SPREE CAPITAL
ADVISERS

Weekend Thoughts 7/30/22

Weekly collection of unstructured hypotheses for current and future research projects

- Secular vs cyclical
  - ServiceNow (NOW)
    - "The secular digital transformation tailwinds are blowing stronger than the macro crosswinds. ServiceNow generates an unmatched combination of organic growth and profitability at scale. We believe there is a generational value creation opportunity here on every level of our company. Therefore, we are hiring, expanding and investing for the future. . .Enterprise software is an all-weather industry. Some businesses out there are prioritizing enhanced productivity to lower costs. Others are evolving business models to stimulate growth. All of them know full well that digital technology is the only answer. That's why the demand environment to software is consistent and durable"
  - Logitech International (LOGI)
    - "Right now, I wouldn't say we see anything that would suggest that our -- the structure or secular trends that we've been seeing are going to slow down. . .If you just go through each one of them, the hybrid work trend, and we're still only 1/10 of all the conference rooms enabled our conference cam number is growing strongly. And I think we're still -- and if you talk to companies around the world, so many of them, including us, are really looking at their footprints and trying to decide what are we going to do. . . and then there's gaming. And gaming, absolutely as much confidence as ever on the gaming business. There are companies like Microsoft or more and more of the large meta who are coming into the gaming space. They're investing in the gaming space because gaming is going to be a very, very long-term strong growth engine, and that's what drives our business, the investment in content, the creation of new compelling things."
  - Equinix, Inc. (EQIX)
    - ". . .right now, we're seeing no waning of demand relative to people's investment in digital transformation. In fact, I would argue, that I think as they look forward to a potential recessionary environment, many of them are using that either to try to reduce costs by modernizing their IT infrastructure and moving to hybrid and multicloud with greater agility in their IT footprint and architecture. Or they're using that as a fundamental driver of competitive advantage and therefore fuel to their top line, that I think they don't believe they can afford not to invest in. And you're seeing that in virtually every sector."
  - Upwork (UPWK)
    - "The opportunity ahead of Upwork is massive regardless of near-term economic conditions. In fact, business continuity, talent transformation, a flexible cost base and cost savings will likely become even more critical in the quarters ahead."
    - "showing there's been an uptick of focus in Q1 and Q2 from customers around things like cost savings. Maybe they themselves are doing layoffs or shrinking their budgets, but they're looking to us as an alternative for getting talent really cost effectively. And I think that's led to some of the success. We saw a 24% year over-year growth in new deals. We saw our overall Enterprise revenue grow 45% year-

over-year in Q2"

- ROKU (ROKU)
  - "The current economic state is causing TV advertisers to pause and reconsider spend, which is painful in the short term. But it also causes them to seek greater efficiency and ROI, which will benefit Roku in the mid and long term. This reminds us of when advertisers paused spend during the 2008 recession but it became a catalyst that accelerated the shift of ad spend from print publishing to digital. We believe a similar opportunity exists now for advertisers to accelerate their shift from legacy Pay TV to TV streaming."
  - "we are starting to access digital budgets as well, but they're still relatively small compared to the overall TV ad business, which is a $70-plus billion business and has got a lot of reasons to transition to streaming at the moment."
  - "we do traditionally over-index on scatter versus upfront. I mean, that's starting to change. Our upfronts are getting bigger and bigger every year. This year, we passed the $1 billion."

- M&A through the cycle
  - CoStar Group, Inc CSGP
    - "I have been flying more in the last month than I've ever flown in my life. There's -- it's an interesting time. I mean we have a great balance sheet with a lot of cash. . .I believe that we're seeing valuations across half dozen, dozen interesting companies fall to become more and more attractive."
- Supply chain diversification/nearshoring/globalization
  - Micron Technology, Inc. (MU)
    - Micron intends to bring memory manufacturing to US
  - Koninklijke Philips N.V. (PHG)
    - "Now as to building supply chain resilience, in the midterm, because it will take some time, we are diversifying our manufacturing into regional hubs. That was the strategy that we already had, but we are accelerating it to make our dependence on one particular region less. I think that will then all help in the future to avoid these issues. Also, second sourcing, as we qualify alternate suppliers, will help us a lot."
    - "what all the geopolitics have taught us is that risk can come from many areas. And resilience means dual sourcing, regionalization, but also having one source in China and having another source, for example, in Europe or in the U.S., right? And then you build resilience, and that's what we are after."
  - General Motors Company (GM)
    - "As we move forward, we will increasingly localize our supply chain just as we have localized battery cell production. For example, due diligence is already underway to further expand capacity at the JV CAM and CAM precursor facility GM and POSCO Chemical are building in Quebec. GM and LG Chem will explore the localization of a CAM production facility in North America by the end of 2025."
  - Logitech International S.A. (LOGI)
    - "when the tariffs happened a few years ago, I think we had about -- we have less than 1% of our total manufacturing outside of China. . .Our goal is to get up closer to 30%, and that will give us flexibility not only in case of other tariffs but also just better cost positions and things. So we feel very good about the progress we're making. We're still very high on China as a manufacturing site, but we want to be flexible. We want to be able to move even beyond that 30% we need to or if we

need to, either for costs or for geopolitical ease."

- Semi/Consumer tech
  - KLA Corporation (KLAC)
    - "Our customers have indicated some end markets, specifically PCs and mobile devices have softened over the past few months, and we have seen memory pricing in both segments weakened. While we have elevated concerns, we continue to see strong demand beyond our ability to supply from our customers with no material change in our shipment profile beyond the normal facility readiness issues and customers aligning tool deliveries with their production."
  - NXP Semiconductors N.V. (NXPI)
    - "When we look at demand signals, we have a high level of confidence in the intermediate-term outlook. This is especially true in terms of demand trends in the Automotive and Industrial markets, which account for the majority of our total revenue. . .In terms of customer behaviors, we do not see any substantial weakening within the Auto and Industrial customer base. . .In terms of key operating metrics, which inform our short-term decisions, demand continues to outpace our gradually and incrementally improving supply capability"
  - SK hynix Inc.
    - "The recent inflationary pressures and concerns of recession are quickly dampening consumer confidence with businesses also noticeably starting to tighten costs. Although, supply chain issues lasting into the first half have begun to dissipate, we are now facing a slowdown in demand, compelling us to considerably adjust the memory demand outlook for the second half. Demand for consumer products like PC and smartphones, which remained soft in the first half, will be adjusted significantly for the year, as they are directly affected by the weakening purchasing power due to inflation. Demand for enterprise PCs, initially expect to be strong in the second half is falling short of expectation with annual PC shipment now likely to fall year-on-year. On the back of mix increase towards high-density PCs, such as gaming PC, memory content are expected to grow by more than double digits, offsetting the PC shipment decline. Smartphone shipment is also projected to fall year-on-year with a sharp slowdown in demand for low- to mid-end products, which is a segment highly sensitive to economic conditions."
  - Logitech International S.A. (LOGI)
    - "We are not over it (chip shortage), but the symptoms are getting milder. We will be free and clear in the third quarter, or in the worst case, the fourth quarter"
  - Best Buy Co., Inc. (BBY)
    - "As high inflation has continued and consumer sentiment has deteriorated, customer demand within the consumer electronics industry has softened even further, leading to Q2 financial results below the expectations we shared in May"
  - MaxLinear, Inc. (MXL)
    - "we have not seen cancellations. The backlog is very strong. . .we're still very much constrained. We're not keeping up with demand today. So kind of the second half of this year, it's still really just fighting tooth and nail to get enough product for our customers. . . there's definitely some concern out there about next year. So make no mistake, I mean we've had guys moving around orders"
- Semi Supply chain
  - NXP Semiconductors N.V. (NXPI)
    - "When looking at customer inventory, we continue to see a dysfunctional supply

chain, which struggles to get the right product mix and complete kits to the correct location in the extended Automotive and Industrial markets. . .During quarter 2, the months of supply in the channel was barely1.6, which is about a month below our long-term target,"

- Inventory restocking masking demand
    - Owens Corning (OC)
        - "So I think there is more thoughtfulness in what they're buying and how they're buying. But we've not seen any buildup in inventory that would cause a correction at the customer level. And then as Ken said, we've been running with very lean inventories. So if and when we do see demand start to slow, we think we're going to be needing to run our operations in the near term just to refill to get our inventory levels up to be able to get back to normalized service levels. So that would take a few more months to work through."
    - Polaris Inc. (PII)
        - "Where we sit today, inventory is down approximately 70% from pre-pandemic levels in 2019. We believe this new optimal level of inventory represents an approximately 2.5x increase from current inventory levels which we estimate could total almost $750 million. On top of that, we continue to sit at the forefront of a meaningful restocking opportunity at the dealer. . .through the course of the pandemic, this industry really wasn't able to grow. . .So normally, you'd go into a slowdown with a lot of dealer inventory and coming off of kind of high production, high retail levels. And the reality is the retail levels we're seeing right now, aren't a whole lot different than they were pre-pandemic just because of the availability of inventory, the shipment levels are similar. And from my perspective, we know from talking to customers, there's been a fair amount of customers that are legacy Polaris customers that have held off because of just the lack of availability and they've spent more time accessorizing vehicles and preparing the existing ones. And we think they're going to step back into the market. Given dealer inventories are low, we've got room to handle any kind of a potential demand pullback, even if it's for a couple of quarters, we think we're still in a good spot But overall sentiment with dealers is very positive. And basically, what they told us when we were out is you give me more product, I'm going to be able to move it because we've got a large list of consumers waiting to get stuff."
- Bullwhip
    - Hexcel Corporation (HXL)
        - "Due to the macro environment with global logistics challenges previously discussed, we are holding more buffer or safety stock inventory than we would during normal times. The higher levels of inventory will help us support and protect our customers as much as possible from the prevailing supply chain stresses facing the world today. We expect this situation to persist for at least the remainder of 2022."
    - Texas Instruments Incorporated (TXN)
        - "So whenever things do weaken, we'll take that time to replenish inventories that will keep lead times stable and low."
    - Juniper Networks, Inc. (JNPR)
        - "From an inventory perspective, I don't think we've seen the end of the inventory build. We are still -- if you look at our open purchase orders, we are absolutely putting a demand signal out there that supports what we think is our demand

opportunity, and that's going to result in more inventory. What's happening out there is we are definitely seeing constraints in certain parts but there's other parts of the bill of material that are not constrained. And that's really the part of the inventory that's building up. As we start to get some of the more critical parts, we'll be able to ship our backlog, and we'll see the inventory level start to go down. So I don't think inventory is going to start to decline until we start to see supply chains really improve and backlog levels start to come down."

- Fortune Brands Home & Security, Inc. (FBHS)
  - "we did, in this quarter, start to see across many product lines and channel partners people ordering below POS already. . .you're having certainly much higher levels of supply chain performance, which allows people to take down safety stocks. I think that's a measure of it. And then you are having some come out, as Pat said, where we're seeing wholesalers, I think, take inventory down in anticipation of softness that may come. But we're not yet seeing it necessarily through POS, right?"
- General Motors Company (GM)
  - "when you look at the inventory levels as they sit right now, the overwhelming majority of the inventory is actually in transit. It's not on the dealer lots, which I think is very different than what we've seen in the past. And as others have talked about, the logistics of getting vehicles to the dealers has been a little bit slower than normal. So I think as vehicles are getting to the dealers, they're continuing to turn very fast."
- Walmart Inc. (WMT)
  - "The increasing levels of food and fuel inflation are affecting how customers spend while we've made good progress clearing hardline categories, apparel...Is requiring more markdown dollars. We're now anticipating more pressure on general merchandise in H2 22"
- General Electric Company (GE)
  - "supply chain challenges also contributed to elevated inventory levels across inputs and outputs. Inputs were pressured by the impact on inflation and additional purchases needed to support second half deliveries for customers. For output, fulfillment challenges led to higher inventory."
- Whirlpool Corporation (WHR)
  - "our inventory towards June is probably slightly elevated to what we had in mind because we assume the higher market demand level. But as you would expect from us, we are adjusting production and inventory in line with what we see right now from industry forecast. I'll put it differently. We are correcting production, or we did already in June, and we'll continue to do so going forward, and we're not going to wait until year-end."

- Macro changing demand drivers
  - Hexcel Corporation (HXL)
    - "We are also keenly aware that macroeconomic factors such as crude oil prices are causing inflationary pressures not only for suppliers but also for the underlying industry as a whole. At the same time, we also know that those pressures incentivize airlines to look for solutions to mitigate those costs, and that means a greater pull for new aircraft made from lighter-weight composites that not only run more efficiently but also help meet sustainability objectives."
- Signs of recession
  - Waste Management, Inc. WM

        - “continued to see strong volumes, an encouraging sign for economic activity across the areas we serve. Currently, our key business indicators point to continued positive economic activity.”
    - Mondelez International, Inc. (MDLZ)
        - “There is no drag on volumes yet. But if you go around the markets in Europe, things are different”
    - Adobe Inc. (ADBE)
        - “Fed tightening will lead to slower economic growth, but we really can't see it in our numbers. Like our pays per control number in the fourth quarter was as strong as it was the whole year. You look at the monthly initial unemployment claims, you look at the room that still is there in labor force participation. You look at the number of job openings in comparison to where it was historically, and I just don't see it.”
- Recession tail wagging dog
    - General Motors Company (GM)
        - “While demand remains strong, there are growing concerns about the economy to be sure. That's why we're already taking proactive steps to manage costs and cash flows, including reducing some discretionary spending and limiting hiring to critical needs and positions that support growth. In addition, we have modeled several downturn scenarios, and we are prepared to take more deliberate action when and if necessary. Regardless of the circumstances, we continue to move forward from a position of strength.”
- Consumer health
    - Polaris Inc. (PII)
        - “our data shows a resilient consumer and stable demand with the vast majority of these indicators positive during the quarter with some others reflecting moderating demand. . .Remember that our average consumer is fairly affluent, consisting of a dual income household and has good credit. that we have seen demand moderate, slightly, I would say, at the lower end of the category. . .So that obviously brought the number down. We did see a little bit of moderation in pre-sold volume at the lower end of the market.”
    - Visa Inc. (V)
        - “And this has been the case for most of 2022 with no indication of any slowdown, including in more recent weeks. . .whether we're seeing any slowdown in spending by lower income consumers. No, we're not. We keep looking for it because we've heard some other people say it, and we're not seeing any evidence of that.
        - Your second question, I presume was the wealth effect on affluent consumers of what's happening in the stock market and things like that. As Al said, I mean we're not seeing that. If anything, affluent spending has been on the rise and is one of the reasons why we've seen some of the robust growth we saw this quarter. Remember, we're lapping a very significant growth quarter last year that included sizable stimulus payments. And despite that, we had some very good growth this quarter. And a lot of that is driven by affluent consumers, by discretionary spending coming back and no evidence of a wealth effect that people are holding back.”
    - Pentair plc (PNR)
        - “it's logical to think that higher interest rates are going to put a pinch on consumer spending. And I would say that we break those into 2 categories, what's the discretionary piece and what's the nondiscretionary piece. We don't see pool owners, in particular, on the high end, really changing behavior at all. House is still

continuing to transact. Some of those or most of those, I should say, are cash based, and they're still going to seek those pools. I think where we may or may not see it as we look into 2023 and '24 is on remodeling, home remodeling, and/or what is a nondiscretionary purchase of a higher-end water softener, water treatment system, et cetera. That's where we'd see it. We have not seen it yet, but that's where we would expect to see and measure the consumer sentiment regarding our products.

    - Shopify Inc. (SHOP)
        - "Our customers are merchants, entrepreneurs, and small businesses owners - the bedrock of our economy and precisely those that are typically hit hardest during recessions. Most are already feeling it."
    - 3M Company (MMM)
        - "...broad-based inflation is having an impact on consumers' purchasing power. We're seeing softening trends in consumer electronics esp in TVs."
    - Fortune Brands Home & Security, Inc. (FBHS)
        - "While demand remains resilient across much of the portfolio today, we are acting ahead of a potential slowdown to maintain our margin progression and deliver strong cash flow. Continued high inflation and the response from the Fed produced the expected outcome, a near-term slowing of consumer demand, including for home products."
    - Flex Ltd. (FLEX)
        - "we are seeing indications of slowing in some consumer-related markets."
    - Harley-Davidson, Inc. (HOG)
        - "We do not see a softening among our core consumers. . .If you look
        - at credit apps, you could say there might be a slight -- in the Q2, a slight decline in sub-prime tier in terms of number of applicants"
- Durable goods normalization
    - Whirlpool Corp (WHR)
        - "In the quarter, the industry continued to be negatively impacted by softening consumer sentiment alongside the constrained supply chain. The industry slowdown we experienced in the second quarter was greater than expected.
        - But there's a short-term trend which is kind of overriding that right now. What we did see in pretty much around the late April, May time frame, a pretty strong drop in consumer demand, which is ultimately driven with consumer sentiment dropping off. And we all know it. I mean it's consumers -- it's not that consumers have no cash available, I think, versus disposable income. It's the consumer sentiment driven by inflation, all the bad news around war and the pandemic which is still not behind it. That together dropped or led to a significant drop of consumer sentiment, impacting demand."
- Inflation trends
    - Sherwin Williams (SHW)
        - "On the cost side of the equation, we're raising our mid-teens raw material inflation guidance to high teens as expected cost moderation did not materialize in the second quarter and appears to be pushed out a quarter or2."
    - The Coca-Cola Company (KO)
        - Based on current rates and our hedge positions, we now expect commodity price inflation to move to a high single digit impact from mid-single digits on comparable cost of goods sold in 2022. This is primarily due to commodity cost increases across our concentrate and finished goods businesses. Other costs, including wages,

transportation, media and operating expenses, are also increasing and adding incremental pressures. Now having said that, commodities -- the basket of commodities, particularly energy and some other ones, still is trending up and so are services and labor. So I don't think -- I don't foresee the total basket of imports, whether they be the sum of the commodities or the sum of the services and other imports, suddenly being in a deflationary environment.

  - 3M Company (MMM)
    - “Supply chain and logistics pressures continue. We are going to see higher inflation in the second half, but we are managing that inflation with price and offsetting that.”
  - Axalta Coating Systems (AXTA)
    - “We're optimistic that the highly inflationary environment is finally beginning to stabilize, though raw material availability still remains tight and variable costs are likely to continue to rise modestly in the third quarter. There are pockets of softening in some base chemicals, isocyanates as well as plastic and metal packaging, but we continue to face bottlenecks in certain pigments, additives, logistics and resins following recent force majeures.
  - Whirlpool Corporation (WHR)
    - “we do think inflation peaked in Q2 and Q3.”
  - Unilever (UL)
    - “We certainly see peak inflation coming sometime in the second half. We're not there yet. We expect that sometime probably towards the end of Q3, beginning of q4, we'll start to see the full flow through of [lower] commodity prices into retail prices in the market"
  - Pentair (PNR)
    - “our view is inflation gets a little bit better in the back half, but continues to be a challenge.”
  - Graphic Package Holding Company (GPK)
    - “if you look at the second quarter, we saw chemicals and resins continue to accelerate. . .we're not saying that inflation is in our rearview mirror. As a matter of fact, we're planning for more inflation, because we don't know any different right now, and we think that's a prudent way to do it. And that's really why we've been so aggressive on the pricing side to make sure we're staying out in front of it.”
  - General Motors Company (GM)
    - “We would not expect to see a meaningful impact until later in the year and into 2023. We're also incurring significantly higher logistics costs, including premium freight, to overcome some of the supply chain challenges, which is offsetting some of the moderation in raw material costs”
- Housing
  - PulteGroup (PHM)
    - “It is clear that the 200 basis point increase in interest rates over the past several months finally caught up with consumers. After 2 years of meaningful home price appreciation, the jump in mortgage rates created sticker shock and pushed affordability out of reach for some first-time buyers. At the same time, rising inflation, falling consumer confidence and the drumbeat of a possible recession caused some buyers -- some move-up buyers to hit the pause button. . .This pushed up our cancellation rate for the period to 15% compared with 7% last year. We
    - The more challenging demand conditions that developed in the quarter have

continued through the month of July as the significant increase in mortgage rates has impacted consumers throughout the country."

- Redfin (RDFN)
  - "Homes are being marked down because people are trying to get anyone to buy them before the school year starts and it's going to be a real logjam starting to clear this inventory"
- Housing derivatives
  - Sherwin Williams (SHW)
    - "The slowing demand we cited at our Investor Day did not improve over the remainder of the month"
  - Owens Corning (OC)
    - "we see these clouds kind of on the horizon, but I'd say to you, demand for our products remains strong. . .But having said that, as you said, we do believe the housing market is going to have to reset to this higher interest rate environment. We're seeing that occur in front of us. But we continue to see, I think, good tailwinds that are supporting -- that drive our business here in the near term. Certainly, as Ken just alluded to, when you look at the delta between starts and completions, that's been a pretty big delta in the last several quarters. So we think there's quite a bit of backlog to work through over the next several months."
- Labor Market
  - Heidrick & Struggles (HSII)
    - "…we're not seeing a significant contraction in this market. We're seeing demand signals across the Board. Our teams remain busy. It's not the feverish pace that it was previously. . . would be recession of this type, assuming it's a central bank recession, they're pretty shallow and pretty quick. I don't think the opportunities in terms of any real price adjustments, I think, again, companies could just sit on the outside for just a very brief amount of time before the market kind of comes back."
- Consumer trade down
  - Lamb Weston (LW)
    - "We did see sales volumes slow each successive month during the quarter as restaurant traffic, especially in casual dining, softened as consumers responded to accelerating inflation."
  - Tempur Sealy (TPX)
    - "If I look through the Tempur brand to start with just in total and look at the higher-end products versus the lower end products within Tempur, the higher-end products have done better than the lower-end products within Tempur.
  - Coca-Cola (KO)
    - "in developed markets, you're seeing some pressure on consumers with less income, some early signs of trading down, depending on which category you're in, not necessarily in beverages yet. That's not to be -- that's to be expected. But then if you're in the away-from-home channels, the theme parks, the leisure parks, that sort of thing, travel, it's about as good as it's ever been."
    - "a typical recessionary pattern in past experience would be consumers initially stop buying high-ticket item, discretionary things. I'll replace the car later. I'll replace the mattress later. They then start saving on the lower-ticket items, and they trade down in categories which have weaker leader brands. And then eventually, it might hit the grocery categories with strong leader brands and the away-from-home. So we tend to have some lead time going into a normal recession. We have not seen

large effects of that yet, even though, as I said, you can see in some channels, in some countries, what looks like the beginnings of that process, it has not gone to us yet. But as I said in the beginning, the overlay from that, a reprioritization of spend which is, I think, confusing or making hard to read whether it truly is "normal recession" or it's just a reprioritization of spend away from typical things into things I missed out on in the last couple of years.”

- Chipotle Mexican Grill (CMG)
  - “The majority of our customers are a higher-household-income consumer. And we've actually seen their frequency increase and potentially not experience, I'm guessing, some trade-down from other areas where they were choosing to get their leading occasion. So probably the first indicator was in our, I'll call it, our rewards data, where we saw some of these low-income consumers starting to slow down on purchase frequency.”
- Albertsons Company (ACI)
  - “In Own Brands, our sales penetration reached an all-time high at 25.8% and I'd say there's 2 things that we're seeing. One is the consumer is clearly trading down. And so you can think of in rice, beans, oils, buying bouquets and sort of arrangements and so on. And so we're seeing that on one hand. But the good news is they're trading down into a lot of our Own Brands on that front.”
- Shopify (SHOP)
  - "In the face of rapidly escalating prices for essential goods and energy, consumers have been favoring discount retailers and reducing their spend on other goods categories.”
- Fortune Brands Home & Security (FBHS)
  - “Within our higher-end premium products, market conditions appear to be impacting aggregate demand and our teams are acting to rightsize our capacity and cost structure.”
  - “are we seeing kind of premium price trade down across the portfolio? We're not. We're seeing parts of the portfolio that are premium to luxury and continue to be very, very strong.”
- PetMed Express (PETS)
  - “We've maybe seen a little bit of impact on people trading down in terms of dosage, but not much. . .I think as we start thinking about broader consumable products, maybe food and other items, we'll see some of that trade down.”
- McDonalds Corporation (MCD)
  - “I mentioned last quarter, is that we are seeing some trade down. We're seeing customers and specifically lower-income customers trade down to value offerings and fewer combo meals.”
- The Cheesecake Factory (CAKE)
  - “What we haven't seen is any trade down. The check averages remains right on the year-over-year trend”
- The Aaron’s Company (AAN)
  - “Customer demand and payment activity progressively worsened through the quarter. . .we saw choppiness in April. That trend continued and beginning in mid-May progressively worsened through the quarter. Likewise, lease renewal rates declined in the second quarter beyond the originally anticipated normalization, while performing above pre-pandemic levels through early May, we began to see deterioration in lease renewal rates as a quarter progress.”

    - Group1 Automotive (GPI)
        - “we're seeing demand shift to lower price points.”
- Uniqueness of this softening
    - The Aaron’s Company (AAN)
        - “We're seeing different market conditions that we've experienced in the past. If you look back to when we've seen credit tightening in the past, certainly it's been decades since we've seen inflation like this, but like our most recent data point on credit tightening, I'd say would be the 2008-2009 period, credit scores during that time decreased during the recession and our market expanded, which is what we would expect.
        - “What's different this pull forward in demand right now did not precede the financial crisis back then. And so, that is different. Unemployment was also a lot higher back then and inflation is a lot higher now. So we've got some different things happening at the same time. And as we said, that's putting a lot of pressure on our customer. The pull forward, they're not stopping as much as you're hearing from other retailers and their ability to pay is a little bit more challenged.”
- Enterprise IT spend
    - Cognizant Technology Solutions Corporation (CTSH)
        - “to date, we've not seen any significant slowdown for IT services demand.”
    - Juniper Networks (JNPR)
        - “So order strength remains robust. And it remains robust across all of our segments. . . .But you saw their enterprise revenue double-digit growth, enterprise orders growing at 20% year-over-year.
    - Xerox Corporation (XRX)
        - “we do not yet see a slowdown in spending from our clients. Rather, we continued to experience a recovery in demand from post pandemic lows, particularly in equipment sales.”
    - 8x8, Inc. (EGHT)
        - “the selling environment has become incrementally more cautious with CIOs and CFOs being slower to make decisions. . . We have seen some impact on small business and our CPaaS customers. We do have in a few cases customers performing additional due diligence and a slight decline in average contract length may reflect some caution, but it's not a clear sign.”
    - Informatica Inc. (INFA)
        - “Quite naturally, deals get elongated. There is more scrutiny on deals, of course, in a time like this. There are pockets of customers who are probably facing the impact of the current economy more than other pockets of customers, and there will be more scrutiny. So deal cycles increase, scrutinies increase. But in general, I would say, pretty healthy pipe rate, strong interest… People are just trying to manage by paying a week late, let's say. . . we've seen no change in kind of bad debt profile. So these are simply a bit of delays as opposed to a change in kind of credit profile outlook across our customer base.”
    - Commvault Systems, Inc. (CVLT)
        - “what we saw were changes in buying behavior towards the latter part of last quarter. So we're taking a conservative viewpoint going into this quarter. We saw more scrutiny around budgets for sure, slower purchasing decisions, which led to in some cases, longer purchase cycles -- sales cycles, time to close. . .pipeline continues to be very strong. For us, it's just making sure that we're being prudent around close

rates. . . We're just saying towards the end of last quarter, we saw a little bit of a slowdown in decision-making, not the pipeline"

- Industrial/consumer product cycle and inflation
    - Watsco (WSO)
        - "As far as the baseline products, the old 15 SEER, the new 14.3 SEER products that's coming in, I would say that that's going to start in the mid-teens, up from what we currently have today at the 14 SEER level. . .with the base products today represent about 75% to 80% of the sales volume for the industry market. And if you assume that, that carries over into 2023, then yes, you would see a midteen growth. . .Well, to date, we have not really seen any pushback on pricing. Obviously, demand remains strong."
- Industrial economy
    - IDEX Corporation (IEX)
        - "So we're always looking at what we refer to as our canaries in the coal mine businesses. Those are the shortest cycle, more industrial businesses that are very, very close to the actual consumption that's going on out there in the industrial landscape. And those have held up really, really well. I mean, I think that's the story of this whole post-pandemic recovery is just the industrial system that's been working feverishly to try to catch up. . .And there's a couple of places where we've seen that slow down."
    - United Rentals (URI)
        - "the strength we've seen in demand across our end markets has exceeded our expectations for the quarter."
    - Genuine Parts Company (GPC)
        - "we are not seeing any signs of slowdown in our business segments. And certainly, we could call out a few that we're continuing to see accelerate as we go into the second half. So yes, the industrial is performing incredibly well"
    - Watsco Corporation (WSO)
        - "we've seen an uptick in the month of July. And it's been one in which we've seen different regions come to life and really give a pop. The most important 2 regions that are really performing well right now are in the Southeast and the Southwest, where we're seeing substantial increases, even compared to last year's July"
    - Lennox International (LII)
        - "If resi slows. . we haven't seen signs in our order book but it could be masked because of the weather patterns we're having We are not seeing any changes in the demand there. We could sell whatever we make right now. So I think it's possible that there is an underlying weakness, and none of us are seeing it because every manufacturer has extended lead time there. I think 1 thing that gives us some comfort on these national accounts is that the higher efficiency units have a very quick payback that's apparent and these are sophisticated buyers."
    - Crane Holdings (CR)
        - "we continue to see robust demand across our end markets. We are carefully watching for any signs of softening, but order rates remain strong across our businesses."
    - Otis Worldwide Corporation (OTIS)
        - "The challenges we are facing is that customers are behind in terms of their building construction. So we are seeing that slow down, and that is flowing through our revenue. . .we see in the building permits index it is probably at the highest level

over the last 12 months or so."

  - PGT Innovations (PGTI)
    - "July is strong. It's given us confidence. So when we raised our guidance that already 1 month into the third quarter, we're feeling very confident. July sequential to June grew double-digits."
  - Amphenol Corporation (APH)
    - "What we're always on the lookout for is order cancellations or pushouts and things like this. We just haven't seen that in any real meaningful way, if at all. And so I think right now, we feel very good about the prospects and continued momentum in industrial."
  - CH Robinson (CHRW)
    - "Weakness in the retail market is expected to persist, further slowing in the housing market as expected, and there are early signs of deceleration in the industrial or manufacturing space, although this vertical is holding up the best on a relative basis."
  - Packaging Corporation of America (PKG)
    - "e-commerce is still going up, not at the growth rate it was, but it's still growing. Food and beverage has held its own and has been very steady. The biggest decline has come in the durables area, which you would have expected if volumes jumped let's say, 15% to 30% over the last couple of years in some of these durable markets, all of those customers expected their volumes to go back down to 2019 levels and to moderate."
- Labor costs and automation
  - McDonalds Corporation (MCD)
    - "There's a lot of interest around what can you do from an automation standpoint. I've talked about it in the past. We've spent a lot of time, money, effort, looking at this, and there is not going to be a silver bullet that goes and addresses this for the industry. The idea of robots and all those things, while it maybe is great for garnering headlines, it's not practical in the vast majority of restaurants. The economics don't pencil out. You don't necessarily have the footprint. And there's a lot of infrastructure investments that you need to do around your utility, around your HVAC systems. You're not going to see that as a broad-based solution anytime soon. There are things that you can do around systems and technology, especially taking advantage of all of this data that you're collecting around customers that I think can make the job easier, things like scheduling as an example, ordering as another example, that will ultimately help reduce some of the labor demand in the restaurant. But I think your question was is there a big automation solution. And you're not going to see, like I said, robots in the restaurant. We've got to kind of get after this the old-fashioned way, which is just making sure we're a great employer and offering our crew a great experience when they come into the restaurants."
- Hydrogen
  - Air Products and Chemicals (APD)
    - "What has happened with the market is that there are other markets have developed for green that we were not counting on. But now people are saying that they might want to use green ammonia itself without breaking it down for some applications like powering ships, which is a new application that we were not counting on 2 years ago. And then in addition to that, obviously, now people are even talking about hydrogen for planes and all of that, obviously, later on in 2030,

2035. But what we are finding, Jeff, is that the demand for green hydrogen is beginning to extend not only for heavy transportation like trucks, or depot trains, ships, planes. And then the other interesting thing is that we are seeing demand when it comes to steelmaking and chemicals."

- Tech is deflationary
    - Microsoft (MSFT)
        - "We are incenting even our own field to ensure that the bills for our customers come down. And that, in fact, even shows up in some of the volatility in our Azure numbers because that's one of the big benefits of the public cloud. And that's why I think coming out of this macroeconomic crisis, the public cloud will be even a bigger winner because it does act as that deflationary force."
- Interest rate sensitive sectors
    - General Motors (GM)
        - "What we're seeing now in our GM new car portfolio, we're seeing extremely strong performance regardless of credit tier. On the used side, there's probably places that -- segments that we're a bit more concerned about and that we would look to tighten. But the new car portfolio is the vast majority of our portfolio, and it's performing very, very well."
    - Pulte Homes (PHM)
        - "This pushed up our cancellation rate for the period to 15% compared with 7% last year."
- Financials
    - Loan growth/tightening liquidity
        - Evercore (EVR)
            - "financing markets have also continued to tighten, making it harder to access capital and now at higher rates and wider credit spreads. This is a notable change from where we were just a few months ago. . . In terms of restructuring, we are starting to see an increase in dialogues as it is becoming harder for companies to access the public debt markets in addition to the cost of debt rising materially. That said, corporate balance sheets generally remain healthy, default rates are still low historically versus averages and the environment is setting up differently than the restructuring cycle seen in 2020"
    - Unique times
        - Moelis (MC)
            - "All the bad news that you can possibly think of is in the market. Balance sheets for banks remain fundamentally strong"
            - "I think this is not '08, '09, '08, '09, you had fundamentally damaged financial company balance sheets, and they had to rebuild equity and Tier 1 equity, and they were really out of the market for a while. The banks are strong. The nonbank market is strong."
            - "What happened with seller valuations, and this is the fastest I've ever seen it go in a cycle. And again, I attribute it to, have you ever really, I've been around a long time. I've never seen the Fed and the media in unison call for such disastrous future economic results and loudly make it known what the Fed was going to do and et cetera, et cetera. So what happened very quickly is February, March, April, maybe May, you had sellers looking back for a while, hoping what happened to that value. . . And that's a pretty quick

cycle. I mean, I think 3- month cycle to reset pricing. Then what happened is the credit markets disappeared"

- Mastercard (MA)
  - "The story that we're looking at externally, I come to the company in a moment, externally is we are not having a crisis around unemployment. We're having high consumer spending levels. So we don't have an asset bubble that looks anything similar than what we've seen at that time. So a different starting point. I would say it's a somewhat more benign starting point than we had at that time."

- Home equity providing catalyst for home improvement projects amidst WFH
  - LendingTree (TREE)
    - "What is a little bit different about this cycle is the amount of equity that people have in their homes. And so we are seeing examples of lenders who are in other product lines who are adding a home equity product, adding a second lien product, things like that. . .There are a bunch of traditional home equity lenders, credit unions, et cetera, who are not typically our core customer. . .Q1 refi was approximately 3x purchase, okay. Q2 refi was, call it, 2x purchase overall. Now the one notable thing is that home equity was actually bigger than refi."
- Less VC funding reducing competition for scaled players
  - Upwork (UPWK)
    - "We haven't seen anything materially different in terms of competition. I think in conditions like these, quite often, it's harder for the smaller kind of ankle biters in our space to stay competitive just because it gets to be a harder landscape for them."
- Digital Ad spend
  - Alphabet (GOOG)
    - "The quarter-on-quarter deceleration in both YouTube and network advertising revenues primarily reflects pullbacks in spend by some advertisers. . .We also saw a slowdown in buyer spend due to a number of factors, including lower engagement levels compared with earlier stages of the pandemic"
  - Meta Platforms (META)
    - "we seem to have entered an economic downturn that will have a broad impact on the digital advertising business. And it's always hard to predict how deep or how long these cycles will be but I'd say that the situation seems worse than it did a quarter ago. . .That is at the first order, but of course, we're seeing just generally challenging environment for digital advertising. And there's several compounding factors. Of course, there's just the overall economic uncertainty that's reflected in the markets. There is the fact that we're lapping periods in which there was still a benefit from COVID in some of the sectors that are important to us, like ecommerce. . .We know that advertising can be especially subject to these cyclical pressures. We do think that long term, digital within advertising continues to have a very positive future.
  - ROKU (ROKU)
    - "Recessionary fears and elevated inflation caused advertisers to significantly curtail or pause spend in the scatter market"
    - ". . .the scatter market is a very flexible market of close-in timing. And so it's usually one of the first things to be dialed back on when there's uncertainty or a negative

outlook, but it's also something that comes back. And when that money comes back, it generally comes back disproportionately into more demonstratable higher ROI markets like TV streaming."

- Secular growth pull forward returning to trend
    - Shopify (SHOP)
        - "During the pandemic, we made a bet that retail spend would disproportionately favor e-commerce at a much higher pace than it has. Our belief was that the channel mix, the share of dollars that travel through e-commerce rather than physical retail, would permanently leap ahead. As we built for the digital leap, we stepped our efforts and we expanded the company accordingly. We couldn't know for sure at the time, but we did know that if the prediction came true, we would have to rapidly scale the company to meet that future. Fast forward to now, as things have turned out differently. While the normalized rate of spend online, which is where most of our merchants orders occur, has reset certainly higher than where it was in 2019, the rate is lower than we had planned for. In short, we overshot our prediction"
- Catalyst
    - Albertsons Companies (ACI)
        - "brief update on our ongoing review of strategic alternatives. While we have not yet reached the conclusion, we are pleased to share that as part of the review, our third-party appraiser has completed our 5-year compliant real estate appraisal and the overall value of our real estate portfolio has increased $2.5 billion to $13.7 billion, representing a $4 per fully diluted share increase in asset value on a pretax basis versus the 2019 appraisal at $11.2 billion."
    - Pentair (PNR)
        - "With the significant growth of Pool since 2019, and our Water Solutions business expected to exceed $1 billion in sales on a pro forma basis, including Manitowoc Ice and to be predominantly a commercial platform, we'll be moving to 3-segment reporting segments starting January 1, 2023. The 3 segments will be Pool, Water Solutions, Industrial & Flow Technologies.
    - HEICO Corporation (HEI)
        - HEICO Corporation Announces Its Largest-ever Acquisition Of Global And Leading Electronic Component Supplier
        - Paris, France-headquartered Exxelia is a global leader in the design, manufacture and sale of high-reliability ("Hi-Rel"), complex, passive electronic components and rotary joint assemblies for mostly aerospace and defense applications, in addition to other high-end applications, such as medical and energy uses, including emerging "clean energy" and electrification applications. Among Exxelia's products are high-end capacitors, resistors, inductors and complex slip rings. Exxelia produces over 50,000 discrete part numbers, which it provides to over 3,000 customers worldwide.
    - Laboratory Corporation of America (LH)
        - Labcorp to Spin Off Clinical-Development Business
    - Fortune Brands Home and Security (FBHS)
        - "We have made exceptional progress in a number of key milestones and expect to file the initial draft of our Form 10 with the SEC later this quarter. entioned earlier, I'm impressed by the progress our teams have made on our future separation into 2 world-class publicly traded companies. As evidenced by its continued industry-leading performance the Cabinet's business is increasingly well positioned to stand independently. Importantly, we're also making great progress in our strategic work

around the art of the possible for New Fortune Brands, and I look forward to sharing that with you as it unfolds. I am confident that the separation will result in significant value creation opportunities for both companies and their stakeholders."

    - 3M Company (MMM)
        - "We plan to spin off our Health Care business, which will result in 2 world-class public companies that are global leaders with significant growth opportunities in their respective markets. We intend to execute a tax-free spin-off, creating a global diversified health care technology leader. New 3M will remain a leading global material science innovator, serving customers across a range of diverse and attractive end markets. Each company will be well capitalized, more agile and focused and well positioned for long-term success. 3M plans to pursue a tax-free spin-off and retain a 19.9% stake, which we expect to monetize over time. We expect Health Care will be spun off with net leverage of 3 to 3.5x adjusted EBITDA and will delever rapidly given the business' strong cash flow."
    - WWE CEO stepping down
    - AXTA CEO stepping down
    - Vodafone (VOD)
        - "we have had and continue to have extensive conversations with a number of players around towers. . .we want to partially monetize. We want to deconsolidate
        - was staying in co-control, and we believe we can achieve that objective and working hard on it as a priority area."
    - PetMed Express (PETS)
        - "our recent investment in partnership with Vester, a pet telehealth company that connects pet parents with licensed veterinarian professionals all over North America. Today, we are even more excited about this partnership and are making a ton of progress on our go-to-market and partner integration. I will spend more time detailing the progress later on this call. We are rapidly moving on the execution of our pet health expert strategy with the first building block of the strategic pillar being telemedicine. PetMeds is moving much of our business from a transactional direct-to-consumer model to a subscription business. Subscription businesses are clearly compelling business models due to their predictable and stable recurring cashflows. As I mentioned at the beginning of the call, we ended the June quarter with approximately 34% of our customers enrolled in ordering our AutoShip & Save subscription program. We continue to have a large base of returning customers, which is an indication of the quality of service and the value that we deliver. We are fortunate to have a large base of 2 million pet parents that have purchased from us over the last 2 years. We have over 26 years of experience as a pure-play pet pharmacy, fully licensed in 50 states, delivering outstanding service and value. This domain experience is what I would call the more complicated part of the pet ecosystem which makes our progression into other segments much easier."
- Federal Reserve telegraphing intentions
    - POWELL: "Likely will be appropriate to slow pace of increases"

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