SPREE CAPITAL
ADVISERS

Weekend Thoughts 12/3/22

Net: Treasury yields continued their decline from October's high of 4.25% to a recent 3.5%. The drumbeat of companies scrutinizing operating expenses and stack ranking growth investments is getting louder. This is ultimately good for margins and earnings, but certain utility-like companies that have benefitted from others not being judicious in their spending are showing more cyclicality than their secular arguments have room for. Macro uncertainty that has led to lengthening sales cycles and increased approval layers in enterprise software has likely been partially mitigated by the change in Federal Reserve guidance on pace of rate hikes and terminal rate levels, but evidence of this has yet to show up. Softening inflationary trends in goods prices, producer costs, and housing costs continue. Declining prices amidst a strong labor market continue to act as a tailwind on an already strong consumer. With goods inflation and housing services inflation normalizing, a non-recession softening in the labor market holds the key to a soft landing.

- Information Technology
  - CrowdStrike Holdings (CRWD)
    - "There are many positive trends we see in our business, including strong competitive win rates, consistent ASPs, exceptional retention rates and the mission-critical nature of cybersecurity. However, I would first like to address the increased macroeconomic headwinds we saw in the quarter, which caused Q3 net new ARR to come in below our expectations. As we discussed on our last earnings call, organizations were starting to respond to macroeconomic conditions by adding extra layers of required approvals and extending the time it took to close some deals. As Q3 progressed and fears of a recession grew, this dynamic became more pronounced."
    - "In our smaller, more transactional non-enterprise accounts, we saw customers increasingly delay purchasing decisions with average days to close lengthening by approximately 11% and net new ARR contribution decreasing $15 million from Q2. This also impacted our net new logo additions in the quarter, even though our quarter-over- quarter POV win rates increased meaningfully over more complex vendors that require more headcount to manage. While sales cycles lengthen, we believe the vast majority of these deals are not lost, just delayed."
    - "In the enterprise, sales cycles or average days to close remain consistent with last quarter's modestly higher level. In Q3, these larger customers continue to prioritize their CrowdStrike investments, but some also had to manage timing issues related to OpEx budgets and cash flow amidst the rapidly evolving macro. To achieve this, some customers signed contracts that have multiphase subscription start dates, which pushes their expense and CrowdStrike's ARR recognition into future quarters."
    - "As smaller competitors fall by the wayside, as private companies look for exits, we think it's a very attractive opportunity for us with our balance sheet, almost $2.5 billion in cash. And at the end of the day, as these macro trends evolve, we see a great opportunity for us now into the future to continue to consolidate customers as well as other technologies that might fit within our platform. So that's the way we look at it, balanced investment and, again, a focus on making sure that we're delivering cash flow for our shareholders."

    - "When we think about budgets, again, all the feedback that we've seen is that budgets are not in the enterprise getting cut. There's so many mandates around security. And just as customers move to the cloud, what they are looking to do, though, is optimize that spend and consolidate. So they may not be spending as much money with a whole bunch of vendors, and they're looking to consolidate"
    - "we haven't seen any customers come back and say, hey, our budgets are cut next year. We just haven't seen it. And as I mentioned, they're looking to consolidate. They're obviously looking to deploy those resources wisely and do it with fewer vendors and get better outcomes. So again, that's an area where I think we have tremendous strength. But nothing in my conversations -- and as you might imagine, I talked to a lot of customers all over the globe and prospects. Nothing has come back that said they're spending less on security next year. They're deploying to the cloud. They're adding capabilities."
- Hewlett Packard Enterprise Company (HPE)
    - "Our portfolio is steadily becoming richer in software and services. We continue to shift our mix to higher growth markets and more IP reach offerings."
    - "Demand from the consumer sector is slowing, allowing some substrate capacity to shift to enterprise IT technologies. As a result, we have been able to reduce anticipated lead times for some products. We are continuing to take proactive measures to mitigate supply chain challenges and we are working through our large order book, which has experienced no material cancellations. Over the course of 2023, we expect to see great and easy but not an end to supply shortages."
- Intuit (INTU)
    - "At Investor Day and on our fourth quarter call earnings call, we shared that all Credit Karma verticals had been negatively impacted by the macro uncertainty. In the last few weeks of the quarter and into November, we saw further deterioration in all verticals. Consumer default rates remain relatively low by historical standards, reflecting strong consumer cash balances coming out of the pandemic. However, we continue to see partners pull back from extending credit, reflecting the uncertainty in the economic environment and the risk of deterioration in credit performance."
    - "we took the current sort of trends that we were seeing in sort of end of October into November into account. But we also very intentionally included further conservatism, deterioration just to be prudent. And so when we look at things around delinquency rates and unemployment, which is really what financial institutions look at to make future decisions, although they are at historical lows, the assumption is that they're going to deteriorate. And so we just assumed that they will significantly deteriorate, and we wanted to include that in our go-forward guidance."
    - "We actually feel very good about what we're seeing across the board in small business."
    - "Because of our KPIs and the rich data that we have access to and what we see within Small Business, we actually feel like our guidance in Small Business is derisked because we make certain assumptions around how things will potentially play out the remainder of the year that we took into account when we set the initial guidance, and we still feel very good about the guidance."
    - "we're continuing to see growth in credit cards, but we're actually assuming that, that will really deteriorate the rest of the year based on unemployment going up

        - and delinquency rates going up."
        - "there are segments within small businesses that have gotten hit hard, those that focus on auto sales, those that focus on financial services, those that focus on real estate. Some of their revenues are down 10% to 15%"
- Micron (MU)
    - "It is a really tough environment. We still see customers doing inventory adjustments. That continues. And then in a number of markets, we see weakend-market demand. So we're working through that, but it's been very difficult. And again, that's why we chose to take the supply action. "
    - "pricing has trended well below what we thought it would be when we had our earnings call. So the pricing environment has been difficult. And that's despite what we think have been very good and disciplined actions on our part around pricing. We have been walking away from deals where we think the market -- or the price doesn't reflect market. So it's been difficult."
    - "it's become clear to us that customers are entering calendar '23 with high levels of inventory still. And so that's going to suppress their demand in calendar '23, and that we're incorporating that into our views. And again, that informed the supply decision that we announced on the 16th."
    - "In addition to our view on market, our customer discussions, industry analysis, there is, as you know, a poor macro backdrop. . .you see that manifest most strongly in the consumer market still, and we are dealing with that. So based on that calendar '23 view, as we mentioned, we've taken aggressive supply actions, one of which is the 20% reduction relative to fourth quarter levels on wafer starts. That's in addition to the 5 -- that's -- we had announced 5%. So this is bringing that up to 20%, an incremental 15% reduction."
    - "And in addition to the wafer starts reduction, we're also continuing to look at CapEx and seeing where we can reduce CapEx further. We had announced in our earnings call that we would -- that we were targeting approximately 8%, so we're targeting below 8% at this point. The net result of those supply actions, which we think are important to try and bring supply-demand imbalance. The net result of that is that in calendar '23, we believe that our DRAM supply or production will contract in calendar '23. And as we'll talk about here today, we've got ample inventories to meet the demand gap."
    - "we're in a cycle downturn, a cyclical downturn, we're managing it aggressively working to get supply/demand in balance. And -- but as we look out longer term, and we think through cycle, we're really excited about the market. The world is going to need more memory and storage. There's very strong secular growth drivers that we all know, data center, automotive, 5G, and so there's -- artificial intelligence, that's going to drive products and technology, the space will grow. And then Micron is in a great position. We've got a strong balance sheet to weather this downturn. We're leaders in technology. We've got the best set of products in this space, and we're manufacturing just outstanding manufacturing excellence at this time."
    - "we can't do it alone. It's got to be an industry level. There's a gross oversupply in the space. So -- and our share is such that we do our part."
    - "We said we're going to have negative free cash flow of $1.5 billion or more in this first quarter. We also said that the second quarter would be a challenge. And then as I just mentioned, the actual conditions have gotten worse."
- NetApp Inc (NTAP)

    - "we delivered a good quarter in a dynamic environment. However, we are disappointed with the deceleration of growth in our cloud services. Our conviction in the cloud opportunity and our ability to execute against it is unwavering. Two, we are aligned with the durable megatrends of data-driven digital and cloud transformations."
    - “we believe strongly in the opportunity ahead, but have slightly tempered our revenue outlook for the remainder of the fiscal year due to near- term macro headwinds.”
    - "In response to the slowing top line, we are being agile and taking action to lower operating expenses. Already, we have implemented a broad-based hiring freeze and are reducing discretionary spending as well as further optimizing our real estate footprint. We will remain disciplined as we continue to shift resources away from lower-yield activities to our biggest opportunities. In closing, we are clearly aligned with our customers' strategic priorities and remain confident in our long-term opportunity despite the current external headwinds."
    - "Typically, during macro situations like these, we have seen customers sweat their assets, right? And so -- what we mean by that is they will drive a system to a higher level of utilization and so that they can defer either capacity augmentation or system upgrades for a period of time. Now that's not forever, right? Storage is consumed because data keeps growing. And so there's always that trade-off. We certainly see some of that behavior going on.”
- NXP Semiconductor (NXPI)
    - "the whole macro uncertainty is not leaving us alone. I mean, we clearly see, I would actually say, a significant weakness in the consumer exports business, which is our IoT business, inside 40% of the industrial IoT segment. And also the low, mid and mobile, which is largely the Android business."
    - "in core microcontroller product categories as well as analog mixed signal categories, we are sold out into automotive and core industrial. From an order visibility perspective into next year, we have these famous NCNR orders. That also continues to be the case, obviously, for next year."
    - “the demand drivers in automotive and industrial are structurally different ones to the consumer businesses. The consumer businesses have really benefited from the surge in demand through this working from home, which came with the pandemic. While that demand in automotive and in core industrial had nothing to do with the pandemic. I mean that is a structural secular demand, which has to do with electrification and all the good content increase trends”
- Okta Inc (OKTA)
    - "Adding to the challenge is a global macro environment that we anticipate becoming worse before it improves. . .We view these issues as short term in nature. We continue to focus on the long term while making the necessary adjustments to the business in the near term, including our commitment to meaningfully higher profitability and cash flow."
    - "With regards to the macro environment, while we didn't experience a meaningful change in sales cycles, we are seeing signs that the environment has further weakened since we spoke last quarter. For example, in Q3, new pipeline is more weighted towards upsells, and we're experiencing some softening demand in the SMB market in North America.”
    - "I think this is a good time to be very, very cautious in my opinion. . .like every other

company in the world, we are looking at our investments, particularly the investments around growth and really stack ranking them and saying, what are the most likely to have high ROI? And what should we double down on that we think is going to be the most productive. And some of the things that maybe in years past, we would have embarked upon that the likelihood of a higher ROI isn't as high, we're not going to do those things. So you're also seeing a focusing and prioritizing of the initiatives of the company and that means on margins less investment and also less opportunity for growth. "

    - “When we think about macro, and we think about the situation worsening and our outlook of it getting worse before it gets better, it's pretty balanced across both of those business lines, both customer and workforce in terms of the impact. We did see more impact in the SMB segment across both of those business lines. And there's kind of puts and takes we're seeing across both in terms of -- we've seen cases where the economic environment is leading to people really scrutinizing budgets and not moving forward with projects. But we've also seen cases where companies really want to consolidate and invest more aggressively because of the more focus on expense control and consolidating on 1 vendor."
- Pure Storage, Inc. (PSTG)
    - "We believe strongly that the days of the hard disk in the data center are over. Customers that do not take advantage of Pure's QLC products to replace disk systems are choosing the more expensive and energy-intensive option."
    - “This past quarter, significant numbers of enterprise companies specifically chose Pure for our exceptionally low power space and cooling performance. This has been especially evident in Europe, where not only energy prices, but energy security is of major concern."
    - "Looking ahead to world economic conditions, we continue to see instances of longer sales cycles in the enterprise segment and expect that enterprises will continue to exercise caution in spending over the next year. We believe that this focus on spending uniquely favors Pure Storage in the quarters ahead. The combination of Pure's Evergreen offerings, best-in-class power space and cooling and operating simplicity results in significantly lower operating costs for enterprise customers. Given challenging economic and energy situations around the world, more enterprises are focused on total cost of ownership, an area where Pure excels."
    - “Considering the current economic uncertainty, we plan to thoughtfully invest in our expansion while continuing to deliver strong operating results."
    - "So the core strategy, first of all, is to drive an all-flash data environment in the data center. . .And now that environment also benefited from the lower power and lower space requirements. And I think that's part of what will allow flash to compete against disk in this environment or increasingly in this environment as flash prices start to -- NAND costs start to come down. We're seeing the same in large enterprises, although I would say that, that's in an earlier phase right now."
    - "while we've been speaking about the lower power requirements and cooling requirements for many years, this is the first year and starting in Europe but also Asia, where we're seeing companies say it's specifically because of the power savings that they're buying Pure products, or getting them initially to start with Pure products. So we think it's going to become an even bigger issue as we go forward. So we are starting to see that now in large enterprise."

- "The way we're looking at it is a roughly flat U.S. economy next year and perhaps a slightly recessionary international economy, obviously, varying a lot country by country. And as we go into that, we're seeing IT spending holding steady, maybe it's slightly up relative to the overall GDP growth. But in addition to that, what we are looking at is storage remaining relatively healthy relative to the rest of the IT economy. So we actually believe that storage might be up moderately next year."
- "we believe we'll continue to take market share. And we believe that we -- similar to this quarter versus our competitors believe that we'll be able to stay in the double-digit growth area. Perhaps a bit more moderate than our overall growth this year, but we believe still solidly well into the double digits."

- Salesforce (CRM)
  - "the current economic situation is nowhere near as severe as what happened beginning in '08, but there are some patterns that we've seen repeat themselves. And in early '08, we saw customers who are reluctant to expand distribution capacity, they weren't adding service people, they froze their hiring, they initiated headcount reductions. We saw those occur in that year. We saw that in '11 as well. I think that maybe when things start to get a little tough or when the stock market shifts, that's when CEOs say, hold on, should we be expanding distribution capacity right now? What do we stop -- let's stop our advertising, let's stop our marketing spend, things that they can immediately take actions on. Well, you couple that with foreign exchange headwinds have become an issue and everyone who's shifting their focus to finding efficiencies, reducing their costs, increasing productivity, and again, we're feeling all of this once again. And that led us to the shift of the company. It took us a lot to how we operate and where we are investing our dollars."
  - " we're not assuming that this economy gets any better anytime soon. We're just reporting what we see with our customers, the kind of changes they make when they start to fill these headwinds. We're following our playbook to make sure it works, well positioned to gain market share, to increase our profitability, to focus on our operating margin, to focus on the growth of our revenue and be able to continue to invest, especially when the economy recovers."
  - "last quarter, we noted measured customer buying behavior really beginning in July. This led to elongated sales cycles, additional deal approval layers and deal compression, particularly in enterprise. As Q3 progressed, we saw an even more challenging buying environment, driving intense customer scrutiny on every investment dollar to ensure the highest return possible. During Q3, this behavior was most pronounced in our U.S. and major European markets, while Japan remains more resilient. From an industry perspective, the most impacted was retail, consumer goods and communications and media, while the more resilient for travel and hospitality, manufacturing, automotive and energy. And from a product perspective, we continue to see customer spending pressure in commerce and marketing."
  - "marketing spend would be 1 that we see impacted fairly early on marketing automation. CEOs make quick action, and that's a quick place to sort of pull back on marketing. We did see less expansion on sales and service in the quarter on incremental users as our customers started to maybe do a little less hiring. Maybe they paused hiring we saw less expansion on the Sales Cloud users and Service Cloud users. And certainly, commerce has been one where we had a great run up over the past couple of years during the pandemic, and we've seen a bit of a slowdown on

commerce. And so those would be a couple of examples of some of the products that are seeing a bit of headwinds in these times."

- Snowflake Inc. (SNOW)
    - "While we acknowledge the weakening global macro context, we remain resilient in terms of our results. We believe this resilience reflects the importance of data strategy in modern enterprises and institutions. Data is becoming deeply ingrained in how global enterprises think, act, decide and strategize."
    - "With the holidays approaching and uncertainty with how customers will operate, we believe taking a more conservative approach is responsible as we resource plan for Q4 and fiscal 2024."
    - "we continue to see strength, in particular, in financial services, the advertising and media space. Where we do see weakness is we do see weakness in APJ. And a lot of that has to do with the fact the FX is really impacting them. And then you do see weakness -- I didn't see it in the bookings, but in consumption, in the more of the SMB customers, we do see that. We call them our corporate accounts, but these are the 500 or less employees."
    - "And I definitely did see some consumption weakness. But I want to stress, I didn't see it in the bookings that they have that added RPO, but definitely out of consumption."
    - "we definitely did see a slowdown in the month of October, not that dramatic, but we typically would see week-over-week growth, and we saw a number of weeks where it was pretty flat. I will say November is starting to tick back up again, and that's all factored into the guidance given the macro backdrop we have right now."
    - "We have done a lot of traveling during the quarter inside and outside the country. And I think one of the sentiments that I've run into is that we're sort of past sort of the bleeding edge early adopter class customers that we have acquired over the last, whatever, 5, 6, 7 years. And we're now into the people that didn't sign up early on. And their overriding sentiment is a sense of FOMO, or fear of missing out. And they're looking at us like we can't be left behind, help us catch up. And a lot of times, the challenges around that are based on their ability to harness the technology in terms of the skills and the expertise. So in other words, our mix of tools is going to evolve to really help customers address that gap because anything, they want to accelerate, they want to lean in, they want to move faster. They're literally overriding. Sentiment is we're afraid to be left behind. This is how important this is. And they are clearly identifying what they think is holding them up in terms of getting there."
- Splunk Inc (SPLK)
    - " as noted last quarter, we continue to see caution from customers on the timing of their cloud migrations and expansions setting ongoing macro concerns. . .we continue to see a slower pace of cloud migrations and expansions as customers remain cautious with their budgets and reprioritize their investments. . .While as the cost and resource intensive undertaking, most of our customers continue to acknowledge long-term value and transitioning to the cloud. In the meantime, given the flexibility of our hybrid deployment model, many are continuing to support their complex architectures on-prem."
    - "We began taking actions to reduce our total labor cost by utilizing contingent labor for only the most business-critical projects. Over time, we think there is substantial cost savings here. For T&E, we continue to limit spend on customer-facing travel

and support only, and our customers and our employees have adjusted to an ongoing culture of expense reduction and efficiency."

- "We remain cautious on the pace of cloud migrations and expansions given the challenging macro environment."
- "We saw no issue getting customers to renew it was really much more around cloud where the macro conditions play a role."
- "we see customers wanting to find ways to consolidate suppliers, they want to find ways to simplify their environment because it ultimately will be more cost efficient to run."

- Workday, Inc (WDAY)
  - "the environment remains uncertain, which has led to increased scrutiny and the lengthening of certain sales cycles, particularly with the net new opportunities, persist into next year”
  - “a theme that I certainly heard at our customer conference is our large customers wanting to consolidate rationalize number of suppliers and expand their footprint with us.”
  - "we're seeing project formation. At the same time, we're seeing some projects. . .have extra steps to complete."
  - “I spent a lot of time with other CEOs and this is not 2008, 2009. No one sees the world coming to an end like they did at that time. I think right now, we're in a world of caution, where no one's quite sure what's going to happen, but things don't feel really bad. And so -- but caution and stopping can sometimes look the same. And so it's kind of hard to predict right now. Every CEO I talked to is still relatively feeling positive about their business, but worried about the economic underpinnings of what the Fed is doing and the potential recession. And so I think the word that I keep coming back to is everybody is cautious.”
- Zscaler (ZS)
  - "I think the macro environment, as you mentioned, is that all companies are basically feeling the macro impact. The enterprise segment change that we made also impacted basically results in the quarter. On the lower end, we're doing okay, but it did impact all segments. I think it's more driven by macro than anything else."
  - "Related to the conservatism related to our billing guide, it's really related to what we saw happen in Q1. So what we saw happening in Q1, we're taking forward into Q2 and for the rest of the year. What we're seeing basically is elongation of sales cycles. . .Customers are buying more of our platform."
  - "It's more of a platform sale, all good. Our pipeline is increasing. Our pipeline is increasing 5 regions. Each region pipeline is increasing. But whereas before for the larger deals, we talked about, it was 9 to 12-month sales cycle. It was trending down into more than 9 months, now it's trending up more into the 12-month type range. So all those things basically were taking into consideration with our guidance."
  - "But when the broader macro is there's obviously some impact but I would say, relatively speaking, it is far less than other areas. As I had talked to many CIOs and CXOs, they don't see securely budget getting reduced much. As compared to IT budgets, we are in a much better shape, but there is impact. And sorry, and one part of the impact is these large deals are going more and more through CFOs and CEOs for approval."
  - “Cyber is not going away. The risk of cyber is still there. It is a Board-level discussion. It's happening. Number two, there is pressure on cost consolidation and

simplification. Yes, while customers won't start big new projects, but projects that can be done without big investments, and they are being done. If you look at the total IT budget of a CIO and the security is a fairly small part of it. By engaging at the CIO level, we are actually able to get a fair share of the budget.”

        - "Market is tougher. But when CIOs look at what needs to be done, they look for consolidation, simplification that's driving our deals to get bigger. Bigger deals mean more scrutiny. Now and -- but we are helping our customers to ramp into larger commitments to deploy our platform. So it is a phased thing we are doing. So we are -- we have been doing that for a few quarters, and it does continue."
- Communication Services
    - Match Group, Inc. (MTCH)
        - "And I would say, I think it's still pretty tough out there for the consumer. I think they've held on for a pretty long time and they've kind of blown through savings, taking up debt on their credit cards. They're starting to feel it. And I think they're looking for ways to cut back on some expenses. And so a way that younger consumer who tends to have less discretionary income, maybe they're in college or just out of college, first job, whatever. As they look at these a la carte purchases and they say, okay, normally, I would have given this no thought and would have made that a la carte purchase. They're just pulling back to some extent on the a la carte purchases."
        - "Hinge does already have organic traction in markets where it really doesn't have any presence. . .when Tinder first burst on the scene where it was viral in all these markets, we're seeing shots of that with Hinge, which is extremely encouraging for its international strategy."
        - "Point two is what we have to do is spend the cycles to localize the product, which really mostly means translate it, but also adapt it to sort of the local behaviors, the local customs, the local holidays, whatever. We're doing that and going country by country of doing that. Once we do that, we see an increase in the virality because now it's in German and now it reflects German society and so people start using it more."
        - "Introducing live streaming at Azar has gone well. I think you've also seen some normalization of markets kind of post COVID. They had a big Middle East, Japan, Korea, some places that were hit hard by COVID kind of late in the pandemic or at a later stage, I guess, at least. So I think you've seen some normalization of kind of the environment for them. You've seen some of our efforts work on the marketing side, which has been important as well on the product side. So I'm very happy with the way that's going. We had another very good month in October. So we feel great about the progress that they've made."
        - "we feel good that we're starting to see the terms we want to see at Hyperconnect, and there will be a focus on cost discipline for them in 2023 as well because we want to see that business get to a reasonable level of profitability. So kind of a breakeven business in 2022. . .I want to see that business show real profitability in '23."
        - “we remain very optimistic about social discovery more broadly. It is a trend kind of post pandemic. People want to meet people, whether it's for dating, whether it's make friends, whether it's to go hiking with, whatever the purpose is live streaming has worked really well."
- Consumer Discretionary
    - Citi Trends (CTRN)

        - "What we saw in the third quarter is that our customer is shopping much closer to much closer to need, employing a final wear now strategy for important events and end-use needs in their lives."
        - "our average income is about $40,000. We are seeing folks more than we normally see above that number, kind of up to that $50 - $55,000 range. And so we're seeing some nice new customer capture there. And they're responding to the portion of our mix that is the higher retail"
        - "on the sort of other end of the spectrum, whilst we certainly see the pressure on the $25,000 and below households. . .what we're hearing is they're doing their best to adjust to mainly a rent landscape that's quite different than in the past."
    - Five Below, Inc (FIVE)
        - "we're really off to a very solid start to the quarter. It's in line with our forecast. And we see no reason for that to stop. But we also have to recognize that it's a pretty dynamic environment and the customer hasn't dealt with inflation like this before. But look, all the stuff we put in place seems to be resonating, and we expect that to work throughout December."
    - Hibbett, Inc (HIBB)
        - "So we haven't seen customers trade down nor waiting. The behavior is for some customers, not all customers, #1, are impacted by inflation. Other customers that are, they're going to cut back in things like eating out as well as buying for themselves. So that is a behavior trend. But again, our customers overall plan to spend more during the holidays. And then on the not waiting, customers are actually spending a little bit earlier in certain cases. And that's being driven by concerns around availability as well as some of the promotions."
    - Petco Health and Wellness Company, Inc. (WOOF)
        - "Our advertising network is a growing powerhouse for Petco, delivering double-digit growth quarter-over-quarter and triple-digit growth year-over-year. Household brands continue to be drawn to our digital channels as a platform for awareness, traffic and revenue generation with our high-value and health-conscious customer base, both online and in-store. We expect continued strong growth for the balance of the year and into 2023."
        - "we did see some trip consolidation on transactions."
    - Ulta Beauty (ULTA)
        - "From a segment perspective, we saw double-digit sales growth across both prestige and mass, with mass generally outperforming prestige."
        - "promotion levels, we think, will likely behigher next year than they have been the last couple of years."
        - "Wage pressure will continue. Fuel will probably moderate, right? We've seen that here more recently. Supply chain investments will ramp up next year. And of course, UB Media will accelerate, will step up there."
- Consumer Staples
    - Hormel Foods Corporation (HRL)
        - "Higher warehousing expenses were driven by a recovery in our inventory levels and industry-wide labor challenges. In 2023, we expect some of this pressure to be offset by savings from the work the team has been doing to control freight expenses and expand our logistics network. Prices on key protein inputs generally declined during the quarter, except for pork trim. Higher-priced inventory was a headwind in the quarter as we worked through inventory produced during the summer

commodity peaks."

- "we expect packaging, energy and labor costs to remain elevated or increase in 2023 and for upstream challenges to persist."
- "we've got some categories where the elasticities are performing at more historical levels. I think probably our legacy grocery products, which show a big part of that being our new convenience meals pillar. But then we've got some others where we're seeing elasticity but not quite to the rate that we would have historically. The thing that is positive for us is we're not seeing anything above historical levels for elasticity. And so that, I'd say, is a really, really good thing."

- The Kroger Company (KR)
  - "We still expect to see some moderation in inflation during our fourth quarter as we cycle higher inflation from a year ago."
  - "inflation is slowing down in many categories. Chicken would be an example. You're starting to see that in some of the other categories as well. And I always make the comment high inflation solves high inflation because farmers produce more when their margins improve."
  - "If you look at on CPG companies themselves, right now, it's kind of mixed. Some CPG companies are willing -- much willing to have higher prices and give up growth. And what we find is when CPGs do that, our brand is so strong, we really gained share. And that helps the customers budget and it also improves the stickiness and the loyalty of that customer as well. So it's -- what do they always say, all short statements and economics are wrong."

- Financials
  - Visa (V)
    - "the simplest way to describe the trends through the [21st] is there was no change. It's been remarkable for the past nine months or 10 months. The index to 2019, which is the way we've tended to look at things because it's a clean look and takes out all the noise, spending in the U.S. and even globally has been remarkably stable in aggregate terms."
- Healthcare
  - Veeva Systems (VEEV)
    - "from a macro perspective, we've seen kind of similar to what we said 90 days ago, not better, not worse. And that's basically a little bit of additional scrutiny that we saw 90 days ago, but nothing significantly different than that."
    - "No significant change on the budget side. Our customers have gone through that timing process, and we haven't really seen any pricing pressures. When you think about the industry, particularly in the large enterprise, they're not - - it's not as susceptible to some of these macroeconomic changes, and we haven't seen any change there."
    - "We haven't seen the interest rate rise this far or this high since the early '80s and the same with inflation going up this high and raise this fact into early '80s and a war in Europe like this, I haven't seen in my lifetime. So these are unusual times. . .the nature of the industry, the industry when it's not recession-proof, but very recession resistant. This is not like our airlines or hotels or luxury items, things like that, restaurants. People need their medicine in good times and bad."
    - "Medicine is a critical part of health care without medicines, health care costs go up, et cetera. So the spending doesn't change too much. The segment where it is affected a little bit is in smaller private companies that if the funding environment

goes down, they can't get as much funding. They have to be more conservative with their expansions. And then I would say the last thing is the type of products we do. They are mission-critical systems of record. Good times are bad. You need your clinical trial management system. Just like you need your financial system and you need your ERP system. What you may not need is the speculative piece of technology or add on, on the top of that."

- Federal Reserve
  - Powell
    - “While 12-month core goods inflation remains elevated at 4.6 percent, it has fallen nearly 3 percentage points from earlier in the year. It is far too early to declare goods inflation vanquished, but if current trends continue, goods prices should begin to exert downward pressure on overall inflation in coming months. Housing services inflation measures the rise in the price of all rents and the rise in the rental-equivalent cost of owner-occupied housing. Unlike goods inflation, housing services inflation has continued to rise and now stands at 7.1 percent over the past 12 months. Housing inflation tends to lag other prices around inflation turning points, however, because of the slow rate at which the stock of rental leases turns over.2 The market rate on new leases is a timelier indicator of where overall housing inflation will go over the next year or so. Measures of 12-month inflation in new leases rose to nearly 20 percent during the pandemic but have been falling sharply since about midyear. As figure 3 shows, however, overall housing services inflation has continued to rise as existing leases turn over and jump in price to catch up with the higher level of rents for new leases. This is likely to continue well into next year. But as long as new lease inflation keeps falling, we would expect housing services inflation to begin falling sometime next year. Indeed, a decline in this inflation underlies most forecasts of declining inflation. Finally, we come to core services other than housing. This spending category covers a wide range of services from health care and education to haircuts and hospitality. This is the largest of our three categories, constituting more than half of the core PCE index. Thus, this may be the most important category for understanding the future evolution of core inflation. Because wages make up the largest cost in delivering these services, the labor market holds the key to understanding inflation in this category.”
    - “I do continue to believe that there is a path to a soft or a softish landing. . .Unemployment goes up but its not a hard landing, its not a severe recession. . .the path is pretty clear. Labor market conditions soften. We see goods inflation get better. Housing services inflation gets better. The labor market softens but doesn’t go into recession. I think it is still achievable. If you look at history, it is not a likely outcome, but I would just say that this is not a normal set of circumstances”
    - “the labor shortage doesn’t seem to be going away anytime soon, and that is certain to lead to a lot of investment in technology, labor replacement technology. I think you will see quite a bit of that.”

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.