowdown in any of our key categories. They're all healthy."
- Jack in the Box Inc. (JACK)
    - "The inflationary environment from 2022 and into 2023 remains challenging. Just like our peers, we are not able to fully overcome the last 2 years of inflation on food, paper, labor and electricity with just price alone. But make no mistake, our core business is strong, and we are executing on our strategy despite the headwinds. The investments we are making in digital technology transformation, reimages and new restaurants are critical for us to accomplish our long-term goals, compete and grow."
- Nordstrom (JWN)
    - "we saw customer demand begin to soften in late June, mostly in Nordstrom Rack. Across both banners, the softening trend was more significant in customer segments with the lowest income profiles, while we saw greater resilience in the higher income cohorts."
    - "As customer trends shifted, we took action to manage through the short-term macroeconomic uncertainty and position our business for success. This included managing expenses to align with sales expectations and clearing through excess inventory to exit the year with healthy inventory levels and mix. These actions

prepared us well for the third quarter as macroeconomic pressures impacted all customer segments with outsized impact in the lowest income groups."

    - "sales decelerated in late October and early November, particularly in geographies with unseasonably inflationary pressures in supply chain and fulfillment, we are particularly pleased that we decreased our variable supply chain cost this quarter. Our supply chain optimization workstreams drove efficiency and lowered the per unit cost of moving product through our system, while also delivering an improved customer experience and faster order fulfillment."
    - "macroeconomic pressures impacted demand across all customer segments in the third quarter, with the most significant impact in the lowest income groups. However, customers continue to refresh their wardrobes, shop for occasions and respond to fashion and newness in our assortment. With regard to recent trends, sales softened in late October and early November, but improved in the last 2 weeks. We believe that unseasonably warm temperatures in certain geographies contributed to the decelerating trends along with delayed holiday shopping. As weather normalized and we get closer to the holidays, we've seen sales trends improve and gifting activity accelerate. As for holiday shopping expectations, we believe that this year's calendar, which has an extra Saturday between Thanksgiving and Christmas, we'll lead some customers to wait until closer to Christmas to make their purchases. We continue to expect an elevated promotional environment across retail in the fourth quarter."
    - "we've seen evidence of some pullback across all customer cohorts, but most pronounced at lower customer -- lower income customer cohorts. And again, that hits us more in the Rack business."
    - "I think as everyone has noticed, in the last few months, pretty much everyone in retailing is over inventory at some level. And as a result of that, that plays right into our hands. I think, in terms of being able to be selective about pursuing great brands, the great prices and hear us talk about premium brands. And these are really the brands that you would typically find in a Nordstrom store that are not ubiquitously distributed amongst typical off-price retailers."
- Urban Outfitters, Inc. (URBN)
    - "On our August call, we noted a bifurcation in our customer shopping behavior with brands offering higher price points and serving a more affluent customer, posting better results. The Anthropologie, Free People, FP Movement and brands, all have customers who have been able and willing to spend despite the inflationary environment. In the third quarter, the customers of each of these brands drove strong demand. To date, in November, we have seen a slight softening in demand. We attribute this to the unusually strong build in demand during early November last year, when many shoppers felt supply chain problems would lead to empty shelves during the traditional holiday period and thus made purchases early. Overall, sales in November are on track to achieve our Q4 goal of delivering a total company comp in the low single digits."
    - "Not all our brands, however, serve an affluent customer. Urban Outfitters' customers are younger with less discretionary income and accumulated assets. And the current elevated inflation around necessities like rent, food and energy has had a greater impact on them. These customers are transacting less often, and when they do shop, they're looking for a deal. The UO brand in North America began the quarter with heavy inventory left over from the bullwhip effect brought on by

COVID- induced supply chain issues. The brand is working through this excess inventory and is planning to be much cleaner by the end of Q4."

        - "inventory levels in North America are higher than we would like. As a result, the brand in North America will need to be more promotional to clear through excess inventory in Q4. In contrast, Europe continues to perform remarkably well, delivering a 13% retail segment comp for the quarter. Customer traffic was exceptionally strong in stores, inventory levels are in a better position than Q2 and we believe the brand is gaining market share."
        - "So we are going to be spending more money on marketing to get new customers. And we will hopefully convert those customers in greater numbers than we did this year."

- Consumer Staples
    - Dollar Tree, Inc. (DLTR)
        - "We expect to see continued pressure across both segments related to the inflationary cost environment and merchandise mix as our consumable sales are expected to continue outpacing discretionary."
        - "Also recall last year, shoppers pulled forward purchases well ahead of the holiday season, concerned about product availability, while we were chasing trans-specific deliveries of discretionary products as our inventory levels dip well below normal operating levels. This year, shoppers purchasing behavior appears to be more closely timed to holiday dates."
        - " The economy continues to pressure middle and low household income customers, resulting in needs-based purchasing. We expect consumables to outperform discretionary, which negatively impacts gross margin."
        - "We are cycling advanced child tax credit payments which were distributed mid-month from July to December in 2021. On a year-over-year basis, we are facing higher costs from suppliers related to this inflationary environment. While at Family Dollar, we do have the flexibility to adjust price. At Dollar Tree, where we are at a fixed price points, it takes us time to adjust quantities and pack sizes for cost changes, which can lead to near-term pressure to margins."
        - "we're seeing more customers come into our segment. And once they're in our segment, these are -- the majority of the customers are at [80,000] and higher household income. But even once they're inside the store, we're seeing shifts in their behavior where they're very consumable and needs-based focused to try and make that budget work and stretch it over the month."
        - "We're seeing private brands now for 39 weeks in a row have outpaced national brands, 39 weeks in a row. We have not seen that the prior 5 to 7 years where private brands were outpacing national brands, but it's now been 39 years in a row -- or 39 weeks in a row, I'm sorry. And then we're seeing first in a month business is getting stronger. We're seeing our SNAP and food stamp business is growing, and we continue to see credit as outpacing debit. So we do see that shift in the customer coming into our segment, and then when they're in our store, they are shifting into the consumables and needs based to make their budget happen. And I think the work that our merchants are doing are absolutely aligned and helping drive meeting their needs when they're in our store."
- Industrials
    - Deere & Company (DE)
        - "Across our businesses, performance was driven by continued strong demand,

higher production rates and progress on reducing our inventory of partially completed machines. Looking ahead, ag fundamentals remain positive, continuing to drive healthy demand as evidenced by our order books full into the third quarter of fiscal year 2023. The construction and forestry markets also continued to benefit from solid demand contributing to the division's notable performance in the quarter. Similarly, order books are extended into the second half of '23, providing visibility and confidence in the new fiscal year."

        - "So on one hand, we have seen some softening in housing while nonres building projects have continued to decline a little bit. On the other hand, oil and gas CapEx has been very steady with rig counts projected to be up next year. And U.S. infrastructure is beginning to show some promise going into 2023, which is especially important for [indiscernible]."
        - "In addition to that, both dealer-owned rental channel and the independent players have significant refleeting programs, going into 2023. So all in all, we're seeing a shift in the composition of demand drivers for that business. less housing, but more than offset by rental infrastructure and oil and gas."
        - "the current environment underscores the need for precision challenges of our customers are definitely more acute than they've ever ever been and the need for our customers to do more with less is greater than it's been in the past, especially when you consider all the rising input costs, not just labor scarcity, but lack of skilled labor. So precision ag is the best solution to help them solve these very, very difficult problems. We're more confident today in our opportunity to create value for our customers through our identified $150 billion of IAM, and we're going to continue to prioritize our investments towards the technologies and solutions that unlock that value. And Josh indicated earlier on. This year, we're spending more than we ever have in the past to create those new products, new solutions, and that's going to have a big benefit in future years."
- Healthcare
    - Agilent (A)
        - "And you talked about visibility, orders continue to grow in China. And we have very good visibility in -- certainly into the first half of this year. And as we think about the secular growth drivers, those are still in place."
        - "If you think about the investments that are made in technologies around the biotechnology areas, but increasingly actually in advanced materials and some of the secular drivers around batteries and lithium-ion production and so forth. And we would expect that to continue into next year for sure."
        - “the first piece of that would be our orders being pushed out, and we're not even seeing that either. So we're not seeing any push out of orders as well as any cancellations."
        - "Yes. I would say we have seen in the second half of this year, incremental improvements as we went through Q3 and Q4 that helped us allow us to increase our revenue here in Q4. I would expect that incremental improvement to continue into next year. But it's by no means back to kind of normal. I think if it happens to improve, I do think that, that would be a good thing for us. And -- but we're not -- we're assuming kind of the same level of improvement that we've seen in the back half of this year moving into FY '23. I do think that some of the costs have come down but they're -- we're still having to purchase things in the off market to be able to ensure supply and deliver to customers."

        - "We think there's an element that will also be in pharma as well. So you're right. I was focusing specifically on the chemical segment of Europe, but that's also part of the storyboard as well. you can manage large pharma accounts who are dealing with increased costs, trying to figure out what they want to do in 2023. So that's a watch area for us as well. But I will say, some of the other secular drivers that we talked about earlier, such as investments in renewable energy. There's a big push to make hydrogen more of a source of energy. So this plays right in the sweet spot of Agilent. So -- but we are cautious about the large accounts in Europe and what they may do in '23 in those 2 end markets."
- Federal Reserve
    - FOMC Minutes November 1-2
        - "In determining the pace of future increases in the target range, the Committee will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments."
        - "In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. "

The information contained herein reflects the opinions and projections of Spree Capital Advisers, LLC as of the date of publication, which are subject to change without notice at any time subsequent to the date of issue. Spree Capital Advisers, LLC does not represent that any opinion or projection will be realized. All information provided is for informational purposes only and should not be deemed as investment advice or a recommendation to purchase or sell any specific security. Spree Capital Advisers, LLC has an economic interest in the price movement of the securities discussed in this presentation, but Spree Capital Advisers, LLC's economic interest is subject to change without notice. While the information presented herein is believed to be reliable, no representation or warranty is made concerning the accuracy of any data presented.

Spree Capital Advisers historical returns are calculated from its inception date as a registered investment advisor, January 1, 2019. Spree Capital Advisers Composite contains fully discretionary accounts and for comparison purposes is measured against the S&P 500 Index. Minimum account size for this composite is $100,000. These results are presented net of management fees and include the reinvestment of income. Net of fee performance was calculated using the current highest management fee of 100 basis points, applied monthly and further netting out this adjusted figure against our current highest incentive fee of 10%, applied monthly. The strategy invests in common stocks, and options on publicly traded securities. The composite is a portfolio of securities that Spree Capital Advisers deems to be either over or undervalued based on our fundamental assessment of the issuers current and future earnings prospects. Spree Capital Advisers, LLC is a registered investment advisor in the State of Connecticut. The firm maintains a complete list and description of composites, which is available upon request. Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Past performance is not indicative of future results. The U.S. Dollar is the currency used to express performance.

THIS SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY INTERESTS IN ANY ACCOUNT MANAGED BY SPREE CAPITAL ADVISERS, LLC. AN OFFER TO SELL OR SOLICITATION OF AN OFFER TO BUY INTERESTS MAY ONLY BE MADE PURSUANT TO DEFINITIVE SUBSCRIPTION DOCUMENTS BETWEEN SPREE CAPITAL ADVISERS, LLC AND AN INVESTOR.