Weekend Thoughts 12/24/22

<u>Net:</u> In a light news week, good news and bad news were interpreted as bad news. The economy is resilient, and inflation continues to normalize, but the fear of the Federal Reserve making a policy mistake by over tightening continues to act as an overhang on the market.

- Information Technology
  - Micron (MU)
    - "The industry is experiencing the most severe imbalance between supply and demand in both DRAM and NAND in the last 13 years."
    - "Micron is exercising supply discipline by making significant cuts to our CapEx and wafer starts while maintaining our competitive position. We are also taking measures to cut costs and OpEx across the company. Customer inventory, which is impacting near-term demand is expected to continue improving, and we expect most customers to have reduced inventory to relatively healthy levels by mid-calendar 2023. Consequently, we expect the fiscal second half revenue to improve versus the first half of our fiscal year. We expect our days of inventory to peak in our current fiscal Q2 and gradually improve over the next few quarters as our bit shipments improve and our supply growth is significantly reduced."
    - "Given the current pricing and resulting industry margins, we expect a significant decline in industry capital investments as well as a reduction in utilization rates for the industry. We expect that DRAM and NAND industry supply growth in calendar year 2023 will be well below their long-term CAGR and also well below expected demand growth in 2023. Due to the significant supply/demand mismatch entering calendar 2023, we expect that profitability will remain challenged throughout 2023. The timing of the recovery in profitability will be driven by the rate and pace at which supply and demand are brought into balance and inventories are normalized across the supply chain. We believe that negative year-on-year calendar 2023 industry DRAM bit supply growth and flattish year-on-year calendar 2023, industry NAND bit supply growth would accelerate this recovery."
    - "Micron is taking a number of decisive actions in this environment to align supply with demand and to protect our balance sheet. First, we are reducing our CapEx investments to reduce bit supply growth in 2023 and 2024. Our fiscal 2023 CapEx is being lowered to a range between $7 billion to $7.5 billion from the earlier $8 billion target and the $12 billion level in fiscal year '22. This represents approximately a 40% reduction year-on-year and we expect fiscal 2023 WFE to be down more than 50% year-on-year. We are now significantly reducing our fiscal 2024 CapEx from earlier plans to align with the supply-demand environment."
    - "Beyond this downturn and over the long term, we are confident that memory and storage revenue growth will outpace the broader semiconductor industry. This is supported by the combination of strong secular trends, memory content growth and better supply-demand balance."
    - "So inventories with data center customers, including cloud was -- is higher than what we thought. So that inventory adjustment has begun, and it has some wood to chop in that area. And of course, the end demand for cloud operations that are

driven by consumer-related activities given the overall consumer environment and the macro trends, some portions of cloud and demand may be weaker as a result of that as well. And also in the macro environment that exists today, there is -- given the higher interest rates and other macro trends, companies do become somewhat cautious in terms of managing their overall expenses and any long-term agreements, et cetera. So that can impact some of the current environment for end demand in cloud."

    - "I would like to point out is that digitization trends ultimately do remain positive. Cloud definitely helps drive that efficiency that businesses seek in an environment like this. We do absolutely expect that once we get past the current macroeconomic environment and macroeconomic weakening, longer-term trends for cloud will remain strong. In terms of the current environment, yes, inventory adjustments and some impact of cloud and demand weakening as well, that's impacting our overall data center outlook."
    - "in calendar year '22, high teens decline in PC units. This is the sharpest decline in the history of the PCs. And smartphones, another area where unit sales of smartphones globally down 10% as well."
- Microsoft (MSFT)
    - "we're hearing some marketers all the time. They need ways to show progress, how to actually measure ROI, especially in today's environment. In fact, 90% of marketing leaders, they say that making sure their CFOs understand the value and the ROI of their campaigns is key for them to secure future marketing spend. That's why we're investing in technologies like clean room that allows them to provide an easy-to-use secure environment data analysis. We're launching a new tool called Revenue Attribution Report that basically ties campaign effectiveness, all the way to company's revenue and growth. There's a number of things. We've been making investments that have uniquely positioned us to be one of the few key monetization engines for the web. First, we're building on a strong and growing foundation to deliver very differentiated online experiences, serving consumers wherever they are and however they spend their time, regardless of the platform, the device or the experience. And Windows is key to how all of this comes together, orienting offerings around people in service of their everyday tasks. So as Windows usage continues to grow, we start to see this flywheel between content consumption and commerce strengthening and enabling us to generate new opportunities for advertisers and drive growth for Microsoft. So I tend to think about it like this. The more people we have using Windows, the more people will have using Edge, which is our browser. And the more people that use Edge tend to keep being as their default search engine, and Microsoft Start as their personalized content feed. So the more people we have in the Microsoft ecosystem, that just gives us more opportunities for us to monetize engagement. Next, we have the international expansion of our products and services. We're significantly expanding our coverage this year by over 100 markets in this year alone for a total of 131 markets. That is 4x where we were just a year ago, and that unlocks new supply and delivers better service for our clients. We also launched in Japan, which is one of the largest advertising markets in the world. And actually, Japan is #3 in terms of e-commerce spend, so there's a lot of opportunity for us to grow there. Then there's acquisitions like Xandr, combining Microsoft's technology and Audience intelligence, which is how we describe how we apply machine learning to combine search and web

activity with LinkedIn and demographic profiles, all while following strict privacy standards. So if we do all this, combining this with Xandr's data-driven platform for advertising on the open web, we can deliver better results for advertisers as well as strengthen monetization for publishers. And we're building new supply partnerships. We became the exclusive sales and technology provider for Netflix, helping them to launch their basic with ads subscription offer by putting the power of Microsoft and Xandr together, something that really caught the interest of the industry and is creating this incredible halo effect for our business."

- "So one of those is Search Ads and News. And together with LinkedIn Marketing Solutions, that's how we're going to go after that $600 billion advertising opportunity. To make money, we generally power ad marketplaces underpinned by advertising technology and audience intelligence that bring together demand and supply in a live auction. These marketplaces help businesses monetize the audiences coming to their website or app, and marketers connect with those audiences at massive scale. One example would be, we have a marketplace to help marketers connect with audience across Microsoft's owned properties, but also across key partner sites. We also run marketplaces that help anyone on the open web buy and sell ad inventory, supporting publishers and marketers alike. And then lastly, we empower retail partners to build and run their own custom ad marketplaces, creating new streams of revenue that is very high margin, while those retailers can retain ownership of their own data."
- "we're going to continue to accelerate our investments in our retail media business. So I always love to say PromoteIQ, which is the company that we acquired. That's the biggest name in retail media that many of you have never heard of. Because what PIQ does is they power retail media programs for some of the largest names in retail globally, Home Depot; The Auto Group, which is a huge retailer in Germany; Kroger; Sephora; and many more. Microsoft Advertising is the only business that's building an end-to-end solution in retail via the PromoteIQ retail media platform. So PromoteIQ will help retailers connect all of those brands with first-party audiences, whether they're on that retailer site or across the open web. So that's a big part of our strategy moving forward. Number two, I would say doubling down on what we're doing in the SMB space, or the small and medium-sized business. We have a bunch of differentiated products and solutions that are going to help them grow their business on our network, but also beyond. Just this past September, we launched a new product targeted at the small and medium businesses called Smart Campaigns with Multi-platform. Simply put, this allows small- and medium-sized businesses, who we know don't have a lot of time, they can manage their campaigns with us with very little work, but it also allows them to syndicate those campaigns to other channels like Google, Facebook, Instagram and all. We basically have AI that does all the work for the advertiser, so that they can focus on where they want to be focused, which is to run their business. Last thing I would say is we're going to continue to invest and strengthen our offerings in video and connected TV. As I mentioned earlier, Netflix chose Microsoft as its exclusive advertising technology and sales partner to support their new tier, basic with ads. But Xandr also has a robust supply side platform and demand side platform, and we've recently announced a bunch of new video products and capabilities that we know advertisers want. So combined, we think we can create a very compelling video offer, one that we know the market wants and needs. And all of these investments over the last

few years really have uniquely positioned us to be one of the few monetization engines of significant new experiences, even in areas like the metaverse, which we know is early innings and certainly in the gaming sector as well.”

- Consumer Discretionary
  - CarMax (KMX)
    - “Our third quarter results reflect the continuation of widespread pressures across the used car industry. Vehicle affordability remained challenging due to macro factors stemming from broad inflation, climbing interest rates and continued low consumer confidence. In addition, persistent and steep depreciation impacted wholesale values throughout the quarter. In response, we have been taking deliberate steps to support our business for both the short term and for the long run. We are leveraging our strongest assets, our associates, our experience and our culture to manage through this cycle. Actions that we took during the quarter include further reducing SG&A, selling a higher mix of older, lower-priced vehicles, slowing [indiscernible] in light of the steep market depreciation, maintaining used saleable inventory units while driving down total inventory dollars more than 25% year-over-year raising CAFs consumer rates to help offset rising cost of funds, pausing share buyback to give us capital flexibility and slowing our planned store growth for next fiscal year to 5 locations while maintaining our ability to open more locations if market conditions change.”
    - “In the near term, we are prioritizing initiatives that unlock operational efficiencies and create better experiences for our associates and our customers. While we continue to selectively invest in initiatives that have the potential to activate new capabilities, we have slowed the pace of those investments. We believe these steps will enable us to come out of this cycle leaner and more effective while positioning us for future growth.”
    - “For the third quarter of FY '23, our diversified business model delivered total sales of$6.5 billion, down 24% compared with last year's third quarter, driven by lower retail and wholesale volume. In our retail business, total unit sales in the third quarter declined 20.8% and used unit comps were down 22.4% versus the third quarter last year when we achieved a 15.8% used unit comp.”
    - “In addition to the macro factors that I mentioned previously, we believe our performance was impacted by transitory competitive responses to the current environment. External title data indicates that we gained market share on a year-to-date basis through October, though we've seen some recent loss of share. As we have said before, we are focused on profitable market share gains that can be sustained for the long term. Through expansive price elasticity testing, we determined that holding margins during the quarter was the right profitability play. Third quarter retail gross profit per used unit was $2,237 which is consistent with last year's third quarter. Wholesale unit sales were down 36.7% versus the third quarter last year, driven by rapidly changing market conditions, which included about $2,000 of depreciation. This is incremental to approximately $2,500 of depreciation experienced during the second quarter. Wholesale performance was also impacted as we continue to reallocate some older vehicles from wholesale to retail to meet consumer demand for lower-priced vehicles. Wholesale gross profit per unit was $966 down from a third quarter record of $1,131 a year ago. Recall, last year, prices appreciated approximately $2,500 during the quarter, which was a margin tailwind. Just as we are doing in retail, we will continue to focus on

maximizing total wholesale margin profitability. We bought approximately 238,000 vehicles from consumers and dealers during the third quarter, down 40% versus last year's period. Our volume was impacted by steep depreciation and our deliberate decision to slow buys in reaction to the depreciation. We purchased approximately 224,000 cars from consumers in the quarter with about half of those buys coming through our online instant appraisal experience. We also sourced about 14,000 vehicles through Max offer, our digital appraisal product for dealers, up 16% from last year's third quarter. Our self-sufficiency remained above 70% during the quarter. In regard to our third quarter online metrics, approximately 12% of retail unit sales were online, up from 9% in the prior year's quarter. Approximately 52% of retail unit sales were omni sales this quarter down from 57% in the prior year's quarter."

- "During the quarter, we continued to take steps to better align our expenses to our sales. This included further reducing staffing through attrition in our stores and CECs, limiting hiring and contractor utilization in our corporate offices and continuing to align our marketing spend to sales. While our advertising expense was lower year-over year, our investment on a per unit basis remains consistent with last year's third quarter. We remain focused on reducing expenses and anticipate continued progress in the fourth quarter."
- "we paused our share buybacks. Our $2.45 billion authorization remains in place as does our commitment to return capital back to shareholders over time. Second, we slowed the velocity of our CapEx spend. We expect CapEx will end the fiscal year at approximately $450 million versus our previous $500 million estimate."
- "let me start with sales during the quarter. The last time we spoke, it was middle of September -- latter part of September, we talked about sales being down in the mid-teens. It actually got a little softer by the end of September, and it continued -- we continue to see even more softness in October and November. I'll save you from having to get back into the queue because I'm sure your next question is, well, how is December panning out? December is actually running about where the quarter -- the third quarter ran on average. So it's a little bit better than November, but I would just remind you that we're also going to be -- we're comping over a little bit of easier performance, obviously, than we were from the third quarter that we will be doing in the fourth quarter."
- "we saw competitors lowering prices and margins to move inventory, which I'll be honest with you, it's not surprising. I mean, we saw the -- a very similar play back in the '08, '09 recession. It's also the reason that we did much more expansive pricing elasticity testing. And through those tests, we're confident that even though we would have sold more cars if we had lowered the prices, we actually would have we made less money. And as I said in my opening remarks and what I've always said is we're always -- what we're going after is profitable long-term market share gains. And I think we've got a great track and record on that. I think your other question was just who's getting that. Look, it's -- this is a highly dispersed business, lots and lots of players out there. I can't point to any of them. I just know that widespread pressures of folks trying to move their inventory and get rid of it."
- "The second piece is really taking a look at our fixed costs and actively managing there as well. So I've talked about looking at our usage of contractors in the corporate home office, we've pulled back there, right? And we've also essentially paused our hiring in the corporate office. We are still hiring backfills kind of key

positions that we have as well, kind of strategic positions as well. But materially so, we've kind of paused our corporate overhead hiring as well. So we've taken strong actions. We believe they are appropriate actions for the marketplace that we're operating in. If we need to take further actions, we would do that as well if required, but we believe we're strongly positioned right now."

    - "It's interesting because we're kind of living a very similar life to what we did after the '08 and '09 recession. You remember where you come out of that and you have less newer cars and it kind of has to work its way through. I'd tell you, we're in a better position today than we were back there just because our self-sufficiency is so high. And we'll be able to sell what consumers are looking for, and we're going to be able to get that really in a better way than we could after '08, '09 because our self-sufficiency is so high. In my opening comments, one of the reasons our buys were down so far obviously, depreciation was the biggest lever, but there's also -- we made some decisions just to slow down buys. And so there were retail cars that we purposely did not buy because of the risk of those cars in a highly depreciating type of market. So again, I'm very comfortable with where we are, and I think we're better positioned than we were in '08 and '09, and I think we did a phenomenal job in '08 and '09 navigating that period."
    - "I consider this what you would see in a highly depreciating market. When prices are going down a lot like they have been, and consumers have been told for the last year that it's the best time to sell their car. They can get more than they could have ever gotten before. There's a disconnect there. And so as prices come down, it always drives our buy rate down. The other thing I would just add to that is that we stepped back our appraisal advertising, just given the volatility of the market. So no, I don't consider this the new norm."
- MillerKnoll, Inc (MLKN)
    - "While uncertain macroeconomic conditions pressured order levels for the quarter and we saw customers take longer to make decisions and also take on smaller return to office projects, our price increases and cost synergies have helped improve profitability. Our International Contract and Specialty segment delivered sales growth and meaningful operating margin expansion over last year. The international business complements the Americas with different market conditions, including a faster return to the office, an opportunity to capture new regional accounts. We've onboarded nearly 50 dealers to cross-sell the MillerKnoll collective of brands in Europe and will emphasize Asia Pacific and Middle East dealer onboarding during the back half of this year. Similarly, our specialty businesses also contributed to sales growth for the quarter and offer further opportunities to expand in new markets and channels around the world. Turning to Global Retail, as I mentioned earlier, we're seeing a slowdown in the housing market, particularly in luxury. Despite this, our Retail segment also contributed organic sales growth for the quarter. While orders were down overall, we finished the quarter by delivering our best Cyber Week on record with an increase of 22% over last year."
    - "I think orders have softened in the residential home furnishings market. . .I think we'll continue to see a softening in demand."
- Nike (NKE)
    - "As I said last quarter, we are taking a measured approach in the second half against an uncertain macro outlook as we continue to prioritize a healthy pull market. That said, we remain positive regarding the strong consumer demand we see across our

portfolio of brands as well as the health of our product franchises."

- "throughout the entire quarter, we continue to see strong levels of full price realization in footwear, which continue to give us confidence in our most important product franchises, the stories that we continue to tell to refresh and make them relevant as well as the new products that we continue to bring to market on a seasonal basis. Specifically to your question about inventory and our actions there in North America, I referenced that we saw our units down versus Q1 levels, low double digits."
- "And our focus in the quarter was really around our apparel liquidation as well as managing apparel closeouts. And both those dimensions were down mid-teens from a unit perspective versus the prior quarter. We continue to see strong demand from our value partners on the wholesale side for our out-of-season apparel. And we continue to be very confident in our ability to continue that liquidation through the balance of this fiscal year."
- "And if there's one dimension that I would say is kind of a fourth source of competitive advantage from our historical ones, it's this digital advantage. And it's -- you see we grew digital, 34% in an e-commerce -- global e-commerce market that most people would say is low single digits. And that is where having the direct connection with consumers having the best apps in the industry allows us to leverage the full funnel of ownership base. And we believe that's going to be an important and fourth source of competitive advantage throughout the globe, and that will continue for quarters and years to come."
- "What I said last quarter is still true, though, which is that we were concerned about the macro uncertainty and the indicators that we're seeing more broadly for the consumer. And while over the last 90 days, we've seen strength those macro concerns have not abated. They're still there for the consumer. And so we continue to take a cautious approach to the second half. We buy our inventory, as you know, on 6-month lead times. And so we took some decisions in light of the inventory. our inventory position at the end of Q1 to reduce our buys for the second half of the year. And we focus those reductions in places where we had excess inventory, but we preserve the strength of our product franchises and the new innovation that John referenced earlier in the call that's going to be coming to market in the second half and in the beginning of '23. So we continue to take a cautious approach as we look at it. And to the extent that consumer demand continues to be strong, with a supply chain that's providing product in a more predictable manner in a more timely manner. -- if we ended up overcorrecting on our buys, then we will chase demand as we exit this year and enter into fiscal year '24."

- Consumer Staples
  - General Mills (GIS)
    - "And we've seen over the last 6 weeks, we've seen demand really rebound quickly. We were going to grow double digits in the third quarter. And I can report that we're only about 3 weeks into December. So it's -- but 3 weeks is not nothing. And I can tell you, we're on track to deliver what we said we're going to do in the third quarter, which again gives us more confidence that we're going to be able to do what we say we're going to do and that we've seen the pipeline of inventory start to refill itself because we're able to service the business better, and it's especially true on treats."
    - "When we started the year, we said that for most of this fiscal year, we've taken most of the pricing that we need to take in the market already for this fiscal year.

So that also remains true. . .But I will also say in the back half of the year, we're expecting double-digit inflation. So it's not as -- it may decelerate from where it is now, but then decelerating to double digits is not exactly zero. And even as we look across a longer horizon. . .even looking out past 6 months, it's pretty clear to us that we'll still see an inflationary environment. It may or may not be as robust as it is now, but it will still be an inflationary environment, driven quite a bit by wage increases. So it's hard for us to see an environment where we don't see inflation. Even if that inflation -- those inflationary levels may not be exactly what we've experienced over the last 6 months. And so as we look at our business, we'll continue to look at pricing. But the key is that the pricing has to be justified. And this has always been the case. But it has to be justified based on the cost that we're seeing."

    - "we still see the conditions for an elasticity relative in elasticity, not complete inelasticity, but relative inelasticity in the marketplace. And those conditions are a continuation of inflation. And even if they're not what we experienced in the first half, they're still double digit."
    - "the supply chain still having supply chain disruptions. Again, our service level is in the high 80s. So that's certainly a lot better than they were a year ago, which were they were in the 70s, but it's certainly not at 98% either. So a continuation of supply chain challenges. And also, consumers to be under pressure. In fact, it's highly possible consumers will be under more pressure over the next 6 months. And when that happens, consumers tend to eat at home more rather than eat out more. And so it's very possible we'll see -- continue to see trading into food eaten at home. So those are the factors that we see and drive our assumptions that there won't be a significant change in elasticities over the next 6 months. But look, those are the assumptions based on what we see right now."
- Industrials
  - Cintas Corporation (CTAS)
    - "we still see energy as a headwind. And when you go to the pump right now, it is certainly a little bit lower than it was a quarter ago. But about 40% of our spend on energy is in natural gas for our production facilities and electric. And -- and that is not heading in the right direction. Natural gas prices are up and electric prices are up. And so certainly, the attention more gets to -- everybody fills up at the pump for the most part, but not as much focus on natural gas or electric, but we're seeing it."
  - FedEx Corporation (FDX)
    - "As expected, the operating environment in the second quarter was challenging. The trends we saw toward the end of the first quarter persisted through November. As a result, we experienced lower demand for FedEx products and services, but we acted with urgency to adjust our network while continuing to deliver for our customers. Revenue at FedEx Express was down 3% year-over-year, primarily due to volume and yield softness in Europe and Asia. In Europe, we're making steady progress as volume trends improved quarter-over-quarter."
    - "the main macro issue in the United States is really the ecommerce reset. If you were to just follow along here prior to the pandemic e-commerce represented about 16% of retail. During the pandemic, it peaked at about 22%. And ever since, it's been kind of going down. We are probably about 18% or 19% right now. It's still higher than 16%, but not quite high as 22%. So that's the part of the reset that's going on in the U.S. domestic package business. Of course, we have also taken

certain revenue quality actions on some of the segments of the traffic, specifically FedEx Ground economy. And so that's the only other part that would be unique to FedEx. But other than that, this is, I would say, the biggest macro here is e-commerce reset."

- Heico (HEI)
  - "So the basic culture of HEICO is one of a decentralized organization where we give tremendous authority to the operating level. As you know, we have no mid-level vice presidents that filter everything that comes from the operating group up to the corporate and to myself, Eric, Victor and Carlos. So the first thing we do in acquisition, the most important is really scrutinized, analyze, get to know the person who is selling the company to us and how he manages. And if he treats his people well, this is very important. As an example, if he goes through the factory and he sees somebody and they said he tells us, "Oh, that's a machine operator, that's this and that, that." That's not very impressive. But some of these people go through the factory and they say, they stop at a machine and say, "Charlie here, this is [indiscernible] Mendelson's house [indiscernible] and meaning his wife, family okay, everything good." Charlie, how long have you been working for 22 years. This means an awful lot, Rob. We understand the relationship between the owner of the company and his workforce, his team members. That goes a long way, and we understand how that all works. And that's the HEICO culture. The other thing is we give tremendous authority and responsibility to the operating person. We believe that the person running the -- his organization knows more about his team members, his labor force, his customers, his manufacturer, everything else than somebody in a corporate office, 1,000 or 2,000 miles away. So again, it's the authority that we give them and people who are very talented, respect the fact that we give them that authority. Talented people normally do not like somebody breathing down their neck and over supervising them. What are you doing? What are you doing? So I think that has worked very well. Also, we have a very exceptional 401(k) plan where we give employees if they put in 6%, we match it normally with 5% in HEICO stock. Many, many of our working people, I'm talking about factory workers, shipping clerk, secretarial help are millionaires, some of multimillionaires, all as a result of the stock that HEICO has given them. They take a personal pride in being a HEICO team member. It's not as though, "Hey, I'm working and I hate my job," and they understand that they are being compensated and rewarded by having shares of HEICO stock given to them by the company, they didn't pay for it. So that brings their interest aligned with all shareholders. So we think that -- most of our people are focused on building HEICO and being part of a team. There's a psychological benefit to call somebody a team member as opposed to an employee. If you're my employee, you work for me. If you are a team member, we all work together. So all of these things are open to all part of the HEICO culture. And I think a lot of that is responsible for our success."
  - "I think it's even more basic than that. It's that when we came to this company 33 years ago, we decided we wanted to build something for the long term and it wasn't going to be built for years or a single decade. It was going to be built for multiple decades. And frankly, every single thing that we've done and every decision that we take has been designed to drive sustained long-term growth of the business as opposed to any short-term focus. So when we've got to make decisions on everything from inventory, capital expenditures, people, customer relationships,

everything is focused on cash generation as a result of also maintaining low debt and being able to create a culture which drives long-term performance. And as a matter of fact, last night, I was reviewing some of our capital expenditure plans. And I saw some of our subsidiaries were buying equipment that frankly wasn't going to impact '23 or fiscal '24 earnings but was going to impact it in '25, '26, '27 and after. And I realize that the results that we are showing today, which are, frankly, I think, so far above what's normal for the industry are as a result of that long-term focus and we're really benefiting as a result of decisions that were made 10 years ago, 20 years ago, 30 years ago that you can't make happen short term. And when we look -- people ask me all the time, why is at HEICO performs? If you look at over the length of the economic cycle, we don't have onetime write-offs. We don't do things that if you will, boost the earnings in the short term. And I think our culture, which has been designed for long-term approach is very, very different than typical corporate culture or private equity, which obviously has -- which drive short-term results as a result of their compensation structure and everything that they're set out to be. So I really want to call out the people at HEICO because, frankly, the ones who get ahead and the ones who are in positions running our businesses today and are in positions of importance are frankly the steady eddies. They're not the ones who came in and all of a sudden had a quick turnaround and a great success to flash in the pan. Our people have worked hard year in, year out most over decades. And it's a result of that performance and that discipline and that rigor over decades, which has driven the results that we have today. So I just want to call out, frankly, all of our incredible people are steady eddies who just continue to work hard year after year and really make this happen. So I think that's really what makes us unique."
    - "our PMA sales are at an all-time record. And if you look flights across the world are still down, whatever, 20%, and we still haven't seen full recovery in Asia and somewhat in Europe and Middle East and South America and even in the U.S., to a lesser extent, North America. But HEICO PMA sales are at an all-time record. So I think that we've got plenty of power behind us."
- Paychex (PAYX)
    - "We continue to closely monitor the macroeconomic environment and our internal leading indicators. The latest findings from our Paychex | IHS Small Business Employment Watch revealed moderating growth in jobs and steady growth in wages. Our clients continue to be challenged by the continuing impacts of the pandemic, inflationary pressures and the challenges of this labor market. However, small and midsized businesses continue to show their resilience."
    - "While demand for our technology and HR outsourcing solutions remain strong, we continue to see shifts in what offerings clients find are the best fit for their current situation. Both early and during the pandemic, we saw lower demand for adding employer health benefits. We continue to see this trend and also high demand for our ASO solutions, driven by businesses seeking immediate assistance with HR issues and filing for tax credits, but delaying decisions on adding or changing their insurance offering to their employees."
    - "In addition, the lower medical plan sales and participant volumes in our health and benefits area of our insurance agency that we discussed last quarter continued in the second quarter, and we saw some similar trends in our Florida at-risk insurance program in the PEO, impacting revenue growth in that area of the business.

Awareness and demand of our employee retention tax credit or ERTC service, which helps clients maximize eligible tax credits continues to grow. To date, we've helped more than 50,000 clients secure billions in ERTC."

    - "what I would tell you is, even though the -- it's a challenging and kind of a mixed macro environment, everything you read about the resiliency that we're seeing in the small and midsized businesses continues to be strong. So when you look at the leading indicators that we would be looking at of kind of the first signs of a downturn, we're simply not seeing those in our indicators at this time, and that's what we've reported here. I think there's certainly been a rollercoaster effect from the COVID perspective. Certainly, when you look under the covers, I think our mid-market customers and larger customers seem to be doing better than our small customers and small customers seem to be doing better than the micro customers in terms of dealing with inflation and the recruiting scene. But when you look at the overall macro perspective, we're not seeing anything at this time in our indicators that would indicate any kind of downturn for small businesses."
    - "I think we're assuming an environment that's similar to what we saw in the first half. And with this caveat, Bryan, that as we've looked at quarter-over-quarter, you continue to see a pace that is moderating versus the previous quarter. I think that's the trend we think continues into -- through the end of the fiscal. So while it doesn't represent a sharp departure, we still see continuing signs of moderation as we go through the year. Now that assumes that the impact of the Fed -- Fed's rate raising continues to have the same incremental impact it's had in the first couple of quarters. What do I mean by that? I mean, right now, what we see is it's having the effect of starting to tamp wage pressures. It's not having a dramatic impact on hiring especially in the SME firms that we serve. If that started to change, it would change our assumptions. Right now, we don't see that occurring. But right now, we're not at 5% short-term rates. We're going to have to monitor that. And there is just a note of caution that we have as we approach what they would consider their peak short-term interest. So no dramatic departure from the first half."
    - "Well, so let's talk about wage inflation. First of all, I'd probably tell you that we have wage inflation, but it's been moderating. If you look at our Paychex IHS index we've been steady for the last 3 months at about 5%. And that's actually kind of moderated a little bit from the increases we were seeing before. When you think about the wages in certain parts of our business and certain pricing models in the PEO in particular, some of our pricing is based on a percentage of wage, similar to what's in the industry."
    - "One of the things that I would tell you is that we're seeing in terms of the impact of inflation on employees is they're now working more hours. That's one component that we see. A recent survey of the American Association Staffing actually found is 58% of adults are looking at potentially adding a second job. We are beginning to see people getting checks at 2 different places within the client base, as you can imagine, that's a check as a check. And so again, if you see that type of -- where people are going and working more, working in more places, getting more checks, that's positive for our business"
- Steelcase (SCS)
    - "Our corporate clients have slowed investment in office space as they face a potential recession and economic uncertainty in many parts of the world, and this has caused our demand levels to soften. We started to see our order patterns slow

down at the end of Q2 and this continued throughout our third quarter. On the supply side, inflation persists and our supply chain partners continue to struggle to find enough labor. Yet, in Q3, we delivered results within our expectations by executing against our 3 strategic pillars and by taking multiple additional actions. Our progress in diversifying the customer and market segments we serve helped offset softness in the corporate market."

- "There's no disputing that our core markets, traditionally driven by large corporate customers with offices typically in big cities is under pressure, especially in the Americas.We believe demand will improve from current levels as recessionary concerns weighing on CEO confidence abate and more customers decide to invest in their offices to support hybrid work strategies. Because it's clear that a more flexible model of work is here to stay, it's wise for us to imagine a contract office furniture market in which customers may invest less in office space and invest in that space differently than prior to the pandemic and it's essential that we continue to evolve our company to meet customer needs and to compete successfully in that environment.So there are 2 important things at play here. First, we don't know what the ultimate size of the contract Americas office furniture market might be as large companies implement hybrid work strategies. But to give you 1 scenario, if you model the industry recovery stabilizing at a level that's20% to 25% below pre-pandemic levels, that would obviously create a revenue gap for us to fill. Second, we believe that no matter how the level of demand from corporate customers changes, the nature of that demand, the ways in which they'll support their employees and work is changing, the types of solutions they need today and for the future are different than prior to the pandemic. So what does this mean for Steelcase? Well, not only do we believe we can expand other parts of our business to fill a hole that may be created by reduced corporate customer demand, we are also confident in our ability to bring insights-based innovation to corporate customers and to evolve our portfolio to serve those customers changing needs. Industry leaders face market shifts and adapt. That's what Steelcase has done for 110 years and that's what we intend to continue to do. And this brings me to the 3 pillars that we've been sharing with you for the last few quarters. So first, we intend to lead the hybrid work transformation. Corporate customers are grappling with profound changes in work and the workplace and our insights and innovation matter now more than ever."
- In the Americas, we estimate volume decline by approximately 30% year-over-year, partially offset by more than 10% growth due to pricing benefits. Compared to earlier this year, demand patterns are being impacted by softening industry trends, which we believe are linked to reduced sentiment related to macroeconomic and geopolitical concerns. In addition, many customers remain undecided on their strategies to support hybrid work. Across the quarter, the year-over-year comparisons varied significantly. Recall that we disclosed last quarter that our consolidated orders were down 20% through the first 3 weeks of September versus the prior year. From there, the full month ofSeptember declined 16% year-over-year, followed by declines of 13% in October and 24% in November. And through the first 3 weeks of December, we've seen a decline of approximately 6% compared to the prior year. While order patterns have varied and shown weakness compared to earlier in the year, new project opportunity creation has improved, especially in the Americas, where we have now seen 6 consecutive months of year-over-year

growth. In addition, we are encouraged by the news that some large design firms are hiring and one of them is returning to their offices more significantly. Shifting to the fourth quarter outlook, we expect to report revenue within the range of$740 million to $765 million, which is approximately flat with the prior year."

- The Toro Company (TTC)
    - "I'll now comment on the macro factors we are seeing in our end markets, which could impact future results, starting with our Professional segment. For underground and specialty construction, we expect the current robust demand to continue with public and private infrastructure investments, providing a multiyear tailwind. Utility, construction and rental markets currently show no signs of slowing down driven by the need and support for broadband and alternative power build-outs, along with the aging infrastructure. For example, the American Society of CivilEngineers estimates that a water main breaks every 2 minutes. And there are 6 billion gallons of treated water lost each day in the U.S. alone. With the most comprehensive equipment lineup in the industry, including solutions for new installations, repair, rehab and replacement, we are actively addressing the serious environmental and economic issue. For golf, we expect strong demand to continue as course budgets are healthier than ever. In the U.S., rounds played in 2022 are on track to once again end the year well above pre-pandemic levels. And the overall participant base is expected to exceed $40 million for the first time in history. As the only company to offer both equipment and irrigation solutions and is the market leader in both, we are extremely well positioned to build on our momentum and long-standing relationships. For example, we were recently named the official equipment and irrigation partner for Asian Tour Destinations, an exclusive network of world-class golfing venues. We were selected because of our high-quality products, exemplary service and support and legacy of trusted relationships. For municipalities and grounds, we expect to continue to see healthy budgets and the prioritization of green spaces, along with increasing interest in zero-exhaust emission products. For customers seeking sustainable solutions, we are well positioned with our growing suite of no-compromise offerings geared to Professionals. For snow and ice management, the season is off to a good start with record preseason bookings and storm activity driving healthy contractor revenue. In addition, we have a steady cadence of new product launches to enhance our leadership in this space. This includes the versatile new snow raider Mag."
    - "We're continuing to see positive price realization. We're still in an inflationary environment, though, Tim, what we're seeing. We are seeing some favorable trends from a commodity standpoint. But all of that, we're certainly not seeing in our P&L as of today. It's also important to consider in Q1 when you're looking at just Q1, we did have the Intimidator Group acquisition, which is an impact in Q1 that we wouldn't have had last year. And we talked about that as just at a lower initial gross margin than the segment average. That would be the only other thing I would mention."

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