SPREE CAPITAL
ADVISERS

Weekend Thoughts 9/3/22

- Information Technology
  - Broadcom Inc (AVGO)
    - "Let me start by saying while consumer IT hardware spending has been reported to be weak, very weak, from our vantage point infrastructure spend is still very much holding."
    - "it's true end demand what we're seeing with respect to the various end markets and the infrastructure products we sell to -- into those end markets."
    - "None of our products are affected by any action that have occurred over the last week or a few days regarding restriction on shipments of China."
    - "the rebound you might almost say -- feel by perhaps changes in IT spending based on, I guess, lockdowns, based on behavioral changes with COVID-19, we've seen accelerated adoption of next-generation products in many of our franchises"
  - C3.ai (AI)
    - "It is clear that the commentary that we have all been hearing in recent earning announcements about market uncertainty, budget cuts and lengthening sales cycles as the market anticipates economic downturn is real. This was our experience in the last quarter also. Our customers and prospects appear to be expecting a recession, and we are seeing customer purchasing behavior consistent with that expectation. It appears to us that this market downturn could be significant."
    - "The fact of the matter is that similar to what we've been hearing from other companies, we saw a significant change in the business environment in the quarter with the lengthening of decision cycles, and that was particularly accelerated in July. In the course of the quarter, we saw 66 forecasted deals move out in the quarter, many of which we would have fully expected to close under normal market conditions. While we expect that the bulk of these transactions will close going forward, it is clear that the decision processes are being subjected to more rigorous budgetary scrutiny and additional levels of approval authority."
    - "it was a tough quarter out there. I mean we saw a lot of deals move sideways. All of a sudden, that people who have the approval authority to sign deals in previous quarters, all of a sudden, they didn't have the approval authority to sign deals. And so right now, doing a large multimillion dollar or tens of millions of dollars capital contracts and corporations in any industry in the world is tough. . . People are getting ready for -- they're going into a recession footing."
    - "July was a bracing wind. I mean it really was. It was a bracing headwind in July. And something changed. And something significant changed in July in the world. And I mean there were a number of transactions, everybody that I would have bet my life on with people who I know, with whom we've done business before. And many of them existing -- some existing customers, some not. And I mean -- and they move sideways. And so something happened in July out there that was significant. That's definitely not specific to us. This is a macroeconomic phenomenon that affects -- is going to affect everybody."
  - Ciena Corporation (CIEN)
    - "Despite supply chain challenges and elongated lead times, strong secular demand

    trends show no signs of abating. And we remain confident that the fundamental macro drivers propelling this demand are durable over the long term. As we all know, these include 5G, cloud and automation in addition to infrastructure spending, residential broadband funding and opportunities to displace Huawei. Combination of these secular drivers and our market leadership, including our technology, investment capacity and global scale, is driving continued robust demand from customers in both absolute and relative measures."
    - "we're continuing to see very robust orders. We've not seen cancellations. We've seen orders continue to well outstrip revenue and the statistic that I kind of shared about 60% year-on-year order growth for the last 4 quarters, that's sort of a testament to it. And they understand the challenges that we're having. But I think because of our technology and our relationships, we believe that when all of the smoke clears from all of this and begins to ameliorate that we will actually gain share given the outsized demand that we see."
- Cisco Systems (CSCO)
    - "demand is universally strong."
- CrowdStrike (CRWD)
    - "For CrowdStrike, this primarily manifested in the form of increased levels of required approvals on some deals as companies evaluated investment priorities, which can extend the time it takes to close deals"
    - "cybersecurity is not a discretionary line item. Cybersecurity is a priority for CIOs, CEOs and CFOs and Boards of Directors, and our value proposition resonates strongly with these stakeholders. Deals committed to close in the quarter did close in the quarter, and we entered Q3 with a record pipeline."
    - "Over the past several months, I have had many discussions with CIOs, and the message is clear. They are looking to consolidate on a platform like Falcon. They want fewer point products, fewer agents and technologies that consume fewer resources. They need to reduce complexity and simplify operations in their security and IT stack. Complexity is the enemy of security, efficiency and TCO. This business imperative is even more crucial in times when budgets are tightening, which accelerates standardization on trusted platforms that deliver immediate ROI and lower TCO such as CrowdStrike's Falcon platform"
    - "Customers are increasingly standardizing on the Falcon platform, driving module adoption, greater wallet share and larger customers, the trademark characteristics of a generational platform. . .As customers adopt more modules, Falcon is increasingly embedded in their operations and workflows, which we believe leads to higher retention rates and even more opportunities for future expansion."
- Dell Technologies (DELL)
    - "As the quarter progressed, though, we saw demand growth slow a bit in servers versus prior quarters. So we're seeing customers be a bit more cautious in the timing of their purchases given the macro environment."
    - "We think consumer and Chrome decelerate faster in the market than maybe what IDC is reflecting but generally aligned, right? Lower than what we were expecting just 3 months ago. We did see that weakness in the consumer and Chrome space extend to commercial in Q2. Customers still care about their productivity. They still care about the experience their employees are having, but they're scrutinizing and prioritizing how to spend their capital in the short term, we believe. Backlog positions, as I mentioned, are back into normal zones"

        - “So in the long term, we have conviction that PC usage has reset to this higher level than pre-pandemic.”
        - “we're generally seeing demand weaken in the macro environment. And as that gets softer, it's usually followed by a reacceleration. And so again, customers need to continue along their digital agenda. So for the longterm trends, we have seen accelerate really during the pandemic. We don't expect that to change. We expect it actually maybe to even have a step function change acceleration again as 5G, edge, multi-cloud create bandwidth where more things are connected, more data is created. And when that happens, we believe you need more infrastructure.”
    - FLEETCOR Technologies (FLT)
        - “Here in the U.S., it's just going to take a long time. We've got issues around demand, right? All the EVs in the country are in a handful of states, some of which are really pushing hard like California. But otherwise, a lot of folks aren't overly interested or pushing it. It's going to take a long time to get EVs to the people. So we have supply chain issues and other things that are keeping it kind of slow, the infrastructure build-out, the grid, upgrades, et cetera. So it's just -- it's going to take time. But we're planning for that future, right? We're all climate-minded. And so we want to be helpful in that transition. And so we're building products to enable fleets to make the move to EV in a smart way, continue to control all their purchasing, manage their fleets with robust data and then shifting our revenue model a bit to be more subscription based because that's what is important for the fleet manager. It's about the data.”
    - HP Inc (HP)
        - “Although we highlighted pockets of consumer softness during our Q2 call, the environment deteriorated more rapidly late in the third quarter. The strength of our commercial business, particularly in the enterprise, helped us to partially offset declines in consumer demand.”
        - “We saw overall higher channel inventory levels in the quarter, and we expect pricing will become more aggressive in Q4 to address this.”
        - “Looking ahead, the macroeconomic environment remains challenging. Consumer softness is likely to continue in the near term. We also see some companies taking a more measured approach to their spending and new orders showing signs of softening demand in commercial categories.”
        - “the fundamentals from which our long-term strategy is built have not changed. Hybrid work is here to stay. Gaming will continue to grow in popularity. The rise of digital services and subscriptions is unlocking new business models. And industrial markets are being disrupted by new technologies. These are long-term secular trends. Each of them plays to HP's strength.”
        - “What we're starting to see is some erosion quarter-on-quarter, driven by both the increase in competitiveness that we see but also by the fact that, especially in PC, we see a high channel inventory. So we expect that the pricing situation is going to become more aggressive, especially as we enter in Q4.”
        - “Feedback that we get constantly from our customers is that the employees have now better systems to work from home than to work in the office, so they need to invest in the equipment in the office to convince them to come back to the office. And this is really creating a lot of opportunities and the funnel of opportunities that we see is very significant, significantly above what we need to make our sales targets. But at the same time, what we are seeing is once we win those deals, the

conversion of those deals into orders has slowed down, which really reflects the fact that enterprises are being more cautious in how they manage their budgets for any new employees that are hired."

    - "What we are seeing in consumer is a shift towards more premium category because we think that the traditional buyer of the premium category is less impacted by the macro situation"
    - "When we look at the channel inventory of the industry, this is not an HP particular situation, channel inventories are high. And therefore, we expect to see competition be more aggressive on pricing. This is -- we are not going to be the drivers of that. We will only respond if we see the need to manage our sell-out. But we expect to see prices more -- pricing more aggressive as we enter in Q4."
- Keysight Technologies (KEYS)
    - "And that's what we remain focused on. And to that end, continuing our first-to-market strategy around the secular themes like 5G, automotive, semiconductor and other areas where we continue to see multiyear roadmaps where our customers remain committed to executing to them and that's a critical part of it."
    - "And then when you look longer term, we're looking at the rate of technology only going to accelerate, whether it is in areas like energy and sustainability or with longer term into metaverse and other technology trends. And it really offers us a very rich arena to implement our strategy of software-centric – providing software-centric solutions and that will continue to grow the value of the firm."
    - "Keysight's strategic transformation from being a hardware-centric products company to a software-centric solutions company, we're still in the very early innings, right? So we've been able to take at spin where it was 12% software to now 20% software."
- Matterport (MTTR)
    - "The thesis behind going public was to raise capital and invest in growth, and let's penetrate this market fully. There are 20 billion unique spaces, monetizable in this world. Matterport has created digital twins with our customers of 8 million of them, 8 million over 20 billion. It's just a drop in the bucket in terms of penetration. And I believe we're the 99% market shareholder of digital twins. So we've got this wonderful open available market to us that we would like to invest into penetrate. But prior to being public, we've actually run the company at cash flow positive and profitable from operations for a number of quarters. So we have the margin profile and we have the know-how and experience to do that. We can do that today, if we'd like to do that, it tends to dampen the growth rate. But with the capital raise, all told, about $750 million in the IPO and the warrant redemption, we have a strong kind of fortress like balance sheet, I think it was $560 million in the last quarter and to invest in growth. So we're prudently investing in that growth. We're watching our overall cash outflows to ensure that we realize that growth. And that return to growth is now forecast in the Q3 guidance. So at the present, I'd like to continue to invest in growth. I'd like to deliver that outsized growth. But if there ever comes a time when macro or markets are telling us that the growth is not there, we can turn to profitability. So that to me is the trade-off and the balancing work that we do each day. It's not so much about we need to achieve a certain level of scale, and we need to have a certain level of operating efficiency to achieve profitability or cash flow. We're making intentional choices because both our scale and growth rates are available to us presently."

        - "The main change that we talked about with respect to the customers that are working with us is in some behavioral differences between the enterprise customer in the small and medium business. And this started to become more clear to us in the first quarter. Small and medium enterprise, their activity started much slower this year than I've seen in prior years. And their expansion rates have slowed down compared to enterprise, and those two cohorts have diverged in terms of their net dollar expansion, for example. And that hadn't happened in the past. I do think that's a response to the macro environment, and that's what we're hearing from the SMB segment. And that, I think, will continue until there's some stability underfoot for them, their activity on the Matterport platform is responsive to their inputs, their business activity. Whereas on the enterprise side, we see consistent, steady growth, new logo acquisition, expansion of current contracts as we've talked about here today. So it is pretty steady as she goes on the enterprise side. And in some ways, the trends are even improving, so that is new this calendar year"
        - "We talked about introducing value-based pricing over the last couple of years. We're now starting to do it. So I'm super excited about that as well. And we've already started quoting that to customers. They're being very responsive to it, they understand. And so now we can work with customers around what is their use case for the pharmaceutical manufacturing plants? And what different ways do they plan to share it with various user groups like inspectors or compliance officers or employees for training or the facilities manager to renovate the manufacturing line. And so we price based on the size of the space, its uses, whether it's active or archived and some of the different layers. And that's just starting now. Announcement, again, was yesterday. But again, I'm very excited that we're starting down the journey of value-based pricing. And ultimately, we are still going to provide an incredible ROI for companies. Even today, our business model is a $2 to $5 price per space per month in it to achieve our long-term objectives compared to the $2 billion wafer fab, that is a drop in the bucket. And so it's very easy to provide hard ROIs even while bringing up our MRR per space or per customer over time."
    - Microsoft (MSFT)
        - "On the SMB side, we saw a little bit of a pullback. But even with that, we still saw a good growth. It was just probably a tick less than we might have otherwise expected. We still have the same outlook. I think -- like you said, I think everybody is still trying to figure it out. But I also think that people are looking at this as an opportunity to really transform and they're investing accordingly."
        - "we can show them how they can save money by investing in cloud technology and investing in the future. And so they look at it as an opportunity to take your OpEx down. When we look at a company, we really think the opportunity for us is basically anything they spend on OpEx, like everything ultimately can be automated and everything ultimately can run better in the cloud."
    - MongoDB (MDB)
        - "We have seen no change in deal activity and sales cycles"
        - "Our expectation that the mid-market slowdown we saw in Europe in Q1 would become global in Q2. This is what we experienced, but the slowdown was more significant than we had expected."
        - "we're not seeing any change in deal sizes or sales cycle times. I think your point about as customers face this macro headwind, is there an opportunity for them to essentially drive more efficiency in their business? And we're definitely seeing

customers starting to do that. We're definitely seeing customers look at their legacy platforms and recognize how expensive and brittle those platforms are and are more motivated to move on to more modern platforms like MongoDB."

- Nutanix (NTNX)
  - "While we are aware that the macro backdrop has grown incrementally more challenging for many businesses, in our fourth quarter, we continue to see solid demand for our Nutanix cloud platform with businesses continuing to spend on digital transformation, modernizing their data centers and adopting hybrid multi cloud operating models."
  - "Finally, for the first time since 2018, we achieved positive free cash flow for the entire fiscal year."
  - "Yes, there is definitely a higher level of engagement from VMWare customers as a result of what's going on out there, and they're more open to discussions with us. We're also seeing more talent out there looking -- from VMware looking for new career opportunities."
- NXP Semiconductors (NXPI)
  - "we're actually seeing demand in auto and industrial continue to be stronger than our ability to supply. . .We believe that in tight supply environments, people double order."
  - "We have no intention to building a new fab internally"
  - "So the industrial IoT business, first, maybe you can start with this is kind of the gross split. About 60% of that business is pure industrial, factory automation, building automation, traditional, what you would consider heavy industrial applications. 40% is IoT. But when you look at that segment, the industrial IoT segment, it's a long-tail business. . .So clearly, in that tail of IoT, there is some consumer business, and we did see some weakness."
- Okta (OKTA)
  - "We are starting to notice some tightening of IT budgets and lengthening sales cycles relative to last quarter. This leads us to believe that the weakening economy is having some impact on our business."
  - "So a little over half was the sales integration issues. Second biggest was really the attrition issue we've talked about in the field. And then pretty small is actually the macro piece of it. I mean, we've seen some headwinds in the macro but it hasn't been nearly the size of the other 2."
- PagerDuty (PD)
  - "Even with the current macro uncertainty, we see strong demand and in a favorable competitive environment as our teams generated a healthy pipeline across our customer segments and regions. W esaw longer sales cycles for some larger deals often in process automation, and we did experience more diligence on contracts in EMEA."
  - "this macro uncertainty, while it is a little tricky, it's nothing compared to what we saw in the first quarter of COVID. Our customers have a plan in place. They know how to run in a hybrid environment. They've got products and services to sell and jobs to do, and they're still up against a pretty challenging talent shortage. And so very different than that environment."
- Pure Storage (PSTG)
  - "Pure believes data storage and management is high tech, a fundamental component of critical infrastructure, and we invest in it accordingly. We are reaping

the rewards of delivering leading products and services in a massive market that was written off as a commodity by legacy competitors. In this uncertain macro environment, customers are especially looking for solutions that speed their digital transformation road maps while reducing their overhead and total cost of ownership."

- "And now -- for the first time, I increasingly hear from international customers that they actively consider Pure specifically for our ability to drive down energy usage and e-waste."
- "Our customers are continuing to expand their data storage with Pure and we continue to expand our customer base.We do, however, see signs of increased diligence of purchases by enterprise customers, resulting in some lengthening of sales cycle."
- "While we are seeing a little bit of, let's say, second looks by companies, finance, perhaps stepping in for a second look at a deal, and that is lengthening some of the enterprise sales cycles, but it's not changed the closing of the deals later in the process. And as I said, demand and pipeline looks very healthy. The way we look at this is we are market share takers in what is a very large market, slight perturbations in the growth of this market shouldn't affect dramatically our ability to transform pipeline into sales and continue to grow our pipeline."
- "we have a wide variety of suppliers for the raw NAND. We're able to leverage different levels of quality of that raw NAND without affecting the quality that we deliver to our customers. And that gives us a large degree of freedom in terms of the costs that we pay for the NAND as well as choice of supply. And it also tends to allow us to be able to take advantage of price declines on the NAND market faster than the rest of the competition."
- "it's also given this sort of tremendous energy advantage because we make better use of the flash, which allows us to produce products that require far less power than the competition."
- "Meta relationship continues. We did -- it wasn't terribly significant this quarter, although there were some shipments, and we continue to make progress slow and steady with other hyperscalers."
- "the largest hurdle that we have with customers is just that it's a very new way to buy. And it may very well be that other parts of their data center build, they build with CapEx. So it's a bit different from that standpoint. . .of course, the economics like any company going through a CapEx to OpEx transition, it takes time for them to adjust how they pay their sellers and for their sellers to adjust as well."
- "By separating the compute and the storage elements, not only have we allowed customers to configure that really family of products at this point for different performance and capacity levels on day 1, but we've also now opened up the customer as they evolve to grow independently performance or capacity as they need."
- "But in the U.S., I think general optimism that with digital transformation and the need for companies to really be able to compete in the new world that they have to continue investing in their IT environment. Data is the core of that being able to leverage their data. And so data infrastructure is important. So we're seeing general optimism there. I think Europe is going through somewhat different challenges with energy pricing and inflation."
- "On the energy side, there are several different customer types that are focused on

energy. One I would say our large reporting companies that are now needing to report on their own ESG environment, and that's been pushed down into their data center operations, which tends to be a very large part of their energy utilization. The second, I would say, is countries now with energy in security. So that covers a lot of Europe right now. It's not just the price of energy that's causing them to take a look at their energy bills and so forth. It's now also the availability of energy, making them quite nervous about how much energy their entire environment takes up. But certainly, a big part of that, again, is in their data center. And then third, I'd say is it's government. Government worldwide, governments worldwide now are very focused on energy reduction, and so we're seeing a lot of it there. In Japan, it was palpable, and it also fits if you will, the Japanese ethic for smaller, more compact, more efficient, more reliable capabilities, which we fit really quite perfectly. So I'd say the energy sensitivity is large and growing, probably not surprising to this audience, larger internationally currently than it is in the U.S. but growing in the U.S. as well."

    - "On the other end of the spectrum, you've got customers that are fully bought into the cloud operating model, want to effectively turn the keys over to Pure to go and run and manage and say, "Hey, we just want to interact based on a performance SLA, capacity basis with full consumption level flexibility."
    - "We enable organizations everywhere to build a cloud operating model for their private and hybrid cloud infrastructure. We lead in solutions for the all-flash data center. We have the most advanced services and tools to automate data management for both traditional and modern cloud native applications. And we're definitely the clear sustainability and energy reduction leader now."
- Roper Technologies (ROP)
    - "net purchase price of $3.375 billion or about 19x their 2023 EBITDA."
    - "Frontline is an exceptional business. The business is characterized by having high single digit organic growth with north of 90% of the revenues being recurring in nature. This business has a great net working capital profile at negative 40% as a percentage of revenue. Given this net working capital profile and the 15 year tax benefit Frontline will have unlevered free cash flow equal to roughly that of EBITDA, really exciting growth and cash conversion characteristics here. Importantly, Frontline has built a very capable Bolt-On Acquisition capability, a capability we expect to invest behind going forward."
    - "For calendar 2023, we expect this business to have revenue in the $370 million range and EBITDA around $175million, yielding EBITDA margins north of 47%."
    - "Frontline is a leader in the resilient K-12 education software market. This market like so many others, is one that is undergoing significant digital transformation. Frontline serves an important role of helping school systems operate more efficiently. We very much like the fact that Frontline has multiple durable growth drivers. They have very high gross retention rates in the mid-90% range and net retention rates in the 107 to 108 ZIPcode."
    - "Frontline has a national footprint with 10,000 K-12 districts, serves millions of educators and has a product portfolio comprised of 30 products. The company's products are bundled into 3 categories: Human CapitalManagement, or HCM, Business Operations Management and Student Management. As we look at our HCM offerings, which represents about half of their ARR, Frontline has a comprehensive state-by-state compliance set of offerings that helps districts

recruit, hire, train and develop staff as well as the leading tool that helps with absence or substitute teacher management. For instance, last year, Frontline's tech offerings helped place about 29 million substitutes. Relative to business operations, Frontline offers purpose-built ERP for state and school district needs including capabilities to manage the increasingly complex landscape of district assets. This product category is about 20% of the company's ARR.Next is Frontline Student Management segment, about 30% of ARR. The company offers special program management solutions and student information systems. Finally, the company has invested in and is launching a powerful suite of data and analytical solutions with more to come on this in the future. The secular trend that cuts across all the Frontline offers is that K-12 districts are in the early stages of automating the workflows and processes. As we wrap up and turn your questions, Frontline is purpose-built for the K-12 education market, a market that is highly regulated on a state-by-state basis. Frontline has a national footprint of customers and the national distribution capability. They have high single-digit organic growth profile that is underpinned with fantastic retention rates, 90%-plus recurring revenues and long-term secular demand."

- Seagate Technology Holdings (STX)
  - "At our earnings release in July, we talked about some issues in the business in general, more macroeconomic issues, different issues in different parts of the world. And those issues are not getting better right now. Actually, in some cases, are also getting worse."
  - "Well, when we talk about U.S. cloud, not all the customers are the same. But in general, we see a level of inventory that is higher than what we were expecting and what normally is. And this is why we don't want to ship too much into that segment during the quarter. The reason why the inventory is higher is what I said before, they cannot build new data center at the pace they were doing before because they are constraining some part of their supply chain."
  - "So we still believe sequentially, revenue will increase probably every quarter for the next -- for the rest of the fiscal year, but the inventory will probably not be fully clean by September"
  - "I think the inventory will be to be clear between this quarter and next quarter. And of course, it depends on many things. But the majority of that can be addressed through our production level. And we are reducing production. We will reduce even more in the next few weeks."
- Smartsheet Inc (SMAR)
  - "However, we are not immune to the changing macroeconomic condition. In the month of July, we started to see macro impacts on our business, including longer sales cycles, some deal compression and additional approval layers.These impacts resulted in lower expansion rates. Additionally, our previous guidance assumed a ramp time for sales reps we hired at the beginning of the year to be consistent with what we'd experienced in the past. However, this ramp time has been slower than we anticipated"
  - "In July, we began to see macro-related headwinds in the form of elongating sales cycles, procurement policy changes, deal compression and lower pipeline close rates. This trend has continued into August."
  - "As we mentioned previously, towards the end of July, we saw macro-related headwinds begin to emerge. These headwinds continued in August and have

impacted our sales productivity and ramp time for our newer sales reps. Given these trends and our preference for prudence, we are taking a thoughtful approach to our full year guidance and electing to guide under the assumption that the macro pressures continue through the end of the year."

    - "We want to sell people the package because it's easier for them to consume, and it helps them long term. But we're open in this environment, and we're seeing customers elect, in cases, to buy them a la carte because that's the way they want to consume them."
    - "So I think the headwinds we described were 3 parts. There was an elongated set of sales cycles we were seeing. We were talking about seeing some deal compression. And then there was an additional level of approval layers that were being introduced into the process. So those are the, what I call, macro elements that we were seeing across everything we were sort of experiencing in our entire base, if you will."
    - "The impact that we saw in July was partway through July, so you saw some impact of it. And frankly, without that impact, we had an even bigger quarter in how the quarter would have played out in billings. So that's the trend we saw. And I think we saw that trend play out or extend itself out as we went into August as well and which became the basis of our guide."
- SentinelOne (S)
    - "We exceeded Rule of 60 in the quarter. Our gross margin expanded by 10 percentage points year-over-year and reached a new high of 72%. Our operating margin improved 42 percentage points compared to just a year ago. Our extraordinary performance reflects increasing scale and leverage in our business model."
    - "Most importantly, we're seeing continued benefits from economies of scale, data processing efficiencies and module cross-sell."
    - "When we look specifically at what we've seen this quarter, more scrutiny definitely, more belt tightening. But at the end of the day, we haven't seen something significantly change in the way that people buy and procure. Even sales cycles that were prolonged were not superbly prolonged. So all in all, we still feel pretty good about demand."
- Visa (V)
    - "think the best way to describe consumer spending is that it's stable. We told you in July that things had been remarkably stable for quite a while, and that sort of continued into August. . .if you look at the sort of the color beneath the aggregates, again, it's remarkably stable. If you look at categories of spend and you look at it going back a few months, month after month, it's surprisingly stable across categories. Yes, there are small shifts here and there, but overall, quite stable."
    - "the fastest-growing year-over-year categories are the ones you would expect that are still in recovery mode like travel, like restaurants, like entertainment, commercial spending, i.e. B2B spending, was a little later to recover"
    - "In terms of spending across income levels, affluent spend is still very strong. You see that in restaurants. You see that in credit. You see that in travel, high-end hotels, high-end restaurants and so on. And the lower-income spender is also holding up well."
    - "Visa Direct is a big part of our future. Visa Direct is a reason why people should be excited about Visa in the long run. And I would emphasize that Visa Direct is not a

product. It's a capability. And what it really is, is if you think about our future, we're going -- sort of we've got 2 vectors of growth, right? We've got our traditional consumer payments business that you all know well and has been the heart of our business for most of our history, but we have got sort of 2 vectors for growth in the future. One is expanding use cases beyond consumer payments, and that's what Visa Direct does for us. It is our capability that takes us into a whole host of new cases that digitize cash. And then the other vector is our value-added services, which increase the yields on any transaction we already have by adding more services on top of that transaction. So those are the 2 vectors. And so Visa Direct is a very, very important vector of growth. And what we bring to Visa Direct is all the capabilities that we brought to consumer payments, we're bringing to other use cases, right? This is global reach, the 100 million merchant points of contact, the 3 billion to 4 billion card credential -- card credentials we have out there, the reliability and the security that we bring. Our ability through Visa Direct to be network-agnostic, in other words, to allow you to get your money wherever it needs to go regardless of a network. Visa Direct connects with a whole host of ACH and RTP networks, including other card and proprietary networks. So it allows us to do a whole range of things to bring in use cases in P2P, use cases in B2B, use cases in governments paying consumers, use cases in businesses paying consumers. So that's the heart of Visa Direct. . . But we now have 30 use cases that are operational, meaning our network can service those 30 use cases with whatever that use case needs. So you have to tailor what that use case means. Not every use case is similar. Every use case is different. Every use case requires something unique. Our network is the only one that can offer a dispute resolution, for example. You can get your money back. That's very important in some use cases, not as important in other use cases. We have 500 programs that are already been launched. We have 550 enablers. We're very dependent on partners here because we are a B2B enterprise. So we need people out there going out and developing use cases -- new use cases, whether it's in remittances or earned wage access or insurance disbursements or tipping. So we have a whole range of partners, as you would expect, in all these areas. So it's early days. Visa Direct, we're very excited about the growth we are seeing there. We're very excited about all the potential we're seeing there. And this is one of the sort of engine of growth that will carry this company for a long period of time."

- "And what Durbin did was said, "Okay, consumer, I'm taking your choice away. I'm giving it to the merchant." That's really what happened. But debit always had multiple networks. Credit has never had multiple networks. So the entire infrastructure in credit is set up for a single network, right? So as the merchant, once they see what your card is, if it's a 4 or a 5, it goes to one or the other, or if it's Amex, etcetera. So it's never been set up to have multiple networks. So you've got a massive amount of like work to be done to figure out how do you set up the credit infrastructure for multiple networks all the way from what happens at the point of sale to what happens to your card, right? Your card now is going to have multiple networks, a massive reissuance of cards. You've also got to figure out what you're going to do at the -- with the hardware and the software at the point of sale. So there's a whole technological question here on how do you prepare the infrastructure for multiple networks that nobody really has worked through at this point. So there's that whole issue of what do you do and who will be this alternate network that has the capabilities that consumers are looking for that we offer, the security, the reliability, the dispute resolution, et cetera. Then you go beyond that to say, "What parties are really going to be impacted by this?" And there's a lot of impact here. The biggest loser here potentially is the consumer because presumably, the only reason this is being done is to reduce interchange. And if that's the case, then consumer loyalty programs will most likely go away. And so the biggest loser is going to be the consumer in that sense. And if you have 2 networks and let's say, you have a United miles card with Visa, and the merchant chooses another network on that card, do you lose your rewards? We don't know the answer to that question today. And that's one question. The question -- the other question is if interchange goes down because of this and you lose your rewards, then that's a big impact on consumers. There's also large industries that have depended on this as an ecosystem. Airline co-brands are very big, and airlines make a lot of their profits from these co-brand cards. Some would say it's the most profitable part of their business.It could severely hurt the airline industry. A lot of merchants are impacted by this from their co-brand cards"

    - ZoomInfo Technologies (ZI)
        - "I think as we have gone through Q3, we have seen a number of those deals that extended in Q2 close. But we still see some sales cycles that are longer than they would have necessarily been in Q1."
        - "I think that people are getting more used to the current macroeconomic environment. It may not be necessarily like we may still be in a recession or whatever. But I think people are getting to that point where they can make decisions, they can invest in things, they know the state of play. And therefore, hopefully, there's a stabilization"
        - "Realistically, I think within our business, there's so much white space out there in terms of companies that haven't started to invest in digitizing and modernizing their go-to-market motions. Or haven't started to take on additional levels of functionality that, that's going to be the main driver of growth in that long-term secular trend. I do think is less impacted than am I investing a little bit more or a little bit less to drive growth. I think the other thing for us that also goes back to the white space is that much of our growth has come from a variety of industries, whether that's manufacturing or financial services, pharmaceuticals and health care, transportation and logistics, that's where we've seen a lot of that secular growth kind of drive elevated growth over the last couple of years. All of those sectors are growing much faster than the early adopters and software businesses or whatever else. So that white space, I think, is -- continues to drive a number of new customers coming in as well as those customers expanding over time, which is obviously a healthy diversification for us in terms of what we see going forward."
- Consumer Discretionary
    - American Woodmark (AMWD)
        - "we've had elevated backlogs for the better part of the year to the tune of 2x plus what it historically would be. We're starting to see those come down. And by the end of this calendar year, our expectation would be that would be back to a normal state."
        - "the rates we're seeing in August, I'd say they were fairly similar to July. We've seen slowing order rates in our repair and remodel business. We're not yet seeing that in new construction as our builders are looking to aggressively close out the homes they've sold by the end of their fiscal year."

        - “We have seen a slowdown of repair and remodel on our made-to-order business.”
        - “So I don't think we have enough data yet to point to price elasticity. I'll keep defaulting to confidence, quite frankly at this point in time, being a question mark and folks perhaps pausing. But longer term, home price appreciation drives home improvement demand. Home prices are still quite high even if they were to reset as some are suggesting, they're still going to be quite high. And I think when folks have that, they have a willingness and an appetite to invest in their home.”
    - Best Buy (BBY)
        - “As we said in March, we expected our financial results would be softer this year as we lapped record sales volumes. However, the macro environment has been more challenged and uneven than expected due to several factors. And that has put more pressure on our industry, changing the trajectory of our business versus our original plan”
        - “Our data would tell us that customers are making some decisions to trade down, particularly those in lower income households. This is not across all categories. But for example, in the television category, customers are moving more into our lower price point exclusive brands products. We're also seeing more interest in sales events, such as Prime Day, tax-free events and other events geared at exceptional value.”
        - “The promotional environment was more intense than last year and even more than we expected entering the quarter as sales demand softened. Some areas were quite aggressive from a promotional standpoint, especially where inventory was ample or in excess. Overall, we feel the level of promotionality has returned to pre-pandemic levels”
        - “During the second quarter, we continued to see strong growth in new sign-ups for our active aging business that offers health and safety solutions to enable adults to live and thrive at home. Revenue for this business was slightly up in the quarter compared to last year. We are encouraged by the momentum we have built in the virtual care business in the first half of the year”
        - “we are assuming comparable sales for the year to decline in the range of around 11%. . .This aligns with the trends we are seeing so far this quarter as August revenue declined approximately 10% versus last year.”
        - “I think what makes the current environment the most volatile that I've seen is the quantity of inventory at other retailers and the promotional activity correspondingly the markdowns with some of those heavier inventory levels”
        - “we're seeing a customer who's more value-oriented, who is definitely moving more towards some of those sale events. And so I think our hypothesis is you're going to see a holiday that starts to look a little bit more like what we saw pre-pandemic. Maybe comes a little bit later, it's probably promotional in our space.”
        - “Broadly, on the whole, we're seeing a stabilization of ASPs year-over-year. And so you can imply in that, obviously, you're seeing a bit of unit decline. And I think what's interesting right now is you've still got a consumer who is spending on the whole quite a bit. I think they're being choosier, and it's uneven as to where they're spending. And so I think it makes it a little hard to answer the question exactly how much is pulled forward because you're against a very different backdrop than you were even 6 months ago. I think what is -- again, and I'll go back to it, what for us is most compelling is that no matter what, you have a massively higher installed base that is in people's homes and people are spending more time in their homes than

ever. And in a category like computing, we can already see that some of those upgrade cycles are happening a little bit faster than they were before. So that would imply, more than anything, it was more incremental purchases, and then you'll see that upgrade over time. And again, I mean, now it's been 2.5 years since some of the original computing devices were purchased at the very beginning of the pandemic. So you're going to have some compelling use case changes here over the next year or 2."

- Big Lots (BIG)
  - "our lower-income customers have been hurt more than others."
  - "Across the Furniture category, for example, we are margin engineering products to offer opening price points at pre-COVID levels over the coming quarters. I'm very pleased with the progress here, and you should expect to see more great opening price points on quality items in time for Labor Day, for example, in sofas and recliners.
  - "As it relates to the bargains, which are closeout items, off-price brands and limited-time deals, it is a target-rich environment for procurement. We've already capitalized on these opportunities, and we continue to see great deals of categories such as toys, appliances, Soft Home and apparel."
  - "So this is a substantial step-up in messaging to our consumers. Lastly, we're well positioned as a trade-down destination."
  - "The slowdown in July, we've seen across the broader retail environment, and we were not immune. Consumers continue to feel spending pressure from high inflation and our lower-income goods customer continues to be the most affected. High inflation is causing consumers to delay or cut back on discretionary purchases, especially of high-ticket items."
  - "we expect to further strengthen our balance sheet through asset monetization. This includes the outright sale of approximately 25 owned stores we are targeting to complete by the end of the year, in addition to which we are evaluating sale leaseback proposals on our remaining owned stores and other owned assets"
  - "Credit is still in good shape with the consumer. As we've watched in some cases in the maybe medium to upper income levels better than pre-pandemic. The lower income levels are still pretty strong."
  - "During the last couple of years with the inflation rates and so on, they really pushed some of our products out of opening price points, and we've worked hard with our great vendor community to bring those back down, especially in areas like furniture. For example, our recliners moved from $299 in the $200 to $300 range up to the $400, $500 range with all the freight cost and component costs. We've now worked to bring that back. And this fall, we'll have a $299 recliner back. And that's just one example. Across the home categories, we're making efforts to do that and should have a very nice opening price line."
  - "trade down is happening. We believe the process is beginning. We're already in the beginning stages of it. . .we're starting to see customers with a higher income, over $100,000, just ever so slightly start trading into us and gaining penetration in overall sales."
- Chewy (CHWY)
  - "consumers in the pet category responded to growing economic uncertainty by curtailing some of their purchase activity, leading to industry-wide declines in unit volume."

    - “we saw softer demand in the second quarter for discretionary products with longer replacement cycles, such as hard goods”
    - “over the longer term, we believe CarePlus will provide us an opportunity to help grow the historically under penetrated pet insurance TAM and gained market share in a high-margin business.”
    - “Next is Practice Hub. I am pleased to share that we now have over 1,000 practices using the platform up from approximately 300 in March of this year. As a reminder, with Practice Hub, we have designed a complete e-commerce solution for veterinarians that can be integrated with their existing practice management software. Our proprietary app allows wet to easily create, preapprove and manage both medications and diet prescriptions all in 1place and then earn recurring revenue when customers place an order in clinic or purchase their items at home onchewy.com, with Chewy handling all inventory, fulfillment, shipping and customer service.”
    - “which is as volume flows through, you see greater utilization, and therefore, greater leverage of productivity come through as well. whether the numbers are 2/3 or not, I think it's a little bit different in the world where we're pushing stable volume, and we have predictability in terms of the Autoship that provides us the base load to be able to forecast better labor plan better eliminate kind of special cost variability as we move through our network and then deliver those orders effectively, including with high utilization on trucks. So that's a little bit of a structural advantage that we believe the network has that throws off the leverage that we're talking about here.”
    - “We expect discretionary to continue to remain pressured. If you see unit demand in pet food, pet food unit demand industry-wide declined 1% and compared to discretionary, which actually declined roughly 8%.”
    - “we aren't seeing any increased intensity neither come through in terms of short-term transactional promo or demand driving levers in the marketplace, nor are we really seeing the pace of innovation or working backwards from customer innovation actually pick up.”
    - “Our growth versus general e-commerce growth in the U.S. in the second quarter was -- we grew twice as fast as general e-commerce. So you're seeing us both take share and also outperform overall e-commerce in the quarter.”
    - “we're not seeing trade down coming out of Q2.”
    - “Each quarter was also bigger in terms of both units and dollars. So bigger baskets and more orders. and we continue to gain incremental share of wallet across the customer base.”
    - “we haven't seen a dramatic uptick in private branded adoption -- our private brands adoption.”
- Conn’s Inc (CONN)
    - “While we entered the second quarter with a more cautious outlook for the remainder of the year, the retail environment deteriorated further during the quarter.”
    - “we are seeing weaker consumer demand for discretionary categories. We believe this was driven by inflationary pressures and recessionary fears that have caused consumers, especially lower-income consumers, to focus on household necessities and shift spending away from discretionary products.”
    - “We are also focused on pursuing actions to manage and optimize inventory levels

and programs are underway to align inventories with our lower-sales forecast."
    - "As part of our cost initiatives, we are reducing our marketing spend while reallocating the remaining marketing dollars to channels that most effectively drive near-term growth"
    - "Our next near-term priority is to delay or eliminate certain capital expenditures and prudently manage our business during this uncertain economic period. This includes pursuing actions to adjust planned new-store openings and distribution center expansions."
    - "We expect to originate our first in-house lease-to-own sales by the end of the fourth quarter."
    - "our established infrastructure can be the foundation for a much larger business. As part of our growth strategy, we are pursuing multiple partnership opportunities to leverage our powerful logistics capabilities"
    - "the lower income consumers are -- we're seeing worse results from that customer segment as they're facing more challenges from the effects of the macro economy, such as inflation, where they're having to shift out of discretionary categories to pay for their household essentials."
- Lululemon Athletica (LULU)
    - "While the external environment around us has been challenging, we are seeing our guests respond strongly to our product innovations"
    - "Given the current macro backdrop, we have been looking closely at our guest data and metrics to identify any shifts in spending patterns, behaviors or habits. And to date, I'm pleased to show that we are not seeing any meaningful variation in cohort behavior or the metrics we track in this area of the business. New guest acquisition remains strong with transactions by first-time guests increasing over 20% in quarter 2. Transactions by existing guests increased in the high teens. Traffic across channels remains robust with store traffic up over 30% and e-commerce traffic increasing over 40%. And importantly, we are not creating this traffic through markdowns or price promotions"
- Signet Jewelers Limited (SIG)
    - "What we're seeing in our proprietary data is that consumers shopping at lower price points, primarily buying discretionary fashion items or with lower incomes are being impacted most directly by macroeconomic pressures. We believe lower jewelry price tiers are also seeing the most negative impact from deep discounting in apparel and other fashion and discretionary categories."
    - "higher price point items are showing more strength and this is reflected in the fastest jewelry growth being luxury price tiers, followed by accessible luxury."
    - "To maximize the value of their spend, we are leveraging our scale, our vertical integration capabilities and our strategic vendor relationships to value-engineer pieces that make jewelry more affordable for all our customers. A great example is how we are leveraging lab-created diamonds for a bigger look for less in our fashion pieces. We've also designed innovative new items using diamonds that are more plentiful and have a lower cost basis."
    - "we've strengthened our financing offerings, including expanding our 0% down payment promotional financing. . .We saw a 35% increase on split pay use in e-commerce. So we're definitely seeing customers lean into that as an opportunity."
    - "we actually saw traffic begin to go down in the spring. So call it, March, April kind of time line with a more significant drop after Mother's Day, brick-and-mortar traffic

this year relative to e-commerce traffic has been stronger that's customers' desire to return to store."

- "the surprise of July was that higher price points actually became a bit more challenged. But as we've said, we have seen some stabilization in August from that."
- And then in terms of incrementality of Blue Nile, we see that as a great market share growth opportunity. . . blue Nile has a distinctive cohort, it's younger, more diverse, more affluent than the rest of our portfolio. They also have some different go-to-market models versus our James Allen business. So with 23 showrooms, they have a very low inventory model, but a high-touch, high-service environment for customers to be able to see styles, try-on pieces, really get a feel for what they want, but then they place the order online in a marketplace that's very similar what we do on James Allen."

- Sportsman's Warehouse Holdings (SPWH)
    - "The ongoing participation in the outdoors is greater than it's been in decades, and whether it's hiking, camping or hunting, we continue to see strong demand for the merchandise consumers' need to enjoy these outdoor activities."
    - "This guidance considers the current inflationary pressures on consumers, which are specifically impacting our higher ticket items where the trade-up cycle has slowed."
    - "As it relates to Q2 trends, we actually saw consistent trends across all categories, except firearms throughout the quarter"
    - "We have not seen a material change in consumer behavior, again, with a real focus on the durable goods and goods that are associated with trade up cycles. So we are continuing to see those headwinds in the consumer spending."
    - "I think what really is in the consumer right now, what's happening is they're postponing the trade up cycle. So they're not necessarily trading down to a lesser priced item, they're just postponing the purchase overall. They have something that they can extend the life of for maybe another season. So they're just not purchasing it at all."
    - "Where we're still seeing good trends. . . is in the consumable side, which leads us to believe that participation is still very healthy."

- Consumer Staples
    - Brown-Forman Corporation (BFB)
        - "We experienced strong consumer demand driven by increased travel and tourism, the gradual reopening of the on-premise internationally as well as sustained premiumization trends."
        - "the on-premise trends have continued to hover around pre-pandemic levels. This shift to the on-premise is continuing to impact off-premise takeaway trends as consumers have made the gradual return to restaurants and bars."
        - "we have pushed through our price increases. I think we said sort of 90% of the price increase is already reflected on the shelf. And we haven't seen the trade down"
        - "And so for the first time in, I'll say, a decade, you're seeing some pretty good pricing throughout the industry and you're not seeing a lot of pushback. So we're able to get prices through. We're getting them through the retailers, that's on the shelf and consumers are still buying it."
    - Campbell Soup Company (CPB)
        - "we've been very focused on which consumers are trading down within soup. And they tend to be our baby boomer consumers, who historically are a bit more

sensitive to price gaps and also very likely to trade back over time."
    - "we continue to expect inflation next year in the low teens"
    - "I think you'll see probably our toughest quarter on inflation in the first quarter as well as a place where I would expect to see investment returning"
  - Hormel Foods Corporation (HRL)
    - "The demand environment has remained favorable, especially for food and convenient meal solutions. We have seen this in the positive syndicated data for many of our Grocery and Refrigerated Products and in the momentum behind our branded foodservice items. In some cases, demand is still outpacing our ability to fully supply."
    - "an escalation in certain operational, logistical and inflationary costs, which began impacting results in the third quarter has lowered our earnings expectations for the back half of the year. However, we believe the majority of these cost pressures to be transient in nature and to subside over time."
    - "we're getting people hired. What we are seeing is that they're not staying, that there is higher than normal turnover, there's significant absenteeism. And we do think that partly driven by the labor market that we've had, the ability to find many jobs elsewhere."
  - Ollie's Bargain Outlet Holdings (OLLI)
    - "The closeout market continues to be very favorable with an abundance of deals. There is never a shortage of deals in the market, but today, we are seeing opportunities like we have not seen for a long time. canceled orders, excess inventory and supply chain disruptions have led to a broad assortment of products being available in the market. This type of environment is what we are built for and our merchants have the know-how to get the deals for our customers."
    - "Based on the merchandise pipeline and the value we can offer to our customers, combined with the easing of supply chain expenses sooner than we originally planned, we expect gross margins to improve materially in the back half of the year."
    - "We are encouraged that we are starting to see signs of consumers trading down to allies as they look for value to offset inflationary pressures."
    - "I'd say the key thing we've seen, the last 90 days, I would say that the consumer definitely shying away from the bigger ticket items"
    - "May was our weaker month in the quarter. June and July were very comparable to each other"
    - "there is a ton of deals out there in the HBA housewares, hardware automotive, bed and bath, we're actually seeing deal flow and pets. Toys is huge right now. . .we believe the deal flow is going to become much stronger in the back half of 2022."
- Healthcare
  - The Cooper Companies (COO)
    - "Overall, the challenging macro environment, including headwinds from currency, inflation and supply chain challenges has negatively impacted profitability, but has not reduced our ability to take share and drive sustainable top line growth."
    - "This starts with a large macro growth trend that roughly 1/3 of the world is myopic today, and that is expected to increase to 50% by 2050."
  - Patterson Companies (PDCO)
    - "improvements in the supply chain for infection control products have resulted in considerable pricing declines from the pandemic highs for certain products in this

    - category and we saw a particularly acute price deflation in the fiscal first quarter. We expect deflationary pressure in the infection control category to persist throughout the remainder of the fiscal year.”
    - “While patient traffic at veterinary clinics moderated slightly during the first quarter, data shows that veterinary clinics are effectively running at capacity and that pet parents are increasing their spend per visit.”
    - “And we're seeing our customers continuing to invest in their practice”
    - “So we continue to have a strong pipeline of orders to fill and install. We continue to have a strong pipeline in terms of new opportunities, and so we're really pleased with our long-term performance.”
    - “As we noted last quarter, we did expect some general -- pardon me, softening on the demand side across our markets in Dental. . .We do expect to see some slight tightening in patient traffic and spending per visit. . .we did see some of that general softening and we would expect that in the coming quarters, again, given the macro environment. And to your point, we do see more of the implications of these macro trends affecting our consumables business.”
  - Veeva Systems (VEEV)
    - “So yes, in June, we started to see some of the macro factors of plan, and that continued in July at a similar pace.”
    - “We called out slight acceleration expectation on revenue in the prior guide, and that has been challenged by the FX and the macro. The underlying business remains as strong as we thought 90 days ago. So that is unchanged at the competitive environment.”
    - So what we've seen is some increased deal scrutiny. So -- and that's on a deal-by-deal basis, that could impact various sizes of deals.”
    - “we talked about lower spending in SMBs, and that's more in the lower half of that SMB definition that I was describing before because that SMB space is a very wide space.”
- Industrials
  - Donaldson Company (DCI)
    - “Moving to the operational and supply chain side, the challenges we have been facing throughout the year continue.However, in fourth quarter, we began to see some areas of stabilization, including pockets of commodity cost leveling, albeit at high levels and a slight easing of global logistics and labor pressures. With that, we started to move back to relocalizing our manufacturing and capitalizing on our region-for-region strategy.”
  - The Toro Company (TTC)
    - “We continue to see favorable demand for our innovative products, along with incremental improvements in our supply chain and manufacturing efficiency.”
    - “For underground and specialty construction, we continue to see strong demand with both private and public infrastructure investments, providing a multiyear tailwind.”
    - “For golf, demand shows no sign of slowing down and course budgets are healthy. Rounds played continue to trend at a pace well above pre-pandemic levels.”
    - “For municipalities and grounds, we continue to see the prioritization of green spaces as well as increasing interest in zero-exhaust emission products.
    - “For snow and ice management, we're seeing healthy preseason bookings following the late-season storms earlier this year that cleared out inventory in the channel.

- “For landscape contractors, we're seeing more typical seasonal trends in retail demand.”
- “Moving to the residential segment. We continue to see signs that demand patterns are normalizing as expected. This includes a more typical alignment with seasonal trends.”
- “We think that we'll still see an inflationary environment next year. We do think that we're seeing some -- the rate of inflation has begun to decline.”

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