SPREE CAPITAL
ADVISERS

Weekend Thoughts 1/14/23

Net: No noticeable change in the trends of late. Inflation is slowing, wage growth is slowing, and the consumer's capacity to spend is under pressure yet the labor market and the economy remain healthy.

- Information Technology
  - Compass, Inc (COMP)
    - "So we had announced expense reductions last week. I think it's worth noting, if we would have done that a year earlier, we would have been free cash flow-positive last year. And if the market would have grown last year as expected, we would have been free cash flow-positive. What happened is the Fed share came in and artificially reduced the revenue of our industry, bringing mortgage rates from an all-time low in January to a 20-year high in less than 9 months, creating the sharpest decline in real estate transactions on record more than 2008, which was a housing-driven financial crisis."
    - "I believe that we will look back at Q4 as the bottom. And that Q1 may be the last great time to be a buyer for a while. We just saw that 42% of sellers are giving concessions, which is the greatest amount of concessions that sellers have given in over 10 years."
  - Intel Corporation (INTC)
    - "The past years have demonstrated how technology is increasingly central to every aspect of human existence. And powered by silicon, everything is becoming digital, and it truly is this magic of technology. . . Everything is becoming a computer. Everything and everyone is becoming connected. With cloud and edge, we have ubiquitous infrastructure. AI is turning data into actionable insights. And sensing, we see, hear, know where we are in every aspect of our digital experience. And these 5 superpowers individually are powerful, but they're accelerating, augmenting and driving an increasing pace of innovation as they come together and amplify each other."
  - MongoDB, Inc. (MDB)
    - "The database market is one of the largest in all of software. So the latest IDC numbers have the 2022 market at $84 billion, and that's growing to $138 billion in 2026. . .you hear these phrases like software is eating the world or every company becoming a technology company, those are all shorthand for the fact that companies today are driving competitive advantage on the basis of their internally built technology. . .every application that I build has a database at its heart at the center of it. And that's really what determines the nimbleness, the speed, the agility, the scalability of your business."
    - "And so people today are hiring developers, you hear about Wall Street banks talking about having more developers than large brand-name consumer technology companies and those developers are expensive. People want to get more out of those developers. And so developer productivity, speed and rate and pace of innovation is really where we kind of come into play."
    - "The technology that sort of predominated previously as relational technology that was really built for a different era. That was built for an era where storage was a big

constraint. Storage was incredibly expensive. In the '60s and the '70s when relational technology was pioneered, that's now not the case. And so we sort of helped bring a different paradigm, almost a better mousetrap to help solve the challenges today"

- "The other advantage in addition to sort of having that developer mind share is the general-purpose nature of what we do. So rather than being sort of a point solution or built for sort of a specific use case, we have this general-purpose positioning that allows companies to ultimately standardize on MongoDB as their mono alternative."
- "near the end of Q1, we started seeing slower growth in certain parts of our Atlas business when it comes to growth of existing applications, specifically in Europe, specifically in our self-serve midmarket business. And as we look to sort of the underlying dynamics behind that slowdown, it became apparent to us that this is a macro slowdown. And from there, we concluded that macro slowdowns tend not to be limited to a particular geography or a particular segment, but then to be broader than that. So we expected to -- going into Q2, we expected business to consumption of Atlas to slow down everywhere. And that's largely what happened. We saw consumption slowdown, and we provided a relatively detailed sort of checklist of how we expect things to play out when we provided our guidance in our Q1 call, so that would have been made. And then Q2 largely played out as we expected. . .The European enterprise business and our mid-market channel globally grew slower than we expected it to. . .fast forward to Q3, consumption did better in Atlas across the board than in Q2, and that wasn't what we expected, and that wasn't implied in our guide. And there were 2 factors driving the improvement in Q3 versus Q2 as we understand it. The first is based on how Q3 played out, we believe we benefited from seasonal strength in Q3 versus Q2. And the way we see that is that the back half of Q3 was better than the first half. And similar thing happened last year. And it was driven by the underlying usage of the applications, and it was pretty broad-based. And what we think is going on is sort of a seasonal back-to-school, if you will, or back-to-work after the summer phenomenon where people engage with the applications in their lives more than they did during the summer. And we saw last year, we're seeing this year."
- "I do think it's worth saying there is incremental scrutiny on expenses, both of sort of discretionary measure, T&E and things like that, but also just on the returns, right? And looking at saying, if the cost of capital has gone up our return structural needs to be higher, different things, not everything clears the bar or not the things that used to clear the bar don't clear the bar anymore. That's been a very active conversation and process internally."
- "And so another way that the current environment plays out on that is if you had an initiative and you're a couple of quarters into the data and the data isn't playing out in the way that you're expecting, you're not kind of clearing the bar, so to speak. I think at a lower cost of capital environment, you'd say, our intuition tells us they should work. Let's give it another couple of quarters, right? Whereas in the current environment and a higher cost of capital, they sit here and say, "You know what our integrate told us it should work. We now have some data. The data shows it doesn't work, maybe we need to stop doing this thing, right?""
- "I don't think we've seen any fundamental changes in the competitive landscape over the last couple of years. Our win rates are exceptionally high against all flavors,

our big challenges because the markets so large and our footprint coverage is so thin, just not being in conversations. But whether it's versus relational, nonrelational MongoDB imitators, whatever it is, we have exceptionally high run rates really across the board.”

- Taiwan Semiconductor (TSM)
    - "As overall macroeconomic conditions remain weak, we expect our business to be further impacted by continued end market demand softness and customers' further inventory adjustment."
    - "Entering 2023, we continue to observe softness in consumer end market segment, while other end market segments such as data center related have softened as well. As customers and the supply chain continue to take action, we forecast the semiconductor supply chain inventory will reduce sharply through first half 2023, to rebalance to a healthier level. In the first half of 2023, we expect our revenue to decline mid- to high single-digit percent over the same period last year in U.S. dollar terms."
    - "Having said that, we also start to observe some initial signs of demand stabilization, and we will watch closely for more signals. We forecast the semiconductor cycle to bottom sometime in first half 2023, and to see a healthy recovery in second half this year."
    - "In the second half of 2023, we expect our revenue to increase over the same period last year in U.S. dollar terms. For the full year of 2023, we forecast the semiconductor market, excluding memory, to decline approximately 4% while foundry industry is forecast to decline 3%. For TSMC, supported by our strong technology leadership and differentiation, we will continue to expand our customer product portfolio and increase our addressable market, and we expect 2023 to be a slight growth year for TSMC in U.S. dollar terms."
    - "Cyclicality of the semiconductor always exist, but it's unlikely this time the scenario was to be repeated because our current downturn actually, it's kind of being enhanced or being degraded by the pandemic. Due to the pandemic, the digital transformation progress have been enhanced. And so the demand being increased dramatically. But then due to the pandemic, the supply chain disruption happened. And people during this time, probably changed their strategy or their thoughts on the inventory buildup. So artificially, the inventory has been built up quickly and dramatically."
    - "And then the response to the each industry are different. And so they manage that the inventory correction also differently. This kind of phenomenon all because of -- largely because of pandemic, and we don't think that it will happen again. And in the next 5-nanometer, 3-nanometer, I believe TSMC and TSMC's customer will be more prudent on planning that what is the demand and also the supply."
    - "The inventory correction actually began last year. And at the peak of the third quarter, and we think the inventory has been picked in third quarter last year and gradually reduced in the fourth quarter, and we did see some inventory reduce sharply recently, and it will continue to be so to first half of this year. So that's why we say we have confidence that in the second half, the business will rebound. But is that a very strong V shape? We didn't know yet, but certainly, it's not a U shape for the business to recover in the second half."
    - "nowadays, we look at our technologies value not only the geometries are shrinking actually. More importantly actually is the power consumption type efficiency. And

    also, we try to help our customers with our advanced 3D IC Fabric technology to improve the system performance, and that's where it's important."
    - "In the future, we want the world to be more greener, more safer, better. So power consumption needs become very, very important. And while we still improve the system performance and that's where our customer can get their value. And that's what we view in the future."
    - "we do not see any slowdown on our customer to adopt the TSMC's leading-edge technology. Actually, they might have a different kind of product schedule. They might have a different kind of product plan and et cetera. But the technology adoption, actually, it did not slow down."
    - "we do have quite a few hyperscale customers working with TSMC to develop their own chips."
    - "I don't think so. (concern is that any hyperscalers are developing, will that cannibalize business for other types of companies?)They also developed the specific purpose for their own. I mean it's not a kind of to rephrase, generalize the purpose of CPU, GPU, all those kind of things."
- Tyler Technologies, Inc. (TYL)
    - "Tyler is pretty recession-resistant, not totally immune, but pretty resistant. Generally, our customers on the software side are acquiring new software from us because their old software is at end of life. So governments tend to use systems much longer than the private sector really until they die. And so generally, when it come -- when they do reach that point where for whatever reason, they've decided that now they have to replace the system it's a fairly nondiscretionary decision. So they may move the timing a bit. They may say, well, this is a bad year from a budget perspective, I can do it next year. But it's not that they can generally say I'm never going to replace the public safety system or I'm going to just not have a court system. So pretty resistant demand."
    - "when we think back about, say, the last recession and what's similar or different. Back then, we were mostly a license business. Today, we're mostly a SaaS business. So 2008, 2009, we were about 50% recurring revenues. Today, we're north of 80%. We believe the recurring revenues are pretty much rock solid. There are things like maintenance and subscriptions for mission-critical systems, again, payments around things that are fairly nondiscretionary, utility bills, renewing your auto registration, those kinds of things. So the much higher percentage of recurring revenues, and we believe those are pretty rock solid. In the new business market, people are acquiring new software systems. Again, back then, we were mostly a license business. So acquiring a new system required a big upfront capital outlay. Today, in the SaaS model, it requires a much smaller initial payment, you're just starting a new subscription. So there's less of a barrier to moving into a new system because of the capital requirement. And -- so we believe -- again, we look back at 2008, 2009, we saw over sort of an 8-quarter period, a decline in licenses. And at the bottom, they were off about 20%. That translated to a year where our revenues were flat because the recurring revenues were pretty much unaffected. Today, with a much higher percentage of recurring revenues and smaller license component, we believe that the impact of delayed deals, should there be more of that around a tougher economic environment would be much less impactful. And we would tend to see a more stable business than we saw even 10 or 15 years ago."
    - "our big advantage in that space is because we do have this complete integration,

this end-to-end solution from a 911 call through an incident and arrest, and then over into the justice side, a jailing, a trial, all the way through probation. So we're the only company that has that whole breadth of product. Other competitors come out of the different strengths like Motorola on the hardware, the radio side, Axon with the body cams. So we all have different ways we come at it, but we think ours is pretty compelling. And now we -- as I said, we've added the really advanced capabilities around data and insights on top of that. . .We're making a lot of investments and have made investments around it. It is -- in terms of moving to the cloud, it's been the product area that's been the [laggard] or really, in some cases, even resistant to the cloud, where they haven't really been comfortable putting a 911 system in the cloud. That's changing, and it seems to be changing fairly rapidly. We've said that business for us has been mostly license-based and even up through this year, just a handful of cloud deals. But we now think that next year maybe as much as 25% or so of our business in public safety will come to us through the cloud. So we're excited about our opportunities there, and it feels like it's a business that we've got a lot of upside for."

  - Universal Display Corporation (OLED)
    - "I think certainly, the industry continues to grow. We would expect, in the years ahead, we're going to sell significantly more material than we have in the prior years. So along those lines, you would expect ASP per unit to decrease based on those volume price breaks that you've alluded to. That said, we've been able to maintain really strong -- we fill pricing power in our contracts, feel very comfortable with the pricing structures. And on the cost side, we're continuing to identify ways we can get more efficient and effective as well as achieve more operating leverage in the business as we grow and produce more in the future."
    - "So OLED TVs are maybe 2%, 3% of the market right now. You have LG, most of them. Samsung, just coming up. I think your definition of choppy is exactly that we had the last 3 years of the pandemic and with China has become very choppy, we had a great consumer electronics move up in the early parts of the pandemic, and it's been slowing down ever since. But we think in the long term, OLEDs are the technology of choice for basically all electronic displays."
- Consumer Discretionary
  - Five Below (FIVE)
    - "We liked Black Friday. We didn't see the lull in the middle of December, which we've seen several years. . .And it was a really no surprise holiday for us other than if I could have taken away those 2 winter storm events right at the end there."
  - KB Home (KBH)
    - "after peaking in November, cancellations declined in December and we anticipate a further moderation in January and February. A significantly higher percentage of our buyers are locked on their mortgage rates as compared to our 2022 third quarter."
    - "These buyers, together with our buyers who are paying in cash, which has also increased slightly sequentially, represent close to 80% of our backlog, giving us confidence in our ability to convert our backlog to closings."
    - "While we recognize that price is the most effective sales lever to generate new orders, we also know that if we lower the base price in the community on new sales, many buyers in backlog will expect to receive a similar reduction, regardless of the rate in which they may have locked their loan. As a result, it is typically not

advantageous for us to lower the base price to a market clearing point in our high backlog communities as the impact to the prices of homes already sold could be significant, particularly in what is traditionally a slower time of year for sales."

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    - "particularly in what is traditionally a slower time of year for sales. That said, we have adjusted pricing in communities with smaller backlogs or where only a small percentage of that backlog would be impacted. The market turned very quickly in the 2022 second half as interest rates rose."
- Macy's, Inc (M)
    - "those peaks were in line as we looked at the Thanksgiving week and the week after. Week 1 of December, where we had Cyber Monday and it exceeded the peaks as we looked at weeks 4 and 5 of December. So holiday gifting and post-Christmas where it wasn't in line and where we had deeper lulls than we expected was in weeks 2 and 3 of December as well as when we think about going into the holiday timeframe weeks 1 through 3 of November"
    - "We do believe that the consumer will remain under pressure. . .Clearly, for the holiday season, folks were buying toys. They were buying occasion-based items, they were buying gifting. But for things for themselves and their homes, that's where we saw the drag with regards to the lull that Jeff spoke to. But as we look at our credit card data, there are some indicators that continue to trend in a direction which is payment rates are deteriorating, debt balances are higher. And that's just an indication that the consumer just has less capacity to spend. As we look at the macro factors, we see that inflation continues to outpace wage growth, wage growth is beginning to slow down. Inflation is beginning to slow down, but the capacity to spend is really under pressure, and we believe that, that's going to continue into 2023"
- Planet Fitness, Inc. (PLNT)
    - "Gen Zs really took away from COVID the benefits of fitness, not just waistline, but mental health. And the acceleration -- I think about Gen Zs today are our second largest member base of our 17 million, pre-COVID they were our smallest member base."
    - "the costs are definitely up to build a Planet. If pre-COVID it was $2 million and change, it's up 20% today. Now some of those inflationary pressures are coming down. But franchisees pre-COVID we're typically ahead of their area development, new store build obligations."
    - "we raised our annual fee from $39 for every member to $49, every new member that joins. We also raised our Black Card membership, was about 63% of our membership. In May of '22, we took it from $22.99 to $24.99, again, on all new members. The beauty of that is, while there are some headwinds on construction costs, every new store that gets built, will now have virtually all of the new members paying $49 annual fee when they come up and also paying $24.99 for the Black Card."
    - "our system has about 120 franchisees. It was probably 140 or so last time we were here in 2020. So it's consolidated a little bit. About 12 of them are private equity backed. They're among the largest but they're not the top 12. We do have a couple of independents who are in the top 12. They have a defined time frame that they

want to get out of this business or exit and take some chips off the table in whole or in part. And so they have an incentive to build because while it might cost you $2.5 million to build a new Planet, you're going to get $6 million to $8 million on the exit for that store. So it's the more you build, the more you're going to make. So we want people to build thoughtfully and not build aggressively so that the membership growth can keep up and support the store and the economics that they're used to, but they do have an incentive to hit the gas."

- Consumer Staples
  - Performance Food Group Company (PFGC)
    - "the biggest thing is labor right now. That's what really hasn't normalized to pre-COVID levels. And the other thing that still exists is this big variance versus the previous year from a week-to-week basis. An example would be last year, December was actually pretty strong. People were back with Christmas parties and holiday parties and all that. And then Omicron hit. And it really went down."
    - "we've redone just about every agreement that we have with the customer to get a better margin profile Now it's a matter of getting the productivity back to pre-COVID levels that will do a lot for our business. And then also the inflation is dropping, and it's dropping at a fairly quick pace, at least inflation versus previous year to the point where there's no real sequential inflation, but that period of time where we went through the sequential inflation was very good from an inventory gain pickup."
    - "our customers, when you talk to them, how are they feeling about the economy? I said, "I don't know, all they talk about is labor." I mean they've got labor issues beyond what we deal with. And a lot of them just aren't open the amount of days and the amount of hours that they used to be open. And a lot of them aren't coming back."
- Industrials
  - Acuity Brands, Inc. (AYI)
    - "There are 2 themes that we are focused on. First, there's obviously uncertainty around the economy, inflation and interest rates, which we know will affect our business over time. Second, we believe that as component availability improves, lead times will improve and backlog levels will return to normal. We are beginning to see this in our business. We are well positioned in a variety of our end markets and our continuing investment in product vitality and service positions us well for these dynamic environments."
  - Commercial Metals Company (CMC)
    - "we continue to experience strong market conditions and see signs that strength will remain. We are well aware that recessionary concerns are growing in the investment community and being reported in the financial press, and we are monitoring conditions closely. However, looking at our business, we see no meaningful signs of a slowdown."
    - "Demand in the first quarter was stable at strong levels across our product lines in major geographies. Most key indicators that lead rebar consumption by 9 to 12 months point to growth ahead. These indicators include both external and internal metrics that have been historically reliable in our indices we've referenced in past market commentaries. Let me review several of these key external indicators. The Dodge Momentum Index which measures the value of nonresidential projects entering the planning phase, reached a record high in November. The reading

highlighted strong growth in both the commercial and institutional components of the index, rising 28%and 21%, respectively, from the prior year. We recently began monitoring a separate Dodge indicator that tracks the value of infrastructure projects entering the predesign and design phases. The value of these projects is up significantly from the prior year, likely signaling that federal funding is working through the pipeline and will soon begin to impact on the ground construction activity. To give a sense of magnitude, the value of projects tracks by Dodge's Design Phase Index over the last 3 months was double the prior year and was 12x higher than 2 years ago."

- "CMC's own internal view also gives us confidence going forward. Our downstream bidding activity remained at historically high levels during the first quarter, driven by a broad range of project types in both the public and private sectors. As can be seen on Slide 9, our downstream backlog continues to grow on a year-over-year basis when measured in terms of both value and quantity."
- "there are structural trends underway that will support strong domestic construction activity. The first, which I've already mentioned, is the federal infrastructure package signed into law a year ago. At full run rate, this plan is expected to increase federal funding for core rebar consuming projects such as highways, bridges and related structures by 65% compared to the FAST Act that it replaced. We estimate the impact will be 1.5 million tons of incremental annual rebar demand within a domestic market of roughly 9 million tons, representing an approximately 17% increase in consumption. Spending is expected to ramp up over 5 years and assuming typical time frames for project approvals, bidding and awarding, we should begin to see some impact on construction activity in calendar year 2023. The Dodge data I discussed earlier supports this view. Another meaningful structural trend is the reshoring of critical industries. We have previously mentioned the massive scale and pace of construction of new semiconductor facilities. Currently, there are at least 11 facilities planned to be constructed with related total investment of over $275 billion. CMC is already shipping to several of these projects, but most are yet to break ground and impact rebar consumption. Semiconductor chip and wafer plants are the highest profile examples of reshoring, but other industries are also experiencing increased activity or project planning. These include LNG facilities for the export of natural gas, chemical and plastic plants as well as the automotive supply chain with a particular focus on electric vehicles and battery production."
- "The last 3 years have exposed the vulnerabilities of concentrated global supply chains structured to operate under stable conditions and cooperative political regimes. The pandemic and geopolitical turmoil have reminded us of the need for a more distributed set of sourcing options, ensuring reliability and flexibility in securing critical materials and equipment. Eventually, we expect reshoring to extend well beyond the areas we just discussed."
- "construction activity continued to grow on a year-over-year basis during the first quarter. However, residential activity, which has been strong for more than a year, is now showing signs of a slowdown due to the impact of rising mortgage interest rates. New mortgage origination has declined meaningfully over the last several months. However, programs are being developed to support first-time homebuyers, which should attract more market activity by mid-calendar 2023."
- "we've had some very large jobs that just -- it's all about the timing. Overall, we are

monitoring it carefully because we're all familiar with all of the economic concerns. And we continue to see a very, very strong pipeline of bidding and confidence in the owners of these projects that they're going to move forward, the industrial projects in particular, balance sheets are really strong. Companies have the cash. They're not dependent upon financing to move those projects forward. And those types of projects, once they get booked and they're funded, they will get completed. So we are not seeing an increased activity in rebids. We are not seeing increased activity in cancellations. And we remain quite encouraged going forward."

        - "As it relates to the Infrastructure Bill, it was very encouraging and eye-opening to see the trend in the preplanning and design phase numbers that I believe I quoted Dodge reports those. And there has just been a massive increase year-over-year in infrastructure, preplanning and then moving into the design phase. And once it's into the design phase, then, of course, it moves into active projects and bidding and then orders for steel. . .you use kind of those historical references, so it takes 12 to 24 months for those projects to translate into activity on the ground. We think the back half of 2023, those are going to start moving into the backlog and starting to come to fruition and then build from there."
- Materials
    - WD-40 Company (WDFC)
        - "we need to realize a huge growth potential present in emerging markets. I believe the long-term global market growth opportunity for WD-40 Multi-Use Product is over $1 billion, and that the fastest growth will be achieved in our emerging markets. With this end in mind, a new dedicated emerging markets team has been created to drive faster growth in this critical area."
- Healthcare
    - AbbVie (ABBV)
        - "The event that we have all been long planning for here at AbbVie, the U.S. HUMIRA loss of exclusivity, which will begin later this month, will have an impact on AbbVie's total performance in the near term. We've now secured HUMIRA formulary access for more than 90% of the U.S. covered lives this year. When we issued formal 2023 guidance, our fourth -- on the fourth quarter call, it's important to note that the lower end of our EPS outlook range will represent floor earnings for the company. Regardless of the shape of the erosion curve over the next 2 years, we do not anticipate that 2024 earnings will be lower than the initial 2023 EPS guidance given that the momentum and growth from another year of our broader portfolio is expected to more than offset any potential incremental HUMIRA erosion that could occur in 2024."
        - "We continue to anticipate a clear path to strong sales growth in 2025 with high single-digit compounded annual growth rate to the end of this decade. . .Following the U.S. HUMIRA event, we expect AbbVie's revenue growth to be among the highest in our industry. We will also have one of the lowest LOE exposures through the end of this decade, and expect our strong business performance will generate substantial cash flow to support our capital allocation needs. This includes investing in innovative R&D across our therapeutic categories as well as the capacity to continue to do business development to augment our pipeline and our portfolio."
        - "Over this 2-year time frame, we expect proof-of-concept data from more than 15 early and mid-stage programs. These programs have the potential to drive additional growth for AbbVie over the mid- to latter part of this decade. So in

summary, what I'd say is we are obviously executing well across the business. We've assembled an impressive set of diversified assets, and that gives us a tremendous amount of confidence in being able to drive the long-term growth outlook of our company."

- Bausch + Lomb Corporation (BHC)
    - "Over $50 billion are the eye health markets in which we participate, so very large markets. And these markets have very what we believe, durable tailwinds or megatrends that help drive this business."
    - "We think we're uniquely positioned as being the most integrated eye health company. And what do I mean to that? We are clearly in the surgical business. And within surgical, we have instruments, we have consumables. We have implantables. We have the actual devices. . .on the prescription side of the business, we have over 100 prescription pharmaceutical products, so it clearly gives a lot of portfolio there. We also have contact lenses and we are the #1 player globally in consumer health. So a very diversified integrated approach to solving the needs of eye health is our approach."
    - "as you look at the eye health market, it is a market that is very large, over $50 billion. But importantly, it's a market that is going to be driven by a number of megatrends or tailwinds that will ensure continued growth into the future and being very durable. . .First and foremost, the older you are, the more eye health you need. The data suggests that if you're over the age of 65, you're going to need about 10x more eye health than someone under the age of 65. So that's going to drive as the older population, demographic support going to drive some significant demand in eye health products going into the future. We all have heard about the rising diabetic prevalence. I won't say much about that. But the other area is the growing prevalence of myopia. I think it's been coined to be the myopia epidemic. That's something that we clearly are looking at. And the importance of myopia, there's a couple of things I'll say. If you think about where it's been, in the 1950s about 20% of the population had myopia. Today it's up at somewhere around 40% of the population. And by 2050, it's expected to be about 50% of the population having myopia or nearsightedness. Now that's important, certainly for the vision correction side. But when you get to myopia and get to the high dioptermyopia, you also have to be concerned about as risk factors for everything from retinal detachment, glaucoma, macular degeneration. So there's some important other causative problems with myopia that we want to make sure that we're able to help patients through. And then, finally, one of the questions always is why is it rising by that rate? And I think it's a large part of it doing what I'm doing right now, looking at a screen, looking at a computer screen, looking at kids, especially like playing video games, looking at iPads, iPhone is all driving this incidence of myopia. . .And that's going to lead you to driving of the growth anywhere that what we refer to as mid-single-digit growth, 4% to 5% growth rate for the overall eye health market, a big market with durable growth trends."
    - "Bausch + Lomb is not a guarantor of the debt of our parent, Bausch [Healthcare]. So I think that's another important comment. And then just recently, on November 29, Bausch Healthcare, our parent announced that they are unrestricting Bausch + Lomb under the Bausch Healthcare debt covenants, which gives us one more degree of separation from our parent."
    - "We've got 15 launches that we planned for 2023. So that obviously gives us the

momentum for further growth in '23and beyond. And we have a strategic ability to mitigate inflation with pricing. We did take pricing in 2022. We also have the opportunity to do that again in 2023. So clearly, those are all what I would view as some of the real positive business fundamentals."

    - "We are also to be clear, though, monitoring the macro market conditions. We're not immune from that. We think eye health as a business is recession-resistant, but not recession-proof. But we do think it's resistant from the recession, mostly because of how consumers prioritize the eye health of their business and how it's so important. And also, I mean, one of the questions that many have asked me over the past day now is, well, what's going to happen if we really go into recession, will your cataract surgeries fall off a cliff? And we've looked at that data, and there's 2 things I'd say on that. While we are aware of the recession, one of the things we know about cataract surgery, at least we went back to the data in 2007, '08 and '09 when we had the Great Recession. And we saw that cataract surgeries during that recession continued to increase. So it gives us confidence that in 2023, and if there is a recession, we certainly will continue to see growth. In fact, we are projecting double-digit growth for cataract surgeries in 2023, mostly behind the fact there's been a backlog that has to get made up from COVID in the 2020-2021 timeframe. So clearly strong business fundamentals driven by the overall business."
- Becton, Dickinson and Company
    - "we're well positioned to continue to deliver our long-term revenue growth goal of 5.5%-plus."
    - "While we're in our quiet period and we will report our Q1 financial results in early February, I can share that we are confident in our progress towards achieving our FY '23 guidance. This is true despite the continued macroenvironment challenges, including those that are happening in China as a result of the most recent COVID restrictions that are impacting all companies."
- CVS Health Corporation (CVS)
    - "Aetna has over 24 million medical members, Caremark serves over 110 million pharmacy benefit members, and our retail business fulfills approximately 1.6 billion scripts annually. As you know, CVS Health is positioned uniquely to support an individual's health and well-being at every stage of their life. We finance consumers' health through our insurance products and provide them access to care through our provider network and as part of our Aetna and our Caremark businesses. We provide care delivery and health services through our health hubs and virtual care solutions, and we offer clinical programs for chronic conditions and medication adherence through our Aetna, Caremark and our pharmacy businesses."
    - "Consumers, as you know, have changed dramatically their expectations around health care, and they want healthcare to be delivered with the same convenience, access and digital options that they have in every single aspect of their life. Our goal as a company is to become the leading health care solutions company by delivering superior health care experiences."
    - "We have over 46 million unique digital interactions with our consumers, and nearly 5 million people walk into our CVS Pharmacy every single day. It is our unparalleled proximity to and frequency of interaction with the consumer that is our single greatest advantage that we have in creating engagement, and as you know, engagement is the key to delivering lower cost and better outcomes. Our goal is to both expand and deepen our customer base and our market presence as we

advance our strategy. I want to spend a couple of minutes just talking a little bit about the key areas that makes CVS Health unique. As I just said, we have an unmatched range of consumer touch points, more than any other health care company."

- Danaher Corporation (DHR)
  - "in the fourth quarter of 2022, our estimated core revenue growth was up high single digits, and that's versus a guide of flat to slightly negative."
  - "Now if we switch to EAS, our separation teams are in play. The work streams are progressing well, and we expect to separate EAS by the fourth quarter of this year 2023."
  - "both Danaher and EAS, the separation allows both companies to reach their full potential as separate and public companies."
  - "it's an outstanding $5billion lineup of the leading franchises in the most attractive areas of water quality and product identification. In fact, what you have here are razor/razorblade business models with spec'd-in consumables supported by strong secular growth drivers, and in aggregate, a highly differentiated ESG positioning. "
  - "And on the right, you'll see our anticipated long-term performance of mid-single-digit core revenue growth, recurring revenues of over 50% and adjusted EBITDA margins of 25% with very strong cash flow. And of course, now EAS will have the ability to deploy that capital with a bias towards M&A with meaningful cash deployments."
- Elanco Animal Health (ELAN)
  - "The $14 billion global pet health market is poised to continue growing in 2023, albeit at a slower pace as the post-COVID normalization continues, and a weaker economic environment is expected for at least a portion of the year. As in recent years, growth will continue to be driven by, one, an increase in pet ownership, the increased global movement on humanization of pets, while on the other side, vet labor and capacity constraints are expected to persist in 2023. We expect, as always on the Pet Side, innovation, increased compliance and convenience enabled by e-commerce will drive growth."
  - "Shifting to the farm animal side, a bigger part of the industry, this $22 billion global industry is expected to grow in2023, driven by the continued rise in global demand for animal protein, which is linked to GDP, but also the continued popularity of high-protein diets, and an important factor, efficient global trade. As the demand for protein increases, the importance of sustainable meat production has never mattered more. The intersection of both calories and climate creates the next industry opportunity, we believe, and positions livestock well to be a major contributor to the climate solution not the problem. We expect these growth drivers to be balanced by elevated input costs, primarily feed, that remain at historical levels as well as some drought and disease."
  - "Pet retail kind of had a little bit of a perfect storm, but I stepped back and say, we did the Bayer deal saying, "Hey, really, really important in the pet business globally, omnichannel matters, meeting pet owners where they want to shop. We still have over 1/3 of pet owners that don't go to the veterinarian maybe this economic pressure that even increases being able to say, hey, many price points, many SKUs, scripted product, unscripted product, topical, oral and collar, all of that matters. And as we bring our pipeline that will matter. So I would say we don't see any change in that globally"

    - “the pet owner has -- it's easier to be compliant. There's drop shipping delivery to the door much easier even at the vet clinic. All of these things drive convenience.”
    - “Pet ownership is up, continues to climb. The humanization of pets even globally. International matters a lot more than it did in 2008 that's going to be a factor. And there's more price points and more channels.”
- Enovis Corporation (ENOV)
    - “Something that makes us unique is that we're the only player in orthopedics that plays along the full continuum of care, from before surgery to surgery to the recovery after surgery. And historically, this has been an advantage as we were building our surgical business, the well-known DonJoy brand, and presence was something that helped us to get people to take a look at our great surgical products like our Empowr Knee that is just a better knee. And so we've had synergy over time from this position in the continuum of care. Today and going forward, there's even more strategic leverage from this continuum of care. The rapid growth in the ASC is leading to often entities that have multiple areas of participation within this continuum of care. They've got a surgical theater in ASC. They got rehab right next to it. And we already participate in the rehab side. Now we're involved in the surgery. In many cases, we've also got workflow solutions for their orthopedic clinics that are adjacent to that. And so the trends towards more ASCs are advantaging a player like us that plays along this continuum of care.”
    - “the new opportunity in connected medicine, which is early days in terms of things like connected braces that can follow the patient journey throughout this whole continuum are something that really creates a real opportunity for someone like us that plays before, after and during surgery to create strategic advantage over time.”
    - “We talked on our quarterly call in Q3 about elective surgery trends, expecting kind of a normal seasonal increase as in the fourth quarter, which would then set things up well in terms of how things would roll over into 2023. And everything I've read supports that, that there was kind of that normal seasonal uptick. There's a few things about maybe some extra vacations in December and things. But by and large, everything I've read says that elective surgery saw that normal seasonal uptick. We also have a number of clinical businesses that drive our orthopedic clinics and get people getting into orthopedic clinics. I think if you look at a lot of the public information that's out there from the fourth quarter about med tech businesses that are in clinics, I think there's some -- there was some pressure in the fourth quarter in terms of clinic traffic and staffing issues and things like that. And so I think some transitory kinds of things going on in the clinic driven parts of the business, elective surgery, normal seasonal uptick.”
    - “So we've got quite a lot of deals done in the last 2 years, but mostly not last year. We did some smaller things last year, but most of the deals we did were in '21, '20, even late '19. And so we've been, for the past year more focused on successfully integrating than on doing the next wave. At the same time, we've been doing a lot of work, a lot of strategy work and a lot of cultivation work getting things coming through the pipeline. And so I see great opportunities here in '23 to get some good deals done that move the ball forward in terms of the strategies of our businesses continue to shape our business in a positive way.
    - “I think the environment for acquiring companies has gotten a little bit better. There was a time period there where everybody was going to -- they're going to go public for some huge valuation unless you wanted to buy them. And that's past. And now

I think you can have -- even with very high-quality businesses, you can have a rational discussion about value. And so I'm quite optimistic with the firepower that we've got, with the track record we've got and the opportunities we've got in the funnel. I'm pretty excited about the kind of things we can do this year and next year."

- Envista Holdings Corporation (NVST)
  - "for us, this is the beginning of a transformation and the beginning of a road ahead."
  - "Dental market, if you look at out-of-pocket insurance, all of that, it's about a $350 billion spend worldwide. About half of the population, they have missing tooth. About 5 billion people that have Malocclusion. And as you see a whole lot of significant opportunity for aesthetic, older population, increasing focus that you've seen in some of the emerging markets."
  - "There are, give or take, about 2 million clinicians worldwide. So this is -- it's not changing radically. The shift is taking place a lot more female, over 55%, 60% of the dentists that they're coming out of schools are female now."
  - "And a good way to look at it is dentists per capita. Germany got 85, China got 45 This gives me a little bit of a feel about 65% American as a whole, they have access to dental care. It doesn't necessarily they use it less than 7% in Latin America. So this is to a large degree a more of a elite industry that hasn't yet democratized."
  - "So there is a lot of investment is coming and the industry is bifurcating to the specialized ortho, endo, implant, high margin, really specialized and more of a day-to-day stuff, hygiene, break-fix type of pain management, proactive management is preventative and that is really changing the nature of the industry and where the money is going to be spent."
  - "in the next 3 or 4 years, 22.5% margin."
  - "Consistent with what we had said before. We're not seeing anything radically different and it causes us to think anything differently. We feel that when we put those guidance in the long run, we had contemplated a little bit of uncertainty, volatility in various places. And we feel pretty confident that the 2026 other years guidance that we have given is intact, a result that we have seen in some of those areas is consistent with what we had said before."
- Illumina, Inc (ILMN)
  - "Our mission at Illumina is to improve human health by unlocking the power of the genome. Illumina sequencers enable researchers and clinicians to accurately read genomes, decode how they translate into health and disease and to leverage those insights in patient care. Our vision is that genomics will transform lifetime health management. Billions of people will have our genome sequenced many times over our lifetimes to prevent and optimally treat, improving outcomes and lowering costs as we fight disease. Carrier screening and noninvasive prenatal testing will be standard. Newborns will be sequenced as a frontline diagnostic for suspected genetic conditions. Genomic testing will be routine for early detection of diseases, including cancer and neurodegenerative diseases. And therapy effectiveness and recurrence monitoring will be required at every progressive treatment line. Illumina touches every step."
  - "By 2027, our addressable market will be $120 billion, a sixfold increase from 2014 as clinical oncology, genetic disease and reproductive health testing expand and new research modalities like multiomics, single cell and spatial emerge. Our market today is only 7% penetrated, going to 14% by 2027, driven by increased adoption of

genomics globally. Illumina is at the center of this rapidly growing genomics landscape. We have unmatched scale, differentiation and diversification. We serve over 9,500 customers across 155 countries with an installed base of approximately 23,000 instruments. In 2022, we delivered over $4.5 billion in revenue, with more than 80% of our revenue coming from recurring sources, including consumables and services. We achieved this through our relentless focus on innovation. We have over 8,800 patents worldwide and invested $1 billion inR&D in 2022."

- "This (NovaSeqX) represents the strongest pre-order book we've seen with any Illumina instrument launch. And this demand will catalyze a multiyear upgrade cycle. Over the next few years, we expect average pull-through for NovaSeq X to comfortably exceed NovaSeq 6000's as NovaSeq X unlocks the market's demand elasticity, enabling more samples, more analysis per sample and more sequencing intensity per analysis. There are 3 major factors contributing to the growth of samples. First, genomics combined with clinical information can increase drug discovery success by up to 150% and reduce costs by up to 50%. To achieve this, we need more samples over time and from a more diverse population. . .Second, new areas in oncology include a broader group of patients and more testing per patient. MRD testing is done multiple times for those undergoing cancer treatment and those in remission. In early detection, anyone over the age of 45 with a family history of cancer or other risk factors will be tested regularly throughout their lifetime. Together, these expand the population tested on a repeated basis by 100 times. Third, techniques such as single cell and spatial analysis are creating multiple samples from what used to be a single sample. NGS forms the basis of deeper molecular analyses of these samples."
- "the second driver of elasticity. Researchers and clinicians are additionally running additional omics analysis on a single sample for a more comprehensive molecular understanding. NGS is enabling these analyses at scale as it did with DNA, and the cost and workflow of NovaSeq X will accelerate this trend. For instance, researchers are increasingly conducting whole transcriptome analysis at scale to get complete mRNA information in addition to DNA. Also, NGS is, for the first time, enabling scaled proteomics research with simultaneous analysis of thousands of proteins from hundreds of samples. NovaSeq X reduces the cost and data analysis barrier and with multiple flow cell lanes, provides flexibility to do multiple analyses at the same time on the same run. These capabilities enable new studies to include genomics and proteomics where genomics may have been the only thing considered previously. For example, the U.K. biobank recently partnered with Olink for proteomic analysis of 50,000 of their 500,000 biobank samples. Third, customers are increasing the intensity of sequencing for each analysis, looking for more sensitivity, specificity and information from each sample. We're seeing this in cancer testing as customers move from small panels to comprehensive genomic analysis, increasing the output per sample by a factor of 5. And the expansion of liquid biopsies due to lack of available tumor tissue, the reduced cost and better patient compliance translates to 12 to 15xmore sequencing than solid tumor testing. We're seeing this growth already across customers engaged in liquid biopsy testing. Lastly, as costs for sequencing and bioinformatic analysis decrease and workflows improve, there is a trend towards whole genomes rather than panels, increasing sequencing intensity by 40 times. Many customers, including CeGaTin Germany, will use the cost and efficiency benefits of NovaSeq X to accelerate this trend. NovaSeq X's

higher output per analysis enables customers to rethink analysis for their projects in ways that they weren't even considering before. Multiple customers have said that the NovaSeq X enables them to start with genomes in projects that were previously exome-focused."

- "Over the last decade, Illumina has built a clinical infrastructure with deep expertise, scale and reach. Clinical consumable shipments were $1.3 billion in FY 2022revenue, representing 45% of our total sequencing consumables. We serve more than 5,000 clinical customers with10 IVD EUA product families and 1,200 product registrations and regulatory approvals of over 62 countries. Our instruments, reagents and software are core components of many of our clinical customers' workflows and processes. Oncology represents a $78 billion market for sequencing. In the next 5 years, we expect NGS penetration of this market to grow at a 30% CAGR. Multiple trends are driving this growth. Tumor-naive approaches will be used in pan-cancer targeted therapies requiring deeper sequencing and more liquid biopsy. Pharma drug development will drive dollars towards applications, including vaccines and targeted therapies, and patients will have multiple tests over their lifetimes. We see significant need across the cancer journey, starting with early detection. The GRAIL Galleri blood test is the only commercially available multi-cancer early detection test, addressing a $44 billion early screening market. Galleri's blood test screens for more than 50 cancer types, 45 of which do not have another recommended screening test. And it's the only test which pinpoints cancer location with 89% signal of origin accuracy. With its breadth and precision, GRAIL is predicted to avert 1 in 3 cancer deaths over a 5-year time frame. In addition to Galleri, GRAIL is working on a unique multi-cancer MRD test that doesn't require a tissue biopsy and enables a 2 to 3x reduction in turnaround time relative to customized approaches that require tissue biopsies."
- "Q4 margins came in close to where we were expected, maybe slightly higher as we continue to drive efficiencies through the process. But 2023, we had said that gross margins would be towards the lower end of the range, high 60s to low 70s that we have provided. The reason for that is quite simple, right? It's the first year of a major instrument launch. We expect the mix to be skewed more towards instruments and therefore, lower margins. Now of course, as we move forward, we do expect that, as Francis mentioned, right, demand elasticity will pick up. You'll have more of the consumables, and we expect to see gross margins improve as we go into 2024 and beyond."

- Intuitive Surgical, Inc. (ISRG)
  - "Supply chain disruption was significant in the year. It's gone up and down. It's abated a little in some places, but it's not all the way gone. Inflation in costs, inflation in supply chains continues. I don't think we're through with that yet. You've all seen foreign exchange impacts on revenue. Staffing constraints in some hospitals, in some countries, have put pressure on surgery."
  - "if you just look at the systems we have in the market, and this is da Vinci and our da Vinci SP, in the countries in which we operate for the clearances, for the indications we already have, we think there's about 6 million that ought to be done this way. And I just said, we came in at about 1.9 million. So for the products that we have, we think we're less than 1/3 penetrated."
  - "But the things we're working on, additional indications, Ion and its growth, new ideas for SP are not yet in that 6 million. We think that opportunity gets a lot bigger,

up to 20 million over time."
    - "I think there's decades of opportunity in doing technology-enabled ecosystems to address acute care, which is how we think of ourselves."
    - "4-way win. It's a win for the patients in terms of better outcomes and their experience. It's a win for the care teams in terms of their experience and the amount of work they have to do. It's a win for the hospitals and providers. And we are seeing in our data that it is a win for the payers, lower total cost to treat per patient episode. It's actually a win across the floor,"
    - "What are we trying to do in digital? We want to make sure that we support clinical workflow and decision-making, that's an integration of what we get. The data we get out of operating rooms and integration with hospital's electronic medical records. We want to accelerate learning. I talked a lot about variance and care teams."
    - "I think Intuitive is an opportunity to show with data what that variance really is and to use machine learning techniques to be able to identify the sources of clinically relevant variation."
    - "Come to the end of Q3, what we saw was customers resolve that process, start to establish what their priorities are. And more recently, what we've seen on the capital front is where customers have healthy growth in robotic procedures, da Vinci is a relative priority in their capital budgets. And so we saw them then invest in Q3 and Q4, and you see that kind of reflected in the results. As you talk to customers from a capital perspective, they are clearly still cautious. I think staffing pressures are better today than what they were earlier in the year, but labor costs are still higher than, let's say, pre-pandemic levels."
    - "Vacancy rates are still higher than pre-pandemic levels, even though they're a little better. And of course, those customers that have debt have higher interest rate, expenses, et cetera, supply chain and inflation is having an"
    - "customers that have debt have higher interest rate, expenses, et cetera, supply chain and inflation is having an impact on everybody, including customers. I'd characterize the capital environment as cautious. When you look at, let's say, '23, what our customer is doing with their capital budgets, I don't think we have here any particular highlights that I would kind of comment on. I would just say that customers are cautious."
    - "There's still a number of risks and uncertainties in the macro. There's a question of whether there'll be recessions, we'll see. So I'd characterize it as cautious."
    - "You want the entirety of the instruments and accessories, the imaging systems, the data that wraps it and you need the dependability. We think if we do that well, customers will evaluate other options."
- Laboratory Corporation of America Holdings (LC)
    - “As I look to 2023, I'm excited about 2 strong independent businesses, our Clinical business as we spin it. It has historically grown at about 8%, and we expect it to grow in the high single digits. And if you look at RemainCo, which will now be the largest laboratory business in the world. We expect – that business historically has grown about 4% to 5%, and we expect that business to grow in the mid-single digits.”
    - “the number of tests per accession is still significantly higher than you would have expected based upon where we were in 2019. We don't know the exact reason for that. We hypothesize that because people aren't necessarily going for well checkups as much as they had in the past, that physicians might be doing more tests when

    - "the inflationary costs that we've dealt with continue to be there. So there's a headwind but less of a headwind than what we've realized before. But the positive is that we're seeing the stronger top line growth. So between the top line that we're getting, between the LaunchPad business process improvement initiative we have, we can absorb, as Adam said, the higher inflationary costs that are out there while still driving margin improvement next year."
    - "I think pathology remains a whole separate discussion. I think digital pathology is where I think you're going to invest and see future changes. And you're still going to need pathologists. But you're going to have much better AI and artificial intelligence to help with the diagnosis and officers in digital pathology. In terms of how many tests can you do with smaller quantities of blood. We're always looking at that -- we're studying that. At this point in time, it's not there. But 10 years from now, will there be additional devices that can get the type of blood that you need to run a larger battery of tests? I think probably so. It's just going to take some more time."
- Medtronic (MDT)
    - "While it hasn't yet translated into our financial results, we have an aggressive transformation underway in the company. And I'll share with you today how the actions that we're taking get at the root causes of what's held Medtronic back and cover some of the proof points that these changes are working. I'll talk about how we're improving our operations, supply chain and quality and working to make our scale and synergies across the company actually count. We're also implementing changes to how we allocate capital and how we think about the portfolio, including divesting noncore assets. And all of this is geared toward getting to a faster and more durable growth. And as we look at the portfolio, I'll share with you how we're thinking about our mix of businesses and how this leads to a mid-single-digit organic revenue growth company and how we expect growth acceleration starting now in the back half of our fiscal year."
- Mettler-Toledo International Inc. (MTD)
    - "The trends of automation, productivity and digitalization and compliance are also very relevant for our customers in manufacturing or production. Labor shortages, higher throughput targets and more recently, near-shoring in higher-cost countries to mitigate supply chain risks continue to accelerate demand for industrial automation to enhance productivity on the shop floor."
- Teladoc Health, Inc. (TDOC)
    - "Our virtual care platform now serves over 80 million people, and that platform enabled over 21 million visits just last year in 2022."
    - "Bookings in the first half of the year had been slower due to a lot of the macro-environmental things that were going on and the fact that more and more, we're selling a more complex bundle of services that legitimately elongates the sales cycle. The third quarter was a strong quarter, and the fourth quarter came in just about exactly with our -- in line with our expectations. So we closed the year with bookings for the full year '22 very similar to bookings for the full year '21."
    - "I want to turn to our BetterHelp direct-to-consumer mental health business. There's been a lot of questions and a lot of talk about BetterHelp. And I think it's because it's been so successful, right? We just announced as part of our 8-K this morning that BetterHelp did over $1 billion in revenue in 2022. That's staggering

growth. Over 1 million people received therapy over the course of '22 from BetterHelp. With nearly 50 million interactions with therapists and over 25,000 therapists on the platform. This is incredible scale and incredible impact. More than 50% of people in this country who are in need of mental health don't get it. And BetterHelp is a better modality, it's more accessible and it breaks down barriers to getting care that people need. And it's a business that benefits from scale. More data, more innovation leads to better matching between a therapist and a consumer, which we know drives better outcomes and stickier relationships. And better engagement leads to better retention and there's a brand halo to this. BetterHelp is by far the leading consumer mental health brand in virtual therapy."

    - "I think the biggest difference postpandemic is consumer expectations, right? Consumers have gone from thinking about virtual care for limited episodic capabilities to really looking to longitudinal relationships, holistic relationships that are more than virtual urgent care, right, and that take care of them regardless of what they need but also are integrated with the physical delivery system. And as I look towards '23 and beyond, that's what we're seeing from buyers, right? Buyers -- we go out and do a lot of buyer research, right, among health plans, among large employers. And what we find is, whereas pre-pandemic the majority of buyers were looking for individual point solutions. We're now at the stage where it's 50-50. 50% of buyers say, "I'm looking for best-of-breed individual points, and I'll do the integration of them." And the other 50% are saying, "I'm tired of all that. I'm sick of doing the integration myself, and I realized that unintegrated point solutions don't deliver on the full capability." And so I think that's why 75% of our sales last year were multiproduct sales."
- Thermo Fisher Scientific (TMO)
    - "The end market has been very strong. And while there's clearly lots of noise in the investment community, customer activity is very high, right? So if I look at authorizations in our clinical research business, if I look at bookings, if I look at the pipeline of activity, if I just even think about what I'm hearing from customers in the meetings they have, customers are advancing their pipelines. That's what they're focused on, right? So the end market continues to be very strong. We saw certainly a period in 2020, 2021 where if you had a good PowerPoint presentation, you could get funding, right? And I'm not sure that, that is -- that's not necessarily the best environment. That has shook out. And -- but that's not having a material effect on the end market, right? And when you think about some of the potential blockbusters, whether it's Alzheimer's or weight loss, that bodes well also for what the industry's future is."
    - "China will continue to be one of the fastest, if not the fastest-growing geography for the company in the long term, right? Just the demographics, the focus on a healthier China, those things will drive strong growth, right? And we feel good about that."
- Veeva Systems Inc. (VEEV)
    - "So this is how we operate the company. Building the industry cloud for life sciences. What we mean is software data, high-value consulting to help the industry get more efficient and effective. We want to be essential to each company in the industry and appreciated by each company in the industry."
    - "I would say the industry itself is growing because of science. So when the industry grow -- if we have customer success, when the industry grows, we'll have a tailwind.

Headwinds are, of course, funding. The funding environment has been tough, right, for -- mostly for smaller biotechs. So that's put some crimp on some company's expansion plans."

        - "So if they can't expand, they would buy less from us."
        - "If they go out of business, they would -- and they're not buying very much from us when that happens. So those are probably the headwinds and the tailwinds. I would say also a tailwind for us is we haven't had a type of thing that's been majorly disruptive to the industry, that has brought their focus on to something that is just not related to what we do. We had a little bit of that when COVID started 3 years ago that caused some tailwinds for us in certain areas,"
        - "but it caused some headwinds in certain other areas. It just caused disruption like, "Oh, focus is not on that, focuses on this." I think right now, the industry is in a little more stable."
        - "There's no crisis of the day."
    - Walgreens Boots Alliance (WBA)
        - “this was a landmark quarter for us, and it really showed the build-out of our next growth engine. And it showed that we invested to support VillageMD's acquisition of Summit Health, creating one of the leading independent provider groups in the country.”
    - Zimmer Biomet Holdings (ZBH)
        - “I truly do believe as you see that adoption continue in robotics and data and things like cementless, you're going to see the overall market growth rate in orthopedics go up. It has to, just mathematically speaking, as you're bringing that innovation in. The other thing that innovation does for us, specifically, is when you bring innovation, your vitality index goes up, you're negotiating with the customer changes because now you're bringing in new technology, you've got a longer term contract, and as a result of that, your price stability is better.”
    - Zoetis Inc (ZTS)
        - “So what is the primary driver for livestock? It's protein consumption. So today, across the globe, there's about 8billion people on this planet. It's expected to grow to about 10 billion by 2050. So what does that mean? That means the world is going to have to produce protein that should increase between 50% and 70% to meet that need. It also means in an environment where we need to be producing more, we need to do it in more sustainable ways. We need to find ways to keep animals healthier and more productive.”
        - “pet owners are prioritizing the health of their animals even more. And some of this is driven by who is generating that demand. And that 50% of pet owners today are millennials and Gen Z. And the fact is they see their pets differently. They're much more important parts of their family. They do lots more research. They're much more willing to spend on their pets.”
        - “we did a study at Zoetis. And the reality was, in a hypothetical situation where a family was facing a 20% reduction in their annual income, they wouldn't change the investment in their animal's health care costs at all. And part of the reason why is that animal health care costs are only 0.87% of a household spend. So it's very small. So even if it went up a little bit, it doesn't have a significant impact. But the loss of that pet on the family dynamics has immeasurable.”
- Financials
    - Bank of America (BAC)

    - “Net charge-offs increased this quarter, but asset quality remains strong. Charge-offs are well above both the beginning of the pandemic as well as longer-term historical levels.”
    - “the idea that we're moving off the bottom in credit cost towards a level which is normalizing to pre-pandemic, but that level is very low in the grand context of banking.”
    - “Consumer deposit balances continue to show strong liquidity with the lower cohorts of our consumers continue to hold several multiples of balance that they have as the pandemic began. These balances are drifting down, but they still have plenty of cushion left. And while their spending remains healthy, we continue to see the pace of that year-over-year growth slow.”
    - “Two things to note on that consumer spending pace. There continues to be a slowdown. Year-over-year growth percentage earlier this -- earlier in 2022 were 14% year-over-year. They've now moved to 5% year-over-year in the fourth quarter.”
    - “So you can see the 90 days past due have picked up just a little bit. 30 days past due have picked up just a little bit. We're still well below where we were pre-pandemic, but that would tell you on the consumer side, it looks like it's drifting just a little higher.”
    - “What's different this time, frankly, and that's what we're talking about the consumer data is even with strong rise in interest rates, a less tight labor market and inflation and what people are being told to worry about, you're actually seeing consumer spending consistent with a good 2% growth environment, a low inflation environment, which is good because the consumer is being appropriately conservative right now.”
- Citigroup (C)
    - “the labor market remains strong and holiday spending was better than expected, in part because consumers have been dipping into their savings. The Fed remains resolute in tackling core inflation, however, and therefore, we continue to see the U.S. entering into a mild recession in the second half of the year.”
    - “Also this is such an unusual market in the sense that you've got such strong labor market, driven by, frankly, supply shortage over as much as demand. And we've also got the consumers with still very high savings that they're dipping into, and we're seeing a bit more of the movements happening at the bottom end of all of this -- but this is not going to be like a normal recession [indiscernible] will be about the manageability and the mildness of that likely if we do have one.”
- First Republic Bank (FRC)
    - “Our nonperforming assets at year-end were just 5 basis points. This is low even for First Republic.”
- JP Morgan (JPM)
    - “The net reserve build of $1.4 billion was driven by updates to the firm's macroeconomic outlook, which now reflects a mild recession in the central case”
    - “Starting with a quick update on the health of U.S. consumers and small businesses based on our data. They are generally on solid footing, although sentiment for both reflects recessionary concerns not yet fully reflected in our data.”
    - “Cash buffers for both consumers and small businesses continue to slowly normalize, with lower income segments and smaller businesses normalizing faster. Consumer cash buffers for the lower income segments are expected to be back to

pre-pandemic levels by the third quarter of this year."

  - "In terms of the outlook, the dynamics remain the same. Pipeline is relatively robust, but conversion is very sensitive to market conditions and sentiment about the economic outlook. Also note that it will be a difficult compare against last year's first quarter."
  - "And on investments, while we are continuing to invest consistent with what we told you at Investor Day, it's a more modest increase than last year."
  - "the entry to delinquency rate is the leading indicator of future charge-offs. And it is currently around 80% of pre-pandemic levels. We expect that to normalize around the middle of the year, with the associated charge-offs following about 6 months later. As a result, loss rates in 2023 will still be normalizing. So while we anticipate exiting the year around normalized levels, we expect the 2023 Card net charge-off rate to be approximately 2.6%, up from the historically low rate of 147 basis points in 2022, but still well below fully normalized levels."
  - "like the central case economic forecast has a mild recession, and if I remember correctly, unemployment peaking at something like 4.9%."
- SS&C Technologies Holdings (SSNC)
  - "I don't have an outlook for '23 yet because we haven't put out guidance, but we do expect to lap that and kind of return to a more solid footing. And we are working on a next-generation platform called DomaniRx which is a pretty big bet for us in 2024 and beyond."
  - "Labor markets and things like that have been a little bit of a headwind in that process because you need talent and expertise to be able to do some of these large-scale deployments. That's true within SS&C, but it's also true within our customers. But on the whole, we are -- it's more of a normalized environment than it has been."
- Wells Fargo (WFC)
  - "2022 is a turning point in the economic cycle. The Federal Reserve has made clear that reducing inflation is its priority and it will continue to take actions necessary to achieve its goal."
  - "We are starting to see the impact on consumer spend, credit, housing and demands for goods and services, but at this point, the impact of consumers and businesses has been manageable. And though there will certainly be some industries and segments of consumers that are more impacted than others, the rate impact we see in our customer base is not materially -- I'm sorry, the rate of impact we see in our customer base is not materially accelerating. This plus the strength with which consumers and businesses went into this slowing economy is a helpful set of facts as we look forward."
  - "Our customers have remained resilient with deposit balances, consumer spending and credit quality still stronger than pre-pandemic levels. As we look forward, we're carefully watching the impact of higher rates on our customers and expect to see deposit balances and credit quality continue to return toward pre-pandemic levels."
  - "Turning to credit quality on Slide 7. Credit performance remained strong with 23 basis points of net charge-offs in the fourth quarter. However, as expected, losses are slowly increasing from historical lows, and we expect them to continue to return toward pre-pandemic levels over time, as the federal needs to take actions to combat high inflation."
  - "Turning to the commercial real estate office portfolio. The office market is showing signs of weakness due to weak demand driving higher vacancy rates and

deteriorating operating performance as well as challenging economic and capital market conditions. While we haven't seen this translate to significant loss content yet, we do expect to see stress over time and are proactively working with borrowers to manage our exposure and being disciplined in our underwriting standards with both, outstanding balances and [indiscernible] down compared to a year ago."

- "What I was trying to say in those remarks was the impact on rising rates is continuing to impact customers on a period-over-period basis, and we would expect that to continue, but it's not accelerating. It's much more linear than exponential. And the fact that it's much more linear is actually a very helpful thing because that gives people -- that's just -- that's a more orderly transition to a slower growth economy and gives consumers a chance. It shows that they're adjusting their spending patterns and saving patterns and borrowing patterns to adjust for the reality of higher rates. And on your second question, we would anticipate that we would continue to see deterioration in those metrics continue after the Fed stops raising rates, for a period just because of the amount of time that it takes those things to filter through the economy more broadly. So hopefully, that was helpful."

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