SPREE CAPITAL
ADVISERS

Weekend Thoughts 8/27/22

- Information Technology
    - Alteryx (AYX)
        - “the opportunity is to really embed AI to inform every decision they make. . .It can come in by giving them more powerful tools that make AI plain speak for the analyst community.”
        - “our biggest competitor is kind of handwritten, handcrafted analytical processes written into the organization because they're dealing with lots and lots of different systems. . .enterprise technology is pretty fragmented. The average customer we talk to probably has half a dozen databases and tens of cloud apps and spreadsheets galore. . .they probably have STP sites where data is being dropped or SMTP sites where the data is being dropped. They're probably integrating into some flat file somewhere and so on. . .analytics automation becomes a really important capability. . .millions of lines of code in some customers' cases, that imagine the technical debt that they have to pay every year of maintaining the code. . . that becomes real unsustainable in this world of on-premise and cloud and cloud apps and so on. So I think our biggest competitor is this handcrafted, handwritten, curated code that is being held together by 1 – or individual or multiple individuals. And that's truly not analytics automation, and it's not democratizing analytics inside the enterprise. And so the much more enlightened users have kind of dropped onto the problem and said, look, we are stitching together half a dozen databases, a bunch of spreadsheets, a bunch of applications, we have a multitude of users. We've got a community that cares about analytics, community that cares about visualization. You have got another community that cares about governance and protecting the data. And that's when a platform like Alteryx comes in, and helps automate all of the analytics”
    - Advanced Micro Devices (AMD)
        - “AI is so -- such an evolving technology. . .the demand for computing is virtually insatiable. But really, you can have other bottlenecks in the data center, like memory storage and then the network that brings that all together. . .What you're really going to see this is going to be all about how the software enables that entire heterogeneous environment and how you get the most throughput through the entire infrastructure, not just a node, right?”
        - “we've been moving to a heterogeneous environment on a single chip, where we're both software-programmable and hardware-programmable. And we've been focusing on developing a platform, which means not only the silicon but higher levels of software development, exactly so we can empower more users that aren't necessarily deep hardware engineers, like people who are more system designers, indeed, even software developers. So that's actually pushed our software as well as our silicon to, I would say, a much more systems-oriented kind of capability, right? And now that we're part of AMD, that momentum is going to accelerate. . . we will continue to move to advanced nodes. But because we've been innovating so much in architecture, because we have other options like 2.5D integration, moving to 3D integration, yes, gone are the days where it used to be us and the former Altera

would just race the next node, and then whoever got that by some meaningful amount would be the winner. That -- those days are quite behind us. And now I think we're really innovating at a much deeper architectural level and capturing customers that ordinarily wouldn't look at FPGAs, frankly."

- Autodesk (ADSK)
  - "digital workflows are being adopted across the infrastructure life cycle, from asset owners, architects and engineers to construction, to drive improved efficiency and sustainability. . .Across construction, the industry continues to look to connect workflows from planning and design to preconstruction, construction and ultimately, operations and maintenance. And we are enabling our customers to connect those workflows on a single platform."
  - "what we're doing is we're moving away from this kind of disconnected portfolio of products to really a set of platforms to target each one of our industries with some underlying core technologies that support all of it. That will enable us to actually deploy capabilities to our customers as they need them for particular types of process, for instance, advanced manufacturing capabilities on a time-bound basis or a consumption basis. So they get access to what they need when they need it, and it's all unified from a data flow point of view. This is kind of going to be revolutionary for a lot of our customers in terms of the evolution and where we're taking them. So it's really valuable for our customers in terms of connecting how they work and the value they get from each one of our products. And it's really important to us in terms of delivering more layers of automation and power to them to the cloud. So it is a journey. It's not going to happen overnight, but Fusion is an excellent example of where we're going and how we could deploy some of these things to our customers, especially when you look at the way extensions work, consumption works on top of the Fusion platform. It's a good model for where we're taking industry platforms for each one of our industries."
- Dell Technologies (DELL)
  - "Since we last spoke in late May, our view of the demand environment through the back half of FY '23 has changed. The demand environment slowed and pushed to the right over the course of the quarter, particularly in CSG. We saw a decline in PC demand as we went through the quarter with higher ASPs, partially offsetting a unit decline. Our supply chain execution was excellent throughout the quarter, and we were able to offset the CSG demand weakness with backlog reduction in CSG. We saw ISG demand while still growing slow and pushed throughout the quarter. The Q2 and second half macro dynamics have become more challenging as customers are taking a more cautious view of their needs given the uncertainty. We have responded swiftly by managing inventories down and reducing our expenditures."
  - "Like Q1, we are still seeing shortage of parts and embedded integrated circuits, including power supplies and mix. ISG backlog, particularly servers, remains elevated. PCbacklog is now at normal levels as Q2 PC shipments significantly outpaced demand and the portfolio is on standard lead time across the board. On the cost front, we expect modest deflation in aggregate component costs in Q3, while logistics rates are beginning to decline."
  - "from a linearity perspective, typically, the month 2 of the quarter is when we typically would see bigger velocity growth in the pipeline. And we, quite frankly, did not see it this quarter. And what we saw, as we highlighted in our talk track, is just an overall cautiousness with our customer base as they're sorting through the

macro dynamics. . . as we talked about in May, we had expected that we would see softer CSG demand, but we actually saw softer demand actually much softer than what we had seen, particularly for commercial clients. And because of that, as we talked about, although we had elevated CSG backlog, we did reduce backlog as part of our shipment profile for client in Q2."

    - "since we have the largest direct selling organization of all of the technology companies, we feel like we have a pretty good pulse on sort of current demand and environment. And we're just seeing more cautiousness on the -- on behalf of the customers as they're sorting through spend, as they're thinking through projects. We are seeing projects come to fruition. They're taking longer to close. And the size of the projects are somewhat reduced from what we've seen in the past."
    - "if I start with the PC business, commercial customers are just citing multiple reasons for sort of delaying purchases. That's caution around future hiring, trade-offs within their IT budgets given the macroeconomic uncertainty, customers reducing the size of orders and buying for only immediate requirements, but the net was we saw a meaningful shift in corporate sentiment over the course of the quarter. I think ISG dynamics were a bit different. So we saw demand growth in both servers and storage but at a moderating rate as just more caution entered the environment. So where commercial PC spending paused, infrastructure spending split, companies are putting more scrutiny on spend."
- DLocal Limited (DLO)
    - "Growing our business outside Latin America remains a key strategic priority and that's why a few months ago, I decided to make South Africa my base for the near future. We believe that in the future, further diversifying our geographical footprint will strengthen our business as merchants look for a single API and a single integration to access multiple emerging markets, including fast-growing, large markets in Africa and Asia."
    - "Some markets in Africa and some geographies in APAC look very much like LatAm did when we started the dLocal. You see fragmentation. You see the clear need and the clear demand for merchants to go into these markets. The other thing that has happened is that businesses that didn't have a healthy business models are clearly struggling, sorry, and that's obviously an opportunity for us."
- Intuit (INTU)
    - "Our company is in a significantly different position than it was during the last recession more than a decade ago. Our platform and cloud-based offerings have significantly expanded to become the platform of choice for consumers and small businesses. Therefore, Intuit is even more mission-critical for our customers we serve. We have highly predictable reoccurring revenue, and much of our business is subscription-based."
    - "In Q4, we experienced increased volatility in personal loans. Many partners that securitized loans are facing a more challenging funding environment as interest rates rise."
- NetApp (NTAP)
    - "As organizations accelerate their data-driven digital and cloud transformations, our relevance grows. We are helping customers navigate disruption with a modern approach to hybrid multi-cloud infrastructure and data management. Our opportunity is defined by the complexities created by rapid data and cloud growth, multi-cloud management and the adoption of next-generation technologies such as

AI, Kubernetes and modern databases. The urgency to address these priorities increased with the COVID pandemic, and is further driven by the turbulent macro economy. Customers are searching for ways to reduce costs, improve flexibility, increase automation and accelerate application delivery in the Public Cloud, in their own data centers and in Hybrid Cloud environments."

    - "We also completed the acquisition of Instaclustr, a leading provider of fully managed open-source database, pipeline and workflow applications. We can now combine the Spot capabilities of continuous infrastructure optimization, automation, monitoring and security with expertise in deploying and operating fully managed opensource applications to help our customers focus on their business goals, building and releasing leading-edge applications at speed."
- NVIDIA Corporation (NVDA)
    - "As discussed in May, we expected a sequential decline in Gaming revenue due to softness in Europe related to the war in Ukraine and COVID lockdowns in China. The decline in Gaming GPU revenue was sharper than anticipated driven by both lower units and lower ASPs. Macroeconomic headwinds across the world drove a sudden slowdown in consumer demand."
    - "As macroeconomic headwinds intensified, enterprise demand slowed and OEMs worked to reduce inventory. We expect these trends to persist in Q3. . .We believe hybrid work is here to stay, and with it, the need for collaborative 3D design enabled by professional graphic workstations, both at home and in the office as well as in the cloud. . . We believe Q2 was an inflection point for our Automotive revenue as NVIDIA Orin has great momentum. . . Looking forward, we expect our $11 billion Automotive design win pipeline to translate to continued growth."
    - "We've reduced sell-in to let channel inventory correct, and we've implemented programs with our partners to price position the products in the channel in preparation for our next generation."
    - "If you look at one particular segment in just managing -- collecting data and managing the data of the AV fleet and using that data to train AI models, using that data to reconstruct HD maps, the usage of GPUs in the cloud for just that one application has grown a lot. And furthermore, there's -- the deep learning-based recommender systems has demonstrated such significant effectiveness, and it helps Internet service providers to enhance engagement, enhance click-through rate. And so that -- so this particular form of recommender systems is going to really drive a fair amount of data processing and machine learning in the cloud. And then, of course, over the last several years, a very important model has emerged, called Transformers. . . this Transformer model, this large language -- this language model, which when scaled up in size, exhibits really spectacular and effective capabilities for -- to be used to learn skills with either few shots or almost no shot, meaning it could learn skills, it could perform skills that it has never learned because the knowledge was somehow encoded from the large amount of data that it had learned from. And so this large language model area of innovation is used and of course, conversational, chat, Q&A, summarization, text generation, image generation. But very importantly, it's being used in life sciences for understanding chemistry. We've done some very important work in this area ourselves, called MegaMolBART, understanding proteins, understanding DNA, to learn the language of these large -- very, very large spatially as well as temporally or sequentially types of data."

    - "building these high performance computing data centers at very large scale for the world's clouds is not particularly easy. And so the supply chain challenges have been somewhat disruptive. But the demand is there."
    - "we're going to take this opportunity for some of the prior architecture pieces, to write down those, given what we see as just a change in terms of our expectations going forward."
    - "Hopper goes into an environment with CSPs where they connect our PCI Express connectors to old-generation, current-generation CPUs as well. And so nobody likes the delay. The next-generation CPUs will trigger a refresh of infrastructure and new servers."
    - "Hopper is a giant new generation because it is designed to perform this new type of AI model called Transformers. It has an engine inside it called Transformer engine, with numerical formats and pipelines that allows us to do a spectacular job on Transformer-type of models. . .And so I fully expect Hopper to be the next springboard for future growth. And the importance of this new model, Transformers, can't possibly be understated and can't be overstated. This is the impact of this model across robotics, computer vision, languages, biology, chemistry, drug design, is just really quite spectacular."
    - "if the success of Hopper is – reflects the amount of work and pent-up demand for large training systems that Hopper is going to go into, that's an indicator, I think, Hopper is going to be a spectacular success."
    - "In Data Center, AI, where computers are helping us write software that was impossible before, is driving a computing revolution and transforming every industry. NVIDIA's leadership in full-stack data center scale accelerated computing has made us the ideal partner for companies racing to leverage the power of AI. Even with the current macroeconomic headwinds, demand for our Data Center products have never been stronger."
    - "The next wave of computing is coming. With AI and 3D graphics advances, developers will extend the Internet with virtual world overlays that connect to the physical world. This next evolution of the Internet is called metaverse. We created Omniverse to connect the digital and physical world and be an open platform for creating and operating metaverse applications. The immediate applications for Omniverse span product design, manufacturing and operations. Omniverse is off to a great start."
    - "Our Automotive revenue is inflecting, and we expect it to be our next billion-dollar business. Autonomous driving is one of the biggest challenges AI can solve, and computing opportunity for us spans the data center to the car. Autonomous driving will transform the auto industry into a tech industry. Automotive is one of the first to transform into a software-defined tech industry. But all industries will be. We're building NVIDIA AI and NVIDIA Omniverse to be the engines for the world's enterprise to become software defined, AI-powered technology companies."
- Palo Alto Networks (PANW)
    - "First, we saw more longer duration deals as customers increasingly have the confidence to make large long-term commitments with us. . . Second, we saw some isolated instances of customers extending the life of hardware potentially driven by macroforces. . . Third, in transformational projects, the vast majority of our customers continue on their investments here despite the expected short-term macro impacts. Security spending is tied into our customers' desires to move to the

cloud, drive more direct relationship with their customers, modernize their IT infrastructure as well as drive efficiencies while adapting to a new way of working. Those efforts continue."

    - "across cybersecurity, one of the biggest challenges has always been the overwhelming number of point products that customers must deploy, integrate and operationalize to achieve the security they need. In most cases, this has never fully achieved, leading to expensive yet suboptimal security outcomes. We are bringing into approach, one that delivers market-leading capabilities tightly integrated in 3 platforms"
    - "When we envision the future of cybersecurity, I don't see a path to success that is not heavily driven by AI and automation. Attackers are too well funded and determined while customer networks, clouds, applications and users are too complex to manually defend. The only way to deliver meaningful security outcomes is by collecting rich useful data normalizing all data sources to a single source of truth and then applying AI models to detect attacks and automate responses in real time."
    - "the large complex deals take longer to get done"
    - "So it becomes a network play as much as a security play. So teams take a little longer to get it done. So I think that's kind of part of the process, less so the macroeconomic concerns, if you will, it's really doing the technology transformation agreeing to do it as an organization. That's what takes a little longer."
- Salesforce (CRM)
    - "A few weeks back, it's now Google Analytics is no longer going to track IP addresses and now Google is now saying their mobile ID is going away. They're all doing rough estimation for geolocation. . .So with that change that's happening next year, what you're really going to see is this kind of tonic shift where everything is very addressable. I can message and find Loretta on Facebook or on Insta or on somewhere through Google, and I'm able to message her about those pairs of shoes. So what we're really seeing now is it's going to really pivot to audience base, right? A cookieless kind of approach where even retargeting and remarketing are going to be done to an aggregate audience. You're going to see a massive shift from a lot of those traditional media properties to really moving those into these new kind of retail media networks, right? The idea of like a Target or a Walmart or Best Buy, where you are able to kind of get more targeted, more broader information about those users because you know that if they're on Best Buy, we have a closed ecosystem there, so we can actually start to use that. And then ultimately, what brands are really starting to now focus on is 100% on how I can start to drive a clear first party and zero party data strategy, right? First-party data is, of course, private information about myself that I kind of give you as part of the transaction. But zero party data is stuff that I am knowingly sharing with your brands. like my preference data or things that I enjoy, stuff that I'm interested in"
    - "Over the last few months, I've met with hundreds of CEOs, with economists, business leaders, political leaders and other experts about their business and where they see this global economy heading. And I don't think it's going to surprise anyone, everyone has got a slightly different answer. . . . But what we do know and what I think everyone will agree on is that digital transformation remains the #1 priority for CEOs and that every digital transformation begins and ends with the customer. That's what continues to drive our business forward"

    - “we've all been through a number of these economic cycles. And we've especially seen that over our last 23 years. And once like this come around, we see customers becoming more measured in the way they buy. Sales cycles can get stretched. Deals are inspected by higher levels of management, and all of this, we began to start to see in July. Nearly everyone I've talked to is taking a more measured approach to their business. We expect these trends to continue in the near term, and we reflected this in our guidance.”
    - “our Board of Directors has authorized up to $10 billion in our first-ever share repurchase.”
    - “we started to see more measured buying behavior from our customers, which began in the last month of the quarter. This resulted in stretched sales cycles, additional deal approval layers and deal compression. In addition, we saw slowing in our create and close, Slack self-serve and SMB businesses, which tend to be leading macro indicators. Geographically, this behavior was most pronounced in North America and major European markets, while Japan was relatively more resilient. From an industry perspective, retail, consumer goods and communications and media were the most impacted, while high tech, energy and financial services stayed more consistent during the quarter. And from a product perspective, commerce and marketing saw more pronounced decelerations, while sales and service remains strong.”
    - “there was a distinct shift in customer buying behavior that we saw near the end of the quarter.”
- Snowflake (SNOW)
    - “The core idea behind the Snowflake Data Cloud is to enable work to come to the data and prevent data from having to be moved to the work. Previously, data was copied, transferred and replicated to be used wherever it was processed. That led to massive operational complexity, cost and governance risks. The Snowflake Data Cloud promises to bring that regrettable legacy to an end.“
    - “We hear how supply chain management is failing at many levels because of dislocations such as the pandemic and spiking inflation. This is, in large part, a data problem. The data originates in different places, which is why it has such a challenging time coming together. And the world is stable and changing marginally day to day. This has been somewhat tolerable. Now with massive disruption, the status quo must change. Our next frontier of innovation is aimed at reinventing cloud application development. Our ambition is far reaching. Our aim is to transform how cloud applications are built, deployed, sold and transacted.”
    - “We are monitoring our key business metrics, which we believe are leading indicators of the macro economy impacting our business. We are not seeing these metrics soften across the customer base.”
    - “There is a very, very high urgency around advancing towards cloud computing environments and then having an opportunity to really pursue the promise that it brings. We're looking at very, very exciting times where things are becoming possible that we couldn't even dream of just a few short years ago. So this is why we feel that this is not one of those expenses that people are going to casually cut back on because it's strategically compelling and important.”
    - “just in the last week, I've heard some -- 2 very, very iconic names in 2 different industries that were staunch on-premise people who would never ever go cloud and that are now going. So I just feel that the resistance is completely breaking and

people are going cloud. I'm sure they have their own reasons. But a lot of this is what you said as well, is that they are -- they're going to get left behind. You can't take advantage of innovations that are only available on the cloud. So if anything, I tend to agree with you that we're going to see acceleration out of this as opposed to people holding back."

  - "that the Data Cloud is an incredibly important positioning element for us but also for our customers because if you don't adopt that posture, you will end up resiloing your environment in the cloud, and you will basically load up on the same set of problems that we historically have had. And it's a much bigger problem now because data science and the promise of data science, the ability to generate predictive insights and prescriptive solutions really depends on your ability to join and blend and overlay data regardless of data types, data source or where it's coming from. You can't predict. So it's really, really important that you don't throw up new barriers between data sources because you will not only frustrate your data science teams."
  - "And these days, I will tell you that 9 out of 10 conversations I had with customers are not about that, okay? They are about very specific industry challenges and industry opportunities. For example, we have pharma customers that are seeing opportunities to reduce their clinical trials. It takes on average 12 years to bring a drug to market. You've got 5 years left to monetize it. They can take a whole year off for that. You redefine the economics of an entire industry. Health care is trying to go to an entirely predictive model. Let's say treating people for disease, they're trying to predict who is going to get sick and what preventative protocols they can put in place to help people then steer clear of that. So these are very different conversations than what we're doing. In advertising, for example, with clean room technologies, we're doing totally different things now, and we're enabling these industries to navigate all the issues around privacy and compliance and so on."
  - "we see broadening of the personas within a company that we speak to. It's not just the traditional data analyst team, but data engineering team are engaged with us. Data science teams are engaged with us. Streamlit has a really strong relationship with many of the data science teams, and we see that part of it. We announced at our user conference in June, cybersecurity is a workload that is doing very well for us. And probably the largest announcement was around Snowflake for data applications and application platform. That's where the opportunity for the operational database capabilities fit into, and we see tremendous interest on both customers and partners. . . Snowflake has become de facto a cloud application development and run time platform. People are building and deploying applications on Snowflake. I mean we have customers like Western Union who were starting whole businesses on top of Snowflake."
  - "We think people -- because of the nervousness that they may have about the macro, they're going to accelerate to a cloud computing platform. And the reason is these are elastic models. These are consumption models, right? So it's much better to be in the elastic model where you only pay for what you use and you can run on demand than when you have to make large upfront commitments to vendors. So if anything, I think people are going to get a move on instead of hold off."
- Zuora (ZUO)
  - "It's our first acquisition since the investment from Silver Lake back in March. Our

internal innovation machine is cranking, as you know. But we continue to see a strong appetite in our customer base that exceeds even what we can develop. And so we've been building our inorganic innovation machine. In this quarter, we're excited to announce our acquisition of Zephr and is expected to close in early September. Zephr is actually an existing partner. It's a team we've gotten to know well over the years. We've always been impressed with our shared vision, their people and the technology and the feedback from joint customers who are using our pre-integrated solutions. And what Zephr's offers is a leading subscription experience platform, and they work with some amazing brands across industries. Particularly, they've had a lot of traction in the media and digital publishing industries, which has been one of our core focus areas as well. And their customers include companies like News Corp, McClatchy and [Bower]. So what is happening in the media industry that has created this opportunity for Zephr? Why is the focus on the subscriber experience so important? Well, if you look at the success that this industry is having, specifically companies like Disney, who just overtook Netflix in subscriber growth, or The New York Times who exceeded 10million subscribers this year and is ahead of the subscription growth plans, what you see is the winners in the media industry are the ones who have been able to consistently experiment with new services, new bundles, new offerings, and they're figuring out new ways to connect these services to the right subscribers at the right time. This is what it means to deliver an optimal subscriber experience. And this is exactly what Zephr helps companies do. They offer capabilities like identity management, intelligent trials, dynamic payrolls and entitlements and access management. But most importantly, all of these capabilities is backed by a decision engine that helps deliver experiences personalized for every subscriber. So for example, Zephr will know that this is an anonymous user and to throw a promotion for its free trial, or that, that user is an existing subscriber but is prime for an upsell offer. And all this is already working at scale. This technology is already handling nearly 8 billion requests a month for some of the biggest publishers in the world. Now imagine this decision engine, powered by data from Zuora's Billing, Collect and Revenue products, tens of billions of transactions each quarter. Now you've got an incredible platform that can help companies understand their subscribers, formulate the right digital offerings and optimize the digital experience, which we believe will drive up for them, conversion, retention and growth. And finally, here's a rough, where the media industry goes, other industries will follow. From software to financial services to retail and more. Companies in the subscription economy are ultimately going to have the same need to nurture the subscriber experiences and monetize these relationships over time. In the near term, for Zuora, this means we will have additional path to both land new customers and expand within our existing customers in the media and publishing space. But we also see the potential of this platform to go beyond this vertical with additional new products and platform enhancements that we expect to be able to monetize in the coming quarters.”

- Consumer Discretionary
  - Brinker International (EAT)
    - “So we haven't seen really any trade down. What we have seen is the traffic with that low-income guest tail off a bit.”
  - Caleres (CAL)
    - “beginning in July, we began to see demand and traffic and conversion impacted by

a more cautious consumer."

- Coty (COTY)
  - "the Beauty category is not showing any sign of slowdown, specifically when it comes to Prestige, but also the premiumized part of Consumer Beauty. Clearly, consumers are more than ever have to say, premiumizing, which is again, I guess, for all of us a kind of surprise in the middle all this inflationary pressure, but they are premiumizing more and more. And during Q4, what we have seen is the movement, if I take the Fragrance category, moving from eau de toilette to eau de parfum which are more expensive because more concentrated versions of sensing. This movement is confirmed and it's only accelerating, I have to say. So we don't see consumers trading down. We see them trading up in Prestige behind categories such as fragrances, but also behind categories such as Prestige makeup. And on the consumer beauty side, the part that's the best preserved. And if you listen to what some of our partner retailers have been sharing their -- recently during their earnings, it's clearly the premiumized part of the Consumer Beauty that's doing fantastically well."
- DICK's Sporting Goods (DKS)
  - "we felt, given the momentum that we had in Q2, the strong Q2 and the fact that within Q2, sequential -- our comp sequentially accelerated as we moved into July and the back-to-school season and our inventory started to be in stock more than it had been before, we feel like we're going into the back half with a lot of momentum."
- Genuine Parts Company (GPC)
  - "When you look inside the physical aspect of the distribution network, you look inside of a warehouse, there's an opportunity for automation. . .technology is a key play for us. We're using technology in our back office as we look at supply chain and inventory optimization, we're using technology to be smarter on the pricing side. And so these analytics and some of the hallmarks of great tech companies are coming through, particularly with the new CIO as well at GPC and the ability to drive the use of technology going forward. That's going to be a big part of our business"
  - "Global automotive fundamentals are strong. The average age per car is at 12.2 years, which is a record. That's the fifth consecutive year of increase. Scrap rates are at an all-time low, and miles driven had been hanging in there until I think the most recent June data would say they were down."
  - "We think the long term there continues to be driven by -- cars are getting more and more complex and the propensity to want to open the hood of an EV or a more complicated vehicle as we're all driving today lowers, we think. So the complexity of the car part and how it's going to evolve, we think, continues to drive folks to want it to go to the doit- for-me side of the house. And look, when you open the hood of a Tesla and you start to look at it and you've seen some of that, then you see the resistance to maybe how you want to do that on your own"
  - "So we track about 14 different primary industries. Most of these are heavy industries that you'd be familiar with, oil and gas, iron and steel, lumber, automotive, food and bev, so on and so forth. And right now, we're not seeing any of the industries indicating any slowdown. We've been pacing along all of this year, a double-digit growth in each of these industries. Right now, we don't see anything."
- Macy's (M)
  - "we are taking a measured view on bad debt for the remainder of the year based

on potential early signs of rising credit delinquencies and slower payment rates in the second quarter. . . we're just taking a measured view on bad debts for the remainder of the year. We're monitoring credit delinquencies, we're monitoring payment rates. And so as we look ahead, there are just a number of factors that, from our perspective, we just continue to take that measured view. So when we look at the industry more broadly, we see that inflation is outpacing wage growth. That's just not sustainable for the consumer. We see that consumers are under pressure with regards to elevated gas prices as well as double-digit increase in grocery prices. So as we look at some of these different indicators, we're just very thoughtful and very measured about what we believe bad debt will actually be."

- Nordstrom (JWN)
    - "while reporting our first quarter results, at the time, we did not see macroeconomic pressures adversely impact customer spending, which we attributed to the higher income profile of our customer base. This continued through most of the second quarter until late June, when demand began to soften, mostly in Nordstrom Rack. Compared to the first 2 months of the quarter, July sales decelerated 9 percentage points in the Rack banner. 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 segments. For example, in the Nordstrom banner, items with lower AURs underperformed higher AURs. Within our designer business, higher-priced luxury products significantly outperformed lower-priced product. Customers sought newness and responded very positively to the fall assortment overall, but were less responsive to our private label product and clearance items. Taking all this into account, we are updating our 2022 financial outlook to reflect the deceleration at the end of the quarter as well as anticipated margin pressure from clearing through excess inventory"
    - "Our rightsizing efforts are focused in the following areas: First, customers have been less responsive to clearance product. In the second quarter, we had to take deeper markdowns than anticipated to move clearance inventory, and we expect that dynamic to continue in the second half of the year."
- Peloton Interactive (PTON)
    - "with respect to the digital app strategy, I had previously told investors that I wanted us to pursue a freemium strategy, we are going to implement that. There'll be various price points, and you'll have access to different kinds of content depending on how much you pay for the digital app. Roughly half of our paying customers today use our Connected Fitness-related content on the app. So it's quite clear they're using the app on somebody else's hardware, which is something we've always shied away from. And going forward, it's something we're going to lean into. I would be delighted for you to use our content on somebody else's hardware if you already purchased it. That's a big installed base. And I think it's a big opportunity for monetization for us and we're going to lean into that segment of the market as well in order to grow TAM."
    - "I think the primary growth opportunity for us is in exploiting our singularly unique competitive advantage, which is our content, right? It is -- it's the crown jewel, and it continued to perform spectacularly well. Now for you to be able to enjoy it, you have to be able to discover it. And the way we improve engagement and lower churn and increase lifetime value and drive more organic growth from word of mouth is by making you more delighted with that content. And the way we do that is by

helping you engage with it by understanding – by personalizing it, by giving it a front end that understands what your likes and dislikes are and then serving you content that is consistent with your preferences. This is what -- this is why Netflix beat Blockbuster. And this is among the reasons that Spotify has run the table with the world's largest streaming music service. And the more content you have, the more important it becomes that you'd be good, even great, at building that personalized user interface. So it is currently a focus for us, and we will be relentless about it. And I would say we're still really in very early stages. I mean, there's a little bit of stuff we serve you. And if you use a Bike by web, example, there's a little bit of stuff on your screen when you log in that reflects -- maybe reflects some of the instructors you've taken classes from, but there's a ton of stuff that we continue to serve to you that you have never engaged with that reflects what we think you should be interested in, but what really matters is what you think you should be interested in. And so we need to close that gap."

    - "where do I think will be the principal leverage points for the business. I'm going to put rower on the shelf for a moment in answering that question. Probably certified preowned, that just flew out the door, followed by -- in my nirvana, it would be followed by growth in the digital app because I think that is singularly important to us from a strategic perspective. And if we're successful with that initiative, we will unlock access to the installed base of competitive hardware and use occasions that don't currently exist for our content followed by Fitness-as-a-Service And if Fitness-as-a-Service really takes off, then there's a whole capital strategy that we will need to figure out for that business. But I'm confident that we'll have access to the capital, if the margins are as attractive as we think and if it's really growing as fast as we think it might. And then I said, I'd put rower on the shelf. We will have to see how that product does when it arrives. It's going to be expensive, but I think we're going to revolutionize the market, and we'll see how those two cross currents land. But we anticipate that it will be a significantly better user experience than anything currently available in the marketplace."
- Petco Health and Wellness Company (WOOF)
    - "our Veterinary services, a strategic long-term growth driver and competitive mote for Petco. This has been a quarter with exceptional progress. We closed the Thrive acquisition in May, and integration is going ahead of our plans. We've now added over 600 veterinarians to our network in the last 6 months alone. We opened 11 new vet hospitals in the quarter and remain on track for a target of 50 new hospitals for the full year. We also made significant enhancements to our online booking systems allowing customers to seamlessly view deployment availability across multiple locations and driving a 30% increase in online hospital bookings. Every day becomes more obvious that our vet model positions Petco to women customers. Not only does our full-service hospital mix of preventative diagnostic and treatment give pets the best possible care, but our ecosystem of mobile in-store clinics provides the cost and convenience to fit every pet parents needs. And we are rapidly becoming a disruptive innovator in the vet space, evidenced by our collaboration with [Butterfly IQ+] that technology bringing their cutting-edge handheld ultrasound system to all of our hospitals by the end of the third quarter. This not only allows us to provide pet parents peace of mind with on-site diagnostics, it also removes the need for referrals out of our hospitals and enables us to capture that high-margin revenue. It's also a talent magnet, being 1 of the most sought-after

technologies veterinary professionals asked for before choosing which hospital to join.

    - “We continue to see great engagement in the Pet Care Centers. There is trip consolidation, largely driven by gas prices. But all in all, between the basket and the ticket size, we continue to drive positive revenue growth and increase efficiency because we're getting more sales with lower trips, so that's an efficiency driver for us.”
    - “Consumables remain strong. So we have not seen a trade down impact. We've not seen any sort of elasticity impact from pricing actions we've taken to consumables. So we feel really good about where we're positioned from a pricing standpoint. In terms of promotional activity, we've not seen a dramatic change there. The market remains strong. Consumables remains strong, and the market overall, including our competitors, remains very balanced.”
    - “So what we're seeing in terms of the second half outlook is transitory. Those discretionary categories are pressured. What we've seen in prior economic cycles if those categories are temporarily impacted, they do respond well as the economy improves, and we would have no different expectations this time around.”
    - “Trips are up, revenues up double digits and our vet business continues to have a positive impact on Pet Care Center store sales. So similar to my commentary on premiumization, people aren't cutting back on grooming or vet visits. And that's providing us with strength and buttressing our trips. There's a demand part of that equation and there's a supply part of that equation. And one of the things that makes us really excited is we added 600 that professionals to our network in the first half of the year. 800 veterinary professionals via Thrive when you include the tax. So our capacity has seen a significant increase which will only continue the momentum that we're seeing.”
- Urban Outfitters (URBN)
    - “Total inventory remained elevated at the end of Q2. This increase is due in part to higher inventory costs resulting from increased inbound freight costs, planned earlier receipts to protect sales against a volatile supply chain and excess slower selling product in certain categories. We will have to deploy incremental markdowns throughout the third quarter to sell through this excess inventory. The Urban Outfitters brand in North America has the largest overage. . . inventory levels in North America are higher than we would like. We are focused on correcting those inventory levels, which will lead to higher markdowns for the third quarter compared to the prior year.”
    - “our view of the customer right now is that there's a bifurcation within the customer groups. And the bifurcation is basically along either wealth or income, however you want to define that. But the folks are in the top third of that group. We really haven't seen much difference in their behavior. They're continuing to buy. They're continuing to buy fashion. I would say that fashion is still extremely important to them and extremely important to driving their purchases and price seems to be secondary. On the other hand, the bottom third and -- we don't have a lot of those folks, but we have some, particularly in the Urban brand not because they're going to be in the bottom third forever, but it just happens that they're very young. And as a result, they have just started out in life and they're earning much less. These folks have really been impacted by inflation. And so in many cases, because rent is up so much, and they're struggling to pay that. They're struggling to buy fuel for

their car on their incomes. They really don't have a choice. There -- the amount of the discretionary income that they have left over after those necessities is down considerably. So they have to make some very hard choices. And in that case, while fashion is still important, I would say you're right, it's less important than it has been in the past."

- Williams-Sonoma (WSM)
    - "We are very aggressive about managing our inventories and markdowns are part of any retail business, and we will take markdowns particularly in seasonal products and slow-moving SKUs, but we have not expanded the amount of promotions that we're running."
    - "I think the bigger thing about the macro is that although there's been some slowing of the housing market, most of our customers have seen significant house appreciation, okay? And our customers love their homes, and it's one of the largest assets. And they are engaged with improving that asset. And this -- I think we all know, we're all spending more time in our homes, working, entertaining and investing in them, of course. And we also know that home furnishing always lag the home sale and the home remodel. Therefore, the current period metrics on home sales and interest rates don't necessarily align with the home improvement journey. And as a result, we continue to believe there's significant runway ahead for home furnishing sales. And while I'm talking too much, I might as well just add, although there's a lot of smart people out there predicting a recession, we're also seeing consumer sentiment improve as inflation cools. So there's a lot of reasons, I think -- believe we're gaining share and that we're in the right business. We've looked at a lot of different data sources, and it is really in a couple of data sources is very clear that we're gaining share, significant share."
- Housing
    - Toll Brothers (TOL)
        - "The change in the demand environment also impacted Q3 deliveries. The combination of fewer spec sales, outside lender delays a modest uptick in cancellations and customers taking more time to sell their existing homes all resulted in fewer deliveries."
        - "As our third quarter progressed, we saw a significant decline in demand as many prospective buyers step to the sidelines in the face of steep increases in mortgage rates, significantly higher home prices, a volatile stock market and rising inflation. Buyer confidence was also impacted by the nonstop headlines about a softening housing market and by a general sense of uncertainty regarding the future direction of the economy. All of these factors led to a market change in psychology and buyers remain cautious through the summer months. . . In more recent weeks, we have seen signs of increased demand as sentiment appears to be improving and buyers are returning to the market. With higher quality traffic, we have also started to modestly increase incentives, which buyers are responding to."
        - "Despite the near-term uncertainty, we believe that many fundamental raw fundamental drivers that have supported the housing market in recent years remained firmly in place. These include favorable demographics, with more and more millennials reaching their prime home buying years and baby boomers relocating as they embrace new lifestyles, the undersupply of new homes over the past decade which has led to a large deficit and tight

supply of homes for sale, migration trends driven by workplace flexibility and the greater appreciation for home that Americans have embraced in the past few years."

- "We believe these long-term secular trends will continue to support demand for homeownership well into the future. In the current environment, we believe it is important -- excuse me, more important than ever to remain disciplined and capital efficient in our operations and our land acquisition strategy. We are even more focused on controlling SG&A costs and becoming more efficient as we manage headcount and reduce SG&A expenditures. We have also become more conservative in our underwriting of new land deals, and we'll continue to renegotiate or terminate option land if a project no longer meets our stricter underwriting standards."

- Consumer Staples
  - Dollar General (DG)
    - "Our Q2 results included an increase in average basket size, largely driven by inflation, as we would expect during amore challenging economic environment. Average units per basket were down, while, as I mentioned earlier,customer traffic increased slightly."
    - "As the quarter progressed, we saw additional signs of our core customers shopping more intentionally and closer to need, as well as an increase in trade down activity. For example, during Q2, customers appeared to be making trade-offs of some of their food choices, contributing to an increase in private brand penetration within our consumables business. We also saw growth in the number of higher-income households shopping with us, which we believe reflects more consumers choosing Dollar General as they seek value."
    - "And we are starting to see signs of more customer trade down, that's contemplated in the guidance. I wouldn't say we have a significant impact from that built into the guidance. But based on what we're seeing, that is contemplated in there. We're seeing a bigger impact, as big as ever impact from our real estate with the strong performance of remodels and new units, which are exceeding our pro forma, and the initiatives are delivering. So we feel really good about where we're at, the momentum of the business, the fundamentals, and I think the guidance reflects that, as well as a little bit in there contemplated around that trade down."
    - "I would tell you that as expected, the customer is reacting just like we thought she would. And that is she's shopping closer to need. She's being very intentional in her shopping patterns, as well as her shopping while she's inside the 4 walls of the Dollar General store. It is a little bit more skewed to need based, which we thought would also occur. . . And then lastly, just like we thought, again, trips being up, so she's coming more often, but spending less on each trip. And again, that's a reversal to what we saw there in the pandemic. So she's really coming back to where we suspected she would. But the great thing about Dollar General is our price is fabulous. . . I've never felt better about our positioning as we are here to help that customer through probably the toughest time she's seen in quite a while."
    - "We have left our chief competitor completely in the dust that will take years, years to catch up. And I would also tell you that we feel very, very strongly that peak margins haven't yet been obtained and that we have a lot of room to grow."
    - "we believe we'll be able to capitalize on that trade down that we're already seeing.

And that trade down is coming from income levels that are upwards of $100,000 which we really are encouraged in seeing a younger consumer, a little bit more affluent, and again, very digitally and tech savvy."

- Dollar Tree (DLTR)
    - "our new leadership team is taking shape, and the team is moving to accelerate actions to improve the business. The most notable action is our decision to move forward with price investments that began in July and will carry into the second half intended to close our historical GAAP and pricing to key competitors."
    - "There are signs of trade down to our stores, and we are focused on the value proposition for both banners in this environment. Like many retailers, we are seeing a shift in consumable preferences as many shoppers are gravitating to needs-based consumables, which is impacting our margin through product mix."
    - "And in this inflationary environment, with the customer's wallet stretched, our consumers are relying on our stores to meet their budget goals. And we're seeing good demand trends. So this was really an ideal environment to begin to move more quickly than we previously anticipated to more fully meet the customers' value expectation, close the pricing gaps and win them as customers long term in this inflationary budget. We think the time was right."
    - "our customer is pressured like none other. And the good news is, is we're excited. We see third-party data that we do have a lot of new customers coming into both banners over last year. And the majority of them are at a household income of $80,000 or higher. So we feel good about that. We also see a huge shift from cash into credit, which tells us the customer is pressured. And then inside the store, when they get in there, we've seen in the industry where private brands have outpaced national brands for 24 weeks in a row now, 24 weeks in a row. That hasn't happened in the last 5 years, that private brands has outpaced national brands. And that's the customer trying to stretch their dollar and manage their budget."
- J.M. Smucker Company (SJM)
    - "Consumer behavior continues to evolve as inflation is impacting purchasing patterns. However, at-home food purchases have remained strong. This is particularly true for the key categories we operate in, including Pet, Coffee and frozen handheld. Our overall business is experiencing lower pricing elasticities compared to other center-of store categories."

- Communication Services
    - Zoom Video Communications (ZOOM)
        - "Our enterprise business continued to post strong growth, which we believe is because cloud migration and digital transformation continues to be a priority even when and perhaps especially when the economy slows"
        - "As the majority of our revenue has shifted back to the enterprise, and we have moved beyond the pandemic buying patterns, we are returning to more normalized enterprise sales cycles with linearity weighted towards the back end of the quarter."
        - "Zoom remains focused on building out our platform, leading in the hybrid work world, enhancing the customer experience and expanding into more and more business workflows."
        - "that any of these large transactions that are going through approval aren't getting that extra set of eyes from a finance perspective. . .other than having a couple of sets of eyes and may be coming after us for a little bigger discount here or there, which delayed it a week or 2."

- “we don't publish much around our ecosystem, but we've got a potential to grow our ecosystem, add partners and get that force multiplier effect out of our ecosystem”

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