



Weekend Thoughts 12/17/22

Net: In a light news week, there was no meaningful change in company commentary. Given the macroeconomic environment, companies continue to prioritize digital investments to drive operational efficiency and improve customer engagement. Interest rate sensitive products continue to experience hesitation in customer buying patterns.

- Information Technology
 - Accenture plc (ACN)
 - "We believe that the current macro is making it even clearer to clients that they need to change more, not less, and that 2 of the 5 key forces of change that we have identified for the next decade: the need for total enterprise reinvention enabled by tech data and AI; and the ability to access, create and unlock the potential of talent, are critical to succeed in the near, medium and long term. We see this continuing across industries and markets with 2 common themes. First, all strategies continue to lead to technology, particularly cloud, data, AI and security. And second, companies remain focused on executing compressed transformation to achieve lower costs, stronger growth, more agility and greater resilience faster."
 - "we talked about starting to see this last quarter, kind of regardless of industry, as the macro uncertainty has increased, right, they're being a little bit more cautious."
 - "So we're seeing some delays in decision-making. We see changes in the pace of spending, and we're seeing some pausing of the smaller deals. And all of this impacts the smaller deals more than the bigger deals because we're continuing to see that big transformation focus."
 - Adobe Inc. (ADBE)
 - "In my customer conversations, it's clear that the current macroeconomic climate requires businesses to prioritize investments and digital remains mission-critical to drive operational efficiency, improve customer engagement and maximize long-term value realization. We are driving a mix of diversified revenue streams through subscription and consulting services across new and existing customers, demonstrating the strength of our business."
 - "So while we definitely see deals getting scrutinized and going up to higher levels for approval, we also see that customers really want to invest in a market leader like us for their investments, it's going to last the next 10, 15 years to -- for the digital investment."
 - "it is the golden age of design. Everybody would like to express themselves. There are more screens on which all of this content is being consumed. So I think the insatiable consumer demand for content, I think, is certainly driving a lot of more content that's being created."
 - Oracle (ORCL)
 - "We think the future is cloud is not 4-walled gardens, AWS, Microsoft, Google and Oracle. We think those clouds are all going to interconnect. And then customers will pick the most appropriate service for their particular needs and mix and match between the parts."
 - "One of the things we're doing with the new version of Oracle ERP is if you're a

customer that's buying something and you have Oracle ERP, and we -- and you are a company that's selling something in Oracle ERP, the way that trend that B2B transaction will occur, it will be entirely automated within the cloud. So you'll submit a purchase order, the buying ERP system will submit a purchase order to the selling ERP system. And if you need to borrow money, we will originate a loan with one of our banking partners. If the product has to be shipped, we will schedule the shipping and track the shipment with one of our logistic partners. And our ambition here is to completely automate B2B commerce between buying and selling companies that are running Oracle Cloud ERP and manage all of the financing and insurance and logistics associated with that transaction. We do a really good job, I think, of automating B2C transactions. Amazon does that extremely well. Walmart does that extremely well. But we don't do a great job of automating B2B transactions. And that's what Oracle's ambition is to do that. And we're in a great position because we are so strong in cloud ERP."

- Trimble Inc (TRMB)
 - "The transportation industry represents 1 of the largest opportunities available to Trimble. It's a market that is large, global, underserved and underpenetrated and it is undergoing a secular adoption of technology to improve productivity and sustainability. Yesterday, we announced that we have entered into an agreement to acquire Transporeon, a leading transportation management software platform that enables automation, real-time insights and collaboration, supporting shippers, brokers, carriers and load recipients. Transporeon's global platform possesses an expansive customer reach, executing over 25 million transports per year and processing over EUR 48 billion of freight spend per year across a network of 1,400 shippers and retailers and 145,000 carriers and logistics service providers. Transporeon's modular tools and services, support customers selling and procuring freight services, executing transports and auditing freight payments. Transporeon has delivered strong and consistent financial performance at scale with high growth in margins since the year 2000. Let's walk through each of them. First, Transporeon has built a scaled and cloud-based transportation management platform that connects key stakeholders across the industry life cycle to positively impact the optimization of global supply chains. This fits perfectly with what we are doing at Trimble in each of the key industries we serve."
 - "We see this as a perfect fit for the Connect & Scale strategy. Connect & Scale is very much about building industry cloud platforms. And when we look at this business and this market, it meets our criteria that it's the right market. It's got the right -- the business is the right underlying fundamentals and has a strategy that competitively differentiate and win. And at the intersection of those, we see that Trimble becomes the right owner for this. It very much is in line with a Trimble business that's connecting work in the field, work in the office, connecting the physical and the digital world. It's solving customer problems around areas of productivity, efficiency and sustainability. And it's an underlying market in transportation that is underserved and underpenetrated by technology and is going through a fundamental digital transformation. So it really checked a lot of the boxes for us."
- Consumer Discretionary
 - Darden Restaurants, Inc. (DRI)
 - "the higher end consumer is doing pretty well. And I know there's been a lot of talk

over the year about consumers that's below \$50,000 in income because high inflation impacts that consumer more disproportionately, but we've seen a little softness in that consumer over the last 6 months, but the mix of the \$50,000 income and under is still above pre-COVID levels for us. Even though that shift has come down a little bit, we're still above pre-COVID levels at the \$50,000 and below. And I would say, keep in mind that a lot of our consumers below \$50,000 are single, are retirees are living in multigenerational households. So maybe \$50,000 goes a little bit farther for that consumer. But without commenting on the future, we have seen a pretty good performance across all of those consumers over the last few months other than the fact that the \$50,000 below consumer is lower than it was 6 months ago, but still higher than it was pre-COVID."

- "that last 2 quarters were 15% was in the first quarter, second quarter was 13%. So as you look at the back half, really, Q3, we're thinking it's going to be mid- to high single digits and then Q4 is closer to flat. So if you do that, what that translates into on the year is closer to that 8% to 9% is what that's really the difference. I think when we spoke the last time, we expected a step change from the first half to the second half. And we are seeing that. However, it's not as big as we thought. It's still a pretty big change. I mean, as I just mentioned, we're going from mid-teens to high single -- mid- to high single digits as we get into Q3 and close it to flat for Q4. So pretty big change, but there were a few -- there are a few items that are higher than we would have expected, namely dairy, grains and produce, and quite a bit of this is weather-related and so that's actually baked into our expectations going forward. . .It's really inflation. If you think about the 3 items, I mentioned that have the highest inflation or had highest inflation in the quarter, chicken, dairy, and wheat. Well, that's all has gotten for you. We got 20-plus percent. They have a little over 20% inflation on the commodities this quarter. So that -- when you take that into consideration and look at the fact that we only had 6% -- 6.5% pricing at Darden level and Olive Garden, obviously, would be pretty close to Darden price in our price level. That's the biggest piece. . .I think the point here is you have to look at other line items. So utility is probably in that mid-teens -- low to mid-teens. That's part of it. And then we are seeing all other costs being in the low to mid-single digits. So when you take that into consideration, the total inflation of 7% is what we're expecting. So yes, you're right, total restaurant labor inflation is approximately 7%. And you combine that with 8.5%, the big point of that 8% to 9% on prudent beverage. And then utilities in that mid-teens and all other costs low to mid-single digits, that's how you get to 7% on the total. So we're talking about the total cost base."
- Lennar Corporation (LEN)
 - "On a positive note, very limited new home inventory exists, limited existing home supply exist as existing homeowners hold on to extremely low mortgage rates and very limited multifamily production combined with the chronic housing production shortfall over the past decade and leaves the industry in the middle of what we believe will be a fairly short duration correction without an inventory overhang to resolve.
 - "We believe that we have a very high-end public company waiting and almost ready to enter the public arena, but we're going to postpone for the time being and wait for the right timing, Corterra deserves exactly that launch. While I remain confident enthusiastic that Cortera will be spun and Lennar will become a pure-play

homebuilder as promised, it will not happen by year-end, and I'm not prepared to deposit another date given current market uncertainties. So please be patient."

- "the overall housing market has been reacting to a significant increase in mortgage rates, which has impacted affordability and home buyer confidence. While we continue to have many strong markets in our more challenging areas, we've had to adjust base sales prices, increased incentives and provide mortgage rate buydowns to maintain or regain sales momentum. . As sales strategy – our sales strategy has been to find the market clearing price for each of our homes on a community-by-community basis as quickly as possible and price our loans accordingly."
- "We are not going to see the existing loan market, putting a lot of supply in place because buyers are protecting low interest rates. And we're not going to have an inventory overhang. So it is our belief that the duration of this correction is going to be somewhat smaller or more limited and having additional capital enables us to be opportunistic in growing our business when those signals start to come our way as well."
- Winnebago Industries, Inc. (WGO)
 - "Our performance was also challenged by several macroeconomic factors that we expect to impact our near-term results. This includes a broader economic slowdown, general inflation that while trending lower, is still meaningful, higher interest rates, and as a result, lower consumer confidence."
 - "While there will likely be RV industry shipment contraction in calendar year 2023, we do believe market tailwinds will be present again in that segment by the time we reach the fiscal 2025 year."
 - "Certainly, historically, we adjusted pricing preferably one time a year at the model year change. And then as we got into conditions in 2021 and 2022 with unexpected and rapid inflation. As all of you know, we were forced to take multiple price increases during a model year in order to try to keep up. . .there's been a sort of a timing element to that as to whether you're ahead of or behind the inflation that you're facing. We are seeing generally very moderate inflation in our business today with the exception of Motorized chassis, which is where we're seeing our most significant inflation still sequentially and overall, in most of our other categories, our inflation is pretty moderate right now. I would not call it deflationary, but it is -- it has moderated to a meaningful degree. Subsequently, our pricing actions outside of the model year changes from '22 to '23. Our businesses, generally across the board have not felt the need to have to take price increases here recently above and beyond what they've priced at the model year change. We don't share a ton of information for competitive reasons on this call about our pricing behaviors. And so I won't comment on anything we have planned. But I would tell you the wholesale programs, particularly around Towable RVs continue to be sort of framed in the fall program context that our businesses took to open house."
- Industrials
 - Lennox International Inc. (LII)
 - "starting January 1, we will be reporting our results in 2 financial segments, and we intend to divest our European operations sometime next year. The planned divestiture of our European operations will focus all our strength in winning and growing in North America, our core market. We believe that the European business is a benefit for another company that has a necessary scale to compete in the European market. Divesting our European business allows us to consolidate our

high-performing Heatcraft North American business into the new commercial segment to simplify our internal reporting and our external reporting as well."

- "Key tailwinds include increasing unit run time, a significant population of less efficient R22 units, which are getting more expensive for consumers to run and repair; heat pump growth, given both their longer run time and their importance to electrification. And finally, the long-term housing deficit driving new construction."
- "The program varies by income level with geography, and will be administered by the states. It's capped at a total of \$4.3 billion, and this program incentivizes lower-income homeowners to electrify their home and increase efficiency. The subsidies for qualifying consumers can cover up to 100% of the cost of installation, but other products like solar panels are also eligible for this limited funding. Based upon the current funding levels, the program could provide support for up to an extra 0.5 million units spread out over time."
- "Our leadership products include the SL 25 heat pump, the most precise and efficient heat pump you can buy. This product formed the basis for our ability to quickly meet the cold climate heat pump design sponsored by the U.S. Department of Energy."
- "In 2023, new regional standards for air conditioners and national standards for heat pumps go into effect -- our new products are cost optimized using lower cost components and existing indoor systems to ensure a complicated transition goes smoothly without burdening consumers, wholesalers and dealers with unnecessary change."
- "The industry is also facing a refrigerant change beginning in 2025."
- "Everybody has to go through a new compressor, a new [indiscernible] exchange, a new control, there's a safety critical control too, right? And we've invested quite a bit in the controls over the last dozen years."
- "technology will allow heat pumps to increase their penetration up in the colder climate area."
- "The Cold Climate Heat Pump Technology developed by us to meet the challenge included these major technology building blocks. First, the exclusive variable speed rotary compression technology, rotary scroll compression technology, I should say, electronic expansion well for the flow control, vapor and/or liquid refrigerant injection. That's a significant technology and the proprietary control algorithms. All of these make Lennox to be very well positioned to lead the industry as the industry migrates to sustainable heat from technology."
- "residential new construction is expected to be down, we think, about 20%, resulting in industry unit volumes declining."
- "Inflation continues to be a pressure on the business. However, we do expect inflation to ease in the second half of 2023, along with supply chains continue to get healthier. Despite residential industry volumes being under pressure, our residential segment will grow the top line in a down market, seize market share and enhance profitability."
- "furnaces have a longer life cycle and heat pumps have a shorter life cycle. So from a replacement perspective, heat pumps come up for replacement faster"
- Materials
 - Air Products and Chemicals, Inc. (APD)
 - "And then given the fact that world needs more energy and wants it with a lower carbon footprint, we think hydrogen has an absolutely critical role to play in

decarbonizing our economy because there are some things you can do directly with electricity. You can produce renewable electricity and use that directly, but there's a lot of applications where that is either impossible or impractical, and so we see in there that hydrogen plays a key role."

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