Weekend Thoughts 1/21/23

Net: There was no noticeable weekly change in recent trends. Companies continue to focus on cost savings, operating supply chains at lower levels of inventory, and overall focusing on striking a better balance between growth and profitability. Despite modest softening in the economy, the Federal Reserve is determined to stay the course.

- Communications
    - Netflix, Inc. (NFLX)
        - "the world is shifting from linear to streaming. Even in the largest -- there is no country where streaming is more than 40% of share of TV time. And in many big countries, as you saw, it's less than 5%. So it's our 5% -- or less than 5%, it's less than 10%. So there's an incredible runway still in the shift from linear to streaming. And so for us, it's about growing into that shift and also obviously competing well and continuously innovating and improving."
        - "we're seeing take rate and growth on that ads plan is solid. It's great because partly, that take rate and that growth is due to incremental subscribers coming into the service because we lower price point. That's $6.99 in the U.S., EUR 4.99 in Germany, just to give you 2 examples. And so that elasticity is a real -- not only a benefit to sort of growing our ad scale and sustainability, but the general business. I expect to see that continue to actually grow over the year."
        - "We aren't seeing as expected much switching from high arm subscription plans like premium into our ads plan. So the unit economy remain very good as we modeled."
        - "Not really. I would say that initially, we're competing mostly with that sort of traditional TV advertising pool. Now I think we can layer into that over time, components of what has made digital advertising so effective. So if you think about the targeting capability, the fact that we signed in fully addressable. If you think about the growing relevance of first-party data and how we do that, those are real big advantages that we can bring relative certainly to the traditional world. But again, the form that we have at least for the next couple of years will still be in that sort of lean back -- primarily in that lean back experience. And so that lends itself to certain kinds of advertising and certain kind of advertising goal. And a lot of the demand collection component that a Google or a Facebook is really good at. We won't be well suited to compete with that for at least some time to come."
        - "throughout the course of the year, we would expect to see accelerating revenue growth as we roll out page sharing broadly across our business and then obviously, scale adds throughout the year, which is a more gradual build."
- Consumer Staples
    - Procter & Gamble Company (PG)
        - “we continue to face high year-over-year commodity and transportation cost inflation in the upstream supply chain and in our own operations, headwinds from foreign exchange, geopolitical issues, COVID disruptions impacting consumer confidence and historically high inflation impacting consumer budgets. These macroeconomic and market level consumer challenges we're facing are not unique to P&G and we won't be immune to the impact. We attempt to be realistic about

these impacts in our guidance and transparent in our commentary.

- "As we've said before, we believe this is a rough patch to grow through, not a reason to reduce investment in the long-term health of the business. We're doubling down on the strategy that has been working well and is delivering strong results. We continue to step forward towards our opportunities, and we remain fully invested in our business. We are committed to driving productivity, improvements to fund growth investments, mitigate input cost challenges and to deliver balanced top and bottom line growth."
- "When there is supply volatility and uncertainty, it causes retailers to build higher inventory levels. When there's demand volatility, it does the same. So we've been through a period where inventories have been a little bit higher than normal in some of our retail channels. Supply assurance is increasing, demand volatility is decreasing. So those inventories are understandably being brought down."
- "We continue to see more favorable elasticities than we would have expected on historical data pretty much everywhere, but Europe focused markets. And you can see with 10% pricing flowing through and when you strip out the nonconsumption-related volume effect, a 3% reduction in volume, that is a very benign elasticity that we're seeing in aggregate and allows us to hold volume share and value share as the pricing flows through. So we feel good about, again, the strategy, doing what we wanted to do and the execution being very diligent in each of the markets. Europe is the one place where elasticities have returned to what we would have expected more on historical data, and that is driven by the increased pressure on the consumer. We're also seeing a little bit of price lag here. So private label, for example, is pricing slower in Europe, and that increases temporarily the price gap versus private label. Nothing we didn't plan on, but that explains part of the higher elasticities."
- "In terms of peak pricing, you're right, many of the large price increases get left this fiscal year. But that doesn't mean that we're not putting more pricing in the market. So for example, we have a number of price increases that go into effect in February. So there's 2 components here. One we're lapping price increases executed last year, but we're also still passing through some of the cost pressures via incremental pricing around the world.
- "there's significant opportunity for the entire supply system to operate at lower levels of inventory. And one of the enablers there in addition to supply dependability is increasingly looking at the supply chain across -- we historically looked at our supply chain and our customer supply chain as we're beginning to have conversations about -- this was one supply chain, would we do things differently? And the answer is almost yes. And the opportunities that are resident within that discussion are significant."
- "we see sequential progress on the cost side. But as I mentioned earlier, it's important to understand the 2 opposing forces. We don't buy commodities. We buy pack material, we buy super absorbers, we buy films, et cetera. And our suppliers are still in the process of passing through their own inflation. So while their input costs via commodity helps is certainly easing, they also haven't fully caught up to their cost structure hits that they have experienced over the past few quarters. So we'll continue to work with them to find the right solution here. But when exactly that balance is going to occur, hard to predict. . .Yes. And just one additional piece of detail on that. It's not that they're slow. It's that we have contracts that cover, as

Andre said earlier, cover a period of time. And in many cases, prices are fixed for a period of time. And then it's time to enter into a new contract. And that's what's going to continue to happen for the foreseeable future, not forever. But that's why it's difficult. . .to look at U.S. spot prices as the holistic indicator of the direction of things such as not -- that's not sufficient."

- Industrials
  - Emerson Electric Co (EMR)
    - "Emerson has long admired NI as a leader in electronic test and measurement, and we believe combining our 2 companies is fully aligned with our portfolio transformation and would advance our position as a premier global automation company. The test and measurement market is one of the four priority target adjacencies we presented at our recent investor conference along with industrial software, factory automation and smart grid solutions. With favorable long-term trends, attractive and diversified end markets and an estimated priority TAM of $35 billion, it is a fast-growing complement to Emerson's portfolio."
    - "the acquisition of NI would further advance our global automation focus by giving us exposure to a favorable strategic adjacency through a business with an attractive financial profile and a complementary technology stack of intelligent devices, controls and software. Combining our 2 businesses would enable Emerson to further expand and diversify its customer base with highly attractive and diversified end markets with strong secular tailwinds. NI has an attractive financial profile with clear opportunities to streamline R&D and SG&A costs through Emerson's operating discipline. Furthermore, we're confident this combination would generate significant value to our stakeholders as we expand and diversify the segments and markets we serve, and accelerate the development of innovative offerings for our customers. . .With NI, Emerson would gain a strong complementary portfolio of differentiated electronic test and measurement product and software offerings that aligns with our technology stack in the core automation markets. NI's test and measurement technology is truly best-in-class and would enable Emerson to further expand and diversify our customer base and strengthen our automation portfolio with highly attractive end markets. In markets like semiconductors and electric vehicle manufacturing, NI expands Emerson's reach into the design and validation phase of the life cycle, providing critical early access to customers. NI also brings a unique and industry-leading software capability that helps customers automate their test processes and analyze results to drastically improve product designs and enhance production yields"
    - "We believe NI has an opportunity to significantly improve its track record of innovation operating under the Emerson management system. The execution on LabVIEW NXG, the successor to LabVIEW, is an example of NI's innovation challenges. This was a major software development program to revamp a flagship product 30 years after the original release of LabVIEW, the required significant nonrecurring engineering and R&D investment totaling hundreds of millions of dollars, but it failed to gain traction. And only 3 years after its 2017 release, NI announced it would stop releasing new versions after 2021. This misstep occurred during a time of exceptional growth and innovation by peers such as Keysight who successfully launched products tailored to the 5G transition. In contrast, Emerson has a proven track record of innovation and successfully launching new products across our portfolio."

        - “NI is a high gross margin company, however, has an inflated operating cost structure compared to peers. NI's SG&A is 18 points higher than peers and R&D is 10 points higher. With this elevated cost structure, NI's sales productivity has continued to significantly lag peers, with a peer medium more than double NI's. By applying the operational excellence principles of our management system and proven productivity levers, Emerson sees significant potential for profit and cash improvement across the NI business.”
    - Fastenal Company (FAST)
        - "as FMI becomes a bigger piece of our business, as our mix of customers changes, as e-commerce becomes a bigger piece, you rationalize your footprint because you need for a footprint change."
        - "Total and daily sales increased 10.7% in the fourth quarter of 2022, which included an up 8% reading in December and represented further deceleration from prior quarters. We attribute this deceleration to slower industrial production, which shouldn't surprise anyone that tracks the purchasing manager index and more difficult growth and pricing comparisons."
        - "There are a few areas where we have seen incremental weakness, however. For instance, a handful of our large retailer customers tightened their belts regarding facilities and labor and our non- North American sales softened on a strong dollar and geopolitical events. Now we've made significant investments and seeing enormous growth in these areas over the last few years and the current weakness in our view relates to market-specific factors."
        - "Feedback from our regional leadership on the outlook entering 2023 remain constructive and largely unchanged"
        - "Construction revenues were also softer, which reflects the conscious decision we have made to position our branches to focus on larger key accounts, which is contributing to better labor leverage."
        - "From a historical perspective, and I'll use an extreme time frame because, quite frankly, over the years, there hasn't been a lot of significant inflation or deflationary periods. In the late 2000, so 2008, 2009 time frame, you saw a period of pretty heightened inflation followed by not only deflation, but the economy getting pounded pretty hard in that late '08 and '09 time frame. So what you saw is if you think of our business in 2 components, large production-type environments and then maybe some of the smaller customer base departments, you -- the one is driven more by conversations with customers about pricing. And there, we tend to do a pretty good job over time of matching it and some you get a little bit ahead of it depending on the turn of that product. But our fasteners turn a lot slower than our -- turns slower than our overall inventory."
        - "So generally speaking, on the way up, you get a little bit of margin profit in there. And you've see an expanding gross profit margin. You saw that back in '08, and that's over that turn of inventory. In '09, it was amplified obviously because the economy was weak, but you saw the inverse of that, and we've got squeezed pretty hard. But again, it was for a turn. So it's about understanding what's happening in the turn versus what's happening in the long term. What's changed in today's environment is that piece that is the more the production center element is a larger component than it would have been back in 2008. And so that piece where the marketplace is raising prices affects a smaller piece of our inventory, and it's more of these direct conversations."

        - "And so -- and I think we have better tools to manage through it and have a more sophisticated conversation with our customer on the way up and on the way down. But you know how it is, it's easier to slow things down on the way up because your customers arguing that direction, then it is to slow things down on the way down because your customer actually has a different incentive there. So you have those challenges. It will be challenging in the cycle of this turn of inventory, but I believe our team and our tools, we have a means, a disciplined way of managing through it."
        - "I've always had a tremendous amount of respect for the PMI and its ability to sort of point directionally to what industrial production is doing. I think if you look at industrial production, that's still growing, but it's -- but that growth has moderated. But we still feel pretty good about what we're doing with focusing on this customer set and really being able to spend more time and grab wallet share at a faster clip. And I think a lot of things that we're doing is making us feel pretty good about a market that, as you pointed out, there's a lot of signals that are suggesting it should be softer than it feels to us right now."
    - J.B. Hunt Transport Services, Inc. (JBHT)
        - “As we reflect on the fourth quarter and the full year of 2022, we have seen and experienced a cyclical shift in market dynamics that will present both challenges and opportunities as we navigate through the upcoming year. That said, we remain encouraged by trends from our rail providers that present opportunities for faster transit times and in turn, greater service quality and value for our customers.”
        - “We also see some loosening in the labor market and some modest improvements in equipment availability.”
        - “demand for transportation service in the fourth quarter was seasonally weak as customers manage through levels of elevated inventories.”
        - “I want to say that we're approaching 2023 with some caution around recent demand trends. . .We will focus on controlling what we can control, managing our business with a focus on long-term growth while remaining nimble. We will compete in the market to earn, reinforce and gain our customers' trust and their freight. We are excited about the many ways and opportunities we have to deliver value to our customers, which we believe will reveal itself over the course of 2023 and well into our future.”
        - “Demand for Intermodal capacity was seasonally weaker than normal, as peak season activity leading up to the holidays was absent this year. Volumes for the quarter declined 1% year-over-year and by month were up 4% in October, down 3% in November and down 5% in December. We experienced improvements in rail velocity in the quarter and also saw some modest improvements in customer retention of equipment on a sequential basis. That said, we still believe we can see further progress on both fronts which will further improve velocity and decrease transit times in our system.”
        - “customers have shifted their focus more on cost and service versus capacity.”
        - “We experienced additional pressure on our transactional and contractual business in the fourth quarter as demand and volume were unusually soft during what is normally considered peak season. . .there was no peak, and demand was actually weaker in the fourth quarter versus the third quarter, which is atypical.”
- Materials
    - PPG Industries (PPG)

- “Now a few comments on the full year 2022. The challenges were many, including unprecedented cost inflation, unexpected geopolitical issues in Europe, disruptive and unpredictable shutdowns in China, strong appreciation of the U.S. dollar and rapid escalation in interest rates in the United States. Though all of these factors impacted our sales and margin performance, the PPG team responded to these challenges, including rapidly implementing real time selling price increases that, by early 2023, will offset all cumulative cost inflation incurred since early 2021. Given the more difficult macro backdrop, we also announced, and are quickly executing new cost savings initiatives with particular focus on Europe.”
- “we expect the Q1 demand environment to remain similar to the fourth quarter. However, as the year progresses, we are more confident that we have several catalysts that will enable PPG to drive earnings growth, including improvements in the supply chain, which will further moderate raw material costs, and we expect to see this flow through our P&L more prominently starting in the second quarter. Also, our strong position in China that will benefit us as the COVID reopening progresses. With respect to Europe, we expect coatings demand stabilization beginning in the second quarter, resulting in higher year-over-year earnings.”
- “We're not seeing any tone change in the businesses sequentially again, good strong pace of recovery in aerospace, a solid, consistent growth in Refinish, auto OEM, consistent -- generally consistent quarter-over-quarter, starting to recover in Europe. So again, we're not seeing any significant changes in some of the other key businesses either.”
- “all the coatings companies are facing the same inflation inputs that we are, be it raw materials, which we focus a lot on but there's also significant inflation outside raw materials that we are also all experiencing. So, we see a continuation of positive pricing as we enter the year. And beyond that, a lot of it depends what happens on the inflationary environment”
- “Let me just start on the macro. Again, what we're seeing, which I think has been pretty chronicle, is new housing starts and leading indicators, certainly pointing down. We really have to bifurcate that. Single-family housing starts are significant, significantly down. Multifamily, we expect to turn down, and they're starting to turn out, but there's still going to be growth. Multifamily completions, again, paints at the end of the cycle here. There's still completions that will carry us well into the year. . .commercial new build, again, for the -- the first half of the year should be constant, if not longer. And then commercial repaint is solid right now. And there's a backlog on that.”
- “I'm confident in our team's ability to hold price similar to prior cycles. And with this cycle, possibly even more because of other inflation that is more persistent than we've had in other cycles.”
- “So as we enter 2023, again, we're destocking. We know from a public commentary, a lot of our peers have excess inventory and are destocking. I do think there is this tug of war with the supplier base, typically, Q1 and Q2 are peak volume quarters for coatings raw material purchases. I don't think that's going to materialize in the same manner this year. So we'll have a lower buy -- PPG will have a lower buy in Q1. We have suppliers in virtually every week or every day for the past couple of weeks, indicating to us they have excess supply to give to us. And so we're going to maximize that to the benefit of our shareholders. And we'll negotiate our Q1 and Q2 pricing accordingly. We do believe, as we said for the last couple of quarters,

there's ample supply in our supply base.”

- Real Estate
    - Prologis, Inc. (PLD)
        - "With regard to our markets and leasing activity, the bottom line is that conditions remain healthy and there is little we see across our results or proprietary metrics that point to a meaningful slowdown. We see a normalization of demand and when combined with low vacancy, it continues to translate to a meaningful increase in rents."
        - "Proposal activity for available space was consistent with our recent history and given persistent low vacancy, there is simply a very small number of units to even propose deals on. As evidenced, over 99% of our portfolio is either currently leased or in negotiation. Utilization remains high at 86%, near its all-time record. And deal gestation ticked up over the quarter, indicative of more careful consideration and time being taken in leasing decisions."
        - "While we are watching e-commerce carefully, its share of overall retail sales have increased to 22%, which is 600 basis points above its pre-pandemic level. Putting the nuance of mix, timing and other factors aside, as measured by retention, occupancy or rent change, it is clear that customers need to commit to space to market conditions, which offer them very little choice. In terms of supply, the development pipeline across our market stands at 565 million square feet, and our expectation for the year is that the pipeline will decline."
        - "if there's a recession, there's a very mild recession and my bet would be that we wouldn't have a recession, but it would be close to 0 GDP growth for a while. So call it recession or no recession, but the same outcome. I think what's different about other cycles, and I say that with a lot of dislike for the phrase that's different this time is that there were really two situations where we had negative absorption in the U.S., which is where we have data."
        - "in 40 years ago on this, this is the biggest disconnect that I've seen between the macro economy and the prospects for our business."
        - "And this time around, they just appear to be completely disconnected for a variety of reasons that we talked about at nauseam. So I think where pricing goes away, vacancy is going to 7% to 8% and staying there. And if you do the math on that, you need another in the U.S., I don't know, 2 billion, 3 billion square feet of unleased construction coming online."
        - "if the first 100 million feet doesn't lease, you're not going to do that and by the way, this cycle, you have a couple of big players in the business that have much more to gain from the fundamentals of the business being stronger, rents being stronger than a few bucks they may make on additional development. So there is an economic incentive to be disciplined. In prior cycles, mostly driven by merchant builders and private developers, they don't really care what their rental market was. They just wanted to build the product and sell to somebody else and that will be their problem. Today, those two sites are connected to one another. So I think that the motivations are really different. And absent the nuclear work type of scenario, I just don't see vacancy rates going to a level that will lead to a reduction in rents. It's either going to be a demand collapse or a supply explosion and I don't see either one of them happening.”
- Financials
    - Ally Financial (ALLY)

    - “We expect continued increases in delinquencies and are closely monitoring consumer health and the impact of persistent inflation on spending and savings trends”
- Citizens Financial Group, Inc. (CFG)
    - "in our view in the macro is that the Fed likely moves maybe once or twice the forward curve as they'll move up 25 basis points a couple of times and then stop. And then typically, they would 5 and pause for 6 or 7 months before they would cut. And so if there's a cut happening, it likely happens very late in the year and maybe it could be early next year. So guided by that view, that's kind of why we're pushing out that downside protection a bit."
    - “But I'd say what we've done for the past several quarters is kind of keep looking forward as to what's the macro forecast and are there any particular segments of the portfolio that could come under stress given the Fed has continued to push higher and economic growth has been downgraded. So I think there's -- like I read today that over 60% of the leading economists are projecting a forecast for this year."
- Discover Financial Services (DFS)
    - "As we look into 2023, we expect a less favorable macroeconomic backdrop."
    - "We're very aware of the climate in which we are operating. And should there be changes in economic conditions, we will adjust. Our model with its focus on prime lending and through-the-cycle underwriting has historically supported resilient returns through the economic cycle. These factors, combined with our earnings power, reserves and capital, underpin our strategy of being the leading consumer digital bank."
    - "Total net charge-offs were 2.13%, 76 basis points higher than the prior year and up 42 basis points from the prior quarter. In the card portfolio, the net charge-off rate of 2.37% was 87 basis points higher than the prior year and 45 basis points higher sequentially."
    - "portfolio loss rates are normalizing, reflecting seasoning of new account vintages from the past 2 years, normalization of older vintages and mild deterioration and low credit bands, largely inflation-driven. These trends are within our expected risk tolerances and are consistent with our historical approach to underwriting and credit management. Among our core prime revolver segment, we don't see evidence of broader stress given the robust labor market."
    - “And we haven't had any substantial changes to the macroeconomic environment. And essentially, the portfolio is performing within our expected ranges of outcomes."
- GoldmanSachs (GS)
    - "underwriting volumes remained extremely muted despite green shoots that appeared at the end of the third quarter.”
    - "We also saw higher loan loss provision and expenses."
    - "We have also started firm-wide expense reduction efforts to offset inflationary pressures and right size the firm for the current environment."
    - "There aren't many signs of widespread distress, balance sheets and company fundamentals are relatively healthy. But it's clear that the outlook for 2023 remains uncertain. In the U.S., Central Bank rate increases have started to have an impact on inflation, but they are also lowering the growth trajectory of the economy."
    - "CEOs and Boards tell me they are cautious, particularly for the near term. They're

rethinking business opportunities and would like to see more stability before committing to longer-term plans. Many firms have started preparing for tougher times focusing on factors within their control."

- M&T Bank Corporation (MTB)
  - “we're cautious about the level of economic activity and seeing some slowdown in inflation in GDP and what that translates into in terms of demand from our clients. It's really not much more than that. There isn't any sign that we see that we're seeing a material slowdown -- or we're not seeing credit concerns. We're just seeing cautiousness while people wait to see how the economy plays out in 2023. And so we're cautious on it as well.”
- MorganStanley (MS)
  - "The combined impact of persistent inflation and rapid central bank tightening pressured asset levels and led to some -- led to very little strategic activity and capital raising."
  - "if we think about the Investment Banking pipeline, the pipeline itself isn't what's changed. What's changed is that movement from the pipeline to realized.”
  - "And when we think about what will cause that, that policy pivot, a peak in inflation, something that allows the CEOs that are actually having those conversations in boardrooms to have more confidence both with their own economic outlook and -- or excuse me, our own company outlook, the economic outlook that hinges on and then also just price clarity valuation certainty."
  - "Those are the things that as you think through it, we would expect to see move from the pipeline stage into the realized and announced stage. So the macroenvironment that you laid out where there is more clarity on the economy and then also a reduction in volatility should help that move forward."
- SVB Financial Group (SIVB)
  - “And credit remains solid, although our provision reflects higher net charge-offs and nonperforming loans as well as our expectations for deteriorating economic conditions. Now the markets are still challenging. We admit that. And they're likely to remain so throughout 2023. We don't expect any dramatic change from where we are right now, and in fact, even a little bit more pressure in the first couple of quarters. So in other words, again, not expecting a dramatic improvement. Global market volatility is significantly reduced private and public investment. In public, there's almost -- it is the longest time the window has been effectively shut. And we don't really expect that to change until maybe, but a big maybe in the latter half of the year. And there's still a lot of uncertainty over the direction of rates and inflation in the broader economy, and we hear about it pretty much every day in the news and on media. So what does it mean for us for '23? We expect these conditions will continue to put pressure on our growth in the first half of '23 with net interest income pressure, somewhat higher provision, although we still expect credit performance will remain good overall, and other headwinds that are kind of -- come on a daily basis. But in the second half, we expect continued momentum and the balance between venture investment and cash burn. And it does -- this is important, and it doesn't take much of improvement, in fact, no real improvement for where we are on the deployment of dollars. It's more about the cash burn, which we, again, continue to believe is going to be pulled back. We expect the shift towards interest-bearing deposits to stabilize and could see an inflection point in net interest income and NIM in the second half of the year. We believe that shift, combined with

progressive paydowns in our investment securities portfolio, again, roughly $3 billion in a quarter, will provide meaningful revenue tailwinds that build throughout the year. And we have enough visibility at this point to provide full year 2023 outlook despite the market uncertainty, and those details are in our Q4 -- our Q4 '22 earnings deck filed earlier today. We're prepared if those things don't improve, again, which is important."

- "we feel clearly better about the outlook than we did last quarter where there was more uncertainty, and we certainly believe that the innovation economy is the best place to be."
- "Companies realize that it's hard to raise money, the level of venture capital deployment is coming down, and we expected a more dramatic decrease in burn rates. That really didn't happen in Q3. We saw clearly much more of that in Q4. And I think you're going to see more of it in Q1. And it's -- you hear about it because when you're having conversations with companies, they're talking about, gosh, we hired a bunch in the last couple of years, and now we're going to pull back on some of that. So we're going to cut back 10%, 15%, 20% or whatever that is, and we're going to look to cut costs in other areas. And the only reason I don't think it happened as quickly as we thought it was going to, is that companies had a lot more cash than they had in other cycles. And so that was just a prolonged period. So we know that venture capital declined pretty significantly in the third quarter that continued in the fourth quarter. But again, what our expectations are is that you're actually going to see a little bit more of a decline in the first 2 quarters and then start to see a little bit of improvement in the second half of the year. So our forecast isn't a rosier Q1 and Q2 with higher levels of venture capital deployment, in fact, it's the opposite, a little bit more of a decline. And then you're going to see, again, this continuation of client burn or cash burn pullback. So that's the narrative that all -- when we talk to clients. And again, not all clients are the same. As you know, we have some that are still spending more money. They're raising money still, and that's going to happen. But that narrative is shaping our outlook in the first kind of 2 periods, first half versus the second half."
- "But perhaps most importantly is the valuations, right? I think you have the auditors that are in at the various companies here that are looking at the valuations and you're going to start to get these audit reports that start to come out and there will be some valuation adjustments between companies who have been holding off in terms of readjusting the valuation. So I think that's really helpful. And so right now, obviously, the investors are still holding off on investments, right? They're slowing at pace, but there's still a lot of good companies out there. There's still a lot of opportunities. They're still investing in early stage, but they have to prioritize their investments here, and they know they're probably going to have to hold on to these investments a little bit longer than anticipated because there's just not a whole lot of exits, as you know. There's just no IPOs."
- "Now when you shift to the lens of the entrepreneurial. . .they have had a lot of cash. They've been sitting on that. But we are starting to see where they are resetting their spend levels, right? The layoffs, you're starting to see that in the news, which there's the good news and the bad news. Obviously, the bad news is the layoffs, but the good news is they're really starting to focus on their cash burn because they know they need to hold on to their cash for a lot longer. Advertising spends have been coming down over the last several months. And so that's been a

big thing that we're seeing here. So they're all getting back to focusing on client acquisition costs and profitability. So again, growth just for growth's sake is no longer the thing to do. So economics do absolutely matter. So they've been very, I would say, very focused on valuations. They've been holding off in terms of taking more investments. But eventually, the cash starts to run out. Eventually, they start to reset their expectations on valuations. And so we believe we're starting to see some of that break through. And again, I think over the next couple of months, I think that's when you would start to see. . .a little bit more stabilization there and perhaps as a platform here for the second half of the year to start to see some of those shoots that you were talking about"

- "We've seen this movie before. And you've got companies that are -- and you can see this in the venture capital data that was released in the fourth quarter. Late-stage rounds, there were a lot fewer of them. The valuation actually didn't drop a whole lot. And the reason for that is that investors looked at this as an opportunity to go in on a flat round in some of the highest profile companies that had actually done really well since their last round, but they can still get in at it, what they would say is a decent valuation."
- "Then you have another group of companies that are -- they're basically saying, hey, I'm going to take the lower valuation, I'm going to get it over with. Those are fewer. But we're going to see more of it over the course of '23. And then the final one is what I'll call the in between. It's the structured deal where it is -- it looks like it's the same round of valuation as the last round, but they have preferences and things like that, that you would say, when you really look through it, isn't keeping it at the same valuation. There's structure involved. All those things are happening, but you're going to see more, my view, more down rounds occur in '23. You'll see some more structured deals. So all 3 of those scenarios I played out, you're just going to see more activity happening. And again, as we talked about earlier, more in the second half of the year than in the first half of the year."

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