SPREE CAPITAL
ADVISERS

Weekend Thoughts 1/28/23

<u>Net:</u> Uncertainty on the economic front has companies continuing to scrutinize spending and sweating assets. Normalization of supply chains and falling lead times has inventory levels normalizing to pre-Covid levels. As businesses no longer need to manage disrupted supply chains to the same extent, the focus has shifted to improving efficiency and reducing costs. As the Federal Reserve nears the end of its tightening cycle, the question is whether efficiency gains and cost reductions continue to deflate transitory inflation in goods, or whether the removal of policy error uncertainty causes business to shift back into grow and spend mode.

- Information Technology
  - Amphenol Corporation (APH)
    - "The current economic environment remains highly uncertain. And in addition, as we did discuss earlier, we have seen certain customers in the communications markets reduced their demand as they normalize inventory levels."
    - "industrial is going through a true revolution. And when you think about everything from electrification, electronification, all the underlying drivers that I talked about, I think we've done a fabulous job and our team in that area has done a fabulous job, both organically as well as identifying and bringing to the Amphenol family great companies like CMR this quarter and many others over the last 3, 4 years that put the company in a strong position going forward."
    - "I think we're beyond the acute phase of that supply chain crisis. I'm not going to tell you like it's totally in the rearview mirror, like there's still little things that people have to deal with. But I would not be surprised if our customers kind of normalize a little bit more their lead times across the board."
    - "on certain commodities, we've seen some level of relief in certain parts of the business without a doubt. But places like energy, places like the labor, certainly, logistics has gotten a little better, but I would say energy and labor is certainly very -- sill continues to be a headwind in many places."
    - "But as costs come down, I would expect in some places for pricing to have some headwind. But I would expect that ultimately a balance to happen where we are able to protect our margins and continue to have strong margins. It really wouldn't -- I wouldn't think change from a profitability perspective. In a normal environment, prior to the pandemic when inflation was kind of at a normal pace and the demand environment was normal, that's -- you did have that kind of normal balance."
  - F5, Inc. (FFIV)
    - "We came into Q1, expecting we would see deteriorating close rates and that the dynamics concentrated in EMEA and APAC in Q4 would spread to North America. In Q1, we experienced heightened budget scrutiny and more pervasive deal delays across all geographies. The dynamics are particularly challenging on larger transformational-type projects, which for us tend to be software focused. Like last quarter, new multiyear subscriptions were most affected. We noted last quarter that we were not planning on year-over-year growth from new software business this year. However, in Q1, it was down a double-digit percentage year-over-year. Based on customer feedback, we believe we are seeing the impact of financial

decisions resulting from broader economic uncertainty, pervasive budget scrutiny and spending caution as opposed to technological, competitive or architectural decisions. In contrast to what we saw on new software business, software renewals performed largely as expected in the quarter."

- "In the current environment, customers are focused on minimizing their spend and optimizing their existing investments while also continuing to drive revenue."
- "Our FY '23 software growth is likely to be lower than the 15% to 20% we initially expected due to budget scrutiny and project delays, pressuring new software contracts. This is offset by the probability of stronger systems growth given supply chain improvements and the benefit of our system redesign efforts coming to fruition."
- "I think the renewal rates continue to go up, particularly on those services business, and we've seen less discounting, given the environment that we see of people continuing to sweat assets putting focus on that, and taking the price increases that were put in place a couple of quarters ago, and we're starting to see the benefits of that come through to the services revenue."
- "the overall IT spending environment has deteriorated quite meaningfully over the last 6 months. And we're seeing that mainly in terms of softer demand than clearly what we were seeing 6 months ago. Now the way you would see that in our results, it's not in order cancellations because the appliances that our customers buy from us are typically mission-critical to deliver on applications that actually need the capacity. So we haven't seen any trend in order cancellations nor do we expect to see any of that. In fact, our customers have been pressing us to ship to them the backlog that we have built over the last couple of years and a lot of the orders that displaced that we haven't delivered on."
- "Where you are seeing this different environment in our results. And clearly, we're seeing a number of software projects that have been delayed, a lot more scrutiny on deals and that is actually affecting our software growth rate and you're seeing that in the results. And we've seen it, frankly, across the board in terms of softer demand in software, but also softer demand in hardware this quarter than we had a quarter a year ago."
- "we also saw softness in systems demand this quarter. So this effect on budgets and scrutiny from our customers at large affected both the software and the hardware demand to an extent."
- "In terms of demand specifically, I don't think the pressures on software would necessarily create stronger demand on hardware at this point in time in the environment because I think our customers are really trying to sweat their assets and try and limit the utilization to not exceed the capacity that they already have in place to the extent they can. I think that can only go on for so long, at which point they will have to buy and add capacity. But I do think that – the improvement in supply chains and as lead times improve, we will see some demand that is latent that has been gated by the fact that we're not able to ship."
- "But what I can tell you is that the fundamental drivers of what gets customers to buy hardware or software are still there. They are tied to the growth in applications and applications continue to grow the complexity of these applications. And the deployment models, the fact that these applications increasingly live in hybrid and multi-cloud environments. All of these drivers are fundamentally there. So demand can be suppressed for a period of time, a couple of quarters, 3 quarters, 4 quarters.

But where we have a ton of confidence is that it is going to come back because the fundamental drivers of our business and what our customer is doing are still there and will continue, including, I should say, attacks on applications that drive demand for security for applications. So all of those things are part of what gives us a lot of confidence that it's going to come back. In this current environment, the fact that we've built the flexibility that we have built around our consumption models and our deployment models, plays very well because some customers have pressures on CapEx, others on OpEx and our ability to serve them one way or the other is one mitigant, if you will. And it's one of the aspects that we think provides the resilience that you're seeing in our business and operating model."

  - "We think our customers will continue to deploy software in -- sorry, we'll continue to deploy our software in cloud and hybrid cloud environment. We think that the architectures are evolving to be multi-cloud architectures, and that absolutely favors F5"
  - "Today, we are positioned where the architectures are going. They're going to multi-cloud. We're very well positioned in these architectural conversations. And so what we're not seeing is the shift away from F5 from an architecture perspective, we're seeing just financial decisions and pressure."
  - "what we have seen over the last couple of years is that customers are not migrating applications to a single cloud. Increasingly, customers are leveraging multiple different environments for their applications, multiple public clouds, private cloud and on-premise. And that actually is an architectural model that is ideally suited for the portfolio that we have built, which is essentially an infrastructure agnostic portfolio of application security and delivery services. And so we feel very strongly that as that trend accelerates in large enterprises and that multi-cloud and hybrid cloud becomes more and more the mainstream deployment way of that enterprises deploy their application portfolio."
  - "we have not seen any discernible change in contract duration on the second term renewals or on the primary contracts that we are putting in place"
- Intel (INTC)
  - "Near term, the PC ecosystem continues to deplete inventory. For all of calendar year '22, our sell-in was roughly 10% below consumption with Q4 under-shipping meaningfully higher than full year, and Q1 expected to grow again to represent the most significant inventory digestion in our data set."
  - " In addition to continued macro headwinds, we expect customers will burn inventory at a meaningfully faster pace than the prior few quarters in response to macro TAM softness impacting CCG, DCAI, NEX lines of business."
- Microsoft Corporation (MSFT)
  - "As I meet with customers and partners, a few things are increasingly clear. Just as we saw customers accelerate their digital spend during the pandemic, we are now seeing them optimize that spend. Also, organizations are exercising caution, given the macroeconomic uncertainty. And the next major wave of computing is being born as we turn the world's most advanced AI models into a new computing platform."
  - "Moving to the cloud is the best way for any customer in today's economy to mitigate demand uncertainty and energy costs while gaining efficiencies of cloud native development."
  - "The age of AI is upon us and Microsoft is powering it. We are witnessing nonlinear

improvements in capability of foundation models, which we are making available as platforms. And as customers select their cloud providers and invest in new workloads, we are well positioned to capture that opportunity as a leader in AI. We have the most powerful AI supercomputing infrastructure in the cloud. It's being used by customers and partners like OpenAI to train state-of-the-art models and services, including ChatGPT. Just last week, we made our Azure OpenAI service broadly available, and already over 200 customers from KPMG to Al Jazeera are using it. We will soon add support for ChatGPT, enabling customers to use it in their own applications for the first time. And yesterday, we announced the completion of the next phase of our agreement with OpenAI. We are pleased to be their exclusive cloud provider, and we'll deploy their models across our consumer and enterprise products as we continue to push the state-of-the-art in AI. All of this innovation is driving growth across our Azure AI services."

- "GitHub is now home to 100 million developers and GitHub Copilot is the first at-scale AI product built for this era, fundamentally transforming developer productivity. More than 1 million people have used Copilot to date. This quarter, we brought Copilot to businesses, and we have seen strong interest and early adoption from companies, including Duolingo, Lemonade and Volkswagen, Carryout Software Group. Now on to Power Platform. Power Platform is becoming an essential digital transformation tool as every business looks to streamline their operations and drive productivity in today's environment. We are helping customers realize superior time to value with our end-to-end suite spanning low-code, no-code tools, automation, virtual agents and business intelligence."
- "We are leading in robotic process automation. Power Automate has more than 45,000 customers from AT&T to Rabobank, up over 50% year-over-year. And we are making it easier for anyone to streamline repetitive tasks, introducing new AI-powered features to turn natural language prompts into complex workflows."
- "we started the OpenAI partnership now in 3 years, 3.5 years ago. And we've been actually working very hard on a lot of elements of this partnership over the last 3 years. And so I think the way for our investors to see this is we fundamentally believe that the next big platform wave, as I said, is going to be AI and be strong. We also believe a lot of the enterprise value gets created by just being able to catch these waves and then have those waves impact every part of our tech stack and also create new solutions and new opportunities. So whenever we think about platform opportunities and platform shift opportunities, that's how we come at it. How can we essentially ride the wave for everything that we have today and make it more expansive and then what can be created? So if you take that lens, the core of Azure or what is considered cloud computing fundamentally changes in its nature and how compute storage and network come together. That's, in some sense, under the radar, if you will, for the last 3.5, 4 years, we've been working very, very hard to build both the training supercomputers and now, of course, the inference infrastructure because once you use AI inside of your applications, it goes from just being training-heavy to inference. So that's sort of, I think, core Azure itself is being transformed for the core infrastructure business, it's being transformed. And so you can see us with data beyond Azure OpenAI services even, think about what Synapse plus OpenAI APIs can do. We already have Power Platform incorporated capability. You could prompt a I mean, one of the reasons why we are the leaders in robotic process automation and workflow automation today is because of some of the AI

capabilities that we have in there. GitHub Copilot is, in fact, you would say, the most at-scale LLM based product out there in the marketplace today. And so we fully expect us to sort of incorporate AI in every layer of the stack, whether it's in productivity, whether it's in our consumer services. And so we're excited about it. But I think that we're also excited about OpenAI innovation, right? So they commercialize their products. We're excited about the ChatGPT being built on Azure and having the traction it has. So we look to both, there's an investment part to it and there's a commercial partnership. But fundamentally, it's going to be something that's going to drive, I think, innovation and competitive differentiation in every 1 of the Microsoft solutions by leading in AI."

    - "AI is just going to be a core part of a workload in Azure versus just AI alone. So in other words, if you have an application that's using a bunch of inference, let's say, it's also going to have a bunch of storage, and it's going to have a bunch of other compute beyond GPU inferencing, if you will. So I think over time, obviously, I think every app is going to be an AI app. That's, I think, the best way to think about this transformation. On your characterization of the large customers, whether there is any changes in their trajectory, I would say I'd point back to, I think, some of the commentary around every large customer is looking to optimize the workloads that they have at scale today and plow some of that money back that they save into new project stock. So that's sort of what the classic pattern of large customers is."
- ServiceNow (NOW)
    - "The secular tailwinds of digital transformation aren't going anywhere. IDC's research makes it clear that technology budgets are growing. They forecast IT spend will grow 5%in 2023, software spend at 8% and Software-as-a-Service spend at 15%. So as businesses increase spend, the only question then is where will all that investment go?"
    - "Heading into 2023, we believe we have prudently factored in the evolving macro crosswinds into our guidance. Overall, the demand environment remains healthy, deals are getting done, the market opportunity is growing, the ecosystem is expanding, our renewal and net expansion rates ended the year strong, our pipeline is robust."
    - "I also think that in this market, people are holding on to cash a little bit longer. And that's not altogether surprising either."
    - "and for every investor out there, when you don't need to rely on early renewals, that means you have a competitive advantage with your technology. It also means that you're able to preserve your pricing power as you go into the renewal cycles on their normal terms. So this is actually a super healthy thing, and that's why the guide for 2023 was above all the consensus estimates that you guys have."
- Texas Instruments Incorporated (TXN)
    - "our results reflect weaker demand in all end markets with the exception of automotive. A component of the weaker demand was customers working to reduce their inventories. In the first quarter, we expect a weaker than seasonal decline with the exception of automotive as we believe customers will continue to reduce inventory levels"
    - "First, the industrial market was down about 10%. The automotive market was up mid-single digits with strength in most sectors. Personal electronics was down mid-teens with broad-based weakness. Next, communications equipment was down about 20%. And finally, enterprise systems was also down about 20%."

            - “Our industrial and automotive customers are increasingly turning to Analog and Embedded technologies to make their end products smarter, safer, more connected and more efficient. These trends have resulted and will continue to result in growing chip content per application which will drive faster growth compared to our other markets.”
            - “I'd say that the trends that we saw in the fourth quarter will continue in the first, meaning that we expect our end markets to decline with the exception of automotive. So automotive is continuing to be resilient. And we do believe, as you just said, that the customers are continuing to work to get their inventories lower”
            - “The cancellations were up in the quarter. So we did see an increase there. And not -- and from a consignment versus classic backlog customers, really not much difference there. . . that. And oftentimes, if customers aren't canceling orders, what they're doing is rescheduling them back out in time. So we're certainly seeing that happen as well.”
- Consumer Discretionary
    - D.R. Horton (DHI)
        - “Beginning in June 2022 and continuing through today, we have seen a moderation in housing demand due to affordability challenges caused by the significant rise in mortgage rates, coupled with high inflation and general economic uncertainty. Despite these pressures, we still closed over 17,000 homes and sold more than 13,000 homes in what is typically the seasonally slowest quarter of the year. We have seen increased sales activity in the first few weeks of January. While higher mortgage rates and economic uncertainty may persist for some time to supply of both new and resale homes at affordable price points remains limited, and the demographics supporting housing demand remained favorable.”
        - “However, we are seeing some stabilization in cycle times on the homes we have started and we expect our cycle times to improve during fiscal 2023. We will continue to evaluate demand and adjust our homes and inventory based on current market conditions.”
        - “I think as you've seen, our cancellation trend moderate and cancellation rate moderate we have younger backlog that have signed contracts more recently. As Mike spoke to, certainty of home close date and mortgage rate is very important. So as we have cycled through and we're improving our housing inventory turns, I think that's where you're seeing our reduction in cancellation rate.”
        - “I do think the credit markets have stabilized somewhat consumer confidence improved a little bit. Job growth continues to be very good. So overall, if you look at pent-up demand at just a generalized economy becoming less bad, very good signs for house. And we monitor ourselves and monitor cash flow since week to week to week to week and so and we see it that trend returning to more of a normalized market, it's hard not to be optimistic that we're going to have a good strength. And so that's the way we're positioned and we get up every day and respond to what happens out there in field”
    - Group 1 Automotive (GPI)
        - “The cost of vehicle ownership is probably down a bit given that gas prices are down versus a year ago quite a bit in some parts of the country. And we're seeing a little more support in terms of incentives from the OEMs. So I think maybe publicly some of them are saying they're not worried about it. But from internally, we're seeing more support.”

        - "Moving forward, if you look at on a macro basis over the next couple of years, what firms like Cox are saying, which I tend to agree with them is I believe we're going to see somewhat of a shortage on used cars because of the pandemic-related SAAR declines that we saw for 3 years. And that will take some used cars out of the market for the coming 3 or 4 -- couple of years anyway. And I believe that could support PRUs over the next couple of years. So that's something we think is probably going to happen as the way we see it."
- Consumer Staples
    - Kimberly-Clark Corporation (KMB)
        - "Recently, market prices of some inputs have begun to ease, although they remain elevated relative to pre-pandemic levels. While we're encouraged by this, it will take time for these benefits to work through our contracts and flowthrough the P&L. Nevertheless, we'll continue to leverage our scale to improve efficiency and reduce costs. At the same time, we expect our revenue management efforts will continue to positively impact this year."
        - "Consumer demand in our categories generally remains very resilient. And so I think from that aspect, we have good things to invest in. In terms of the overall spending, we are taking advertising back up a little bit more."
        - "And let me say this about costs. One, from my seat, I'll say there's -- I see green shoots, okay? But even though we still see cost headwinds coming into the year, there are green shoots, and we have seen selected commodities start to ease. And I'll also say, having been in this company for 10 years, reversion is around the corner. And when it happens, it happens fast. We offset extraordinary headwinds over the last couple of years, as I mentioned. We see another 600 this year. Historically, though, there has been rapid reversion, and we've seen some signs of it. I don't have a timetable for that. I don't know if it's going to hit this year or not. But at some point, it will happen. And when that does happen, it will accelerate our margin recovery."
        - "One, let me just say in North America, and I would say globally, overall, we're seeing a resilient consumer. And I think that does reflect the essential nature of our categories. Generally, our POS or consumption volume where the POS Nielsen sales is in line with expectations. As I mentioned, our shipment volatility has been a little higher just because of some of these discrete items that we work through. This is the thing Russ and I were looking at last night. I definitely would say observed elasticity was slightly higher or the elasticity impact on volume was a little bit higher in the second half than the first half, but remains, I would say, far below what's modeled. And I think that does reflect the nature of our categories as being essential."
    - Tractor Supply Company (TSCO)
        - "Now turning to our fourth quarter and fiscal 2022 performance. Our business continues to be incredibly resilient, and the quarter unfolded much like we anticipated."
        - "Now shifting a bit to 2023. As we planned for the year, we anticipate continuing to operate in an ever-challenging and changing macro environment. Our operating assumption is that the economy in the near to medium term will remain resilient with flat to modestly positive real growth. Wages are increasing and consumers continue to tap pent-up savings to support spending. We expect consumers will continue to be judicious in their spend, but resilient, while prioritizing needs over

discretionary. We believe inflation has peaked, but will remain sticky as we move through the year. It is our view that an orderly loosening of the labor market will be a key determiner of the country's ability to return our economy to sustainable conditions in the second half and 2024. The effects of secondary markets on our consumer spending in areas such as housing, agriculture and oil markets are expected to be collectively neutral and individually modest."

        - "We view the strength at our millennial customer, not as a pull forward, but rather as a catch-up as this group delayed family formation and the pandemic really shifted their behaviors to be much like prior generations. This cohort of the population is showing accelerated rates of homeownership and household formation. Today, 50% of millennials own homes versus 30% just a decade ago. So while they may have started a little bit later, we see an inflection point in the pace of homeownership and household formation for millennials. We are focused on retaining these new millennial customers as our data shows that they are roughly double their spending at TSC in their second year of shopping. And if they continue shopping with us for 5 years, we experienced a threefold increase in transactions and sales per customer within 5 years of their initial purchase. Rural revitalization also continues to be a strong structural benefit for us. Millennials are increasingly choosing to move out here. This is not just a phenomenon of the pandemic, but rather a decade-long trend of net migration out of urban areas that skew disproportionately among this younger generation. The rural lifestyle appeals to millennials and it offers greater affordability, safety, self-sufficiency, a slower pace and the ability to pursue hobbies and passions."

- Industrials
    - 3M Company (MMM)
        - "We have implemented strict control of hiring and discretionary spending. Today, we announced that we will reduce approximately 2,500 global manufacturing roles, a necessary decision to further align with adjusted production volumes. In addition to the actions we are taking to respond to the macroeconomic environment, we are taking a deeper look at everything we do as we prepare for the Health Care spin."
        - "First, 3 weeks into January, we are seeing continued slowing in organic sales volume as we start the year. This slow start is driven by the same weakening end market trends that impacted the finish to 2022. We expect soft consumer discretionary spending, along with retailer destocking to continue into the first quarter."
        - "I would say as we began Q4, overall inventory looked to be in pretty good shape. And that was with the notable exception of Consumer. Everyone was working to reduce the inventory, and we saw a lot of destocking efforts in Consumer. As I said, we're starting to see some destocking in industrial. I would say, Asia and China, where we are seeing weaknesses in consumer electronics driving some of that. And as I mentioned earlier, some specialty markets like construction and a few other areas like even packaging, we're seeing some reduction of inventory as we start the new year."
    - Automatic Data Processing (ADP)
        - "Job growth in the U.S. labor market has been slowing, but clearly remains solid, which you see reflected in our client base. Despite recent headlines noting job cuts by number of companies, we have yet to see broad-based softening in the labor market."

- “So I think it's fair to say that we have yet to see any significant impact from all those announcements. And I guess I'll just round it out by saying, we're still seeing stronger or strong demand. We've taken up our pays per control assumption for the back half. And we're doing that not just on our own internal perspective, but we're also looking at the BLS reports, the JOLTS reports. Everywhere you look continues to suggest that there's still strong demand for employment. Unemployment continues to be very low. Unemployment applications are still in record lows. They're not increasing. So the macro environment continues to be very, very favorable for us, irrespective of some of those headlines that we're seeing.”
    - “We were very pleased with our overall new business bookings for the second quarter. Definitely saw an acceleration in pipelines. I'll get the pipelines in a minute. I did cite the down market, the strength that we're seeing in the down market, that's really our entire down market portfolio.”
    - “We're continuing to see our existing clients add employees. As Maria said, bookings are strong. And I think it's the kind of the $64,000 question about how long the labor market can continue to grow. Unemployment can stay so low as we look at some of the headlines and will those things start to converge at some point in the future.”
- Crane Holdings, Co (CR)
    - “While the present environment is still similar today to what we saw in the second half of '22 and we still see continued robust demand across our end markets, we remain guarded watching carefully for signs of softening. Other than the RV market, where the softness is well known and understood, we are not seeing slowdown in our order rates yet. However, given broader macroeconomic trends, we are planning for slowing short-cycle markets, particularly those in the U.K. and Europe, which are most impacted by energy inflation. From a supply chain perspective, material and component availability remain most challenging but stable in our Aerospace & Electronics segment, with continued but slow improvement in the other segments.”
    - “We're on track for completion on April 3 of this year. We continue to have high conviction that this separation is going to create value as it increases our operating and financial flexibility to pursue growth opportunities. It lets us develop capital allocation strategies for both Crane Company and Crane NXT that are optimized for their individual business and financial profiles. The separation will make it far easier for each company to attract a shareholder base fully aligned with each business' strong and distinct value proposition. And we believe that we'll make M&A more viable at both companies. Simply, the separation will create 2 more closely-aligned pure-play companies, each better positioned to deliver long-term growth and sustainable value creation for all of its stakeholders.”
    - “Despite the impressive increase in core sales growth, we remain somewhat capacity constrained due to continued supply chain issues along with the rest of the aerospace industry, and leading indicators reflect that demand continues to outpace the supply chain generally.”
    - “We have a very strong backlog, and recent order activity has been strong. However, given broader macro economic trends, our guidance does assume we will be seeing slowing in short-cycle activity and decelerating order rates into 2023.”
    - “the post trading range, getting closer to small, mid-industrial technology companies. I think that's what we're going to see because that really -- when you really look at the underlying technology and margin profile of this business, as we've

talked about, it's really quite unique and shouldn't be at that multiple. I think separating it, we hope investors are going to see that."

- "in the last few years, we haven't really done a lot of M&A since 2019, effectively. And as we're looking at what's in our funnel, our pipeline where we can add value, we see a rich set of opportunities that are adjacencies to the core, help diversify the business. We think we can go in and add a lot of value, and that's what we're going to be talking about in the -- at the Investor Day of how we diversify. So that really is strategy one, and we want to go after that invest in the core, but allocate to the M&A funnel that's rich and deep and diversified."

- CSX Corporation (CSX)
  - "we're going to have inflation headwinds, right? I think probably in the 4% to 5% range. And our goal is going to be to offset as much of that as we can, both through taking out some of those extra costs that we carried last year as well as continuing to find efficiency gains across the business."
  - "We're very pleased with how the year has started. However, we don't know exactly where the economy is going to go, given rising interest rates and some of the other things that are going on. Actually, you could say that in the data that we've been seeing that some parts of the economy started slowing down really in October, November. And we just didn't see it in our business because we couldn't meet some of that demand back then. But we feel really good about where we are."
  - "What my expectation is and what we're starting to see is that they've already overshot what they saw what would be a normal demand environment, and we're seeing order flows start to increase. And so that's encouraging that it feels like in some of these markets, we've established the bottom."
  - "the impact of inflation on the labor line is in that ballpark, right, mid-single digits. And if you look at the headcount, if we didn't hire anybody additional all year long, we'd be up 4% year-over-year. Jamie talked about adding a couple of hundred to the head count, so call that 5% up year-over-year. So there's your 10%, but we are confident that as we -- as the network continues to spend, we'll be able to drive some efficiency on the labor line will also cycle as you alluded to, the true-up that we had to make in the third quarter on the back wages."
  - "We're going to reduce crude travel and some of the ancillary costs that go along with that as the network spins faster and we'll be able to offset a good chunk of it, offsetting 5% inflation or sort of in that range and another 5% head count would be a lot in a single year."
- Norfolk Southern Corporation (NSC)
  - "our outlook for 2023 is cautiously optimistic amid uncertainty in the macroeconomic environment and some signals of a slowdown in activity. Our improving service levels will drive opportunities for modal conversion from truck and increase our capacity to address unmet demand. At the same time, economic conditions could be a headwind to volume at least in the near term, while lower fuel prices and accessorial revenues will temper our revenue per unit. Within Merchandise, we anticipate that macroeconomic conditions will pressure a variety of the markets that we participate in. We're mindful of recent weakness in industrial production, particularly with respect to manufacturing, and that drives many of our markets. Current forecast for manufacturing in the U.S. shows contraction in 2023 as businesses right size inventories to demand. Additionally, the weak housing market will be a headwind to many of our industrial businesses and we expect this

weakness to persist in 2023 as the housing market adjusts to higher interest rates. Volumes will also be supported by increased equipment availability and overall network fluidity. Looking at Intermodal, volume growth will be dependent on the macroeconomic environment, although our improving service levels will create capacity for growth. Total revenue will be pressured by lower fuel surcharges and reduced storage revenue as supply chains continue to normalize throughout the year. Household balance sheets are supported by excess savings accumulated during the pandemic and credit remains available for many despite becoming more expensive. And so long as the U.S. consumer remains resilient, we would expect supportive demand for Intermodal. Weakness in the truck market at the start of the year, along with housing will be a headwind but we anticipate the truck market to rebalance supply and demand later this year."

    - "The question I think that we're all trying to answer is, can we claw back enough to overcome the demand destruction that's present or might be present in the market in '23. I know I don't have to, but just to give you a flavor for what we look at -- you start with inflation, you go to interest rates and what that is doing to many markets, including housing, which is very important for our business. We've seen manufacturing inflect in the past 3 months to a negative, there's a lot of uncertainty. The way I would describe our position is we are guarded, but we are poised for opportunity. We have the right service right now."
    - "But you look at good spending in the U.S., which has plateaued for the consumer, but it's plateaued at a level that essentially is where we should be in like 2025 or 2026. So there's still a tremendous number of goods being brought into the country, trying to fit through a pipeline that was designed for arguably 2023. And so that congestion still exists in some places, really around the warehousing on the Hinterland and Inland locations. We think it's going to unwind. In terms of the timing of that unwinding we're watching very carefully. We think it will happen in '23 at some point."
- PACCAR Inc (PCAR)
    - "The U.S. economy is projected to expand modestly in 2023. In this truck sector, there is pent-up demand from the prior 3 years of industry under production and customers need to replace aging fleets to benefit from the superior performance of the newer Kenworth and Peterbilt models."
    - "I mean I think the macro way to think about it is since 2020, the industry has really been not able to supply all the trucks that have been needed. So there is a strong pent-up demand for the trucks. And in addition to that, obviously, we've launched more new products than any time in our history. So that's contributing. We have excellent visibility looking into the year, full through the first half, filling the third quarter nicely. Demand continues to be strong, in line with build. And so it's looking like a really good year characterizing it. You see some raising some holding, somewhere there's commodity costs where there have been improvements. But it's a mixed bag. Obviously, labor is still a factor as far as our supplier -- for our suppliers, and all of those wash into the mix."
    - "Used truck prices have come down a little bit from the historical highs earlier last year. But I would say that even at today's valuations, used trucks are a very, very attractive business for the finance company."
- Robert Half International Inc (RHI)
    - "Global labor markets remain tight and the demand for talent remains high despite

continued economic uncertainty. Clients continue to hire, albeit at an even more measured pace, which has the effect of lengthening the sales cycle. Although recent metrics have come off their all-time highs, talent shortages persist in the United States, unemployment stands at 3.5%, a 50-year low, and remains even lower for those with a college degree where the rate is 1.9%. Job openings and quit rates remain elevated. Unemployment claims remain low."

    - "First of all, I think this is the most anticipated downturn ever. And the cumulative impact of all that negative news clearly has an impact on confidence. And I believe the same story you're referencing, toward the end, also talked about the NFIB small businesses. Their optimism index was down 12 straight months lower than their 48-year average. And so while the hard data seems to be hanging in there pretty well, the softer data, which is about expectations be it NFIB, be it conference board's leading indicators, being the NABE, which also had some negative expectation data. I think all of those would point to some continued softness. But there's no question that there's tension between the very resilient labor market data, which clearly is indicative of supply and the forward-looking expectations data of the groups I've talked about, which we see as more consistent with our clients. Having said that, orders have not dried up. We want to make that clear. It's just taking longer to get them closed. Our clients are less urgent. They're taking more steps. They want to see more candidates. They want to involve more people in an interview process. It simply lengthens the sales cycle. We still have orders. Orders have not dried up"
    - "Well, we would say we're definitely seeing clients pushing back more than they were in part because they think they can, which is understandable. As I talked earlier as well, we would expect some dialing back of the wage rate pressures we're seeing as well as the bill rates that go along with that. So as things soften a bit, we would expect pay rates and bill rates to dial back a bit. But as I talked about, we don't think that have much of a margin impact for reasons that I talked."
    - "Tech is interesting. On one hand, you've got big tech that over-hired that with great fanfare is announcing all their layoffs. And while we're not directly impacted much by big tech, I'd say there's a psychological and sentiment impact to all tech and that there's a perception that there are a lot of tech people on the market that the tech market has loosened a lot. The reality is a lot of those layoffs aren't even tech people. They're recruiters, HR, back-office people at tech companies. Further those that are getting laid off, typically are finding new positions fairly quickly. And so we would say that the tech market, in fact, is stronger than the perception that's being led by big tech, which has very specific, in many cases, company-specific circumstances."
- Textron Inc (TXT)
    - "I think our order rate in the fourth quarter was consistent with the third quarter. It remains quite healthy. I think when people look at some of these leading indicators, like it's hard to keep track of what -- when you see a little bit of an increase in used available for sale, what kind of aircraft are those? What are their vintages? We think, obviously, the market has been very strong. So people are looking to put some aircraft on the market. They're still at very low levels. So we're not seeing that -- the knock-on effect into market for new aircraft. So we haven't seen a material change in the level of activity that's going out there in terms of order activity."
    - "In terms of the pricing side of things, we continue to get price, net of inflation."
    - "we've kind of factored in thinking we'll have a mild recession. I don't think it's going

to be dramatic. We're certainly not thinking about something in the scope of back in the 2009, '10 kind of time frame. But I don't think we have an economic situation that's going to lead to something like that. I'd say, look, I think when you look back at previous modest recessions, the area that has always impacted us the most difficult has been a slowdown in the aviation business. And I think we're in a very different place than we've been in those previous sessions because we have a pretty significant backlog. So I think that the nature of that will allow us to -- even if you were to see a slowdown in bookings, which is entirely possible, I would expect it if you really go into a modest recession, you'll see a slowdown in booking, but you've got almost 2 years of backlog sitting there that you'll continue to execute on. And I think that will help you ride through it. And we haven't had that for a bunch of years, Peter, as you know. So I think that it's one that would translate to a slowdown in bookings, but not something that would slow us down in terms of our revenue and margin generation."

    - "demand is strong, right, which is very helpful from a pricing standpoint. But our opinion, this market has been mispriced for a long time. I mean, this is a business which, as you guys know, it's a lot of R&D. It's expensive to develop these things and get them through certifications and you need to have fair pricing to generate these kind of margins. We always believe the business had to be back as a double-digit profit margin business, and we've been driving price to make sure that, that's the case."
  - Union Pacific Corporation (UNP)
    - "Now as we look ahead to 2023, you can see the macro indicators that we are watching along with inflation and interest rates. And you'll notice that we have some challenges with industrial production, imports and housing starts. However, we remain optimistic that we will be industrial production with our strong focus on business development."
    - "we expect the entire intermodal market to be challenged, both international and domestic by high inventory levels, lower truck rates and temper consumer spending. We expect to outperform that market, however, through our new business with Schneider as well as opportunities to grow with other private asset owners and our strong IMC partners. We expect automotive growth to be another bright spot in this segment driven by production strength and inventory replenishment."
    - "we see a clear path for pricing ahead of inflation"
    - "what you're seeing from us is a perspective that says there's a lot of uncertainty as we enter 2023. You could see it in some of the macroeconomic indicators that Kenny shared but you can hear it and see it across the board in many markets right now. And so while we're confident we can outperform industrial production, which is an underlying driver for a fair amount of what we ship, going beyond that and becoming more granular just is it's a little too early in the year given all the uncertainty that we see. So hard to stop on that."
- Materials
  - The Sherwin-Williams Company (SHW)
    - "We currently see a very challenging demand environment in 2023, and visibility beyond our first half is limited. The Fed has also been quite clear about its intention to slowdown demand in its effort to tame inflation. These factors have not changed from what we communicated on our third quarter call, and our base case in

2023remains to prepare for the worst. Based on current indicators, we believe this is the most realistic outlook at this time. On the architectural side, it's no secret that U.S. housing will be under significant pressure this year. Single-family permits have been down year-over-year for 10 consecutive months, and single-family starts have been down year-over-year for 8 consecutive months. Mortgage rates also remain elevated. As a result, we believe our new residential volume could be down anywhere from 10% to 20% this year. We expect our other PRO end markets to be more resilient than this, but there are headwinds in these areas, too. For example, existing home sales, which drive a portion of our repaint business, have declined year-over-year for 16 straight months. Now while we see a backlog of new commercial construction, the Architectural Billings Index has contracted the last 3 months. On the DIY side, we expect inflation to continue putting pressure on consumer behavior in the U.S. and in Europe. On the industrial side, the PMI numbers for manufacturing in the U.S., Europe, China and Brazil have been negative for multiple months. We have already seen an industrial slowdown in Europe, and the same is beginning to appear in the U.S. across several sectors. In China, COVID remains a wildcard and the trajectory of economic recovery is difficult to map. The U.S. housing slowdown will also impact some of our industrial businesses, namely Industrial Wood where we have already seen pressure in Coil, to some extent. Our team fully understands the importance of winning new accounts and growing share of wallet in this environment, and that is where we will be focused. From a cadence standpoint, we expect year-over-year sales and earnings performance will be significantly better in the first half than in our second half, driven by several factors."

    - "Our outlook also assumes our raw material costs will be down by a low to mid-single-digit percentage in 2023compared to 2022. We expect to see the largest benefit occurring in the second and third quarters. We expect to see decreases across many commodity categories, though the ranges likely will vary widely. From an availability standpoint, certain alkyd resins remain a pain point, impacting stains, aerosols and some industrial products. We expect supply of these resins to continue improving through the first half of the year, in part due to ramping of our own internal production. We expect other costs, including wages, energy and transportation to be up in the mid- to high single-digit range. For the first quarter of 2023, we anticipate our consolidated net sales will be flat to up by a mid-single-digit percentage compared to the first quarter of 2022, inclusive of a mid-single-digit price increase. Our sales expectations for the quarter by segment are included in our slide deck. For the full year 2023, we expect consolidated net sales to be flat to down mid-single digits, inclusive of a mid-single-digit price carryover from 2022. Our sales expectations for the year by segment are included in our slide deck."
    - "Given carryover pricing, raw material deflation and our ongoing continuous improvement initiatives, we would expect full year gross margin expansion. We expect SG&A as a percent of sales to increase in 2023. This is similar to the slowdown in 2008 and 2009, where we continued to invest in long-term solutions for our customers that allowed us to grow at a multiple of the market when demand normalized. We'll also control costs tightly in non customer-facing functions and execute on our restructuring initiatives. We have a variety of SG&A levers we can pull depending on a material change to our outlook up or down."
- Healthcare
  - Danaher Corporation (DHR)

  - "Our capital expenditures of over $1 billion included substantial investments to expand production capacity in our bioprocessing and genomics businesses. These investments have been critical to support current customer demand. But they're equally important to support the long-term growth opportunities and security of supply in these markets. With several of our customers' biologic therapies progressing through the regulatory approval process, we anticipate the size of our bioprocessing and genomics businesses to increase meaningfully here in the coming years."
  - "Due to changes in our organization resulting from the significant growth of our Life Sciences segment over the past several years, we have separated our former Life Science segment into two new reporting segments. Cytiva and Pall Life Sciences, which include bioprocessing and our discovery and medical businesses, are now reported as the Biotechnology segment. Our new Life Sciences segment is comprised of the remainder of the businesses in our former Life Sciences segment. The Diagnostics and Environmental & Applied Solutions segments are unchanged. Now importantly, today's discussion reflects these changes."
  - "Now there is a bright future ahead for the biologics market and our leading bioprocessing business. A number of biologic and genomic-based therapies in development and production continues to rise. And we expect to see significant industry-wide investments in research, development and production capacity well into the future. With our differentiated portfolio, which is the broadest and deepest in the industry across upstream and downstream applications, our best-in-class scientific services and extensive global reach, we're exceptionally well positioned to support our customers as they undertake this complex life-changing work."
- Intuitive Surgical (ISRG)
  - "Structurally, we have been increasing our own capital expenditures as we continue to build the company to supply the globe at industrial scale. This is an important investment as several procedures using our systems have become the standard of care in several countries. We have been vertically integrating key technologies to develop a more robust supply chain and bring important products to market at attractive price points. These investments include increased ownership of our imaging pipelines, strategic instrument and accessory technologies and software and digital products that allow us to serve our customers. The investments make our business more capital intensive than years past, in support of industrial dependability, amore robust supply chain and lower product costs. I'd also like to take a moment to walk through our platform investments. Intuitive starts with the end in mind. Coordinating our efforts to enable our customers' pursuit of the quadruple aim in specific procedures, for example, those in general surgery. We design all our systems to allow for the addition of new functionality over time."
  - "In closing, our priorities for 2023 are as follows: first, increased adoption and focused procedures defined by country through outstanding training, commercial and market access execution; second, pursuit of expanded indications and launches for our new platforms; third, excellent performance in the continuity of supply, product quality and services provision as we emerge from pandemic stresses; and finally, pursuit of increased productivity and our functions that benefit from scale."
  - "The supply chain environment was challenging in Q4 and indicators of supply and inventory health did not improve as compared to last quarter. Higher fixed costs relative to revenue reflect a combination of manufacturing-related inefficiencies

given the environment and investments for future growth."

- "On the capital funnel side, what I'd say is, given the macro inputs from customers are our sense is that they are still relatively cautious. I think there's quite a bit of uncertainty still in the macro. And while, for example, staffing shortages have improved, they're still quite a bit worse than pre-pandemic levels in terms of labor costs, vacancy rates for hospitals. So they are being careful from a financial perspective and they're cautious given macroeconomic uncertainty. I think our experiences in the second half of '22 has been where customers are seeing nice growth in their robotics programs. da Vinci stays as a relatively high priority in terms of their capital budgets. But beyond the fact that they're cautious, I wouldn't say there's anything specific I'd highlight in terms of '23 outlook."
- "What we're seeing is core costs in our supply chain, the prices we pay our suppliers, the wage costs we pay our production staff. They have gone up, and that looks sticky."
- "With regard to some of the pressures on margin, whether they're inflationary or what have you, Jamie's point, some of those are sticky. We understand the levers that we have, whether it's in design or scale or production or other opportunities. And we're in pursuit of those. I don't think we're confused about where to go from here. Some of them take a little while."

- Financials
  - American Express Company (AXP)
    - "We saw another quarter of solid growth in U.S. SME, though you can see that it was the slowest growing customer type this quarter, up 8% year-over-year. As you heard Steve talk about a bit last month at an investor conference, our SMEs have recently started to slow down spending in service categories such as digital advertising, so we continue to monitor spending trends."
    - "So what do all of these takeaways mean for 2023? At this point, on a dollar basis, most of our spending categories have fully recovered. So I would expect more stable growth rates this year across spending categories with the exception that year-over-year growth rates for T&E spending will likely be elevated in Q1 as we lap the impact of Omicron from the prior year."
    - "The rising interest rate environment has had a fairly neutral impact on our results in '22, as deposit betas lagged the rapid and steep benchmark rate increases during the year. However, when you think about 2023, deposit betas are now in line with more historical levels. So I would expect the year-over-year impact from rising rates to represent more of a headwind in 2023. To sum up on revenues, we're seeing strong results across the board and really good momentum. Looking forward into 2023, we expect to see revenue growth of 15% to 17%."
    - "we're still seeing high consumer growth. We're seeing high consumer growth in international. We talked about some moderation in small business. Corporate spending still has not come back. Jeff talked about T&E. But I think when you think about the model, I think what just -- you have to get an appreciation for is, we're a small segment of the overall U.S. population, and it's a premium customer base. And that premium customer base, while not immune to economic downturn, certainly, right now is spending on through."
    - "As far as overall white collar unemployment, what I would say is, yes, you've seen some headlines of individual companies that are going through layoffs. But the one thing that I would say is, I think it's really important to look at where these

companies were pre-pandemic. And they're probably still at employment levels that are much higher than what they were pre-pandemic. And so there's a rightsizing a little bit. But even with that rightsizing, we still have unemployment rates under 4%. And so look, we look at unemployment. But it has not, at this particular point in time, had any impact on our card member base. I mean, again, keeping our write-offs at 0.8% and 0.6% is sort of not sustainable and we are at 1.1%"

    - "we have looked historically every way you can imagine, trying to find really direct correlations between GDP growth and for that matter between movements in the markets that affect people's financial wealth. And the, I think, surprising thing to many people is we can't find any direct correlation between those 2 things. So when you look at our 15% to 17% guidance, it's really. . .driven by -- our best indicator is what we see with our customers around the globe and how they're behaving. And we certainly are aware of and thinking about various macroeconomic forecasts but you start with what behaviors are we actually seeing. And I'd also remind everyone that the U.S. remains by far our largest market. The U.S. economy shrank in the first 2 quarters of 2022, and we just posted revenue growth for the full year, 25%. So when I think about the 15% to 17% range, it's really not at all, 15% is a weaker economy, 17%. Frankly, it's. . .based on the trends we've seen and the macroeconomic consensus, which is absolutely, the economy is supposed to slow when you look at that consensus, and that's factored in here as well."
    - "First, when you think about our long-term aspirations, we don't actually worry about recessions at all because the reality is, at some point, and I don't know if it's 6 months from now or 6 years, there will be a recession. And after that recession, there will be a recovery. And it doesn't change our view of we should be able to steadily grow this company in excess of 10%. . .it doesn't change our long-term aspirations or how we're going to run the company."
    - " . .So the reality is, is that if we were running this business quarter-to-quarter, which we don't, you would pull back. But the reality is, as Jeff said, after every recession there is a recovery. And the last thing you want to do is retrench in such a way that you're not going to be able to take advantage of the recovery. And that retrenchment looks -- it looks like layoffs that don't make sense and pulling back on marketing and trying to hit an EPS number for a quarter or for a year that is irrelevant. What's relevant is for a 172-year-old company to continue to grow over the medium and long term. And the way you do that is, you invest judiciously and you invest smartly. And in times when things are bad, you invest in your infrastructure, you invest in your people because you're going to need great people through when a recession is over, and your infrastructure is going to need to do that. And where companies make mistakes is, let go of great people, and also do not invest in those things, they're going to need 6 to 9 months from now when the recession is over."
- Capital One Financial Corporation (COF)
    - "Both the charge-off rate and the delinquency rate continued to normalize and were below pre-pandemic levels. The Domestic Card charge-off rate for the quarter was 3.2%, up 173 basis points year-over-year. The 30-plus delinquency rate at quarter end was 3.43%, 121 basis points above the prior year. On a linked quarter basis, the charge-off rate was up 102 basis points and the delinquency rate was up 46 basis points."
    - "The auto charge-off rate and delinquency rate continued to normalize in the fourth

quarter. The charge-off rate for the fourth quarter was 1.66%, up 108 basis points year-over-year. The 30-plus delinquency rate was 5.62%, up 130 basis points year-over-year. On a linked quarter basis, the charge-off rate was up 61 basis points, and the 30-plus delinquency rate was up 77 basis points."

- "In this particular case for unemployment, we are assuming something that's a little modestly higher than consensus estimates for where we will land in the fourth quarter. I think consensus is somewhere around 4.8%. We're -- our baseline forecast gets up to around 5% in the fourth quarter, but it's important to note there's a lot of other things that go into the calculation of the reserve things like unemployment -- sorry, changes in the unemployment rate, inflation, home prices, wages, all of those factors matter as well, but our unemployment assumption is to be around 4% in the fourth quarter -- sorry, around 5% in the fourth quarter."
- "So consumer credit metrics remain strong. And of course, as we've seen, they've been normalizing steadily through 2022 and are approaching pre-pandemic levels. The -- At first normalization was more pronounced in some segments more than others, more -- normalization was happening everywhere, but it was more pronounced at the lower end of the market. More recently, we've actually seen more uniform trend of normalization across businesses and segments."
- "Delinquency metrics are the best single predictor of where things are going to go in the near term. And in fact, if we look at flow rates, we can see that very early flow rates into delinquency buckets are pretty normalized. So we're not giving specific guidance. But we would say, look at the credit metrics, look at the dynamics across other metrics, but we feel this is -- it's clearly normalizing as we see it."
- "Normalization of course, is not any precise point. But there are also a number of other things that we look at that I think, shows sort of the strength of where this thing is headed. And one is on the vintage curves from new originations. They continue to be pretty flat month after month. They're, of course, lagged by several months, but pretty flat. And in -- when we compare individual segments to where they were back in the pre-pandemic period. pretty much on top of each other"
- "The percent of customers making full payments is above pre-pandemic levels, revolve rate is roughly flat relative to last year and remains below pre-pandemic."
- "what we see is nothing we see as surprising. It would be consistent with a consumer coming off of some of the extreme stimulus and some of the extreme pullbacks in the pandemic and returning to more normal behavior."
- "auto recoveries inventories are unusually low because of the very low charge-offs that we've had in the past few years. The past charge-offs are basically the raw material for future recoveries. So the generally good news that has been in the auto industry of robust used car prices actually puts upward pressure on our overall loss rate as recoveries inventory build. So we also -- in terms of the credit metrics, we have seen more degradation in the very, very low and mostly below where we play in the auto business, but we have trimmed a little bit around the edges at the -- at our own low end. But basically, we continue to feel very good about our originations from a credit point of view. The biggest issue in auto is the margin pressure that has come from the rising interest rates that have not been fully passed through by the competition. So we continue to feel really good about the auto opportunity, but our pullback is really not a credit-driven pullback so much as it is a margin-driven pullback. But we certainly do see the -- we can see the normalization in the auto business."

    - “you'll notice our own spend growth numbers moderated quite a bit this quarter. We are seeing spend per account, per customer moderate across our portfolio, moderating the most at the lower end, but we see the moderation. We see it the least in the very heaviest spenders, but the moderation that you see in our spend growth metrics are driven really by what's happening per account, we continue to get nice growth of accounts. .So that is a phenomenon that -- and then we kind of ask, well, what should we be rooting for? I think you're seeing a very rational response by consumers to the environment. There was a big surge in spending. I think it's moderating somewhat, particularly at places other than the very highest end of the marketplace. So I think it's basically a sign of consumers being rational.”
- MarketAxess Holdings Inc (MKTX)
    - “I will say it's encouraging to see that the mutual fund outflows that took place most of '22 have started to turn into inflows, which is opening up the new issue calendar for the high-grade market as we start the year. And who knows? The expectation right now is that we can have a soft landing and the inflation numbers will continue to come down, but nothing is certain. And there is a possibility that we get a negative surprise [indiscernible] and the Fed has to continue to move rates higher in the near term, but that's not the expectation right now. And I will say, while the high-grade market is wide open, we are still not seeing anywhere near normal levels of activity in markets like high-yield and emerging markets and even euros. So it's a good sign that high grade is leading the way. We're having robust levels of new issue activity this month.”
    - “that, quantitive easing caused significant changes in client asset allocation over the last 3 or 4 years. And the net result was underweight fixed income because of the 0 interest rate policies around the world. That has now changed. So I think what you're seeing is the very beginning stages of people starting to reallocate into fixed income. And you see it with the mutual fund inflows kicking off the year, the retail numbers are way up, the ETF assets are growing. And a lot of this is driving small ticket. Some of that retail money is coming into SMA accounts, some of it into ETFs, but all of it with just this massive growth in tickets. So it's not an option to automate, it's a requirement. And I think we're going to continue to invest in tools to help our clients with that, and I would expect a very robust year of automation growth this year.”
    - “So we obviously look at the coming 2023 as an opportunity given the repricing of many financial assets, a number of small companies. When we look at the marketplace, there is, what I call, a scarcity of assets. So we're really talking about an M&A strategy that involves much smaller size, bolt-on type of product offerings. The fintech space has clearly been repriced. So there's an opportunity. And there are a number of fintech providers in the market that will start facing capital challenges in the year ahead. So with a very strong balance sheet, we feel well positioned to take advantage of a repriced market with a number of fintech players that may be in need of capital. So excited about what's ahead. But again, there's nothing material out there given the scarcity of assets that we look at.”
- Mastercard Incorporated (MA)
    - “While the macroeconomic and geopolitical environment remains uncertain, we are keeping a close eye on a variety of positive and negative factors. The broadly resilient labor market with low unemployment and rising wages, coupled with elevated consumer savings levels, are key drivers of consumer spending. We're also

tracking efforts by the central banks to curb inflation, along with moderating energy prices and the reopening of China. So still lots of moving pieces. From an overall consumer spending standpoint, we expect the consumer to be relatively resilient. Spending patterns have largely normalized relative to the effects of the pandemic with the notable exception of China. In terms of switched volumes, domestic volumes in the fourth quarter remained steady relative to 2019 levels with some slight moderation in the U.S. related to lower gas prices recently."

    - "Look, I mean, what we've generally assumed in our base assumptions that I mentioned when I was delivering my prepared remarks is resilient consumer spending through 2023. I mean we see a resilient consumer today, and we're seeing a generally resilient consumer spending pattern going forward in our base case. The other thing which we've contemplated, as we mentioned, from a crossborder standpoint and particularly cross-border travel standpoint, the vast majority of the regions have now reached that state where they are kind of growing and growing at a healthy pace, but they're not growing at an accelerating pace."
    - "The one area where we are assuming an increase in terms of growth is around Asia Pacific. I mean Asia Pacific has been a lagger in terms of recovery of cross-border travel. And we're expecting that there will be -- with the borders recently opening in several markets in AP that there will be some level of recovery, which will come through there when you index back to 2019. So that's kind of generally been the base case we've kind of assumed. Look, I mean, to be perfectly honest with you, I think that the reality is we've got things which are helping us from a share win standpoint."
- Synchrony Financial (SYF)
    - "As expected, credit continued to normalize across our portfolio with full year losses of 3%, still more than 250 basis points below our underwriting target of 5.5% to 6%, which is generally the level at which our risk-adjusted margin is more fully optimized."
    - "Provision for credit losses was $1.2 billion for the quarter. The year-over-year increase reflected the impact of a growth-driven $425 million reserve build and higher net charge-offs."
    - "Turning to Synchrony's portfolio, credit normalization continued as expected during the fourth quarter. Fitages are still performing better than 2018 and delinquency entry rates remain lower than the historical average at approximately 80% of their prepandemic levels. That said, as consumer savings rates has decreased, borrower payment behavior is reverting towards pre pandemic levels with normalizing entry rates into delinquency and higher roll rates in early delinquency stages following the charge-offs. This trend continued in the fourth quarter as payment rate normalization trends expanded from the nonprime segments of our portfolio into the prime and super prime segments, where the average outstanding balances tend to be larger. Relative to period end receivables, our 30-plus delinquency rate was 3.65% compared to 2.62% last year and our 90-plus delinquency rate was 1.69% versus 1.17% in the prior year. And our fourth quarter net charge-off rate increased to 3.48% from 2.37% last year, still remaining well below our underwriting target of 5.5% to 6%, at which point portfolio credit risk is better optimized relative to profitability. Our allowance for credit losses as a percent of loan receivables was 10.30%, down 28 basis points from the 10.58% in the third quarter, primarily reflecting the impact of an asset growth-driven reserve

builds, which was more than offset by the impact of receivables growth in the denominator.”

    - “With regard to our portfolio's credit trajectory in 2023, we expect most of the portfolio delinquency metrics to have reached normalized levels or equivalent to pre pandemic levels by midyear. Accordingly, the associated charge-offs will reach prepandemic levels approximately 6 months later. The seasonal impact of tax refunds and bonuses in the first half and the third quarter's acceleration of receivables growth will likely lead to a decline in net charge-off rate for Q3 before credit losses rise and continue the normalization path through the fourth quarter. Given our expectation that delinquency metrics will reach their prepandemic levels by midyear, we expect net charge-offs to be between 4.75% to 5% for the full year, still considerably below our pre-pandemic annual loss rate target of 5.5% to 6%.”
    - “Look, I think internally, we certainly talk about a K-shaped recovery. I think we're certainly seeing that play out. I think, broadly, the consumer is still healthy. I think they still have savings. We're seeing really good spend patterns, great spend on our products, in particular. Last year was a record year in terms of purchase volume. So generally, we feel pretty good about the operating environment. With that said, clearly, there's uncertainty as we move throughout the year depending on inflation and where rates go. So we're watching that very carefully.”
- Visa (V)
    - “Well, we went through what we call our planning assumptions last -- on the last call for the full year, and we told you we had assumed no recession. As you can see, business trends have been remarkably stable. The spend levels just around the world, they've indexed in the mid-140s for almost 4 quarters right now, and there's no evidence of a change in trend. That's reflected in our second quarter outlook. At this point, we're not changing any expectations for the second half. I mean, clearly, the dollar has weakened a bit so that will change the exchange rate impact in the second half, but we're not changing any of our views in the second half. I mean, they are planning assumptions. And if there is a slowdown, then we will react accordingly.”
    - “And there's -- in total spend, it's remarkable stability. What's happening is as good spending slowed down a bit, services spending really took up all the slack. And so consumers have just shifted their spending but they're spending the same amount, and that's why debit has stayed resilient. Debit has been the biggest beneficiary of the move to digitization that happened globally and including in the U.S., more e-commerce, more tap-to-pay, more people using digital credentials just about on any payment occasion. So some people were worried that when things settle down, that debit might start to see some slowdown. But as you've seen, debit has stayed resilient even as credit has recovered, which has kept our overall payment volumes very stable.”
    - “that I believe deeply that there is tremendous opportunity in the card -- traditional card world, both in the consumer space as well as in the B2B space. There are still hundreds and hundreds of millions of people to bring into the financial mainstream. There are still trillions of dollars spent on cash and check. And when you look in the B2B space, we see a total addressable market of about $120 billion across carded opportunities, cross-border and payables and receivables, where I talked a bunch about a number of examples that we have worked on over the course of the last quarter. RTP systems are helping to digitize money movement. That's a good thing.

If you look at the disruption caused by monetization in India, it ended up being extraordinarily positive in terms of what it's done in terms of growth in card credentials as well as acceptance, which by the way, I also should have said in the traditional world, there's still a tremendous opportunity to grow our acceptance footprint from the level that it's at today. These RTP systems are also helping us and we're leaning into them. They're helping us extend the reach of Visa Direct as we utilize them as part of our network-of-network strategies. They're helping us with open banking through Tink, where we can facilitate greater access to more developers on 1 end and more financial institutions on the other end. I think RTPs represent an opportunity for us to sell value-added services. And I still think the advantages of -- and the capabilities associated with the carded space are still far superior to account that the consumer protections, et cetera. And if you look at PICs in Brazil, you look at UPI in India, these things developed and were put in the marketplace, and we're seeing a fair amount of -- hearing a lot from clients in terms of fraud associated with these networks. And in many ways, that makes sense. They haven't spent the decades and hundreds of millions of dollars that Visa has to build security, fraud capability, risk management capabilities that help keep the ecosystem secure and trusted by consumers. And I think we have the opportunity over time in the A2A space to bring some of those capabilities and earn some good revenue and yield from them."

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