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Strategy Update Oct 2022

Resilient Economy, Undervalued Markets, Attractive Portfolios

GDP @$25 Trillion & Unemployment @3.5%—The US Economy Looks Strong

Enhance Safety, Enhance Growth, Enhance Returns

Omni Global Portfolio Update

GDP @$25 Trillion & Unemployment @3.5%—The US Economy Looks Strong

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" All Stock Indexes In Bear Market—Down 20%-35% YTD 2022"

According to the Bureau of Economic Affairs, the annualized US nominal GDP was at $25 trillion in the second quarter growing at 8.5%. The real GDP shrunk by 0.6% but the real GDI (Gross Domestic Income) grew by 0.1%. In short, the GDP grew only with inflation and not in real terms. This is the economic slowdown which everyone, including the Fed, was waiting for.

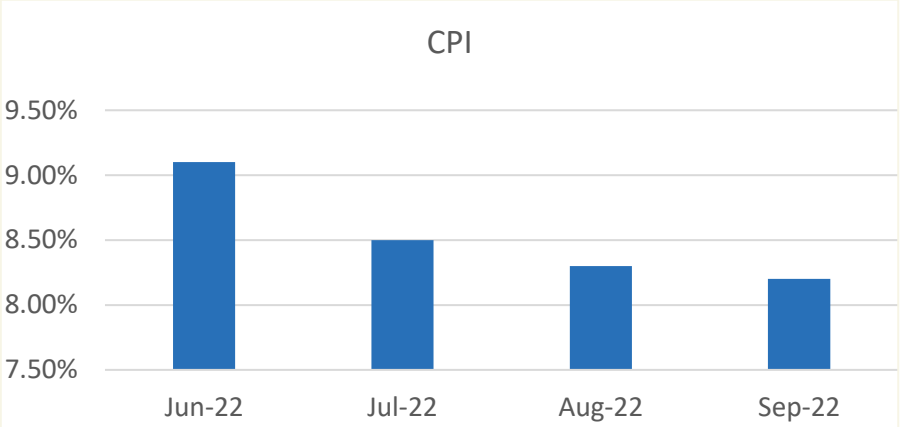
Based on various forecasts, it is likely that Q3 & Q4 2022 and 2023 numbers are positive.

To keep a long-term perspective on the US economy, the 2032 US GDP is expected to be $37 Trillion, according to the Congressional Budget Office. This more than $1 Trillion growth every year, on an average, for the next 10 years.

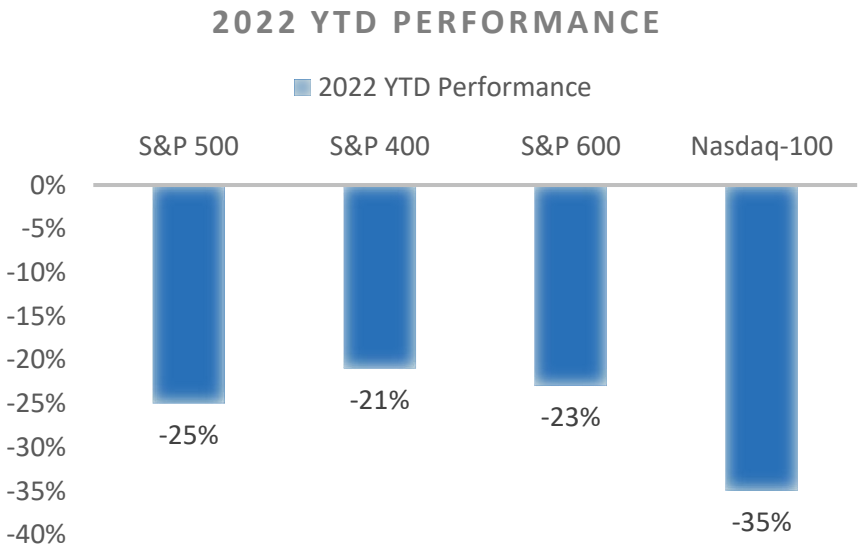
According to the BLS (Bureau of Labor Statistics), the unemployment rate decreased further in September to 3.5%. Total number of job openings were at 10 million while people looking for jobs were 5.8 million.

Inflation @8.2% is in a downward trend, having peaked in June 2022 @9.1%

According to the BLS, Inflation (CPI) numbers for September came out at 8.2%, consistently down for the third month in a row from the peak of 9.1%.



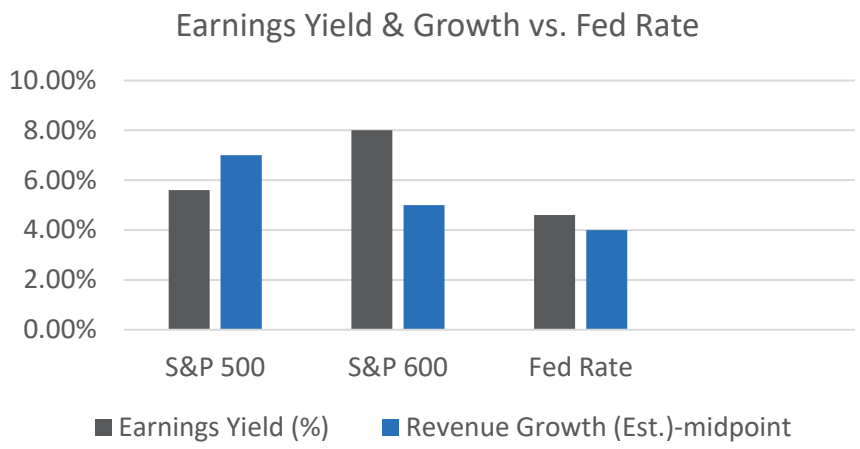
All Stock Indexes In Bear Market—Down 20%-35%



The S&P 500 (Largecap), S&P 400 (Midcap), and S&P 600 (Smallcap) were all down year-to-date (YTD) 2022. Nasdaq-100, representing the technology stocks with a ~55% weight, was down 35% YTD.

Currently, the S&P 500 and S&P 600 are available at an earnings yield of 5.6% and 8% respectively. With the expected growth rate of the company revenues in the range of 4% to 10% for S&P 500, since they

have large international revenues, and 4%-7% for S&P 600 since they have more domestic revenues, the total expected returns from the stock markets look quite attractive.



This represents a rare opportunity for a perceptive, long-term investor. Keep in mind that the US GDP itself is expected to grow by nearly 50% over the next 10 years. Within this, the traditional sectors will be disrupted by the transformative technologies, which means that the transformative sectors are growing to grow at a much faster pace.

Further, many transformative and innovative sectors have a global presence, including in fast-growing emerging markets, thus again boosting the growth rates.

A. Omni Supreme US Strategy:

Here we provide the outlook for the year from various portfolio companies. The perspectives are grouped according to the growth vectors and a sampling of the companies within the growth vector is taken to provide a flavour about the expectations. The quotes are from the earnings calls and press releases by the management of the companies themselves.

- **Athleisure & Fitness:**
    - **a. Crocs:**

Given those dynamics for 2022, we are lowering the Crocs Brand revenue guidance to be approximately $2.6 billion representing year-over-year growth of between 14% and 17% on a constant currency basis and 10% and 13% on a reported basis.

We still have great confidence in our ability to hit the $5 billion Crocs Brand growth target that we put out there by 2026.

b. **Skechers:**

For fiscal 2022, we expect sales to be in the range of $7.2 billion to $7.4 billion and net earnings per diluted share to be in the range of $2.60 to $2.70.

(The 2021 revenues for Skechers were $6.3 billion. The guidance projects a growth of 16% at the mid-point.)

c. **Gap:**

Coming off of peak inflation and the higher gas prices particularly impacting the lower-income consumer in June, the company has seen an improvement in sales trends in July and into August consistent with many other retailers. While the company is making progress balancing its assortments, it remains cautiously optimistic in light of the consumer environment as it relates to its revenue in the second half of fiscal 2022.

d. **Medifast:**

We expect full year revenue in the range of $1.58 billion to $1.66 billion and diluted non-GAAP EPS to be in the range of $12.70 to $14.10. Again, we believe that we, along with our 68,000 Coaches will be able to navigate the macroeconomic environment in the coming quarters. So we are confident in our long-term growth targets in the mid-teens. We also believe we will be able to achieve 15% operating margin in the long-term.

(The 2021 revenues for Medifast were $1.53 billion. The guided growth is nearly 6% at the midpoint.)

- **Ecommerce & Payments:**

a. **Amazon:**

Net sales are expected to be between $125.0 billion and $130.0 billion, or to grow between 13% and 17% compared with third quarter 2021. This guidance anticipates an unfavorable impact of approximately 390 basis points from foreign exchange rates.

b. **Etsy:**

We currently estimate our third quarter 2022 consolidated GMS to be approximately $2.8 billion to $3 billion down about 7% to 8% at the midpoint compared to the third quarter of last year and up about 140% compared to the third quarter of 2019.

We see multiple scenarios possible for the remainder of 2022, but all still point to very healthy profitability throughout.

c. **Paypal:**

Expect revenue growth of ~10% at spot and ~11% FXN.

Revenue growth expected to accelerate each quarter, targeting ~14% FXN growth in Q4.

We remain on track to generate more than $5 billion in free cash flow this year

- **Home Nesting:**

  a. **Netflix:**

So overall, underlying very healthy operating metrics. I mean when you look at the revenue side, it's -- we're tracking -- it was 13% constant currency revenue growth. This quarter we're guiding to 12%. Next quarter, you can see the read-throughs in a kind of a similar range for the full year and to 19% to 20% operating margins for this year and next.

(We are adding Netflix to both Omni Supreme US and Omni AIoT US)

  b. **BBY:**

"Our current FY23 planning assumptions for a comparable sales decline in a range around 11% and a non-GAAP operating income rate[2] of approximately 4% are consistent with the update we provided in late July."

In addition, this reflects an assumption that our revenue growth versus fiscal '20 will continue to slow and that revenue in the second half of the year will be very similar to comparable pre-pandemic fiscal '20 time period. This is due to a belief that the current macro environment trends could be even more challenging and have a larger impact for the remainder of the year.

  c. **Yeti:**

As we continue to assess macroeconomic conditions and the state of the consumer, we are taking prudent actions to adjust our outlook for Fiscal 2022. This now includes sales growth of between 15% and 17% and adjusted operating margin of 17.0% to 17.5%, which are levels we believe help preserve disciplined actions and investments for the near-, mid- and long-term.

- **Luxury & Millionaires:**

  a. **Fossil:**

We now expect full year revenue to be in the range of minus 5% to minus 8%.

And from a category lens, we have seen some category growth data that suggests that the overall traditional watch market is down versus last year, but up versus 2019, indicating to us that last year stimulus activity drove higher sell through. Both our jewelry and leather categories showed strong growth.

b. GIII:

For the full fiscal year 2023, we now expect net sales of approximately $3.15 billion and net income of between $182 million and $187 million or between $3.69 and $3.79 per diluted share. This compares to net sales of $2.77 billion and net income of $200 million or $4.05 per diluted share last year. This guidance is inclusive of approximately $130 million in net sales and net income of approximately $0.10 per diluted share in connection with the acquisition of the Karl Lagerfeld brand for the seven months of ownership in this fiscal year.

- **Omni Metaverse** (Part of both Omni Supreme US and Omni AIoT US)

According to Nadella, Microsoft is particularly excited about the ways in which the virtual and physical worlds are coming together. This new partnership brings Microsoft's popular productivity tools to Meta's virtual reality devices, giving people even more flexibility in how they collaborate and get work done.

And as Zuckerberg put it, our partnership with Microsoft is a really important part of bringing VR to the workplace.

We can't wait to start rolling out these experiences to both Microsoft and Meta customers over the coming months.

Over the last year, Accenture deployed 60,000 Meta Quest 2 headsets and transformed its onboarding process, welcoming 150,000 people in its "Nth Floor" virtual campus that was co-created with Microsoft.

Accenture will be working alongside Meta and Microsoft in the coming year to help companies use VR to transform the way they engage employees, interact with customers, or create products and services in the metaverse.

Autodesk is updating their collaborative design review app to take advantage of the new possibilities unlocked by Meta Quest Pro. This will give architects and designers a new way of reviewing 3D models immersively.

Microsoft Corp. announced plans to acquire Activision Blizzard Inc., a leader in game development and interactive entertainment content publisher. This acquisition will accelerate the growth in Microsoft's gaming business across mobile, PC, console and cloud and will provide building blocks for the metaverse.

"Gaming is the most dynamic and exciting category in entertainment across all platforms today and will play a key role in the development of metaverse platforms," said Satya Nadella, chairman and CEO, Microsoft. "We're investing deeply in world-class content, community and the cloud to usher in a new era of gaming that puts players and creators first and makes gaming safe, inclusive and accessible to all."

Qualcomm-Meta partnership

"By partnering with Meta, we are bringing together two of the world's metaverse leaders to revolutionize the future of computing for billions of people in the coming years," said Cristiano Amon, president and chief executive officer, Qualcomm Incorporated. "Building off our joint leadership in XR, this agreement will allow our companies to deliver best-in-class devices and experiences to transform how we work, play, learn, create and connect in a fully realized metaverse."

"We're working with Qualcomm Technologies on customized virtual reality chipsets -- powered by Snapdragon XR platforms and technology -- for our future roadmap of Quest products," said Mark Zuckerberg, Founder and CEO, Meta. "As we continue to build more advanced capabilities and experiences for virtual and augmented reality, it has become more important to build specialized technologies to power our future VR headsets and other devices. Unlike mobile phones, building virtual reality brings novel, multi-dimensional challenges in spatial computing, cost, and form factor. These chipsets will help us keep pushing virtual reality to its limits and deliver awesome experiences."

Qualcomm Announces $100M Snapdragon Metaverse Fund

With Qualcomm Ventures, we want to accelerate the Metaverse content ecosystem and the next generation of spatial computing.

We're launching the Snapdragon Metaverse Fund, established to invest up to $100 million in innovative developers and companies building immersive experiences with AR, mixed reality, and VR. It is anticipated that the fund will deploy capital through a combination of venture investments in leading XR companies by Qualcomm Ventures and a grant program by Qualcomm Technologies, Inc. for developer ecosystem funding in XR experiences such as gaming, health and wellness, media, entertainment, education, and enterprise.

We are adding Take Two, owner of Grand Theft Auto and many other labels. It is also a potential acquisition target for companies attempting to enter the Metaverse. We are also adding Adobe to the two portfolios.

Omni AIot US Strategy:

- **AI & Consumer Tech:**
    - **Alphabet:**

For the second quarter, our consolidated revenues were $69.7 billion, up 13% or up 16% in constant currency.

Google Search and other advertising revenues of $40.7 billion in the quarter were up 14%, driven by both, travel and retail. YouTube advertising revenues of $7.3 billion were up 5%. The modest year-on-year growth rate primarily reflects lapping the uniquely strong performance in the second quarter of 2021. Network advertising revenues of $8.3 billion were up 9%, driven by AdSense. The quarter-on-quarter deceleration in both YouTube and network advertising revenues primarily reflects pullbacks in spend by some advertisers.

- **Meta:**

We expect third quarter 2022 total revenue to be in the range of $26-28.5 billion. This outlook reflects a continuation of the weak advertising demand environment we experienced throughout the second quarter, which we believe is being driven by broader macroeconomic uncertainty.

Our guidance assumes foreign currency will be an approximately 6% headwind to year-over-year total revenue growth in the third quarter, based on current exchange rates.

- **Yelp:**

As a result of our strong second quarter performance, we are raising our full year net revenue outlook to a range of $1.18 billion to $1.2 billion.

We believe our current outlook balances the continued strength we have seen in advertiser demand with a macro outlook that assumes a modestly recessionary environment in the second half of the year.

- **Digital Transformation – Cloud:**

- **Amazon:**

Amazon CFO Brian Olsavsky: "AWS continues to grow at a fast pace, and we believe we are still in the early stages of enterprise and public sector adoption of the cloud. We see great opportunity to continue to make investments on behalf of AWS customers. We continue to invest thoughtfully in new infrastructure to meet capacity needs, while expanding AWS to new regions, developing new services and iterating quickly to enhance existing services."

Amazon invested nearly $24 billion in 2021 in the AWS business and is likely to spend nearly $30-35 billion more on it. This is a total of nearly $55 to $60 billion. This is nearly 25% to 30% of the total plant, property, and equipment. This expansion indicates that the expectation is to generate around $200 billion from AWS.

- **Microsoft:**

We continue to expect double-digit revenue and operating income growth in both constant currency and U.S. dollars. For the next quarter Microsoft expects Intelligent Cloud to grow between 25% to 27%.

- **Alphabet (Google Cloud):**

Alphabet CEO Sundar Pichai says: "On Cloud, we continue to see strong momentum, substantial market opportunity here and still feels like early stages of this transformation."

Google Cloud CEO Thomas Kurian quotes an International Data Corporation (IDC) report showing a doubling of public cloud services spending from $500 billion in 2022 to $1 trillion in 2026, a Compound Annual Growth Rate (CAGR) of nearly 19%.

- **Digital networking:**

- **Cisco:**

Now, I want to be clear on our outlook for fiscal 2023. We expect strong performance across our portfolio, driven by our continued focus on innovation and easing of supply constraints to drive solid top line growth and profitability.

Long term, there are many multi-year growth opportunities ahead of us, that gives me confidence in our future. There are currently more technology transitions occurring concurrently than I've seen in 20 years. Long-term megatrends like hybrid cloud, hybrid work, security, IoT, 400 gig and beyond, 5G and Wi-Fi 6 as well as the move towards application observability will likely provide tailwinds to our growth.

- **F5:**

We expect Q4 revenue in the range of $680 million to $700 million. Our pipeline indicates Q4 demand that would put our software revenue growth towards the high end of our 35% to 40% target for the year. As Francois discussed, however, we are very cognizant of the broader, more cautious environment. And as a result, we see more risk at the top end of our software growth range than there was a quarter ago.

- **Digital Brain:**

- **Micron:**

Looking ahead in calendar 2023, while macroeconomic uncertainty is high and visibility is low, we currently expect demand growth to be closer to the long-term growth rates of both DRAM and NAND bouncing back from very weak levels in calendar 2022.

Following a weak first half of fiscal 2023, we expect strong revenue growth in the second half of fiscal 2023

We expect long-term demand bit growth to be in the mid-teens percentage slightly lower than our prior expectation of mid- to high-teens due to a moderation in the expectation of long-term PC unit sales. We continue to expect the NAND market, which benefits from elasticity to grow around 28% over the long term.

- **Intel:**

For full year revenue we are now guiding a range of $65 billion to $68 billion, down from our prior guidance of $76 billion driven by lower expectations for our CCG and DCAI businesses. More specifically in our PC business as Pat discussed, we now see TAM decreasing approximately 10% year-over-year due to the softening macroeconomic environment and inflationary pressures.

In closing the market turbulence and updated outlook are disappointing. However, we believe our turnaround is clearly taking shape and expect Q2 and Q3 to be the financial bottom for the company. We remain completely committed to the strategy and financial model communicated at Investor Day. The long-term financial opportunity of compelling revenue growth and free cash flow at 20% of revenue remains. And I believe this downturn represents an opportunity to more quickly the transformations necessary to achieve these goals.

And as Dave is alluding to the passage today by the house of the CHIPS Act following the Senate Passage on Tuesday, this is historic legislation. Literally since World War II, there might not have been a more important piece of industrial policy that's came forward through Congress. So we are thrilled by that.

And I hope everybody on the line just realizes how significant the passage of this was for semiconductors, for technology, for long-term research, this was huge.

- **Qualcomm:**

We now expect calendar '22 global handsets to decrease by mid-single-digit percentage on a year-over-year basis, including 650 million to 700 million 5G handsets.

In the fourth fiscal quarter, we are forecasting revenues of $11 billion to $11.8 billion.

(For comparison the fourth fiscal quarter 2021 the revenue was $9.3 billion)

OmniInsight

"Most market participants chase alpha but get risks, while one could chase safety and get alpha"

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