

A Few Things We Learned in...

2020 Q2

⊗CTAHEDRON CAPITAL

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On-Demand

COVID-19 may result in a permanent increase in food delivery adoption ...

Uber

“Consumers and restaurants have been shifting towards delivery before COVID-19, but the pandemic has accelerated these trends, rapidly attracting new customers and restaurants, including many that have previously not considered ordering or offering food delivery.

We believe **this shift in many ways is structural** and will continue to pass the immediate crisis.”

GRUBHUB

“Given the strength we continue to see in the third quarter, we now believe **the pandemic has been less of a temporary demand spike and more of a permanent catalyst putting our business on a higher, sustained trajectory**. We had millions of new diners trying Grubhub for the first time, meaningfully improved diner retention and frequency for new and old diners alike, and a business mix that could easily support long-term economics of more than \$1.50 of Adjusted EBITDA per order in virtually all of our markets.”

Source: \$UBER 7/6/20 Postmates acquisition call, \$GRUB CY 2Q'20 shareholders' letter

On-Demand

... enabling food delivery to transform into the “delivery of everything” platforms ...



The new brand proposition 'Anything You Love We Deliver' **represents the transformation of Ele.me from a food delivery platform into a comprehensive digitalized local service platform.** In addition to food and beverage, Ele.me now also delivers everyday necessities such as groceries, fresh produce, medicines and flowers from local merchants



...we are already winning the online food delivery market. So online grocery is the next market that we are determined doing....We are going to put our best team on that. And we are going to try much more models...So I think in one sense, we are very determined to win the online grocery market...So yes, we are very excited about online grocery. **We are going to go out for and to win in this market.**

Source: \$BABA CY 2Q'20 earnings call, \$3690 HK CY 2Q'20 earnings call

On-Demand

... as evidenced by Uber and Doordash now offering grocery delivery

Uber

Starting today, in collaboration with our partner Cornershop, customers in select cities in Latin America and Canada can order groceries through both the Uber and Uber Eats apps. **And starting later this month, grocery delivery will be available in Miami, FL and Dallas, TX.**



Today, we are excited to announce that DoorDash has partnered with grocery stores across the country, **launching grocery delivery through the DoorDash app for the first time**. Customers in the Bay Area, Los Angeles, Orange County, Sacramento, San Diego and the Central Coast can order from Smart & Final. Meijer and Fresh Thyme are available to customers in Chicago, Cincinnati, Milwaukee, Detroit and Indianapolis. In the coming weeks, we will be adding selection ... providing more than 75 million Americans access to a grocery store on DoorDash.

Source: <https://www.uber.com/newsroom/introducing-grocery-delivery/>, <https://blog.doordash.com/introducing-on-demand-grocery-delivery-715b14bfa23>

On-Demand

Corporate demand for food delivery is weak as consumers shelter-in-place ...

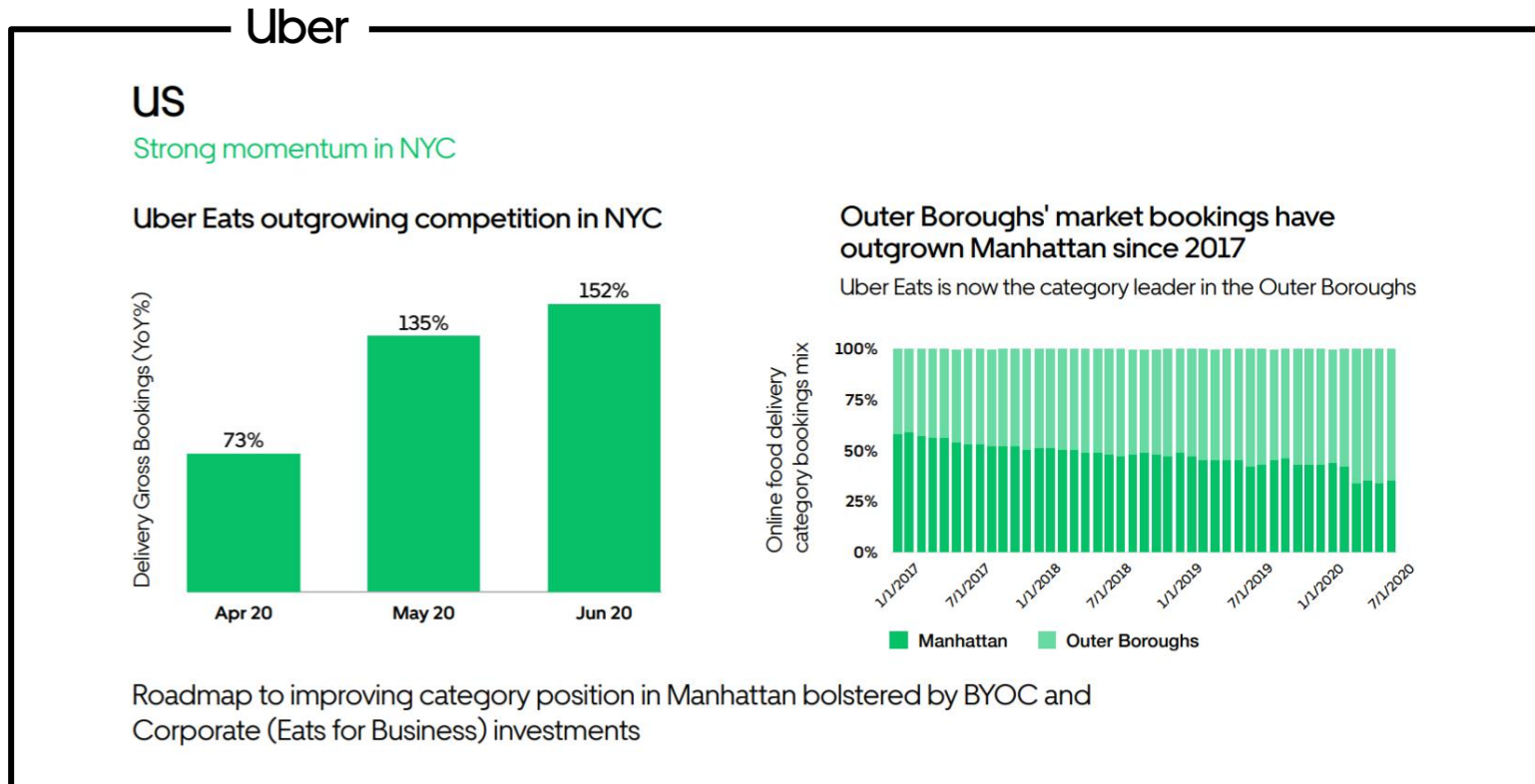
GRUBHUB

“While growth in our consumer business dominates our results, **our corporate business continues to be hit the hardest**. We are seeing some corporate ordering slowly coming back, **but we do not expect material improvement in this business until our corporate clients’ employees return to the office.**”

Source: \$GRUB CY 2Q'20 shareholders' letter

On-Demand

... creating increased competition in geographies with high-value users ...



Source: \$UBER CY 2Q'20 presentation

E-Commerce

On the topic of food, PinDuoDuo is doubling down on agriculture



“Colin (Huang) is also devoting more time to invest in and support foundational **fundamental research in areas that become the future driver of our company such as agritech**”

“Agriculture is a sector that touches largest number of people and yet has had the least amount of digitization in the past decade....**Pinduoduo is already one of China's leading online distribution platforms for agricultural produce and agricultural products.** We are uniquely positioned to drive trends in China's agriculture system. We combine consumer demand on our platform to create scale, and we can leverage consumer insights we gain to help farmers make more informed decisions across planting cycles, including what to plant and when to harvest.... **Our aim is to further consolidate our position as China's #1 online agriculture platform and to build a worldwide presence in agriculture.**”

Source: \$PDD CY 2Q'20 earnings call

E-Commerce

In the US, consumer buying habits are clearly “up for grabs” ...

Etsy

“... we are all creatures of habit and shopping is largely habit-driven. And there are very few times in one's life when you have an opportunity to reshape their habits, the classic three are when you get married, when you move home, and when you have a baby. And otherwise, your habits are pretty cemented. And you're not really open to forming new habits.

So what this current moment has created is it's created a moment when everyone's habits are up for grabs. Suddenly, before you go buy anything, you've got to stop and think for yourself, where can I go to get that?

And in that pause, Etsy is winning. If you can get someone to pause for 30 seconds and say, where can I go, Etsy is going to come to mind.”

Source: \$ETSY CY 2Q'20 earnings call

E-Commerce

...and investors may be underestimating the TAM in marketplaces such as Etsy

Etsy

“So when we pull back and look at what we've learned over the past three months, it reinforces my belief that **the size of Etsy's addressable market starts with a T not with a B**. All of this gives us even more conviction about the size of the prize that Etsy is chasing and the opportunity to invest to fully realize that growth.”

Source: \$ETSY CY 2Q'20 earnings call

E-Commerce

Wayfair silenced critics by achieving both scale and profitability



“Even against the normalized demand picture, we fully expected to inflect positively in adjusted EBITDA in Q2. But what played out in this quarter was exceptional. We delivered \$440 million in adjusted EBITDA at a 10.2% margin and over \$1 billion in free cash flow. **These results demonstrate the inherent strong structural profitability of our platform.**”

Source: \$W CY 2Q'20 earnings call

E-Commerce

Walmart is now a firmly omnichannel business ...



“The tailwinds we're experiencing are **accelerating our progress to build a healthier eCommerce business** as we add new brands, improve product mix, grow the marketplace and achieve more fixed cost leverage. **The stores and online merchant teams are now integrated.**

As we said, **eCom was up 97% in the quarter** and we are excited by new customers that have joined and [their] retention rates. And I think we've also been pleased to see the improvement and mix in categories that are selling online. We've had stronger growth rates in both home and apparel online... as customers moved into their homes and set up offices and now beginning to have school from home.”

Source: \$WMT CY 2Q'20 earnings call

E-Commerce

... but could retail and e-commerce slow down when stimulus checks stop?



"The health crisis has created both tailwinds and headwinds to our business. **In Q2, we saw stronger than expected sales, due in large part to stimulus spending. But the duration extent of a future government stimulus remains uncertain. As stimulus funds taper-off towards the end of the quarter, sales started to normalize**, but July comps still grew more than 4%."

Source: \$WMT CY 2Q'20 earnings call

E-Commerce

Increased e-commerce adoption is both global in nature ...



"All of our countries accelerated from the first quarter as we delivered FX neutral y/y growth rates of 230% for Argentina, 58% for Brazil and 122% for Mexico. Colombia and Chile's combined growth was almost 200% y/y."



"Last quarter, we spoke about **the rapidly changing needs of consumers and sellers in our region who are embracing e-commerce at an unprecedented pace** ... Our very strong results for the second quarter further demonstrate the **sustained deepening penetration of e-commerce** and our ability to capture this growth."



"More than 3 million customers shopped at Zalando for the very first time, contributing to the strongest y/y active customer growth since 2013 with an increasing share of first-time online shoppers and male customers."

Source: \$MELI CY 2Q'20 earnings call, \$SE CY 2Q'20 earnings call, \$ZAL CY 2Q'20 earnings call

E-Commerce

... and not limited to digitally-native companies



"You recall that in FY2018, we set a goal to reach 30% digital penetration, both owned and partnered, by FY2023. **We will reach that goal more than two years ahead of plan** this coming year, and looking ahead, we now **expect our overall business to reach 50% digital penetration.**"



"And then to link in with e-commerce, so the numbers on e-commerce are a growth of about 91% in Q2, so e-commerce last year was about 3% of our net revenue. In Q1 of this year, it was 3.5%, and in Q2, it's 6%. The biggest increase we saw was in the US, close to 200% increase. And that was driven by the fact that people that already shop online bought more online, but also a significant amount of first timers that started to buy their groceries online. And so the penetration of last year of e-commerce, we went from 4% to 9%. **So we do expect that e-commerce will remain a large part of our US business after the crisis.**"

Source: \$NKE FY 4Q'20 earnings call, \$MDLZ CY 2Q'20 earnings call

E-Commerce

Not surprisingly, Amazon is now accelerating at massive scale

amazon

"As I mentioned on our last earnings call, we began to see a significant increase in customer demand beginning in early March and **demand remained elevated throughout Q2**. Strong early demand in groceries and consumable products continued into Q2."

"In 2019, we increased network square footage by approximately 15%. This year, **we expect a meaningfully higher year-over-year square footage growth of approximately 50%**. This includes strong growth in new fulfillment center space as well as sort centers and delivery stations."

Source: \$AMZN CY 2Q'20 earnings call

E-Commerce

Shopify and Wix are big beneficiaries from the structural shift to digital ...



"I cannot recall a time in our history when we have shipped so many features in such a short period of time, helping so many merchants recover and many others reach new levels of success. As a result, **Q2 GMV growth accelerated to its highest level since before our 2015 IPO**, driving Shopify's cumulative GMV to over \$200 billion."



"Our business has seen an immense uplift in demand in recent months, driven by **the rapidly increasing importance of having an online presence**. We added a record 9.3 million users and 346,000 net premium subscriptions in the second quarter ..."

Source: \$SHOP CY 2Q'20 earnings call, \$WIX CY 2Q'20 press release

Payments

... as are payments companies such as PayPal



"The world has accelerated from physical to digital across multiple industries including retail.

Merchants are embracing a digital-first strategy, and these trends have fueled the rapid rise of digital payments. These are durable and meaningful tailwinds, and we are fortunate to have the scale, scope of services and brand reputation to capture the benefits of these trends and extend them to our customers. Consumer behavior has shifted in a discontinuous manner, and PayPal clearly has a unique opportunity to accelerate its path to becoming an everyday essential service."

Source: \$PYPL CY 2Q'20 earnings call

Payments

Visa highlighted the declining use of cash in part due to e-commerce growth ...



"A significant growth in debit demonstrates the acceleration of **the secular shift away from cash to digital forms of payment** as a result of the pandemic. The COVID crisis has also significantly accelerated **the secular shift to e-commerce**. Card-not-present spend excluding travel has grown over 25% every week since mid-April, which is 2x the pre-COVID growth rate."

Source: \$V FY 3Q'20 earnings call

Payments

... but their business is not fully immune to the weak macro environment



"All of the business drivers were significantly impacted by the pandemic. Payments volume this quarter declined 10% globally or 9% excluding China. Cross-border volume excluding intra-Europe, which drives our international transaction revenues, declined 47% on a constant-dollar basis, driven primarily by the lack of travels. Including intra-Europe, volume was down 37%."

Source: \$V FY 3Q'20 earnings call

Payments

Adyen's offline volumes reached pre-pandemic levels as they exited the quarter ...



Source: \$ADYEN 1H'2020 shareholders' letter

Payments

... and consumers flocked to Venmo and Square Cash



"We are seeing substantial increases in the use of Venmo as the pandemic continues on, as **more consumers turn to Venmo to live their financial lives**, including adoption of direct deposit functionality and later this year, the Venmo credit card."



"For Cash App, we saw strong growth ... we saw an uplift in customer acquisition with more than 30 million monthly transacting active customers in June. In the second quarter, these customers were **transacting more than 15 times per month on average or every other day, which is up nearly 50% from a year ago**. We saw customers join Cash App for our ecosystem of products and features."

Source: \$PYPL CY 2Q'20 earnings call, \$SQ CY 2Q'20 earnings call

Video Games

Gaming companies enjoyed an inflection in consumer engagement ...



"Now on to gaming, this was simply **a breakthrough quarter for gaming**. We saw record engagement and modernization led by strength on and off console as people everywhere turned to gaming to connect, socialize and play with others."



"**Our second quarter results significantly exceeded our prior outlook** for both revenue and earnings per share. And with continued momentum in our business, we are **again raising our full-year outlook**."

Source: \$MSFT FY 4Q'20 earnings call, \$ATVI CY 2Q'20 earnings call

Video Games

... while physical-to-digital and linear-to-interactive emerged as key trends



"We've seen tremendous growth over the last four months in our business and across the industry. As EA, we sit at the intersection of two fundamental secular trends that have become increasingly clear.

First, **social interactions in our world are moving from physical to digital**. And second, **the consumption of sports and entertainment is moving from linear to interactive.**"



"We are living in unprecedented times and **more people than ever before are turning to games for entertainment and a sense of community**. With so many of us staying at home, we saw heightened levels of player engagement, social connection and monetization in our portfolio."

Source: \$EA FY 1Q'21 earnings call, \$ZNGA CY 2Q'20 shareholders' letter

Video Games

M&A is likely to accelerate at the larger gaming platforms



“We have great momentum across our multi-year growth strategy of: (1) growing our live services, (2) adding new forever franchises to our portfolio and (3) investing in new platforms, markets and technology. Additionally, **we see opportunities to enhance each of these growth pillars through more acquisitions.**”

Source: \$ZNGA CY 2Q'20 earnings call

Video Games

Epic Games took a stance against iOS' (and Android's) 30% take rates ...



"At the most basic level, **we're fighting for the freedom of people who bought smartphones to install apps from sources of their choosing, the freedom for creators of apps to distribute them as they choose, and the freedom of both groups to do business directly.** The primary opposing argument is: "Smartphone makers can do whatever they want". This is an awful notion. We all have rights, and we need to fight to defend our rights against whoever would deny them. Even if that means fighting a beloved company like Apple. Another argument against supporting #FreeFortnite is "this is just a billion dollar company fighting a trillion dollar company about money". But the fight isn't over Epic wanting a special deal, it's about the basic freedoms of all consumers and developers. Finally, there's nothing wrong with fighting about money. You work hard to earn this stuff. When you spend it, the way it's divided determines whether your money funds the creation of games or is taken by middlemen who use their power to separate gamers from game creators."

Source: <https://twitter.com/TimSweeneyEpic/status/1294388599056732160>

Video Games

... and they were supported by Spotify, Match Group, amongst others



"We applaud Epic Games' decision **to take a stand against Apple and shed further light on Apple's abuse of its dominant position**. Apple's unfair practices have disadvantaged competitors and deprived consumers for far too long. The stakes for consumers and app developers large and small couldn't be higher and ensuring that the iOS platform operates competitively and fairly is an urgent task with far-reaching implications."



"We fully support Epic Games' efforts today to show **how Apple uses its dominant position and unfair policies to hurt consumers, app developers and entrepreneurs**. Regulators across the globe have expressed similar concerns and are examining Apple's arbitrary practices. Match Group supports all efforts to ensure everyone is able to enjoy the benefits of a fair app ecosystem."

Source: <https://twitter.com/pkafka/status/1294015916313894919>, <https://twitter.com/pkafka/status/1294084298035867649>

Video Games

This led to a contentious battle with Apple ...



“The App Store is designed to be a safe and trusted place for users and a great business opportunity for all developers. Epic has been one of the most successful developers on the App Store, growing into a multibillion dollar business that reaches millions of iOS customers around the world. We very much want to keep the company as part of the Apple Developer Program and their apps on the Store. The problem Epic has created for itself is one that can easily be remedied if they submit an update of their app that reverts it to comply with the guidelines they agreed to and which apply to all developers.

We won't make an exception for Epic because we don't think it's right to put their business interests ahead of the guidelines that protect our customers.”

Source: <https://www.theverge.com/2020/8/17/21373108/apple-response-epic-app-store-fortnite-lawsuit>

Video Games

... who then used the “nuclear option” against Epic



“Then when Epic sued Apple to break its monopoly on app stores and in-app payments, Apple retaliated ferociously. It told Epic that by Aug 28, **Apple will cut off Epic’s access to all development tools necessary to create software for Apple’s platforms**—including for the Unreal Engine Epic offers to third-party developers, which Apple has never claimed violated any Apple policy.”

Source: <https://cdn2.unrealengine.com/epic-v-apple-8-17-20-768927327.pdf>

Digital Advertising

Pinterest was a major beneficiary from the increased penetration of e-commerce ...



“... Pinterest offers a fundamentally different experience to consumers than e-commerce websites. **E-commerce is great when a consumer already knows what she wants to buy and is merely seeking a smooth transaction. On Pinterest, consumers browse inspiring images to discover what they want to buy**, find products related to these inspiring scenes, and purchase from verified merchants.

In a world where it's harder and harder for consumers to discover new ideas in physical stores (due to lockdown orders as well as pre-existing pressure on offline retailers), Pinterest is quickly becoming a compelling digital analog.”

Source: \$PINS CY 2Q'20 shareholders' letter

Digital Advertising

... and Facebook maintained an impressive pace of product innovation

facebook

“In terms of the big milestones for small businesses and commerce, **we're mostly focused on two types of products. The first is Shops** ... what that basically allows is any small business to put in a catalog and then have a shop across Instagram and Facebook to start, eventually across all of the apps ... **And we're building up Facebook Pay** to make it so that, when you buy something in one place your credit card is stored ... **There will also be a natural value for small businesses of being able to connect the advertising that they're doing across their services with their shops to be able to go from inspiring someone at the top of the funnel all the way down through driving sales.** So that's going to continue scaling and we'll have more to share there on metrics and that soon.”

Source: \$FB CY 2Q'20 earnings call

Digital Advertising

Companies with strong direct-response products exceeded expectations in CY 2Q ...



"In a world where their balance sheets are at risk,
marketers want ROI accountable ads and we are delivering them."



"**Our direct response business continues to drive meaningful return on investment at scale,**
especially during the current environment where performance-oriented apps and ecommerce
advertisers look to reach customers who are increasingly engaging and transacting on the Internet
rather than in person."



"Our performance advertising business, a newer category catering to direct response advertisers,
grew 346% year-over-year, aided in part by marketers reevaluating their social media spending."

Source: \$PINS CY 2Q'20 transcript, \$SNAP CY 2Q'20 transcript, \$ROKU CY 2Q'20 shareholders' letter

Digital Advertising

... while revenues declined at companies exposed more to brand advertising



"... the ad engagements that we talked about earlier has a lot to do with the mix shift where our direct response roadmap is so important for so many reasons and this is a really good example as to why, where **you will see less brand advertising in an environment like this**, more direct response advertising, and we're working really hard to make those formats even better than they are today and to improve relevance."

Source: \$TWTR CY 2Q'20 earnings call

Digital Advertising

Despite a strong CY 2Q, the near-term trajectory of digital ad spend remains unclear ...

Google

“And to carry it forward, although we're pleased that ads revenue gradually improved throughout the quarter, as I said, we do believe **it's premature to say that we're out of the woods**, given the fragile nature of the macro environment. And as you're aware, **ad spend does tend to be correlated with macroeconomic performance**. And so the macro backdrop will continue to be a key signal to monitor.”

Source: \$GOOGL CY 2Q'20 earnings call

Digital Advertising

... and Apple's minimized support for IDFA in iOS14 may cause repercussions ...

 criteo.

"We believe it's a move in the right direction based on respect of user choice and control. Yet, we also believe this **can be a big industry issue**. This unilateral decision with no concertation and little time to adapt will create troubles with deep implications for the advertising ecosystem, especially on the supply side."

 theTradeDesk

"**All of that said, it's only about 10% of our spend uses the IDFA in any way.** And one thing that I just - I think is really important to remind everybody else is that we look at millions and millions of ad opportunities every single second, ballpark call it 11 million and with that 11 million, if you were to take away 1 million and say now you have to fulfill all of your budgets with only 10 million ads available every single second, we would be just fine. We would just buy a different 10 million. So if IDFA were to go completely away or everybody were to opt out, we would just buy different ads. **So it wouldn't have much impact.**"

Source: \$CRTO CY 2Q'20 earnings call, \$TTD CY 2Q'20 earnings call

Digital Advertising

... even for companies that own significant first party data



“So on IDFA, based on what Apple has shared, we do expect the new opt-in requirement for IDFA sharing **will decrease our ability to measure conversions from iOS apps** ... So it’s something we have our eye on and it fits into a longer term theme that we've been talking about for a few quarters about really investing in measurement solutions so advertisers can understand the return on their spend.”

facebook

“... [IDFA] will have more of a pronounced impact in Q4 and beyond, given the rollout begins late in Q3. We're still trying to understand what these changes will look like and how they'll impact us and the rest of the industry. But the very least, **it's going to make it harder for app developers and others to grow using ads** on Facebook and elsewhere.”

Source: \$PINS CY 2Q'20 earnings call, \$FB CY 2Q'20 earnings call

Enterprise Software

Alteryx sounded the alarm regarding a slowdown in software spend ...

alteryx

“The global dislocation experienced as a result of the COVID pandemic, followed by shelter-in-place orders, altered our customers' buying behaviors in Q2. We observed notable changes such as **higher levels of scrutiny on spending across all sectors, resulting in longer sales cycles, smaller deal sizes, and less favorable linearity in the quarter**. Based on what we see today, we do not anticipate a material improvement in business conditions during 2020.

Let's turn to COVID impact on our Q2 expansion activity. As with new business, we saw expansion business sales cycles slow. Conversations with customers indicated that **many sought to leverage their existing investments rather than undertake large new projects, and consequently postponed or downsized larger initiatives.**”

Source: \$AYX CY 2Q'20 earnings call

Enterprise Software

... a trend not only echoed by legacy companies like Cisco ...



"As you would expect, the pandemic has had the most impact on our enterprise and commercial orders, driven by an overall slowdown in spending. **We are seeing customers continue to delay their purchasing decisions** in certain areas while increasing spend in others until they have greater visibility and clarity on the timing and shape of the global economic recovery."

Source: \$CSCO FY 4Q'20 earnings

Enterprise Software

... but also by leading, cloud-first, companies such as Atlassian ...

▲ ATLISSIAN

"FY 2021 will be a challenging year. We will lean into the headwinds we face as a business, and be bold as we push through the turbulence. This will lead us to unleash the potential of teams, create massive impact for customers, and continue our transformation into a \$5 billion+ global software leader.

... during Q4 our net new customer additions were negatively impacted by two factors: COVID-19 and the widespread rollout of free delaying paid customer conversion. **We expect both headwinds to persist during FY 2021."**

Source: \$TEAM FY 4Q'20 shareholders' letter

Enterprise Software

... and even by net beneficiaries of digital transformation such as Slack and PagerDuty



"... **we're not immune from our customers' bankruptcies, downsizing or other negative macroeconomic effects.** Due to these factors, the range of outcomes as we move through the year is also significantly wider than is typical. We don't know with any confidence what the second half of the year will look like from a world health or macroeconomic perspective and how that will impact our customers. These are challenging times for everyone."

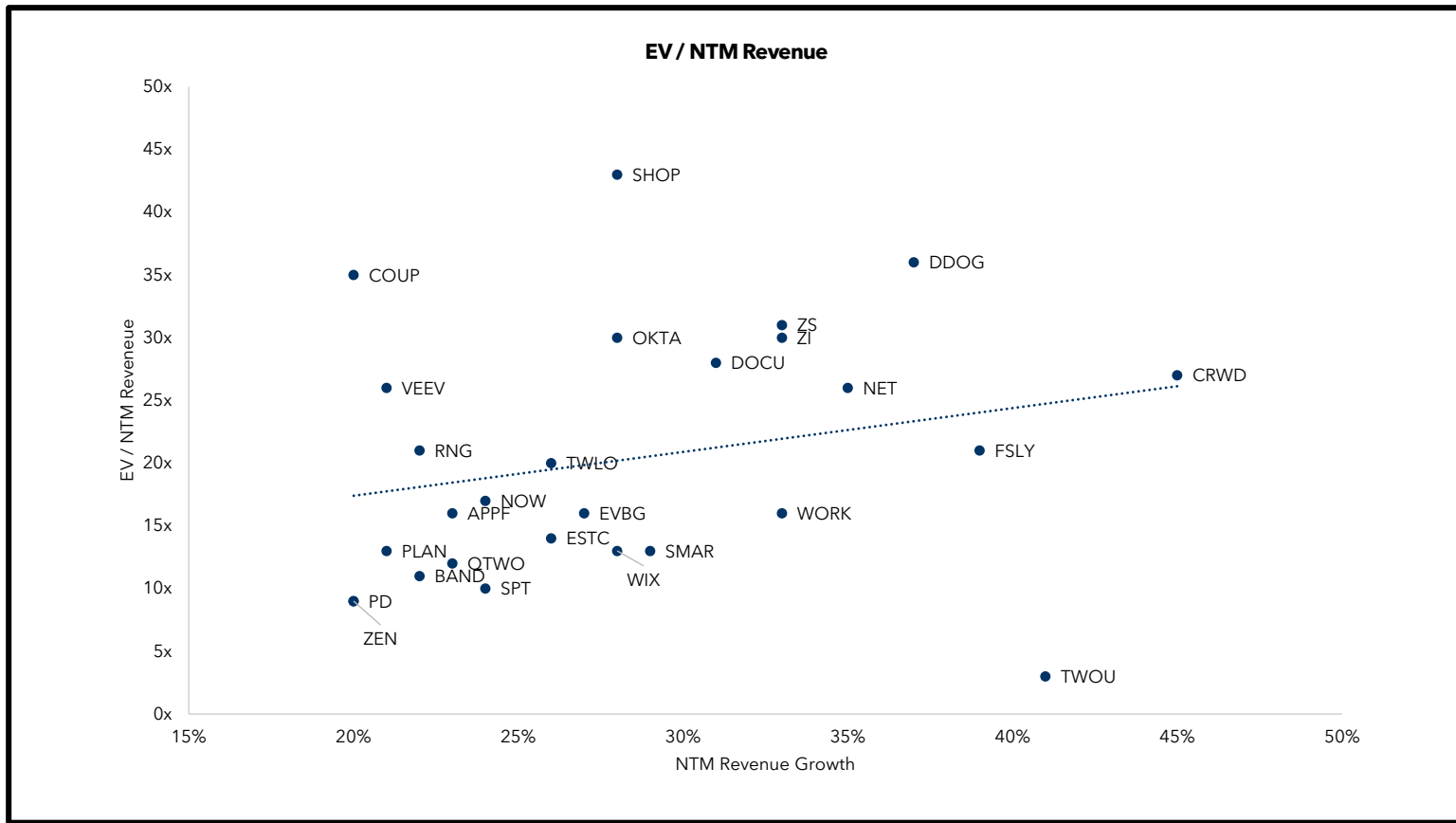
PagerDuty

"Reflecting the current economic environment, late in the quarter **we saw some large customers pause expansion discussions** as they attended to the realities of an overnight remote workforce and the sudden business impact of stay-at-home orders. Although in the short-term **we may see some downgrades from budget cuts and layoffs**, we believe that PagerDuty represents a strong partner in this environment as we can support customers' goals through automation, labor cost reduction and support for distributed teams."

Source: \$WORK FY 1Q'21 earnings call, \$PD FY 1Q'21 earnings call

Enterprise Software

Which begs the question: What could happen to software multiples in the medium term?



Source: publiccomps.com

Enterprise Software

Long term structural tailwinds of cloud migration remains intact ...



“However, we also see a **generational shift occurring. How the world works is changing right now.**

This shift will significantly increase what our customers need from us.

It will also likely **accelerate the adoption of both our category and software more broadly** over the medium to long term. The timing is hard to predict, but the secular trends are very clear in our view.”

PagerDuty

“As companies learn from the rapid pivots they undertook this quarter, we expect digitization, cloud adoption, DevOps, security, distributed architecture and remote working to continue to advance post vaccine. **All of these accelerating megatrends are tailwinds for us** and drivers for investment in

PagerDuty especially as recovery begins.”

Source: \$WORK FY 1Q'21 earnings call, \$PD FY 1Q'21 earnings call

Enterprise Software

... implying that cloud / software growth should continue over the long term ...

servicenow.

“This unprecedented environment is breaking physical supply chains. It is exposing the weak links in the old value chains, illuminating how companies struggle cross-functionally to deliver the workflows that create great experiences for customers, employees and partners. **The world is experiencing a seismic shift from the obsolete business process evolution to the new workflow revolution.**

“But look, the reality is this. **The CEOs of enterprises around the world are going to be doubling down on their investment in digital transformation.** They recognized in a pre-COVID world that you had to transform, but **in a post-COVID world, you have to be digital to survive.**”

Source: \$NOW CY 2Q'20 earnings call

Enterprise Software

... as evidenced by Twilio's recent Digital Engagement Report ...



"COVID-19 **accelerated companies' digital communications strategy by an average of 6 years** while 97% of enterprise decision makers believe the pandemic sped up their company's digital transformation."

"In fact, 79% of respondents say that **COVID-19 increased the budget for digital transformation.**"

"92% say their organization is very or somewhat **likely to expand digital communication channels as the world reopens.**"

Source: <https://www.twilio.com/covid-19-digital-engagement-report>

Enterprise Software

... and commentary from IT consultants

 accenture

"I also want to touch on another area of demand where we are seeing even more significant growth post-COVID across industries. **Cloud migration and cloud-based data and innovative business models have quickly accelerated**, Amazon Web Services, Microsoft Azure, and Google Cloud Platform as well as Alibaba Cloud in China and Oracle Cloud Infrastructure, or OCI, companies are looking to more quickly reduce costs and capture the innovation of the cloud as well as provide the foundation for better access to data for new business outcomes and models."

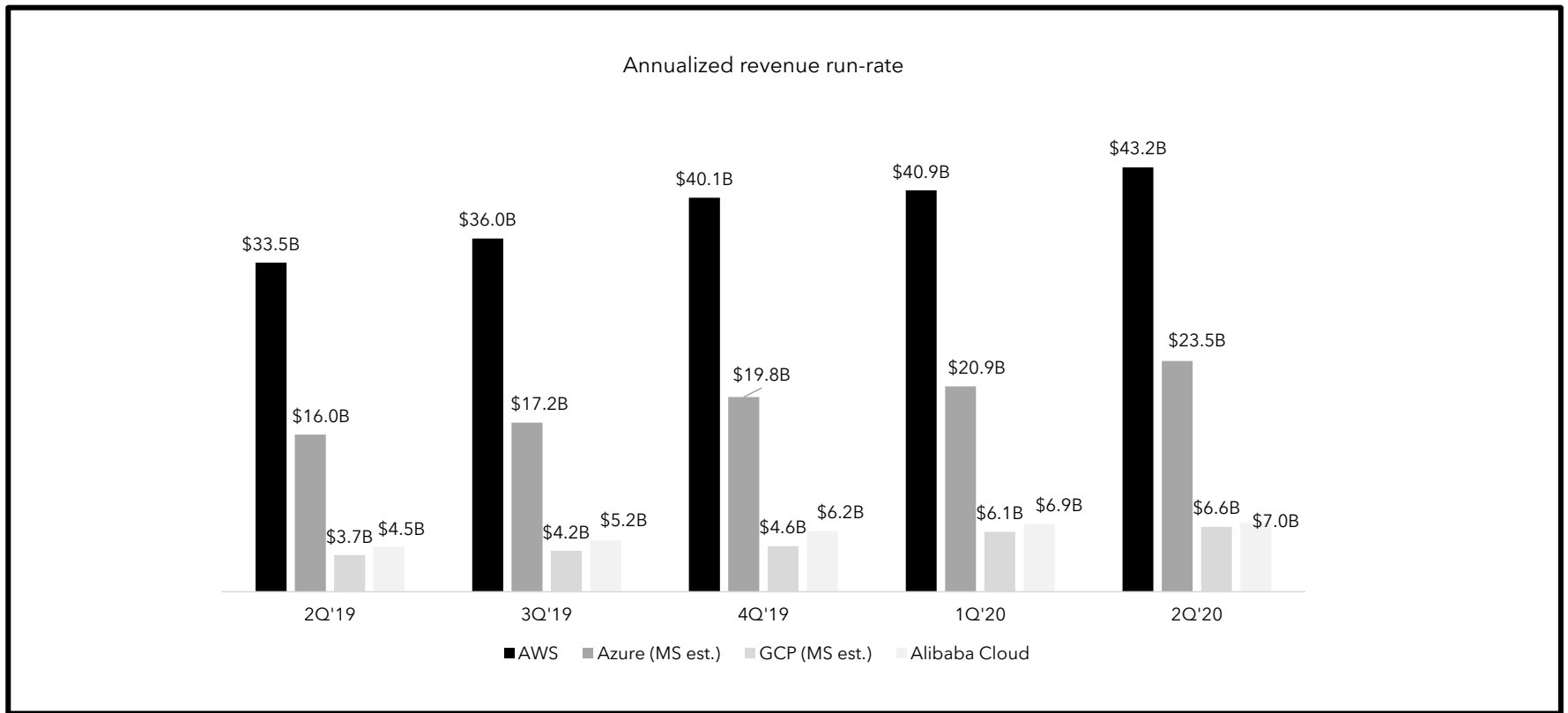


"Our second quarter results demonstrate this with an increase of over 10 points in our cloud revenue growth over last quarter. **The trend we see in the market is clear. Clients want to modernize apps, move more workloads to the cloud ...**"

Source: \$ACN FY 3Q'20 earnings call, \$IBM CY 2Q'20 earnings call

Cloud

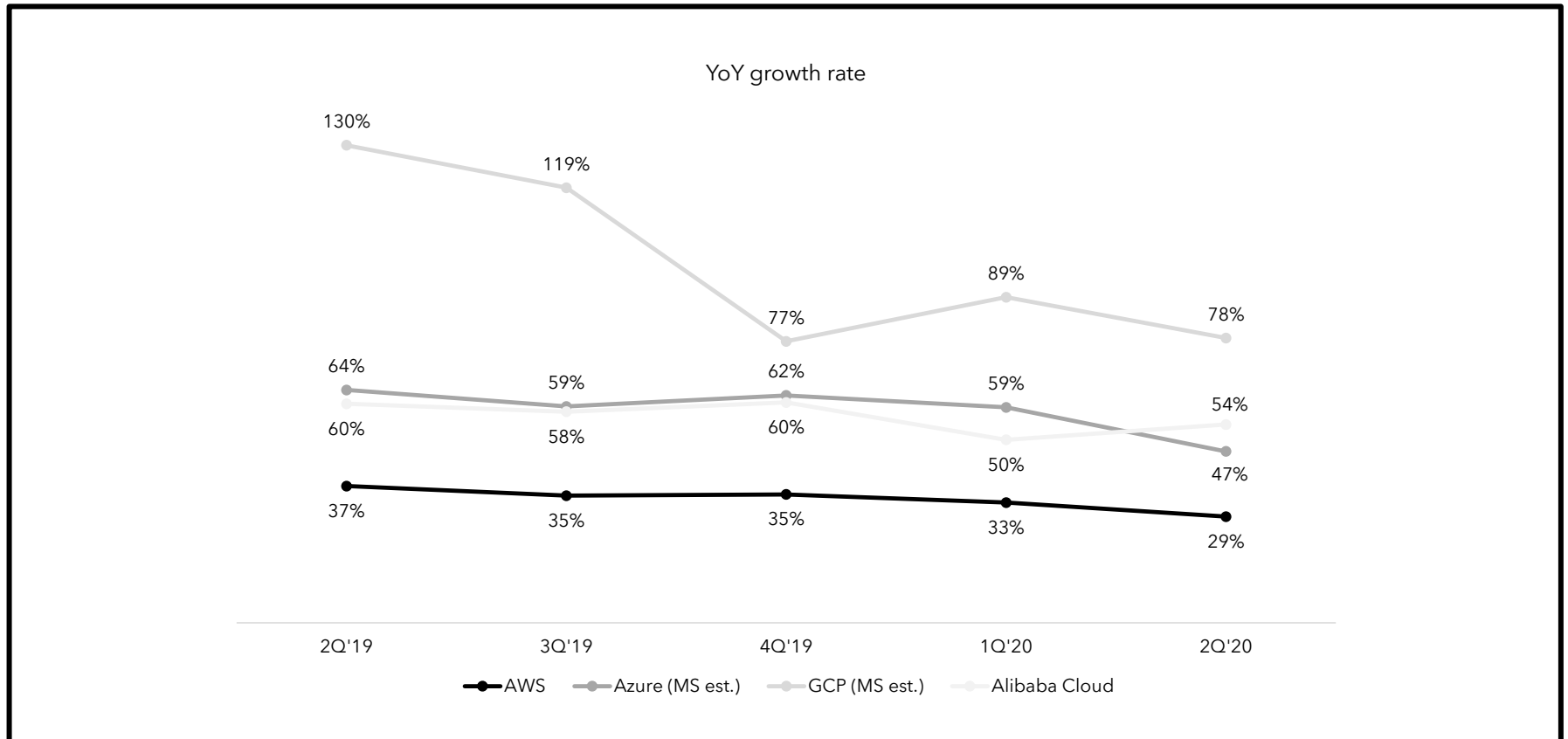
Cloud revenues continue to scale unabated ...



Source: Company filings, Octahedron estimates

Cloud

... AliCloud accelerated, but AWS decelerated to < 30% y/y growth ...



Source: Company filings, Octahedron estimates

Cloud

...explained away by deferred revenues due to short-term relief for clients

amazon

" I'll give you **the backlog number, it grew 65% year-over-year and 21% quarter-over-quarter**. So that's healthy and we have the average contract length is over three years for our AWS contracts."

Source: \$AMZN CY 2Q'20 earnings call

Streaming

Netflix experienced a pull-forward in demand in 1H'20 ...

NETFLIX

"In Q1 and Q2, we saw significant pull-forward of our underlying adoption leading to huge growth in the first half of this year (26 million paid net adds vs. prior year of 12 million). As a result, we expect less growth for the second half of 2020 compared to the prior year."

Source: \$NFLX CY 2Q'20 shareholders' letter

Streaming

... while Spotify's engagement was saw headwinds due to COVID-19



"We noted last quarter that we began to see a modest impact on consumption hour trends driven by COVID. As of June 30, global consumption hours have recovered to pre-COVID levels. All regions have fully recovered with the exception of Latin America which is approximately 6% below peak levels prior to the global health crisis. Regions where the spread of COVID-19 appears to be slowing, including APAC and EU, have led the recovery in consumption."

Source: \$SPOT CY 2Q'20 shareholders' letter

Streaming

Netflix is charging ahead with content creation through COVID-19 ...

NETFLIX

"I could jump in on the production side. I mean **it's been remarkable how nimble the teams have been to going from full-blown production to completely shut down to ramping back up all over the world in the space of a few months**. I think some of the things, like the safety protocols that we're putting to place around the world will become a permanent part of production, which is a good thing. I think this time in between the shutdown and ramping back up, the extra time that was spent on scripts and development and preparedness will make the shoots actually more efficient, which I think will stick around."

Source: \$NFLX CY 2Q'20 earnings call

Streaming

... while Amazon seems to have stalled (temporarily)

amazon

"The one I'd point to Studios, **we've had delayed production**, I think most studios have and that's been augmented by some new things like our Amazon Cinema where we have first-run movies and so I think in this time, when people want entertainment, people are having trouble creating new content across the board, and that's a bit of a challenge, but it's not what something we're doing intentionally.

We're doing it to protect the actors and film crews."

Source: \$AMZN CY 2Q'20 earnings call

Semiconductors

Intel seems to have (permanently) ceded control in the leading edge ...



“Turning to our 7-nanometer technology, we are seeing an approximate six-month shift in our 7-nanometer based CPU product timing relative to prior expectations. The primary driver is the yield of our 7-nanometer process which, based on recent data, is **now trending approximately 12 months behind our internal target**. We have identified a defect mode in our 7-nanometer process that resulted in yield degradation. We've root caused the issue and believe there are no fundamental roadblocks, but we have also invested in contingency plans to hedge against further schedule uncertainty. We're mitigating the impact of the process delay on our product schedules by leveraging improvements in design methodology such as die disaggregation and advanced packaging.”

Source: \$INTC CY 2Q'20 earnings call

Semiconductors

... as AMD and Nvidia have lapped Intel with a faster pace of innovation



"We delivered strong second quarter results, led by record notebook and server processor sales as Ryzen and EPYC revenue more than doubled from a year ago. Despite some macroeconomic uncertainty, we are raising our full-year revenue outlook as **we enter our next phase of growth driven by the acceleration of our business in multiple markets.**"



"NVIDIA had an excellent quarter. The acquisition of Mellanox expands our cloud and data center opportunity. We raised the bar for AI computing with the launch and shipment of our Ampere GPU. And our digital GTC conference attracted a record number of developers, **highlighting the accelerating adoption of NVIDIA GPU computing.**"

Source: \$AMD CY 2Q'20 press release, \$NVDA FY 1Q'21 press release

Anti-trust

Amazon laid out why antitrust action is not applicable for e-commerce ...

amazon

“The global retail market we compete in is strikingly large and extraordinarily competitive. Amazon accounts for less than 1% of the \$25 trillion global retail market and less than 4% of retail in the U.S. Unlike industries that are winner-take-all, there’s room in retail for many winners. For example, more than 80 retailers in the U.S. alone earn over \$1 billion in annual revenue.”

Source: <https://blog.aboutamazon.com/policy/statement-by-jeff-bezos-to-the-u-s-house-committee-on-the-judiciary>

Anti-trust

... while Apple and Google made similar arguments for phones and digital ads



“The smartphone business is fiercely competitive, and companies like Samsung, LG, Huawei and Google have built very successful businesses offering different approaches. **Apple does not have a dominant market share in any market where we do business.** That is not just true for iPhone, it is true for any product category.”



“A competitive digital ad marketplace gives publishers and advertisers, and therefore consumers, an enormous amount of choice. For example, competition in ads - from Twitter, Instagram, Pinterest, Comcast and others - has helped **lower online advertising costs by 40% over the last 10 years**, with these savings passed down to consumers through lower prices.”

Source: [AAPL](#), [GOOGL](#)

Macro

CoStar observed a slowdown in job gains where infections start recurring ...



“Lastly, a few words on what we're seeing in the US economy and commercial real estate. The rebound in the labor market that began in April was largely driven by workers coming off of furlough and reattaching to their previous jobs in restaurants and retail. **However, as a second wave of infections have spread across areas in the south and southwest, the momentum in job gains has predictably slowed as reopening plans were paused and reversed.** The improvement in initial claims for unemployment has stalled at a level that is still more than double the worst single week during the Great Recession. Other high frequency indicators and hiring seem to have slowed as well so it seems that the initial V-shaped recovers in the labor market is likely to pause.”

Source: \$CSGP CY 2Q'20 earnings call

Macro

... and Estee Lauder commentary bodes poorly for department stores

ESTÉE
LAUDER
COMPANIES

"The Company also estimates the **closure of between 10-15% of its freestanding stores globally**, as well as certain less productive department store counters that the Company elects to close."

Source: \$EL CY 2Q'20 earnings release

Macro

Finally, home demand was robust in CY 2Q (likely supported by low interest rates)



"I am very pleased to report that the recovery in new home demand that we experienced over the course of the second quarter was nothing short of outstanding. Our second quarter results show a remarkable rebound in demand, as April net new orders fell 53% from last year, only to see year-over-year orders increased 50% for the month of June. Led by strong demand among first-time buyers, we saw meaningful improvement across all buyer groups and geographies as the quarter advanced. This improvement culminated in June orders increasing 77% for first-time, 48% for move-up and 21% for active adult over June of last year. The rebound in demand during the quarter resulted in our aggregate second quarter orders declining only 4% from last year. We are very encouraged by the fact that the momentum of this dramatic recovery continues as demand has remained strong through the first few weeks of July."

Source: \$PHM CY 2Q'20 earnings call

Questions?

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