SPREE CAPITAL
ADVISERS

Weekend Thoughts 9/10/22

- Information Technology
    - Akamai Technologies (AKAM)
        - ". . .on the delivery side of the business. . .around the second week of March, we started to see a change in behavior on the Internet. We've just come off 2 years of double-digit growth where we saw a massive growth in traffic on the Internet, mostly driven by COVID. . . we saw traffic growth rates decline pretty dramatically from where they were. They're still growing but at a much lower rate than we expected. So those are the 2 factors."
    - Asana Inc (ASAN)
        - "First, our conversations in enterprises are moving up the authority chain. Digital transformation is mainstream, and work management is an essential component of that. . .Second, we are closing deals with some of the largest and most recognized brands in the world. . .Third, the more our customers use Asana, the more they realize value, and this increases product adoption."
        - "Dustin purchased approximately 19 million shares of Class A common stock at $18.16 per share. . ."I'm investing further in Asana because I strongly believe the market opportunity is enormous and that the Work Graph is the best possible solution for helping enterprises achieve their most important goals, which always involve cross-functional workflows and necessitate clarity at every level.”
        - "we're conscious that the macro environment is clearly impacting software purchasing overall. But what we're seeing in work management is it's still early and seeing some of the height growth given the problems that we solve are persistent. . .So specifically conversations around goals with CEO, COOs, CIOs, who are trying to figure out how they can rapidly adjust plans and cascade those throughout the organization. And so with Asana, they're able to do that in a really agile fashion. And so the conversations we're having are much more about how they can respond in this environment quickly. . .as we move upmarket and are working on larger deals, we're going to see that those cycle times are a bit longer than where we've come from. And we're also monitoring that because customers are scrutinizing spend."
    - Coupa Software (COUP)
        - "The question that continues to be debated broadly in the market is whether we are headed for a recession or a soft landing. Our most recent Business Spend Index provides some interesting insights into this topic with respect to macroeconomic data, unemployment and inflation. Just as an example, we have seen significant increases in airfare prices. Yet despite the uptick in prices, demand has not fallen, but rather has increased as businesses progress towards returning to pre-pandemic levels of travel. The net effect of the underlying data shows some signs of projected growth in certain areas and signs of potential contraction in others."
        - "Nothing that I see significant on sort of pushes and pulls of deals from quarter-to-quarter."
        - "Conversations are good. They just -- more approvers, more time being spent, more evaluation, more uncertainty in the European context, which is definitely not a prioritization change. It's not a removal of initiatives around Coupa from the list of

priorities. It's simply a longer time in the pipe."

- Fortive Corporation (FTV)
  - "demand continues to be very strong. I think orders continue to be very strong. . . Software business, which again is close to $1 billion of the company right now. We continue to see double-digit growth in the ARR as a very solid expectation for this year. A lot of our businesses are seeing 20% plus growth in our bookings. I think the reason for that is a lot of the solutions we provide actually align well with what customers need to do when macros are tough and choppy."
  - "But some of the more durable and enduring end markets, we're seeing customers spend more in productivity because that's important now, when you're looking at a macro climate, that's quite choppy. And we're seeing that across industrial and manufacturing, where remote monitoring and sensor type tools are becoming more important to get the most set of your assets and your people."
- GitLab Inc (GTLB)
  - "Every company needs to be great at developing, securing and operating software or they will be disrupted. This core capability, what's called DevOps, is a must-have in any macroeconomic environment. Enterprises are navigating economic uncertainty while still needing to embrace the imperatives of digital transformation, cloud migration and app modernization."
  - "Today, machine learning is an essential part of modern application development. Every significant application isgoing to have both code and models. Those models go through a life cycle themselves, which includes training, testing and deploying."
  - "Despite the volatility in the macroeconomic environment in the second quarter, we have not seen any impact to our business. Customers increasingly recognize the need to address multiyear digital transformation challenges. The current environment is not slowing down customer decisions, nor elongating our sales cycles. Buying cycles have actually sped up across the business and we continue to see strong win rates."
  - "We continue to see rapid growth while improving the underlying unit economics in the business. We monitor the key leading indicator metrics of our business and we are not seeing any softening in these indicators."
  - "So the data we get from our SaaS services on like how new features are performing helps us improve the product for everyone. So increased SaaS users means we know better how our customers are using the platform, what features they enjoy, what we should improve, and that improves the product for both SaaSand self-managed customers."
  - "When we went back and looked at the sales cycles, the sales cycles are actually compressing this quarter so we didn't see any elongation."
  - "We're definitely seeing that companies are cutting back on hiring developers, that they are sometimes instituting a hiring freeze. And the situation they're faced with is that they have to do more with the people they already have. And GitLab enables them to do that. When they move to GitLab, they save on the integration effort."
  - "We believe that we're very early in a big market opportunity. Us and our biggest competitor together, we're less than 5% of a $40 billion market. Gartner said that DevOps platform adoption is 20% now, growing to 60% over a couple of years. And if anything, the need to consolidate, the need to have fewer tools, less integration efforts is only accelerating."
  - "We are certainly seeing that with customers that say, "Look, we need to

consolidate and we want to move to fewer tools, and that's why we're considering GitLab." So this is a tailwind. In this macroeconomic environment, you have to be able to save people money, do more with fewer people. So that's been a great thing. We are seeing that across all verticals. All verticals are cutting back and want to consolidate. We do see that the more projects companies have and the more tools they have, the more compliance they need, the more attractive it is to consolidate because kind of their complexity grows almost exponentially."

    - "we have strong macro tailwinds around digital transformation and the growing security threat landscape. The pipeline across the entire company is the strongest it's ever been. Win rates have been pretty consistent with last quarter, and we are not seeing deals being pushed."
    - "So there's a lot of ways to grow within the companies we're already at, like we're nowhere near kind of having all their users, and we have a lot of room to grow in uptiering from free to paid but also from Premium to Ultimate. So we're not seeing those consumption headwinds. And in fact, as we talked about before, companies now need to save money, and GitLab is a way to save money and make your existing people more effective to do more despite having a hiring stop."
    - "we're so early in such a big market. And people are wanting to get rid of point solutions and move on a platform to develop software better, faster, more secure, and that's what our platform does. And so as we get greater penetration, you'll see the results that we're publishing."
    - "If we look at AI/ML, there's 2 things happening. We're using it to make GitLab better. And a great example of that is code reviewers. GitLab now suggests, "Hey, this person might be the best person to review your code." So that's making GitLab the DevSecOps a little bit better for everyone. The other thing is helping data scientists do their work. Today, they have a completely different tool stack. And that tool stack kind of would really benefit from kind of the practices that are already prevalent in DevOps.So it's not that we're going to be great tomorrow, but we're sowing the seeds and together with the wider community, we see a great convergence happening where the AI/ML engineers have to collaborate with the DevSecOps people and vice versa because every significant application in the future will need both."
- GoDaddy Inc (GDDY)
    - "So we have 21 million paying customers. We have 85 million domains under management. Our goal is to make each of those domains Payable Domains."
    - "we completed our $1 billion that we targeted for the first year. And we'll continue to evaluate what makes sense, like we're authorized up to $3 billion."
- Guidewire Software (GWRE)
    - "but do want to call out that overall sales activity fell short of our expectations. Although we drove healthy deal volume in the quarter, we closed transactions with smaller upfront commitments, which we expect to grow as customers expand. We also closed fewer large cloud migrations than we expected heading into the fiscal year. All our existing on-prem customers are evaluating their plans with respect to cloud but we have not yet created an acceleration of these migrations."
    - "We are fortunate to serve a big, resilient industry that is steadily going through a significant digital transformation. With a singular focus on this industry for the last 20 years, we occupy a market-leading position marked not just by the usage and resilience of our core solution, but also by the cloud leadership we have now

established. I believe we are poised to establish a once-in-a-generation cloud-based technology platform that will serve as a source of innovation for customers while delivering durable and profitable growth for our stakeholders."
    - "we saw less large cloud migration activity accompanied with large contractual commitments for future year fees at contract signing. Additionally, much of the large Tier 1 migration activity is still out there to be sold."
    - "First, we experienced less large ramp deal activity in Q4 fiscal '22 when compared with fiscal '21. Ramp deals are where customers commit to escalating annual subscription fees in the contract. . .A number of the deals executed in Q4 have significant growth potential, but this growth was not committed in the ramp schedule and the contracts. Second, out, we are seeing this sort of, I don't know, buying behavior or propensity to request these sort of structures where they get started smaller. And I think in a lot of ways, this lines up to buying patterns in other cloud segments in enterprise software, which might be a healthy thing. As long as we execute on the programs, those deals will grow. That ARR or that future ARR is there. It just has to be delivered over time as the programs evolve, as the lines of business expand."
    - "getting this first win in Japan, I think -- and Brazil allows us to sort of clearly establish the idea that this is going to be an international cloud platform success story. So we're very, very happy with those events. In terms of whether or not it points to a change in the pace of the business, I think things play out slowly, and we'll see how things go. . .And I think as we've said many, many, many times, this is -- the success of our sales have a lot to do with establishing success stories and other customers following buying patterns and implementation patterns that we can successfully establish."
    - "We are certainly seeing people take maybe a line of business or take a module rather than going for -- especially in a migration context, the full suite. So we are seeing a bit of that. The deal that Mike just referenced OnStar, which is a super interesting one, they have big plans. In prior years, we may have seen some of those plans negotiated upfront and kind of embedded into the contract. But this one, we're going to see how that one plays out, and we feel very confident that they will be successful and are excited to be attached to that success. I've often said that you can generally capture more area under the curve. If you are willing to invest in a success-based pricing model, and I think that, that will play out for us over time."
- Universal Display Corporation (OLED)
    - "And then it was really kind of in the middle of May that we started to see a slowdown and that continued on into June. So we reduced our guidance in August to about $600 million. The slowdown is basically across the board. It's across the board. It's with all of our customers. I think it's part of the general macroeconomic set of issues. We're not seeing anything in any particular area. And thus far we seem to be on target for our $600 million revenue market."
    - "Well OLED smartphones have gone from basically 0 in 2010 to should be about 50% this year. So that's really exciting. 2024 a couple of things are happening. We're seeing people building infrastructure for IT, which is basically tablets and the like. We expect to have blue, our blue material in the marketplace. So those are 2 of the key elements for 2024 because IT right now it's a couple of percentage points in the industry. So if OLEDs can start developing, increasing into the IT market, that's a significant new revenue opportunity for us. IT tablets are bigger than smartphones,

so we could sell more materials into that. There's a long runway."

    - "Well, you do see some people trying to convert LCDs into OLEDs. Our 2 big Korean customers, Samsung and LG, have both exited the LCD business, are focusing solely on OLED, which I think is an important element. During the pandemic, sales of displays across the board went up. So we saw significant growth during the pandemic and maybe part of the deceleration of our growth was due to the post pandemic, how many screens that somebody need. But that's for the existing products. Once we go into the IT market; that is in a really good next growth phase."
- Pagerduty (PD)
    - "And just as a reminder, most of our deals actually closed within 90 days whereas the larger deals, of course, can take longer. And those are the ones that we're seeing are being subject to increased scrutiny or maybe higher levels of diligence or where the deals are still there, but it's just the process of prioritization of that work is changing. So we're seeing a little bit of that, and we factored that into the view that we've taken from a top-line perspective."
- Shopify Inc (SHOP)
    - "And so if I had to summarize what essentially the Deliverr acquisition has done is: It provides the ability to have a what we call port to porch logistics network. And it also -- that enables delivery promises and 1 to 2-day delivery promises with more visibility into what's happening to inventory where it's at, which we know drives higher conversion and trust between merchants and their buyers. And so just summarizing what it sort of looks like the vision of Shopify Logistics is Deliverr really kind of specialized in how do you get inventory into the network. So from the manufacturer into the warehouse network in the most efficient way, it lands in a warehouse. And then software, machine learning and AI say, "where is the demand for that inventory that's coming into the network?" And how can it be most efficiently placed in warehouses across the country in order to make sure that you're managing inventory costs for the merchant, but also reducing last mile transportation costs and the like. So the Deliverr software sort of does that. . . Shopify would operate -- self-operate a handful of larger warehouse hubs in key metro areas. So New York, L.A., Atlanta kind of areas. These are bigger facilities that are multifunction. Inventory comes in, there's crossdocking facilities. There's extra storage facilities. Then the inventory is further distributed across a network of partner nodes and Deliverr brought 40 partner nodes that act as smaller warehouses and other geographic areas and sort centers. So it's an extremely efficient network operation that's largely driven by pretty sophisticated software."
    - "We have always supported approved integrations for our merchants to sell on Amazon as a channel. We continue to believe that we are agnostic in terms of where our merchants sell. We want them to be successful. With respect to Buy with Prime, there just is no formal integration at this time. And so it's a very disjointed process for the buyer when they go to checkout. They actually have to leave the merchants online store. And so we have stated publicly that we want to work with Amazon to provide an approved integration and a better merchant buyer experience, and we're in discussions, but there's nothing new to report at this time."
- Smartsheet Inc (SMAR)
    - "We saw elongated sort of deal cycles, if you will, we saw some deal compression, and then we saw these additional levels of approval come in. That's what we were seeing. . .We saw, for example, tremendous interest in our capabilities product, and

people would buy the package because multiple capabilities group together. In this case, what we saw was that people said, "I love the advanced packaging and love the capabilities. But for now, I'm just going to buy the a-la-carte capability. And that's the kind of deal compression we saw."

    - “we're at a size and scale where we have the ability to sort of drive profitability and growth. So my mantra is durable long-term growth with improving margins and outsized cash flows. "
- Texas Instruments (TXN)
    - "But the other piece that doesn't get talked about very much is the R&D aspect in the CHIPS Act, which if it goes at least according to, I think, some thoughts, you'll see a reasonable percentage of that R&D go through university systems for precompetitive R&D. And I think that does great things for long-term health of the semiconductor industry and the semiconductor industry in the U.S. So I think it was a lot of hard work, but I think it was a very important work."
    - "And if you go back to '95-'96, you actually had what turned out to be an 8-year -- 7-, 8-year secular run with the growth of PCs and cell phones. Well, it isn't going to be PCs and cellphones in this secular run. It's going to be industrial and automotive because of semiconductor content. And so that may be -- and if you actually look at how pricing -- and it's a dangerous thing because of the way it's calculated as an average. The last time you had 3 or more years of increasing AUPs per WSTS was back in '92 through '96"
- WIX.com Ltd (WIX)
    - "historically, by the way, we've been very resilient to recession. While nothing happen usually, whenever recession, people would lose their job, and then would start building things online and would start building their own new business or something else, innovate. And of course, this recession is a bit different because we don't see such a massive layoffs, right? And so -- and we actually seen a decrease in demand. So we saw, like most Internet companies, decrease in demand, on newbusinesses formation and then on eCommerce formation. And we've seen that for all of the last 12 months, with the exception of the last month or so where we're actually starting to see some recovery signals."
    - "So this is exactly the case with Vistaprint and LegalZoom. Over there, it's profitable because you don't invest money in marketing, this is their customers, right? And you are just splitting the revenue with them. But it's amazing because you already have the tool, you are getting the top of the funnel of people that's looking for business creation, print solution and so on. So this is something that is also very profitable. And in the end of the day, when you look at those -- this business compared to the self-ceators, it has 2 things. First of all, it's a much bigger TAM, and it's a more profitable business. . .And I think there's one other thing that maybe is worth -- probably needed here is that when you look at the potential growth that is coming and compounding from the partners and the agencies, is that we're seeing more and more complex websites being built by those people. And actually, most of the complex websites are coming from that segment more than the self creators. And over time, that will also call for potential expansion on pricing, which is something we still need to figure out. But obviously, we'll have some more capacity to touch higher price tags to much more complex websites."
    - "there are many other big partnerships that we can do for companies that provide online services for gateways. Basically every company that serves small businesses

and can upsell or use Wix for their customers. And there are many like that. So -- yes, the funnel is quite big. We are not talking about small partnerships. It's mostly like medium, large partnerships, but -- absolutely. And also remember, Mark, that again, it is the same compounding effect that we spoke about before because the same partnership with LegalZoom will continue to bring customers all the time, it's not like one time."

        - "We always said that the payback period of a customer should be 9 to 10 months. And we did exclude by the way, designers out of it. And -- so that's one change. So when designers were feeling that it's okay to go a bit more than that, so 2 more months."
        - "if you look 3 or 4 years ago, we would see that we had Endurance, there was a bunch of other companies that compete with us. Most of them are gone today. . .And so -- yes, and I think the gap between us to Squarespace has also grown. So I think we are now -- on every [indiscernible] single metric, took a bigger -- a further step away from"
        - "for the self-creators, and there's definitely partners. We are going to see a lot of leverage in the gross margin, mostly from creative subscriptions. Business solutions for both of the businesses for self-creators and partners are also going to improve because we see that payments, as Nior mentioned become much more efficient The take rate is just getting higher and higher And as a result of that, we see also expansion of the margin. Also bear in mind, Mark, that as a result of the fact that we already finished with the build-out of the business for partners. So by definition, we are going to see a lot of leverage from the gross margin, take also into consideration the cost that we did right now mostly also affect partners. So we are going to see a lot of improvement in the gross margin in the next couple of years, which mostly is going to drive much higher free cash flow."

- Communications Services
    - Charter Communications (CHTR)
        - "The -- in the world of impact on what drives the video subs, the bigger driver is pricing, which is ultimately what programmer price increases are we -- do we have to push through to our video subs because we don't want to lose money on the product. And so if you look, for example, at Q2, we had a programming price through -- programming pass-through increase. We had relative more video losses than we've had in other quarters. You're right, like total customers has an impact to how we were able to grow video subscribers for a short period of time in 2020 when we were growing broadband subscribers at a really rapid pace. So it's not that it has no impact. But if I were to say sort of what is it that drives sort of the long-term trajectory of the video business, it's really what the cost of the programming coming into the bundle is and to what extent that means that collectively the programmers are pricing customers out of the video business."
    - Match Group (MTCH)
        - "Look, I think we think the secular growth opportunity globally is still extremely large, right? I mean, you've got a business that if maybe 40%, 40-some-odd percent of people have tried dating apps in North America and Western Europe and even smaller percentage internationally."
        - "You've got some cultural barriers and some different kinds of cultures outside of the U.S., particularly in Asia, in markets like India and places like that, that I think will take a little longer to come around. But there's a lot of room for us."

- "we can grow users because the penetration remains low, even though the populations aren't growing that quickly. We can then convert a lot of the free users into paying users because you've got 16-or-so percent conversion of paying users. That's still a very moderate percentage. And so I think we need to give people more reasons to see value and reasons to pay, and we can drive that number up pretty dramatically. We've got markets where you've got 25-plus percent of people who are paying. So I think there's lots of room to increase payer penetration. And then rate prepare also is very modest, especially for the satisfaction that the product gives people. And I think there's different levers we can pull on that front. For example, and we've talked about this, we can pull power users who aren't paying very much and we can really get people to pay, I think, more if we give them commensurate benefits. If we give them some level of exclusivity, selectivity, control over their experience, I think we can monetize our heavy users much more significantly. If you look at Tinder, there's not very many people who are paying more than $50 a month. It's just not easy to do. There's not the product features to do that. You look at The League, which we just acquired. They've got people paying $1,000 a month. And there's a lot of room between what people are paying on Tinder today and $1,000 a month, but a PLC benefit, which you see with The League, I think they feel like they could be paying a lot more. So I think BK coming in with his gaming experience where monetizing heavy users is a part of the strategy sees real opportunity in that, and that's something we'll be going after."
- "So it's interesting. What I see in the data so far is that the consumer did struggle a bit a few months ago when gas prices kind of were a shock and some of the other commodity prices were a shock. And we did see a little effect on a la carte purchases and some caution in the consumer especially in the developed markets, U.S. and Western Europe. My sense looking at the data today is that has kind of stabilized. We're not seeing further deterioration driven by macroeconomic factors. And so what that tells me, I know I'm the first to say I'm not an economist, but what that tells me is the consumer has kind of adjusted. They made some adjustments over the last few months and they've sort of reached some level of stability. So then I think the question going forward in the next 3 to 12 months is, what do you think is the overall economic outlook? Is it going to vary by region? And so if you start seeing unemployment really spike and people losing their jobs, the people will have to adjust to that again and you might see some effects from that. If we sort of continue in the situation we're in, where wage growth is pretty good, unemployment is pretty low, then I'm quite optimistic that we've sort of worked through the shock that happened a few months ago and the war and everything else that happened, and we've reached some level of relative stability. I think the business generally does look pretty stable, pretty sticky, pretty resilient"
- "new CEOs want to be successful and beat guidance and perform well out of the gate and start to set a good trend. And so the way that I think about this is we kind of made an adjustment to our outlook for the back half of the year and set it at a level that we think we can achieve. . .and the team and the business are performing at least as well as we expected, we feel good that we're set up for the back half that we guided towards. . .Yes. I mean, I think in the current environment, we feel very good about the guidance. I think you always want to leave yourself a little bit of wiggle room. And so things would have to get sort of significantly worse pretty quickly for me to get concerned."

        - "think about it is Tinder has -- in sort of the newer apps, Tinder was the first and is the biggest and is the best known. And now it has 2 meaningful competitors. It has Bumble and it has Hinge. And those are the kind of the ones that people think about. I'm happy that 2 out of the 3 are within our family. But Tinder needs to face that that's the competitive reality that it's dealing with. And when you face a tougher competitive reality, that's the time where you need to step up your game. You need to innovate, you need to execute better than you have historically when you had more of the world to yourself. And so that's the situation that Tinder finds itself. I don't know whether I would describe that as structural, but it's their reality. And I think that they have had a lot of good ideas and a lot of interesting thoughts in the last 3, 4 quarters, but they haven't executed on them as well as they needed to. And it's largely an execution problem in a more competitive environment. And so now is the time for them to step up and do better. And so we didn't feel that the team that was there was doing that, and we didn't want to wait and see if they could improve their performance. And so we made some changes to strengthen the team, bring in some stars we had in other parts of our business and make a bet on that team and say, look, you work for the most iconic brand in the space, the biggest user base in the space. You need to get these ideas into the market. You need to figure out which ones are really the good ones. Test them the way you should and get them out there, take a bunch of swings, small and big, and go out there and kill it. And I think that's what we've charged them to do. So far, they're working great as a team. I think their performance this quarter looks good. They're on the right track. They're doing what they're supposed to be doing. And so it's going to be slow and steady progress and taking little swings and taking big swings, and we feel good about it. And so I think we made the right moves to make the changes. The team is excited. They've galvanized the employee base. We didn't have any turnover or anything like that from all the changes, which is a question I get a lot."
        - "So I think in terms of margin profile, Tinder had a natural advantage that no one that comes after them has, which is they spread virally around the world with very, very little marketing spend. So the second and third comers, which are Bumble and Hinge, really have to spend marketing to drive and supplement their organic growth in these international markets, in particular. So it's unlikely that either of them will be able to get to the Tinder level of margins. We're a little bit maybe more efficient on the marketing side, a little more disciplined."
    - Spotify Technology(SPOT)
        - "User growth, subscriber growth that was sort of in line or better than expected. And so from a top line user KPI perspective, we haven't really seen much through Q2. We're fully aware of what's going on globally. But luckily for us, it hasn't impacted our numbers at all. So we've had user growth. We've had subscriber growth. When we look at things like gross intake on the free side or churn on the premium side, we haven't really noticed anything material at all in terms of any changes through Q2."
        - "Obviously, advertising is a bit up and down right now. It is for everybody. We talked about this coming out of Q2 that we saw the last couple of weeks of Q2 as being definitely weaker than the majority of the Q2 performance. And we've seen sort of that kind of up and down trend through Q3. But in general, we feel good about where the business was trending coming out of Q2 and we show the business is very resilient."

        - "We've seen reactivation strong. We've seen new user growth strong. So top of funnel is healthy. And for us, historically, at Spotify when the top of funnel is healthy, it's always a good sign for what's going to come kind of 12 to 24 months."
        - "when you look at payment-enabled smartphones in the markets we're going to be in, you're talking about 3.5 billion to 4 billion. Again, you look at a market where we see there's no reason why every user shouldn't have some audio app on their phone"
        - "We've had this drag from podcasting, which will flip to profitable over the next 12 to 24 months, which will then help drive gross margins higher."
        - "Again, we fully recognize if you just look at it at the highest level, it looks like we've had no gross margin expansion. But underneath the hood, we've actually had really good gross margin expansion on the business that we highlighted initially in 2018. We've moved forward with podcasting. And the reason we've upped the gross margin is we actually believe that some of the newer verticals that we will launch, podcasting, audiobooks and others, should have structurally higher gross margins than the music business, which will help overall gross margins over time."
- Consumer Discretionary
    - Church & Dwight Co (CHD)
        - "We're seeing additional softness across our more discretionary brands, including Waterpik and Qualys. And we're also seeing our vitamin business decline as it comes off COVID highs. Consumption is strong across our household business, but orders have slowed as retailers adjust inventory across all their businesses"
    - Floor & Decor Holdings (FND)
        - "So the people buy in our category within our stores, we haven't seen a change in what they're buying. They're still gravitating when they're doing a project to our better and best products."
        - "we've made significant progress in moving manufacturing out of China into other parts of the world. . .our penetration by country is probably we're going to be, we'll probably get a little bit better and a little less dependent on China over the next couple of years. But we're always looking for the next great supplier and always moving when we find a better cost and something we can pass on to the customer."
        - "we've been public now for just over 5 years. And each of those 5 years, the unit economics of the new stores have gotten better. And the class of '20 and class of 2021 are the best class of stores we've ever opened. . .65% of our stores this year will be in existing markets. Our new stores in our existing markets are more productive than our newer markets. And so that will also help the unit economics as we move forward because it won't be that long. And before we don't have really new markets. And that should also hopefully trend to keep our new store productivity and the returns on those new stores to be well above our cost of capital."
    - Etsy Inc (ETSY)
        - "So to put some perspective on it, in the quarter before COVID hit, Etsy had 46 million active buyers. And in 2 quarters ago, at the end of 2021, we had 90 million active buyers. So active buyers doubled and GMS grew by more than 2.5x."
        - "is we had stayed at around 200% growth for 2021 and all the way into January of 2022. That means we're about 3x bigger than the same period in pre-pandemic. Then all of a sudden, in February and March and April, we saw a very steep deceleration in our 3-year growth rate. It felt like a light switch turned in kind of

mid- to late January. People decided they've had it with COVID, and I'm going to shop offline, I'm going to travel, I'm going to eat out in dining and e-commerce generally. And certainly, Etsy felt some of that. And so we went from about a 200% growth rate to, call it, 150% growth rate over that 4-month period. Then we saw in May and June what became a leveling out going from, let's say, 150% to only 140% growth. So the rate of deceleration slowed quite significantly. And we even included the [dot] for July, which we had almost finished by the time we did the earnings call, right? And what you see is a trend line where there's a pretty steep decel Feb, March, April and then that much slower decel in May and June and July. What we don't know is, have we hit bottom."

    - "So it's probably true that there was overinvestment in e-commerce for the past, pick your number, 5 years, 10 years. We've been saying for a very long time, I think it's exceptionally unlikely that there's going to be tens of thousands of standalone e-commerce brands out there. It just doesn't make sense because people can't remember 10,000 brands. So almost all of those brands have to be downstream of Google or Facebook, and that's where then all of the rent is going to go, right? They can only remember a handful of brands. I think we're going to see a reckoning. Now we're going to have a lot less of that investment. And that's going to mean that marketing is going to become a little more affordable. The talent market is going to become more affordable. I'm old enough to have been running a business in 2000 when every Internet company was getting infinite amounts of money. And actually, 2002, 2003, 2004, 2005 were some of the best times to be building Internet companies. Maybe we're on the cusp of something like that over the next few years."
    - "In terms of discovery and efficiency, personalization looms very large. And personalization for us is very different than everyone else where items map to a catalog. We've got to understand who you are and what your taste is, and we've got to understand what these 100 million things are, each of which is a snowflake, and then find you the best love match. That's something that was impossible 10 years ago, that's become very, very possible now."
    - "So in terms of things like inspiration, I think there's a huge opportunity ahead around personalization for us. And we only launched the first personalized version of our search engine less than a year ago."
    - "So more and more, I think, people are going to crave an alternative to Amazon. And I think there's no one better positioned than Etsy to be that alternative, and I think that allows us to be a starting point for so many of your shopping missions and the opportunity there is."
- RH (RH)
    - "there continues to be widespread discounting across our industry."
    - "our expectation is for continued softening in our business trends during the remainder of fiscal 2022 as a result of ongoing weakness in the housing market over the next several quarters and possibly longer due to the Federal Reserve's anticipated interest rate increases and the cycling of record COVID-driven sales levels in 2021."
    - "Our strategy is to move the brand beyond curating and selling product to conceptualizing and selling spaces, by building an ecosystem of products, places, services and spaces that establishes the RH brand as a global thought leader, taste and place maker."

        - "We're in a recession. Anybody who thinks we're not in a recession is crazy. The housing market is in a recession, and It's just getting started. So it's probably going to be a difficult 12 to 18 months in our industry. But these are the times where you can really capitalize."
        - "the RH business vision and ecosystem, the long view, and if you read it carefully, what you will communicate is that everything that we're doing is designed to elevate and render the core business more valuable, everything, right? Everything we're doing. And if you just read it really carefully, you'll pick up everything here.Our products are elevated and rendered more valuable by our architecturally inspiring galleries, which are further elevated and rendered more valuable by our interior design services and seamlessly integrated hospitality experience, right? Our hospitality efforts will continue to elevate the RH brand as we extend beyond the 4 walls of our Galleries at RH Guesthouses. We're going to a new market. It's all designed to elevate and render the core business more valuable. If you go to architecture, interior design and landscape architecture, all designed to elevate and render the RH brand more valuable, right? Doing homes that are fully furnished, all designed to elevate and render the core brand more valuable. So it's just a different way to communicate and build the brand than anybody else has done."
        - "the interest rate is going to go higher. It's going to hit the housing market first. And the housing market is the biggest part of the U.S. economy. And it's going to drag down everything. . .So that's why we're not aggressively buying back our stock.
    - Shake Shack (SHAK)
        - "The trend to note through the quarter, as so many businesses in our sector have experienced, was continued strong growth through mid-May that began then to level off through June, clearly related to a pullback in mobility, a muted return-to-office trend and some caution on the part of the lower-income consumer. While our urban Shacks continued to comp near 20% over last year, these factors caused us not to meet our even higher expectations for the quarter. We're pleased to see that July has remained consistent and retained normal seasonality trends. However, while we remain aggressive in our push towards full urban recovery in the long term, we're cautious as we navigate an uncertain macro environment ahead."
        - "And in the quarter, while we saw some strength from the higher-end guests in June, we did see, especially in certain pockets, a little bit more weakness from the lower-end consumer. We also saw what we talked about kind of people who -- we saw increased traffic from people who live close to our Shacks, but we did see some pressure on the periphery from people who -- or guests to make kind of like longer road trips. We saw that in June with the spike in gas prices that kind of was a little bit weaker for us."
- Consumer Staples
    - Constellation Brands (STZ)
        - "And the good news is that the consumer continues to be very resilient. If we look at high end. If you look at high-end beer and you look at the Hispanic consumer in beer, you're seeing an increase in both the number of trips and in the dollar spend. So again, it's pretty resilient. And then you're seeing similar things in high-end wine, where buy rate continues to be strong. It's sort of in line with more recent historical months. Trips seem to be somewhat, I would say, consistent, but you're seeing a little bit increase in the amount of purchase per trip. So again, we're seeing some real resiliency where we are with the consumer."

- General Mills (GIS)
  - "and we also made significant changes to our operations outside of North America to reduce the admin footprint we have but also to increase the number of distributors we had outside of core markets. And that's really important because in doing so, we believe that we can accelerate our growth in those markets"
  - "But I think -- but you're right. I mean the -- we've experienced cost to serve our consumers above inflation, and they're significant. So versus prepandemic,probably 200 basis points of cost, so we're not talking about a small amount of cost. . .And so these are really real inefficiencies that over time, and the key is over time, we are highly confident we'll come out of our cost structure."
  - "really a question about it is promotional spending going to come roaring back. I think that's actually what the concern is. I think if you -- to believe that, I think you have to believe 3 things. The first, you would have to believe that history doesn't repeat itself when it comes to times of recession. Wishing is to say that as we look back at prior recessions, promotional spending hasn't come rolling back. You'd have to believe that something was different this time. I would submit to you that in the current environment, just to level set everybody, pricing in our categories is up almost 19% over the last quarter, and our pricing is up roughly 20% if you look at scanner data. Promotional spending is down 20%. So where we are today is a far cry from a decrease. In fact, it's actually been accelerating over the last few weeks."
  - "there are 2 main reasons why we haven't seen the elasticities, maybe that we thought we would, and maybe that investors thought we would there are a couple. One is the supply chain disruptions. And you're not going to give a lot of promotional volume when you're just having trouble keeping stuff on the shelf every day, which we all are still in the industry. And I think we covered that earlier in this conversation. But the other factor really is trading from away from home to at home, and we have really seen trade from awayfrom home eating to at-home eating. And even if consumers are decently well off now and unemployment is reasonably low, consumers aren't very nervous about what's coming in terms of economic environment."
- Kroger (KR)
  - "We continue to see more customers cooking from scratch and eating out less often."
  - "Overall, customers are looking to save money and make healthier choices by cooking more meals at home rather than eating out"
  - "we are expecting while inflation will remain at heightened levels, we think it will start to taper out because with the cycling, call it, 4% higher inflation in the back half of last year compared to the first half of last year. So even if inflation does continue to grow, you're cycling about 4% higher inflation rate from the prior year. And we are starting to see a little bit of data that would say it's really hard to predict, and none of us had our perfect crystal ball. But if you look at the growth in cost inflation from Q1 to Q2, it would be less than the growth that we saw in Q4 last year to Q1 this year. And some of the forward-looking futures data on some of the key commodities are starting to show a little bit of signs that things may be leveling off somewhat. So obviously, there's been plenty of shocks in the last 12 months that can change that very quickly. But the data points that we can see right now, we think it's appropriate to forecast and provide guidance that it seems slightly tapering to the inflation rate in the back half of the year."

- Healthcare
  - Becton Dickenson (BDX)
    - "Labor inflation, we don't certainly see that changing, really not reversing at all, and we continue to see tight labor markets, certainly in the U.S., not so much in most of the rest of the world."
    - "So we -- I think as we look over the next year or two, we're running an assumption that supply chain challenges will continue to persist, not escalate, but continue to persist at a disruptive level as maybe exist today. And that inflation certainly won't revert back to a 2% number, but will remain below 9%, maybe more in the 5-plus range as we navigate appropriately."
    - "And those 3 trends are smart connected care, which includes automation and robotics to address things like labor shortages and health care worker efficiency, as well as improving patient outcomes through that digital connectivity. . .It will be digital health. It's just health care, all health care will have a digital component. And most of our innovations that we're investing in have that aspect. . .Second major trend that we're investing behind is the shift to new care settings, right? And so moving from the hospital to the home or into ambulatory surgery centers or in retail clinics. . .The third area that we're investing in is improving chronic disease outcomes, right? Chronic disease treatment has often been, to date, taking pills for the rest of your life. And we see a tremendous opportunity for med tech to have agreater role in improving outcomes in chronic disease as we look ahead. Obviously, we're very focused in a few specific areas like vascular disease, cancer, end stage renal disease, et cetera. And so those are areas that you've seen us making strong investments in."
  - CVS Health Corporation (CVS) Signify Health
    - "agreement to acquire Signify Health's outstanding shares for $30.50 in cash, representing a total of transaction value of approximately $8 billion. This transaction is a significant step forward in our strategy to enhance our care delivery for consumers and to be able to meet their needs when and where they want care, and the home is increasingly part of that choice."
    - “Signify is a leader in value-based care with a rapidly growing provider ACO-enablement business. They are also a leader in health risk assessments, which brings clinicians in the home to identify chronic conditions, close gaps in care and address social determinants of health. This acquisition, enhances our connection to consumers and enable providers to better address patient needs. In addition, this combination strengthens our ability to expand and develop new product offering, consistent with our multi-payer approach.”
    - “Signify has built a network of more than 10,000 clinicians across all 50 states and a nationwide value-based provider network. Combined with its proprietary analytics and technologies, Signify has been able to improve patient engagement patient outcomes and care coordination across the system. Signify's clinicians and providers will have an even greater impact as part of the CVS Health ecosystem, collaborating with our collection of local and national assets and connecting patients to care. Signify's recently acquired Caravan platform enables physicians to take risks and equip them with tools to provide value-based care. We will be able to design new care models that combine CVS Health resources with Signify's capabilities, analytics and technology to deliver on our promise to expand our health service offering and to help patients navigate to the best site of care. Importantly, Signify will help us

drive value-based outcomes and support for our vision to change the way health care is delivered to consumers. Kyle Health, we will access to their industry-leading expertise in managing risk and care management, their care delivery assets, both virtually and in the community, including CVS pharmacists and their expanded financial resources. This combination will accelerate our push to expanded care delivery, including our return to care program”

- Industrials
  - ADT Inc State Farm (ADT)
    - ". . .State Farm is investing $1.5 billion in ADT. The investment will consist of $1.2 billion for a 15% equity stake and an additional $300 million towards an opportunity fund. . .With a first-of-its-kind integrated offering, we'll work to deliver substantial customer value using smart home technology to detect and mitigate losses related to water, fire, intrusion and other homeownership risks, moving from a repair and replace model to a predict and prevent mindset.”
    - "Our controlling shareholder, Apollo, has committed to backstop the entire offering to ensure a full subscription. I'd like to note that Google,which holds about 6% of ADT equity on an as-converted basis, will not participate in this tender. Additionally, ADT's entire leadership team has committed to not participate."
    - "The second component of the State Farm partnership is an additional $300 million investment towards an opportunity fund. Like our Google success fund structure, it's a commitment to fund product and technology innovation, customer growth and the marketing. It's demonstrative of our partnership and vision."
  - Copart Inc (CPRT)
    - "We estimate that approximately 2 out of every 5 vehicles we sell are driven again somewhere in the world, the remainder are harvested and recycled for parts or metals reducing the need for de novo mineral extraction and manufacturing emissions."
    - "Contrary to consistent long-term trends, we have observed declining total loss frequency on a sequential and year-over-year basis. Our selling prices have kept pace or more than kept pace with a strong used car price environment on a percentage basis, but the persistent lack of replacement vehicle availability and record high retail transaction values continue to reduce assignment volume for us relative to what it otherwise would be. Total loss frequency for the second calendar quarter in 2022 was approximately 16.9% in comparison to 19.7% for the same quarter a year ago. If vehicles had been totaled at the same rate as last year, we would have observed insurance industry volumes 15% higher than what we actually experienced. In simple Layman's terms, in a world inwhich replacement vehicles are harder to come by, total loss settlements are a less attractive resolution to an auto accident claim than they otherwise would be. While total loss frequency has declined over the past 1.5 years or so,the 40-year trend is unambiguous. We believe firmly that the market will revert to the historical norm of steadily rising total loss frequency in the months and years ahead"
    - "electric vehicles, perhaps by virtue of being newer, having more safety technologies, more perimeter sensors, almost always in the form of cameras in the front to enable autonomous braking and the like or even autonomous driving like features. Those cars [total] more easily, the repair costs are high. In many cases, the automotive repair networks around the world are not yet equipped to handle those cars either to calibrate the sensors, to repair the cars, to source the

replacement parts, especially in this environment. If anything, those cars total more easily than conventional vehicles would. As for auction returns, though, as you noted, it's early and therefore, the addressable population remains small on balance, the returns on electric vehicles are meaningfully higher than for internal combustion engine equivalents, though, again, with the caveat that the expression equivalent is a very rough one because the perfect apples-to-apples comparison is not always readily available."

- CSX Corporation (CSX)
  - "And then as that trade begins to make the East Coast ports, the first port to call, it just becomes more conducive for more inland freight to come available, to move into, say, we're going to Atlanta, a big market for us; Chattanooga, a big market for us. Our new CCX terminal, big opportunity for us. New York, New Jersey, inland moves, a big opportunity for us. So it's been an evolution over time that's been accelerated by the pandemic. So -- but I don't see it going away. I think we'll see more and more opportunity to come into the East into Chicago, which again, is we're -- you've got a great network, great configuration to move traffic in there."
  - "So in that backdrop, every customer that I speak to says, yes, same thing, yes, they're trying to slow economic growth. And then they go like, yes, but, Jim, I want you to move more freight. So if you guys could move it, we'd ship more by rail. So we have this kind of dynamic ongoing where we clearly over the last -- we're not up against the market like railroads usually are. I think Warren Buffett used to say, if you want to know what's going on in the economy, look at the railroad car loadings. The railroad car loadings really don't reflect the demand."
- Korn Ferry (KFY)
  - "When you look at the industries, sequentially, if you just take a look at the first quarter compared to our fourth quarter, we certainly saw a slight downdraft as you would expect in technology. You read about it. And we saw a downdraft in financial services, particularly around capital markets, as you can appreciate. So those 2 things, we saw those things pencil out in the numbers. On the other side, we've seen continued strength in Industrial, and Industrial is our flagship offering.
- Union Pacific Corporation (UNP)
  - "When you look at volumes year-over-year were up 4%, bulk is up 4%. And that's driven by grain and grain products that are up 7%, continued strong coal demand that's up about 5%. And our cycle times on our shuttles and in our coal sets are all improving, which is supporting increased loadings. If you look at Industrial, we're up 4% as well, and that's very broad based. There's growth in those markets supplemented by our business development efforts, and that's led by metals and minerals up 6%, and Industrial Chemicals up 5%. And then in premium, we're up 3%. Automotive is leading the pack there. Finished vehicles up 28%, auto parts up7%, Intermodal volumes are up 1%, with international up 3%, parcel down 12% and truckload up 1%."
  - "The negative side is clearly consumers are under pressure. We can see that in consumer sentiment surveys where they're hitting lows for recent history. You can see it in kind of the political atmosphere. There's just so many markers that say U.S. consumers and global consumers are very concerned and anxious. Now having said that, they're still sitting on a lot of powder. They're still in a healthy condition on average as regards to their personal balance sheets. And then on the more positive side, we've really got some relatively easy comps year-over-year for [Audio Gap]

and we've done a hell of a good job on business development to secure and win new business, really across the spectrum of markets, whether it's us adding nice swift at the beginning of this year, Schneider at the end of this year or SDI as a new steel manufacturer, west of the Mississippi near Corpus Christi or any other number of new industrial and bulk customers."

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