



Weekend Thoughts 10/8/22

- Information Technology
 - Infineon Technologies AG (IFX)
 - “it's very important that we also see the semiconductor market for automotive being a growth segment for the next years to come . . .that the car production is only a minor contributor to the overall semiconductor growth. Meanwhile, the content increase. So how much more semiconductor ingredients are going into the electronics of the[cars] by far, the most important growth driver, not so much the car production is more like the continuous content”
 - Micron Technology (MU)
 - “Our fiscal Q4 financial results were impacted by rapidly weakening consumer demand and significant customer inventory adjustments across all end markets. We are responding decisively to this weak environment by the decreasing supply growth through significant cuts to fiscal 2023 CapEx and by reducing utilization in our fabs. We are confident that the memory industry supply-demand balance will be restored as a result of reduced industry supply growth combined with the long-term demand growth drivers for memory.”
 - “Cloud end demand remains healthy, driven by secular growth in AI and the digital economy. However, the datacenter market, including both cloud and enterprise, continues to face some supply constraints that are limiting server bills. And customers are reducing memory and storage inventory due to macroeconomic uncertainties.”
 - “We now forecast calendar 2022 PC unit sales to decline by an approximately mid-teens percentage year-over-year. . . our industrial IoT business saw sequential and year-over-year revenue declines in fiscal Q4. Softening macroeconomic conditions have led some customers to reduce overall purchases of DRAM and NAND.”
 - “An unprecedented confluence of events has affected overall demand, including COVID-related lockdowns in China, the Ukraine war, the inflationary environment impacting consumer spending and the macroeconomic environment, influencing customers' buying behavior in multiple segments. In addition, inventory adjustment at customers across all end markets are also contributing to demand weakness. These factors are depressing demand for DRAM and NAND to well below end market consumption levels. We are also seeing an extremely aggressive pricing environment. Due to the sharp decline in near-term demand, we expect supply growth to be significantly above demand growth in calendar 2022, contributing to very high supply inventories for both DRAM and NAND”
- Communications Services
 - Liberty Global (LBTYA)
 - “. . .the quality of our upstream, the quality of -- and the consistency on latency are becoming more and more important to every consumer experience, okay? And we used to say, video conferencing, FaceTime-ing is the only reason why you want upstream. That's not really true. Gaming relies significantly on upstream, and not just upstream speed but the consistency of latency is extremely important. So I believe the killer apps are going to, of course, continue to demand higher and higher

downstream, higher and higher speed on the downstream, but more stress is going to be put on the upstream”

- Consumer Discretionary

- Nike (NKE)

- “consumers are facing greater economic uncertainty, and promotional activity across the marketplace is accelerating, especially in apparel. . .In September, month-to-date retail sales are up double digits versus the prior year, following a strong back-to-school season. However, our North America inventory grew 65% versus the prior year, with in-transit inventory growing approximately 85%. This reflects the combination of late delivery for the past 2 seasons plus early holiday orders that are now set to arrive earlier than planned and a prior year that was impacted by factory closures in Vietnam and Indonesia. As a result, we are taking decisive action to clear excess inventory, focusing on specific pockets of seasonally late products, predominantly in apparel.”
 - “we started to increase promotional activity in the first quarter and expect the broader marketplace to be promotional at least through the end of the calendar year. We expect that total inventory in North America peaked in Q1, and we anticipate seeing sequential improvement over the year as we rebalance supply and continue serving strong consumer demand.”
 - “we will tighten up our second half buys and liquidate excess inventory more aggressively beginning in the second quarter, focusing the flow of new product to our strategic partners and NIKE Direct.”
 - “we're tightening our inventory buys around the world based on some of the risks that could materialize in the second half.”
 - “So we see strong consumer demand in North America currently, right? There's no signs of any softness.”

- Consumer Staples

- Conagra Brands (CAG)

- “As commodity prices rose quickly last year, we benefited from locking in contracted costs that were lower than the market and have rolled off this quarter. As a reminder, even when commodity inflation eases, we will not immediately realize a benefit as our costs may remain higher than the spot market due to timing of contracts. This is transitory and a product of a dynamic operating environment.”
 - “We're seeing the full magnitude of pricing from fiscal 2022 in the quarter, but we also took pricing during Q1. And we've taken additional pricing at the beginning of Q2. So we will see the full impact of that starting in Q2. And we also expect to see some gradual improvement in our net productivity as the supply chain and service levels continue to normalize. So all those things give us confidence that we'll improve our margin sequentially moving forward.”

- Constellation Brands (STZ)

- “First, consumer demand for our products remains strong. Consumer-led premiumization trends continue across beverage alcohol, giving further confidence in the resilience of premiumization as a fundamental driver of demand for our brands. Buy rate, which captures both the number of trips a consumer makes and the amount they spend per trip, increased in the second quarter for both high-end beer and total wine categories in tracked channels”
 - “Number one, consumer demand for our higher end beer and higher-end wine and spirits products continues to be strong. And we remain confident in the long-term

- prospects of our portfolio and our runway for growth.”
- McCormick & Company (MKC)
 - “Across the supply chain, we remain focused on managing inventory levels and eliminating inefficiencies, though the normalization of our supply chain cost is taking longer than expected, pressuring gross margin and profit realization in the current period. Over the coming months, we will be aggressively eliminating supply chain inefficiencies. Importantly, as we had expected in the third quarter, our price increases are catching up with the pace of cost inflation in both segments. We began to recover the cost inflation that had been outpacing our pricing actions and other levers most significantly in the Consumer segment. We expect this will continue into the next year as we plan to fully offset inflation over time.”
 - “Though challenges in our supply chain have taken longer to normalize, we have now passed an inflection point. We have begun to recover the cost inflation that has been outpacing our pricing actions while executing on a plan to aggressively eliminate supply chain costs, and we expect 2022 fourth operating margin expansion and continued improvement into 2023.”
 - United Natural Foods (UNFI)
 - “Food and home inflation remains in the double digits, driving consumers to buy fewer items, fuel rates continue to be pressured and labor market tightness persists.”
 - Healthcare
 - Illumina, Inc (ILMN)
 - “NovaSeq X is the most innovative sequencing platform we have ever developed, providing massive improvements in throughput, scale, accuracy, simplicity and cost. . .To make this possible, we needed more than 5 years of development and more than 40 patent filings. The innovations of NovaSeq X enable us to deliver even greater sequencing breakthroughs in future phases of our road map.”
 - “The ambient is a deal that I think is -- is going to be underestimated for a little while in the sense that not needing dry ice or a cold chain for supply is a major step forward in a number of ways. One, even in the U.S. for existing customers, it is -- it's a big burden to have to deal with a shipment when it comes in. I don't know if you've ever been at the loading docks at these labs. So it's a big deal for them. They have a lot of people working on it, a lot of people sort of disposing of the dry ice. It's a time consumptive process. And so from an experience perspective and from a delivering superior value compared to anyone else, it's a big step forward. They don't need that anymore.”
 - “The other point you make is also very important, which is it opens up new markets. There are countries where you don't have a reliable cold chain and that has been a gating factor. And by not requiring it, we're suddenly enabling those countries now to get access to high-throughput sequencing. And so I think that's going to be a really exciting thing for customers that we have in some countries that have frankly struggled with it or, frankly, to not been able to bring high tube sequencing at all. So to your part, I think it's a big step. I think it's a little underappreciated, but it's an important step forward.”
 - “in aggregate, customers continue to grow their spend on sequencing even as they transition to a higher platform. So the way it played out was companies -- customers continue to run their production environments on their existing platforms. So in this case, for example, in NovaSeq 6000, then they would buy an X, they would start to

use the X, validate their workflows, start to taper sequencing production from their existing instruments to the new instruments. But on the new instruments, for example, they could look to do deeper sequencing for sample and they'd use that transition opportunity as an opportunity to move from panels to exomes or exomes to genomes, and they would validate their overall -- their new workflows on the new sequencing paradigm that they're on. We saw that play out again as customers moved to the NovaSeq 6000, and that's what we're hearing. Similarly, on the research side, we expect customers to design bigger experiments and therefore, continue to expand their sequencing spend with us even as they get much, much more data for that sequencing spend. And so that's how we expect it to play out. . . There are countries and health systems and applications that become accessible because of the lower price point. There are countries who say that, look, they'd love to do oncology testing, but it's not accessible to them at the price points that exist today, especially because in some countries, not all the personalized therapy drugs are available. And so they're saying, look, the utility isn't the same. If it was a lower price point, we'd absolutely do it. And then there are applications like newborn screening in some countries that are gaining traction, but require a price point along the lines of what's offered by an X for them to actually make sense in a health system. So those are a couple of examples of countries or applications and health systems that are now enabled."

- Industrials

- Ferguson plc (FERG)

- "So while we expect inflation to reduce, we're not expecting deflation. We are expecting the inflation comparables to rollover as we move throughout the year and that to compress those growth rates. In addition, from a volume perspective as Kevin outlined, on residential, we do expect there to be pressure there. We exited Q4 with about flat volume. So we would anticipate volumes will turn negative as we move throughout the year, resulting in that overall estimate or assumption at this point, recognizing it's early in the year, a market decline in the likely in the low single digits for the full year."
 - "we see the inflation comp starting to moderate as we go through the fiscal year. We started to see commodity inflation, which historically has been about 10% of our business back in the fall of 2020, and that flow into finished goods continues on as we go through the first quarter of this year. We think that there are some structural characteristics that will support that price inflation, particularly on the finished goods side, as you think about the labor component inside of that as well as the overall components for our finished goods inventory. So we feel fairly confident in the durability of that inflation."

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