

A Few Things We Learned in...

2020 Q3

⊗CTAHEDRON CAPITAL

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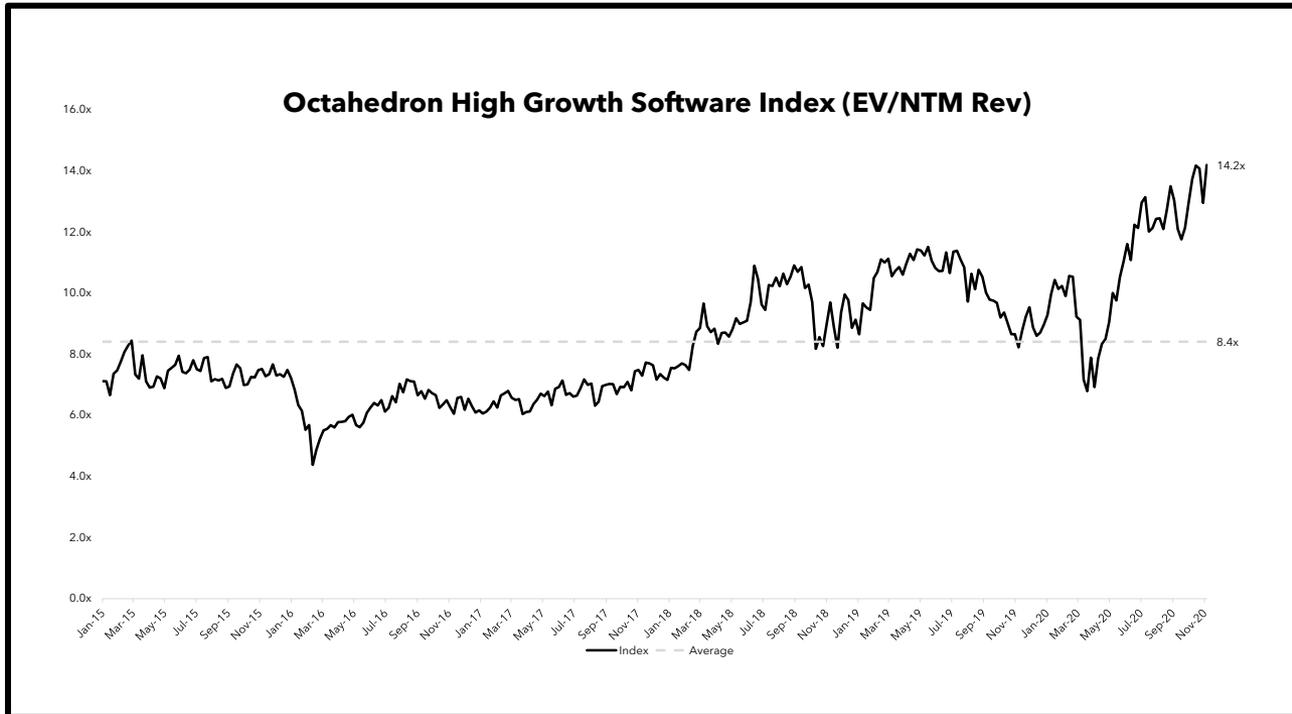
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Valuations - Software

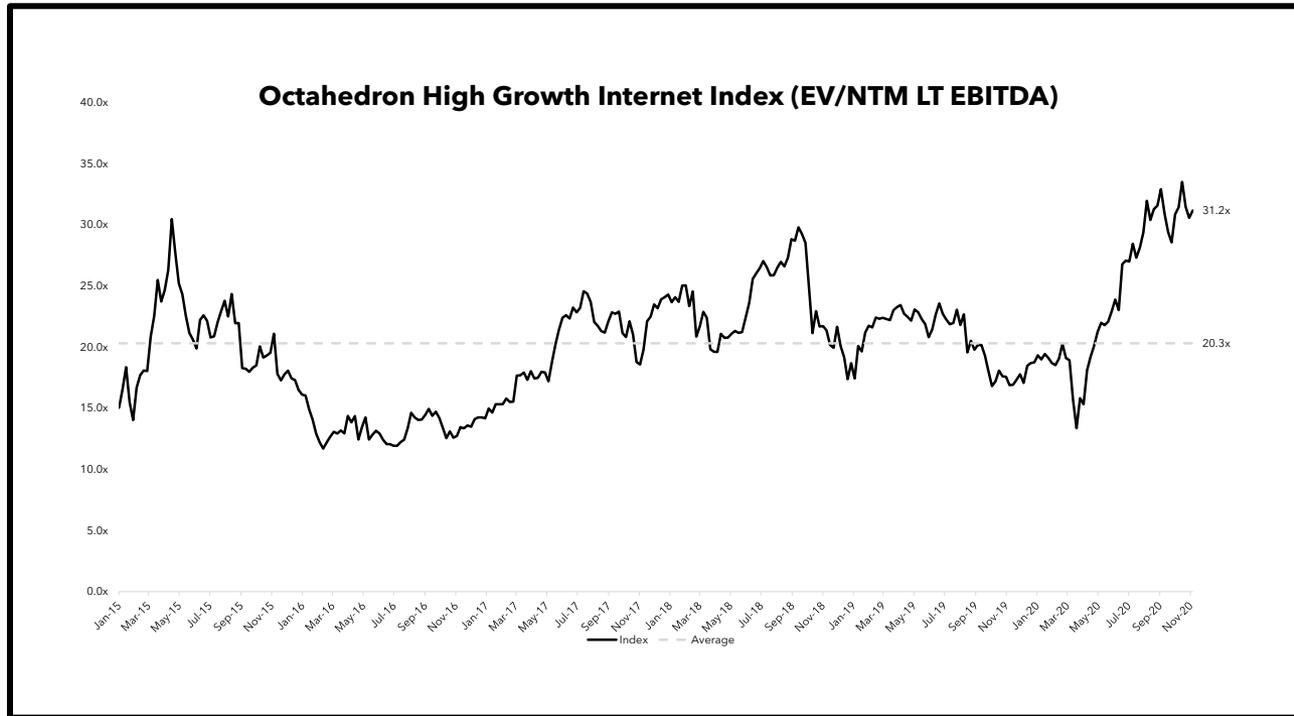
Growth software valuations continue to be stretched...



Source: Bloomberg, Octahedron estimates

Valuations - Internet

...while Internet valuations are not as extreme (though certainly not cheap)



Source: Bloomberg, Octahedron estimates

E-Commerce

FedEx quantified a three-year pull-forward in e-commerce volumes...



“The second and perhaps more profound trend is the acceleration of e-commerce. Pre-COVID, we projected that the US domestic market would hit 100 million packages per day by calendar year 2026. We now project that the US domestic parcel market will hit this mark by calendar year 2023, **pulling volume projections forward by three years from the previous expectation.** E-commerce fueled substantially by this pandemic is driving the extraordinary growth. In fact, 96% of the US growth is expected to come from e-commerce. While e-commerce as a percentage of total retail has declined from its apex in April, it remains elevated. **E-commerce as a percentage of total retail for Q2 calendar year 2020 is estimated at 21% compared to 15% in Q2 calendar year 2019.**”

Source: \$FDX fiscal 1Q'21 earnings

E-Commerce

...and this pull-forward is likely to result in a “new plateau” of scale



“I think we're in the early stages of certainly earlier than mid stages of e-commerce growth. **And I think what's happened in the last seven months is that we've got five to seven years of growth. So, I don't think we're going to give any of that back. I think we are going to plateau for a while as people go back to regular shopping and restaurants and not eating at home and all those things and then we'll pick right back up at a more elevated level.**”

So, the big wave you got to keep your eye on is the tsunami of e-commerce coming through. What happens to the ripples on top of that big wave frankly in which quarter, I have no idea honestly and it varies market-by-market. But we don't run our business based on the ripples on top of the big wave.”

Source: \$PLD 3Q'20 earnings

E-Commerce

Brands that delighted consumers through the pandemic should experience follow-through loyalty post-pandemic



“The businesses that have risen to the top and will make it through the other side during these challenging times all have something in common -- they are trailblazers in enabling technology that gives consumers the convenience and access that social distance orders took from them. Based on our survey, there's no going back now -- more than four out of ten of consumers say that the **convenience** of the shopping experience is more important to them than the price of items. Additionally, nearly half of Americans surveyed said they will shop to support **brands** they want to see survive.”

- **69% said they intend to continue shopping with/supporting retailers that they relied on during the pandemic**
- 51% said they intent to go out of their way to shop with responsible businesses that demonstrated a social conscience/engaged with charitable initiatives during the pandemic
- **41% said they are going to shop online more than they did before the pandemic, with Millennials leading the charge (58%) followed by Gen X (37%) and Boomers (30%)**

Source: [Adyen 2020 Retail Report](#)

E-Commerce

Strong acquisition and retention trends continue even after a (partial) re-opening of the economy...



“Turning now to what transpired in Q3. **Even as competition in the form of brick-and-mortar returned to the market, Wayfair's strong customer acquisition and retention trends continued.** At nearly 29 million customers, our LTM active customer count was up 51% year-over-year. We saw average order values normalize some after a dip in Q2 with LTM net revenue per active customer hitting a new peak this past quarter. It's also worth noting that in Q3 we did not see much deviation in sequential trends across our various geographies or various income demographics.”

Source: \$W 3Q'20 earnings

E-Commerce

...while COVID-19 helped re-activate previously acquired customers

Etsy

“First, about 75% of the purchase activity in the third quarter was from people who joined Etsy prior to 2020. These are cohorts from 2019 and prior. And we're seeing a real step function increase in purchase activity from all of our prior cohorts. Taking the 2018 cohort as one example, what we show you here is for people who made their first purchase in 2018; they made about 60% more purchases or 60% more GMS. They purchased on Etsy in the third quarter of 2020 versus the third quarter of 2019. And as you'll see on slide 6 about 50% of that was purchases of non-masks and about 10% was the purchase of masks.”

Source: \$ETSY 3Q'20 earnings

E-Commerce

Even the stodgy luxury industry has now moved (permanently) online

FARFETCH

“This online adoption is consistent with what our recently acquired customers are telling us. In a recent survey of our newer customers, 45% said they will continue to do more of their shopping online now that they are used to it; and 23% said they would do most of their shopping online from now on. **This clearly indicates that the luxury industry will not go back to the same normal as we did with pre-COVID-19, and affirms my beliefs that we're witnessing a major acceleration of the sustained online adoption I have anticipated when I founded Farfetch 13 years ago.**”

Source: \$FTCH 3Q'20 earnings

E-Commerce

Amazon's Prime Day was successful, driven by SMB sellers



"In 19 countries, Amazon's Prime Day kicked-off the holiday shopping season on October 13-14 with **the two biggest days ever for small and medium businesses in Amazon's stores**. Third-party sellers—most of which are small and medium-sized businesses—surpassed \$3.5 billion in sales on Prime Day—a nearly 60% year-over-year increase, growing even more than Amazon's retail business. Prime members saved more than \$1.4 billion, taking advantage of deep discounts and incredible deals over the two-day event."

Source: \$AMZN 3Q'20 press release

E-Commerce

China seems to have almost fully recovered, post-COVID-19



“Alibaba has delivered another strong quarter, thanks to digital adoption accelerated by COVID and the rapid economic recovery in China following its effective control of the pandemic. According to National Bureau of Statistics, China's economy continued to recover in the September quarter, with GDP growth reaching 4.9% year over year and retail sales is resuming positive growth year over year. Digitalization is now universally recognized as the way forward in the post-pandemic world. And as I shared during Investor Day, Alibaba is best positioned to enable everyone to capture the opportunity of digitalization.”

Source: \$BABA fiscal 2Q'21 earnings

E-Commerce

PinDuoDuo unlocked an entire new vector of growth via agriculture...



“Post-pandemic, we have noticed that consumer habits of grocery shopping at wet market or supermarket are shifting. Many of our users have shift to online channels for their daily staples. **We saw a surge in orders for agricultural products in the first half of the year, not just for fruits and other root vegetables that can be easily transported, also for leafy vegetables and delicate fruits.** We started to ask ourselves if more could be done for all users, especially given our familiarity with the sector as China's largest online agriculture platform. The more we learn about industry, the more we realize how much more we could do.”

Source: \$PDD 3Q'20 earnings

E-Commerce

...and online groceries serve as an important customer acquisition tool for e-commerce



“And in terms of landscape, I think we need to think about this in twofold. First is ... Maicai is standalone and I do believe that a significant portion we offer to the consumers in the future will complete their grocery shopping totally online. **And just like this trend for buying daily grocery online, I think is very similar to what we saw five to seven years ago with apparel category.** And I think no one today would have imagined then - no one could have imagined then that to give a number of consumers who are using online shopping to choose, to try out, purchase and return clothes. That is exactly what I'm seeing today. So, in terms of grocery shopping, I'm seeing a similar thing happen.

“Basically, as Maicai has a high purchase frequency, so our user will have higher engagement with our platform so they can pick other - the full spectrum of category of products from our e-commerce platform.”

Source: \$PDD 3Q'20 earnings

E-Commerce

MercadoLibre is executing well against LATAM's e-commerce opportunity...



"MercadoLibre's consolidated gross merchandise volume growth accelerated to 117% year-on-year on an FX-neutral basis. At the regional level, Brazil and Argentina accelerated to 74% and 242% year-on-year on an FX-neutral basis, respectively. Mexico's performance is notable given how COVID-19 impacted the region, delivering yet another quarter of GMV growth above 100% year-on-year, also on an FX-neutral basis. The growth of our Mexican business has been remarkable over the past few quarters.

In fact, if we were to adjust our GMV growth for the blue-chip exchange rate in Argentina rather than the official exchange rate, our Mexican business is already at a size comparable to that of Argentina. This is a clear indicator of not only the phenomenal execution we've delivered, but the large opportunity that still lies ahead of us in Mexico."

Source: \$MELI 3Q'20 earnings

E-Commerce

...and Shopee is executing a similar playbook in Southeast Asia



“Turning to e-commerce, Shopee had another great quarter building on our momentum and the leadership we **continue to capture more share of our region's rapidly expanding E-commerce segment**. We also continue to deliver more value to our sellers and the buyer while deepening monetization and driving efficient growth ... In the third quarter, Shopee **continues to run as the number one in the shopping category across Southeast Asia and Taiwan** by downloads average monthly active user and the total time spent in app on Android based on App Annie. **On the global level, Shopee was also the second most downloaded app in the shopping category** according to App Annie. In our largest market Indonesia, Shopee continues to further extend its market leadership.”

Source: \$SE 3Q'20 earnings

E-Commerce

Zillow believes that its early days in the digitization of real estate in the US...



"we're seeing all of this top-of-funnel traffic, I think we're up 40 million new views year-over-year ... 40 million new views of growth year-over-year, I would have guessed might be not possible, if you'd ask me that a year ago. And that is a leading indicator of transactions ... So that's why I'm confident that we see some sustenance, some sustainability in this. Of course, our position, I think the technology one is undeniable and that this is just a better way to shop and transact and it can get better is undeniable as well. So regardless of what happens with these macro trends, I think **Zillow is in a really good position to replatform this industry. We're so lightly penetrated on the transactions right now. We have plenty of upside.**"

Source: \$ZG 3Q'20 earnings

E-Commerce

...while Beike experienced pent-up housing demand as China returned to normalcy



"We note that the COVID-19 pandemic substantially accelerated the adoption of our services, since people tried to minimize face-to-face interactions. In the third quarter, almost 30% of commercial mortgage loans facilitated by us were processed through our online mortgage processing services. By the end of September, the online mortgage processing service on Beike's platform covered 45 cities and more than 1000 bank branches from collaborating banks nationwide."

"China's overall home transaction market grew by 22.6% year-over-year. Much of this growth was actually attributable to the release of pent-up demand as well as low base in the second half of 2019.

...On the supply side, developers enhanced their sales efforts including partnerships with brokerage services in order to accelerate sell-through and cash cycle. We grew our GTV of new home transaction services by 105.7% to RMB420.7 billion in the third quarter of 2020."

Source: \$BEKE 3Q'20 earnings

E-Commerce

Carvana's unit economics continue to improve by buying vehicles directly from consumers



“In addition, the third quarter also saw incredible operational achievements. The first and most notable of these was that **we bought more cars from our customers than we sold them for the first time in our history**. This was an amazing accomplishment that was only made possible by the quality of experiences we deliver to our customers, the quality of brand we've created, the infrastructure we're building, and the Herculean effort put forth by our team. In the third quarter, we bought almost twice as many cars from our customers as we bought at our previous peak in Q1 of this year and over three times as many cars as we bought from our customers in the second quarter.”

Source: \$CVNA 3Q'20 earnings

E-Commerce

Strong organic traffic trends highlighted AirBnB's brand...



"Most of our guests discover Airbnb organically, with **approximately 91% of all traffic to Airbnb coming through direct or unpaid channels** during the nine months ended September 30, 2020."

"Because of strong demand from guests around the world, for active listings in 2019 that were new to our platform, 50% received a booking within 4 days of becoming available, and 75% received a booking within 16 days of becoming available."

Source: \$ABNB S-1

E-Commerce

...while its volumes have recovered significantly from March '20 lows



Monthly Nights and Experiences Booked Trends

	2019			2020								
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept
(in millions, except percentages)												
Gross nights and experiences booked	30.5	28.3	28.4	38.3	32.8	19.0	8.7	16.4	26.0	28.3	26.0	23.9
% YoY Change	31%	30%	35%	25%	17%	(42)%	(72)%	(50)%	(21)%	(19)%	(21)%	(23)%
(-) Cancellations and alterations	3.9	3.6	3.9	5.0	4.9	23.1	9.4	7.2	6.5	6.6	5.4	4.4
<i>Cancellations and alterations as a % of gross nights and experiences booked</i>	13%	13%	14%	13%	15%	122%	108%	44%	25%	23%	21%	18%
Nights and Experiences Booked*	26.6	24.7	24.5	33.3	27.9	(4.1)	(0.7)	9.2	19.5	21.7	20.6	19.5
% YoY Change	31%	30%	35%	22%	12%	(114)%	(103)%	(68)%	(31)%	(28)%	(28)%	(28)%

* We define Nights and Experiences Booked as net of cancellations and alterations.

Source: \$ABNB S-1

E-Commerce

Forward-looking brands like Nike have quickly become omni-channel businesses...



“Third, I continue to be excited by the opportunity I see for NIKE in digital. We know that digital is the new normal. The consumer today is digitally grounded and simply will not revert back. **Our NIKE digital business is already meeting our mix goal of 30%, nearly three years ahead of schedule and we will continue to grow from here.** This quarter, our owned digital channel grew 83% on a currency-neutral basis driving almost \$900 million of incremental revenue versus the prior year and an acceleration versus the prior quarter, even as our doors at retail reopened.”

Source: \$NKE fiscal 1Q'21 earnings

E-Commerce

...and beloved retailers now have the tools to build massive e-commerce scale



"E-commerce; overall, our e-commerce sales as you've seen each month have increased nicely, for the fourth quarter, on a reported basis, up 90.6% and ex-FX 91.3% increase during the fourth quarter. A few of the stronger departments, there are several, health and beauty aids, food and sundries, appliances, TVs, computers and tablets, housewares and small electrics.

Total online grocery grew at a very strong rate in Q4, several hundred percent. This e-commerce comp, if you will - not numbers, the e-commerce numbers I just mentioned above follow our usual convention, which we exclude the third-party same-day grocery program. If we included that third-party same-day, our e-commerce comps result would have been approximately 120% up during the quarter. **Overall, our e-comm sites were relatively smoothly during the quarter, despite the dramatic volume increases, and we were able to improve our delivery times throughout the quarter as we adjusted to the ramped-up order volumes."**

Source: \$COST fiscal 4Q'20 earnings

E-Commerce

Home improvement continues to be a bright spot for overall consumer spend



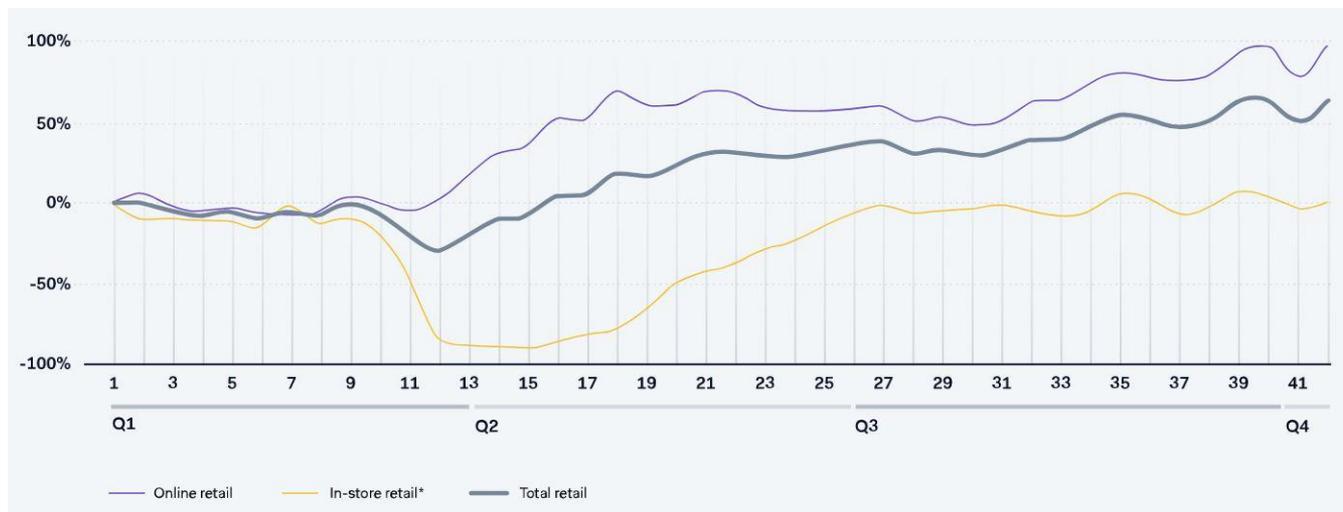
“And the normal cast of characters, it's probably concentrated in retailers and big box retailers that are being disintermediated by e-commerce. **But there are some retailers that are doing extremely well, obviously. The home improvement sector as Mike mentioned and the grocers and the like, they are doing pretty well.** And a lot of the ones that are doing sort of well but not super well are actually taking this opportunity to redo their networks and committing to new space because they now realize that e-commerce is not a theoretical threat to them. But they'd better get going on this because what they expected to see happen over 5 or 10 years has happened in the last six months.”

Source: \$PLD 3Q'20 earnings

E-Commerce

Online retail continued to grow unabated even as in-store volumes returned to pre-COVID levels

adyen



"In the retail vertical, **in-store volumes rebounded to pre-COVID-19 levels in Q3** and were stable over the period even though many merchants were still not operating at full capacity. We saw the uptick in online volume that followed initial brick-and-mortar store closures persist, with ecommerce growing unabated despite recovering in-store volume."

Source: [Adyen Q3 2020 and COVID-19 Trading Update](#)

On-Demand

Uber's Rides business is recovering from its 2Q'20 lows...



Uber

“Despite the volatile environment, we steadily recovered gross bookings throughout the last two quarters, with September run rate gross bookings reaching nearly \$65 billion, **down just 6% compared to last year**. And despite the 50% decline in Mobility gross bookings, we ended Q3 with total company adjusted EBITDA only 7% lower than last year, and we expect to improve adjusted EBITDA year on year in Q4.”

Source: \$UBER 3Q'20 earnings

On-Demand

...and the outcome of Prop-22 is a tailwind to all on-demand platforms



"I also want to highlight the outcome of Prop 22. Last week we made history in California as voters stood with drivers to pass prop 22, a landmark achievement for our industry that will make ridesharing even better for drivers and riders. **We believe the outcome in California is a win win win. It's good for the drivers who will maintain the flexibility and independence. It's good for the riders who will continue to have access to rides, and it's good for California's economic recovery because hundreds of thousands of its residents will continue to have access to flexible earnings opportunities on platforms like ours.** Beyond California, we're continuing to engage with policymakers across the country, and believe that the policy solution that California voters chose can provide a model for other states."

Source: \$LYFT 3Q'20 earnings

On-Demand

Food delivery trends are likely to sustain into 2021...



“Now, switching over to our Delivery business, which is benefiting from a massive structural shift in consumer behavior. As I've noted before, consumers are quickly becoming accustomed to the magic of having anything delivered to their door in half an hour, much like the magic of having a car show up in a few minutes. It's my belief that **the tailwinds behind this category are so strong that we can continue to deliver exceptional growth while also improving profitability.**”

Source: \$UBER 3Q'20 earnings

On-Demand

...which bodes well for DoorDash, whose ambition is to power all local commerce

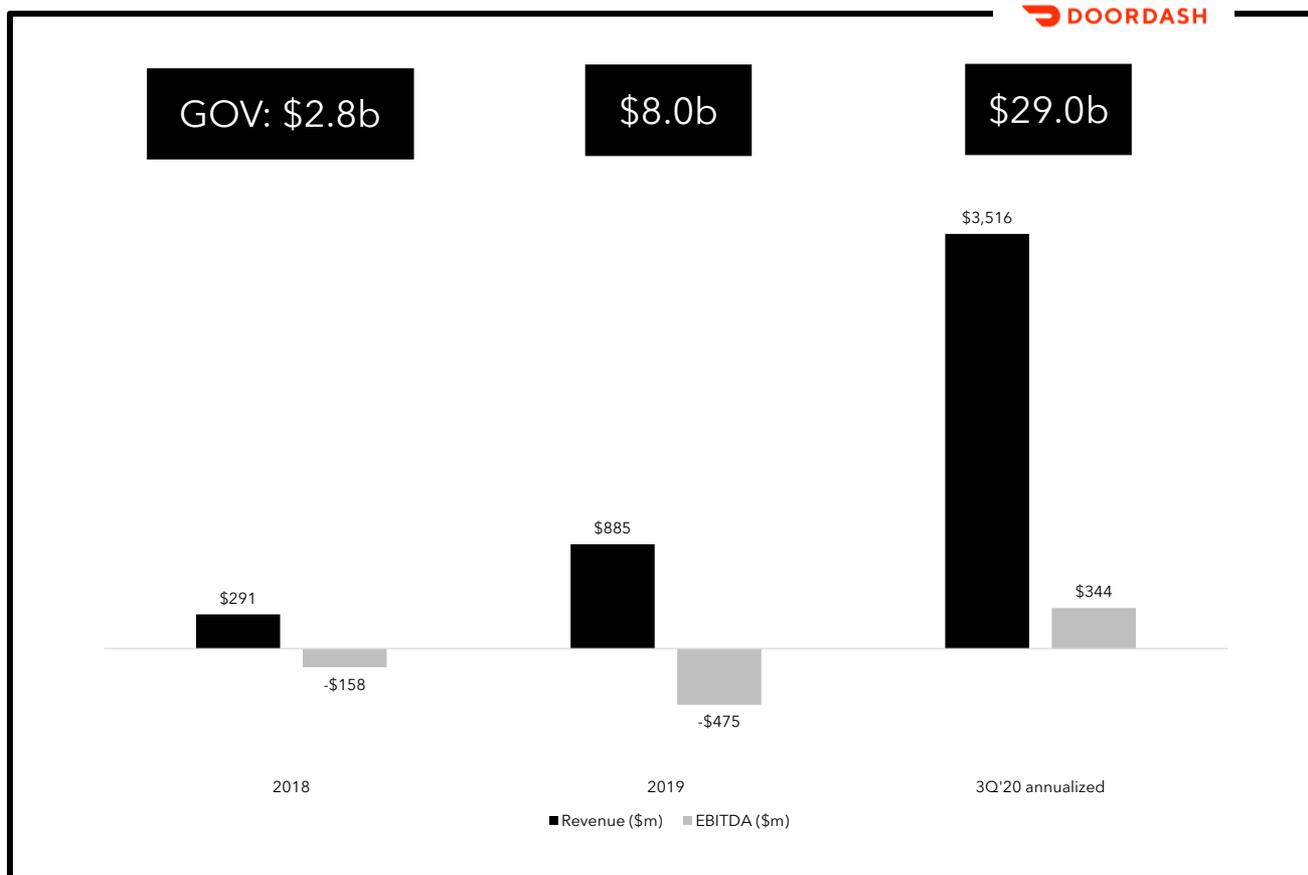


“If we can make possible the delivery of ice cream before it melts, or pizza before it gets cold, or groceries in an hour, we can make the on-demand delivery of anything within a city a reality. We started with restaurants because of the potential to build the most efficient logistics network with the highest node density, based on the large number of restaurants and the high frequency of use for delivery. **We believe that by starting with food, we have created the most sophisticated and reliable logistics platform for local businesses. And, while food itself is a category that has a long runway for growth, we believe the network we have built ideally positions us to fulfill our vision of empowering all local businesses to compete in the convenience economy.**”

Source: \$DASH S-1

On-Demand

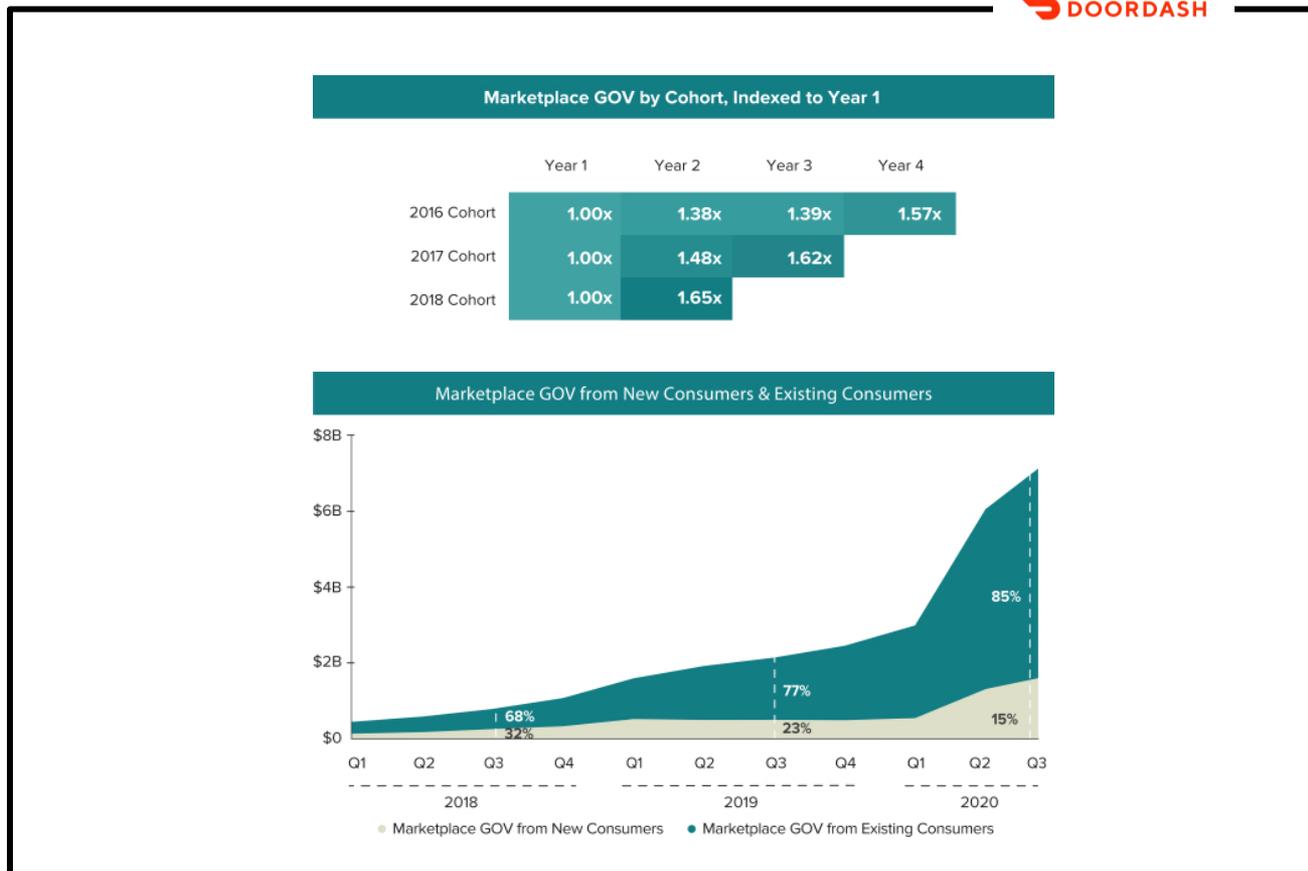
Logistics-first delivery companies that own the demand engine can be profitable...



Source: \$DASH S-1

On-Demand

...especially when paired with great consumer cohort performance



Source: \$DASH S-1

Digital Advertising

Digital ad spend is returning to pre-COVID levels...



"So overall, we're pleased at the degree to which **advertisers really have reactivated their budgets in the third quarter**. They are reacting in part to I think evidence that consumers are showing strong demand across nearly all verticals."



"Advertising demand improved overall and we saw **both brand advertisers and large retailers that had paused spend in Q2 returned to our platform.**"

Source: \$GOOGL 3Q'20 earnings, \$PINS 3Q'20 earnings

Digital Advertising

...as some ad platforms benefit from dual tailwinds of increased pricing and inventory



“For the first time as a public company we observed a **rise in overall eCPM** in Q3 driven by a combination of mix shift towards higher eCPM products such as Commercials, as well as a rapid rise in overall demand. Average eCPM’s increased 20 percent year-over-year, however, we believe our eCPM’s remain **well below market rates** for our audiences and ad units. The ongoing growth of our community, as well as deepening engagement within our app, continues to add **more inventory** opportunity to our ecosystem over time ... Consequently, we believe that we will be able to deliver **attractive returns on ad spend** to our advertising partners as eCPM grows over the long term.”



“On the ad load point, we saw a mix of contribution from **impressions** and **price** globally in the quarter, so it was much more balanced in terms of the impact of price and volume on revenue performance”

Source: \$SNAP 3Q'20 earnings, \$PINS 3Q'20 earnings

Digital Advertising

TV content is pivoting rapidly to online platforms...



“Additionally, large media companies **continue to find success bringing their top linear TV shows to Snapchat** to reach our differentiated audience. Over 50 million Snapchatters watch content derived from TV on Snapchat each month on average, and this familiar programming has helped drive an 80 percent year-over-year increase in the average number of people watching Shows every day that are over the age of 35. Additionally, **as various sports leagues are resuming their seasons, our community has turned to Snap to watch the action.** Last month, more than 40 percent of the US Gen Z population watched premium sports content on Snap. The NBA highlights channel saw over 20 percent more engagement so far this season than last year, and SportsCenter viewership on Snapchat increased by 80 percent from July to September.”

Source: \$SNAP 3Q'20 earnings

Digital Advertising

...and Roku intends to capture a material portion of that shift

Roku

“I would say from my point of view, the most interesting thing is that even though we have a nice robust ad business, **the vast majority of advertising spend is still in linear television, it's not - it's still not in streaming.** And one of the interesting things in the quarter was the fact that **advertisers are increasingly seeing streaming as something they need to start allocating a bigger portion of their budgets towards.** So, it's still - there's still a lot of opportunity because, of course, all those ads are going to switch to steaming eventually”

Source: \$ROKU 3Q'20 earnings

Digital Advertising

Apple's stance on consumer privacy may lead to poor user experiences in 2021...

 theTradeDesk

"I do believe this is Apple trying to mess with Facebook's business and Google's business. They're much more committed I think to payments than they are to the advertising ecosystem.

But, one thing that I just think has not been talked about enough is that, when you limit the ability to use IDFA by all apps not just for advertising but for personalization like in Netflix or Dropbox or so many others, what that is going to lead to is a massively deprecated consumer experience where consumers are then going to be asked the question, if you would like to upgrade your experience you have to go to settings and change the following."

Source: \$TTD 3Q'20 earnings

Digital Advertising

...leading to Facebook's cautious 2021 outlook



“Looking ahead to 2021, we continue to face a significant amount of uncertainty. We believe the pandemic has contributed to an acceleration in the shift of commerce from offline to online, and we experienced increasing demand for advertising as a result of this acceleration. Considering that **online commerce** is our largest ad vertical, a change in this trend could serve as a headwind to our 2021 ad revenue growth. In addition, we expect more significant **targeting and measurement headwinds** in 2021. This includes headwinds from platform changes, notably on iOS14, as well as those from the **evolving regulatory landscape.**”

Source: \$FB 3Q'20 earnings

Gaming

Unity's first-party data access could shield them from Apple's actions



"We view ourselves as a monetization platform less so an ad platform. **We believe we've got a fundamental advantage on the data side and that advantage on the data side means it, at least, we feel will be materially less impacted by issues IDFA.** And we analogize somewhat to what happened with GDPR, where the anticipation was the entire market would into a bit of a flux and then there'd be a little bit of a reordering in market shares and that's exactly what did happen and in that Unity was a net beneficiary. We're not guiding you to believe that we think we're sure it's going to be a net beneficiary situation. But no, we haven't seen anything material and don't anticipate something material for us."

Source: \$U 3Q'20 earnings

Gaming

Gaming is evolving to become both a participant and spectator sport...

logitech

“The organization leaders I speak to envision people increasingly working from multiple locations, a hybrid work culture that is emerging as the norm. And at home, **the rise of gaming as a spectator and participant sport continues with no end in sight**. Our products are essential to helping customers work, play and create wherever they are. Logitech is well positioned for long-term growth.”

Source: \$LOGI fiscal 2Q'21 press release

Gaming

...as well as a core consumer social behavior



"We're expecting a really strong second half for Gaming. **I think this may very well be one of the best gaming seasons ever** and the reason for that is because PC gaming has become such a large format. The combination of amazing games like Fortnite and Minecraft, because of the way people game now, they're gaming and they're esportsing. Even F1 is an esportsing now. **They're hanging out with friends. They're using it to create other content. They're using game captures to create art. They're sharing it with the community. It's a broadcast medium."**

Source: \$NVDA fiscal 2Q'21 earnings

Gaming

Gaming tailwinds could 10x Unity's existing business...



"So you're correct in saying that our take rate in gaming overall is not high. It's about 0.4%. When I talk to people in the industry, they have a mental picture and it must be at least 2%, 3%, 5%, 10%. I don't think they are wrong ... I have every ambition to do exactly what I said in the roadshow. As I said, **I believe we can increase our business in gaming as much as 10X** and that's what we're after. So for clarity, I 100% agree with the sentiment and I want to get there one brick at a time over the course of the next handful of years.

Source: \$U 3Q'20 earnings

Gaming

...as downloads of games built on Unity are showing unprecedented scale



"In the first nine months of 2020, we've seen an average of more than 5 billion downloads per month of applications built on Unity. And as of the end of Q3, we had approximately 2.5 billion monthly active end users who consume content created or operated with our solutions. 94 of the top 100 game development companies by global revenue are Unity customers. And as of the end of Q3, 10 of the top 10 auto manufacturers are using Unity. Unity is the world's leading platform for creating and operating interactive real-time 3D content. Creators and developers use Unity to build, to run and monetize interactive real-time 2D and 3D content for more than 20 different platforms including mobile phones, tablets, PCs, consoles and augmented and virtual reality devices."

Source: \$U 3Q'20 earnings

Gaming

Chinese consumers continue to spend strongly on gaming

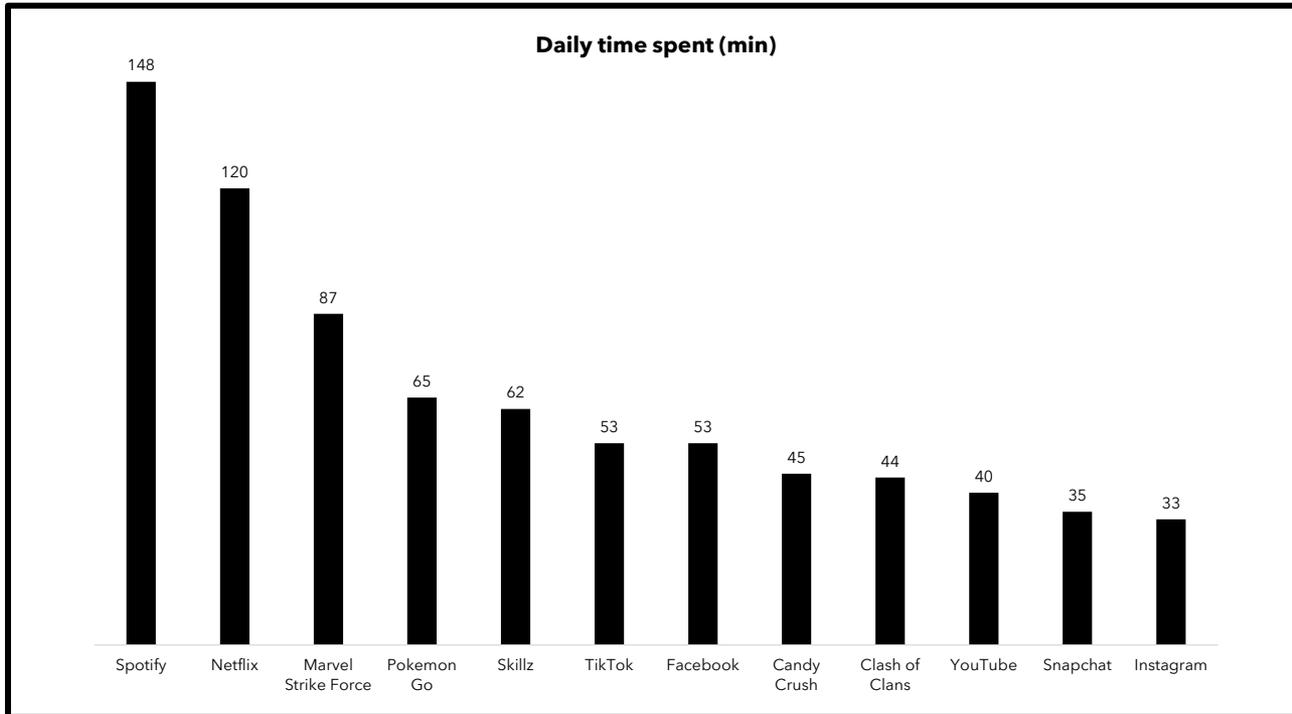
Tencent 腾讯

“Online games revenue increased 45% year-on-year and 8% quarter-on-quarter to RMB 41 billion, driven by growth in paying users and ARPU. Total smartphone games revenue grew 61% year-on-year to RMB 39 billion, benefiting from robust growth of existing titles, as well as recognition of deferred revenue from the stay-at-home period. Sequentially, revenue grew 9%, but cash receipts slightly decreased as users returned to their offices and in-game activities normalized ... For smartphone games, we leveraged our industry expertise, user insight, and execution to deliver engaging experiences to large-scale audiences, enhancing the vitality and longevity of our existing titles, including blockbusters, as well as the lesser known games.”

Source: \$TCEHY 3Q'20 earnings

Content

Unsurprisingly, gaming, music and video dominate consumer time spend



Source: AppAnnie, BroadbandSearch, MarketWatch, CNBC, Business of Apps

Content

Netflix continues to deepen its competitive library without skipping a beat

NETFLIX

“Our content successes highlight our ability to tap into our global audience of nearly 200m members and underscore the notion that content is discovered on Netflix. This applies not only to Netflix originals, but also to second run programming, like Schitt’s Creek and earlier seasons of Lucifer, both of which are very popular with our members. The latest example is Cobra Kai (based on The Karate Kid films), which originally debuted on YouTube’s subscription service in May 2018 and recently launched on Netflix on August 28. In its first four weeks of release on Netflix, 50m member households chose to watch season one, dramatically expanding its audience.”

Source: \$NFLX 3Q’20 earnings

Content

Peloton consumers seem to want to buy higher ASP products



"I will tell you an interesting dynamic that kind of surprised us, as a lot of our existing Bike Members that upgraded to Bike+. Now, we were expecting to get those Bikes back and just kind of prime the pump for our Certified Pre-Owned opportunity. **We found that a disproportionate number of those folks that are existing Members decided to keep their existing Bike, their original Bike and buy a Bike+ and whether they used it -- the original Bike in their second home or gave it to their college age daughter or son or kept it in the family"**

"Product wait times have also been impacted by port congestion, periodic warehouse closures associated with COVID-19, West Coast forest fires, and hurricanes forcing us to reschedule many deliveries. These external factors unfortunately extended already long delivery times. **Launching the Bike+ was an exciting milestone in our history. However, it also drove high call volumes and very long wait times to reach our sales support teams which impacted our customer experience."**

Source: \$PTON fiscal 1Q'21 earnings

Content

Spotify continued to establish itself as the leading audio company globally



“So Q3 was a very strong quarter, surpassing our own expectations on several measures ... The size of our total catalogue increased significantly and our advertising business returned to growth. **And we also beat expectations in our newest markets where we are seeing growth continue to accelerate. And I think this affirms our belief that there is a significant pent-up demand for Spotify around the world, even in places where our service is yet to launch.** These results illustrate the power of our business despite COVID and other related challenges across the globe. And as a result of our performance this quarter, we have updated our Q4 guidance ranges to reflect increased optimism on where we expect to end the year.”

Source: \$SPOT 3Q'20 earnings

Content

Legacy brands on match.com are benefitting from Tinder's success



"At the time of our IPO, the majority of our existing businesses were seeing pressures from the shift to mobile and we were pursuing two emerging opportunities in Tinder® and Pairs®. **While Tinder's success is well documented, our longest-standing brands are now showing solid direct revenue growth in aggregate** and our non-Tinder portfolio grew direct revenue 23% year-over-year in Q3. This evolution is the result of successfully managing a portfolio to address the varied demographics and intents of singles globally."

Source: \$MTCH 3Q'20 shareholders' letter

Payments

Mastercard's research indicates that the consumer shift to cashless is permanent...



"According to our research, **almost 7 in 10 people globally say the shift will likely be permanent.** We believe that as economies reopen, people will shop in stores again **and e-commerce will remain elevated from pre-pandemic levels, as behaviors have changed and payment preferences have shifted. Our research also shows that about 60% of consumers plan to use less cash, even after the pandemic subsides.** As a result, merchants are becoming more digital and consumers and businesses are adapting how they interact at the point of sale, both in person and online. Regardless of how these trends play out, our solutions are available to support consumers, issuers, and merchants as their preferences and needs evolve, either in store or online. And we are partnering with digital enablers to bring our digital solutions to market at speed and at scale."

Source: \$MA 3Q'20 earnings

Payments

...and the first stop in the cashless journey is debit



"I'll start with some high-level observations on the trajectory of the recovery so far. First, **the debit business has been the major beneficiary of the accelerated shift to e-commerce and the shift away from cash**, even for in-person transactions. In the US, debit is growing at twice the rate it was pre-COVID, and international debit growth has stepped up from 11% to 13% pre-COVID to 17% in the fourth quarter. Debit stayed resilient through the shutdowns, growing 8% in the US in Q3 and declining only 3% in international markets. Debit growth was strong and stable through the fourth quarter.

Second, **credit was hit hard by the pandemic**, declining 20% globally in Q3. However, credit has been recovering fast, exiting September down only 5% in our major markets, with steady improvement through the quarter."

Source: \$V fiscal 4Q'20 earnings

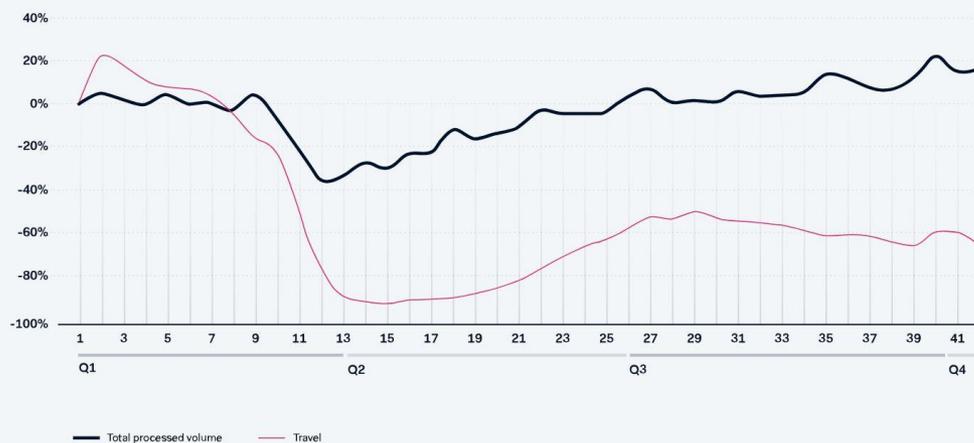
Payments

Travel continues to be a dampener, though digital payments volumes continue to be strong

adyen

Figure 1

Weekly processed volume and weekly travel volume indexed to the first week of January.



“The travel vertical (i.e. airlines, online travel agencies and accommodation) saw a **minor rebound** during the northern hemisphere summer, primarily due to the easing of lockdown restrictions across Europe. Volumes stabilized following this initial spike and **remained significantly above early Q2 levels**”

Source: [Adyen Q3 2020 and COVID-19 Trading Update](#)

Payments

Square completed its transformation to a platform via the Cash App...



"Our results in the third quarter highlight our ability to reach new customers as we drove strong acquisition across both Seller and Cash App. While the macroeconomic environment remains uncertain, we continue to believe that **our Seller and Cash App ecosystems are well-positioned to benefit from the acceleration of secular shifts, such as omnichannel commerce, contactless payments, and digital wallets for consumers.**"

Source: \$SQ 3Q'20 shareholders' letter

Payments

...which is fast becoming the center of the consumer's financial journey



"Cash App's results highlight our ecosystem's ability to help customers manage their finances.

Looking at the three main drivers; first, we continued to see strong acquisition of new customers to our platform each month with our highest number of new customers added in a quarter. Second, we continued to efficiently cross-sell our broader ecosystem, **increasing adoption of higher value products such as Cash Card, bitcoin and direct deposit. We saw that customers who adopted two or more products generated three to four times more gross profit** compared to those who only used peer-to-peer payments. And this adoption allowed customers to find growing daily utilities in Cash App. In the third quarter, daily transacting actives nearly doubled year-over-year and represented nearly a quarter of Cash App's monthly transacting actives. Third, we saw volume per active peak in July as we benefited from increased inflows into Cash App."

Source: \$SQ 3Q'20 earnings

Payments

PayPal is innovating along the same lines as the Cash App...



“Over the next year, **both the Venmo and PayPal apps will undergo a fundamental transformation intended to dramatically increase their functionality and drive engagement.** Our goal is to provide our customers with a comprehensive set of services and tools to manage their financial lives as well as enhance their ability to shop both online and offline. This expanded suite of services will include **enhanced direct deposit and check cashing, budget and savings tools, bill pay, investment alternatives including crypto, subscription management, buy now pay later optionality, and all of Honey's shopping tools, from wish lists, price monitoring, deals, coupons, and rewards.**”

Source: \$PYPL 3Q'20 earnings

Payments

...including adding cryptocurrency trading, that is quickly going mainstream



“Clearly the world is rapidly moving from physical to digital, and that's so true for payments and financial services. My conversations with central banks, with the regulators, with a number of folks in the crypto field, **there's no question that digital currencies are going to be rising in importance,** having increasing functionality and increasing prominence.”

Source: \$PYPL 3Q'20 earnings

Payments

Emerging market e-commerce companies partnering with Visa to build fintech businesses



“Shopee, the leading e-commerce platform with a large user base in Southeast Asia and Taiwan, is launching a Visa co-branded card across five Southeast Asian markets. And our traditional wins in the fourth quarter cap a successful year of renewals that went into effect with key partners, including Bank of America, Capital One, Barclays, Santander, Caixa, and Al Rajhi.”

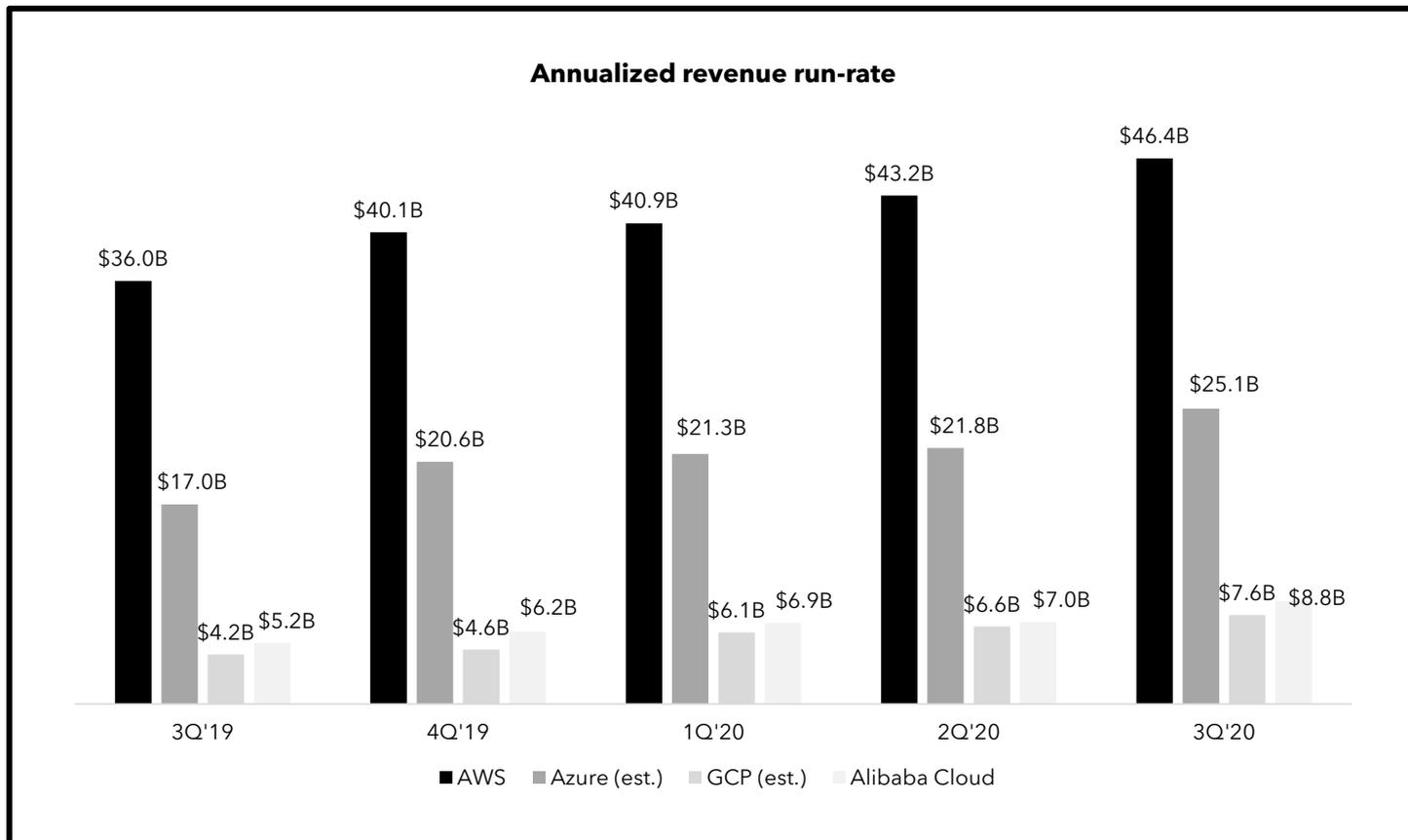


“Our existing wallet relationships have continued to grow this year. **Rappi, Latin America's SuperApp with over 30 million users, is now expanding into financial services with its new division, Rappi Bank,** and it has chosen Visa as their exclusive network and payments provider. Rappi will leverage their deep knowledge in their existing nine markets to create new payment solutions that drive digital inclusion and cash digitization, not just for their users but also their couriers, restaurant partners, and small businesses.”

Source: \$V fiscal 4Q'20 earnings

Software

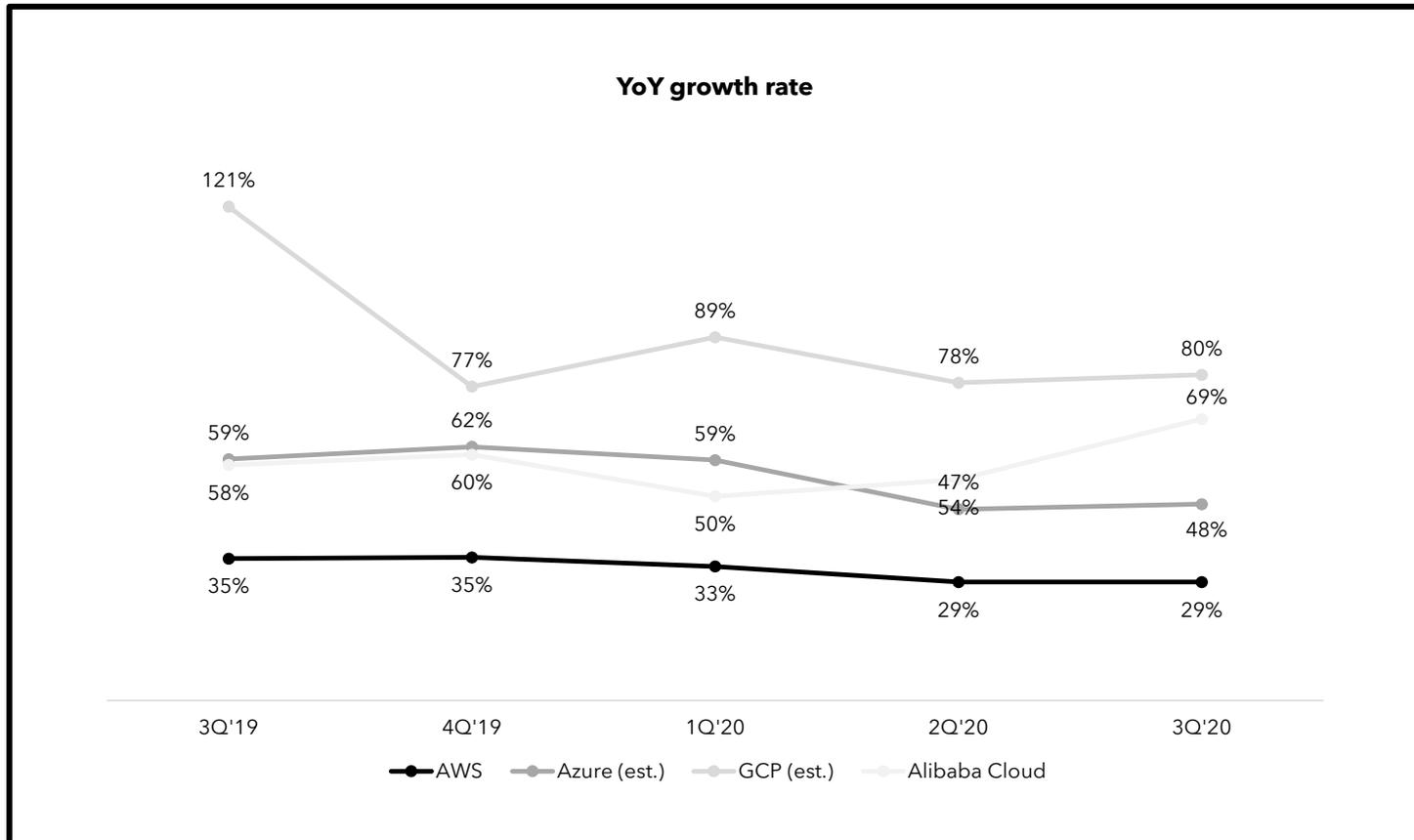
Cloud revenues continue to grow at a healthy clip



Source: Company filings, Octahedron estimates

Software

Alibaba Cloud is accelerating, albeit off a smaller base



Source: Company filings, Octahedron estimates

Software

Azure added more incremental revenue than AWS did for the first time

Revenue								
	4Q'18	1Q'19	2Q'19	3Q'19	4Q'19	1Q'20	2Q'20	3Q'20
AWS	\$7,430	\$7,696	\$8,381	\$8,995	\$10,031	\$10,219	\$10,808	\$11,601
<i>Incremental</i>	\$751	\$266	\$685	\$614	\$1,036	\$189	\$589	\$793
Azure (est.)	\$3,181	\$3,344	\$3,705	\$4,246	\$5,152	\$5,318	\$5,446	\$6,283
<i>Incremental</i>	\$511	\$163	\$361	\$541	\$906	\$166	\$128	\$837
GCP (est.)	\$655	\$808	\$930	\$1,054	\$1,158	\$1,526	\$1,652	\$1,893
<i>Incremental</i>	\$178	\$153	\$122	\$124	\$104	\$368	\$126	\$240

Source: Company filings, Octahedron estimates

Software

Cloud infrastructure spending may surpass traditional IT spending in 2020...



"The adoption of cloud services and the rise of new virtual economy, digital, remote and intelligent is driving ongoing cloud data center investments. According to IDC, **2020 maybe the first year in which cloud infrastructure hardware spending surpasses traditional IT infrastructure hardware spending.**"

Source: \$STX fiscal 1Q'21 earnings

Software

...as technology spend could potentially double as a % of GDP



"The way I think about the computing landscape going forward is **if you sort of said at the highest of levels today as a percentage of GDP, tech spend is 5%, we think it will double in the next 10 years.** And if anything, this pandemic perhaps has accelerated that doubling. **And in that context, what's the large - the most secular need, it's the need for distributed cloud infrastructure.** It's both needed for modernizing existing applications you have. And so that's, by the way, what, 20% penetrated, so there's more 80% that needs to move. But more importantly, there are going to be new application starts which need infrastructure."

Source: \$MSFT fiscal 1Q'21 earnings

Software

Digital transformation of the enterprise has been pulled forward by six years



"we're seeing digital acceleration. We're seeing that people are, especially in this environment, realizing that there's a greater push than ever to be able to engage consumers and customers on digital channels in new ways and new modalities. And so our research shows that this **digital transformation has been accelerated by up to six years ... So, at every level, I think that this is not just a temporal thing but part of a new way that companies need to engage.** And so I think it's that macro shift we're seeing in the market, this macro acceleration that gives us confidence that we are where the market is and is going, that this is a huge need, a tremendous need in the marketplace, that this is a need that every company in the world has, from small business all the way up through the enterprise."

Source: \$TWLO 3Q'20 earnings

Software

Best-of-breed software companies – like Shopify – are expanding outside of their core by building new adjacencies



“Turning to our ambition initiatives, first addressing Shopify Fulfillment Network. We made solid progress in Q3, as we continue to develop the foundation of our fulfillment network software infrastructure, activated more partner nodes in the US, added 6 River Systems technology and more partner nodes, expanded our set of transportation partners and enhanced the merchant-facing app and merchant support functions. We continue to enroll merchants and fulfill volumes at a rate where we can maintain high-quality standards ... **Building a vertically integrated fulfillment service is complex and we continue to be in the testing stages of a very young product. We are committed to building a reliable fulfillment solution so our merchants can focus on building a successful business.**”

Source: \$SHOP 3Q'20 earnings

Software

Twilio has similar ambitions, executed via acquisitions...



“We also recently announced our intent to acquire Segment, the leading customer data platform. Segment enables developers and companies to unify customer data from every customer touch point and every system of record, empowering, marketing, sales, and service leaders with the insights they need to design and build relevant, data-driven customer engagement. **That combination of Segment and Twilio means that we will be able to help any business make their customer engagement across every channel more personalized, timely, and impactful. This is an important step towards our vision of building the world's leading customer engagement platform.**”

Source: \$TWLO 3Q'20 earnings

Software

...a strategy that Palo Alto Networks plans to pursue



"I know that you get concerned about M&A strategy, perhaps because inorganic impact to our P&L is hard to forecast in your models. But if you look at the \$2.7 billion of acquisitions we have done since 2019, they contribute approximately 15% of our forecasted FY 2021 billings. **Very large enterprise companies have been built by successful M&A strategies. Good M&A strategies need to ensure that the products are easy to integrate, they are products customers want and that we at Palo Alto Networks can significantly change their trajectory. We believe that our ability to acquire, integrate and leverage our go-to-market for acquisitions is a strategic competitive advantage,** and we expect to continue to be opportunistic to increase our long-term growth strategy."

Source: \$PANW fiscal 1Q'21 earnings

Software

But not all software companies are winners...



“Let me now turn to the remaining part of our previous 2020 outlook that was issued on April 8 and reflected our best estimates concerning the timing and pace of recovery from the COVID-19 crisis. Back then, we had assumed that the demand environment would gradually improve in the third and fourth quarters. And **while we still see robust customer interest in our solutions to drive digital transformation**, regrettably, lockdowns have recently been reintroduced in some regions. Infection rates have reaccelerated, and as a result, **demand recovery has been more muted**. Further, and for the same reasons, we **no longer anticipate a meaningful recovery** in SAP Concur business travel related revenues for the remainder of the year.”

Source: \$SAP 3Q'20 earnings

Software

...though SAP's problems may be company-specific



"SAP, you can see they're having very significant troubles with the CEO transition they're going through. They, as you know, moved from one CEO to two, they fired one of those two CEOs. The CEO transition is just not going well and their customers are saying that. Now you can see that their revenues are also reflecting this trouble. They have not executed the cloud opportunity well. **SAP's troubles, I think, are unique to them.**"

Source: [Bloomberg - 10/26/20 - "Salesforce's Benioff Says SAP's Troubles Are 'Unique to Them'"](#)

Software

Nonetheless, end customers are looking to cut expenses in the short-term...



"Cloud is a mixed bag right now because, I mean, we're very happy with the cloud performance, and we're seeing a lot of customers who are now moving to the cloud at a faster pace. They've accelerated their plans. There's anomalies in different industries going on this year, things like travel and hospitality are down, a lot of companies are in a holding pattern in the middle, and some are doing really well, things like videoconferencing and gaming and remote learning and things tied to entertainment.

So I would say the majority of the companies though are looking for ways to cut down on expenses. Going to the cloud is a good way to cut down on expenses long term to try and cut down on their short-term costs in the cloud by tuning their workloads, and we're helping them do that, and doing the best we can to help them save short-term dollars and, again, tune their usage against some of our benchmarks."

Source: \$AMZN 3Q'20 earnings

Software

...and some customers are asking for changes in payments terms

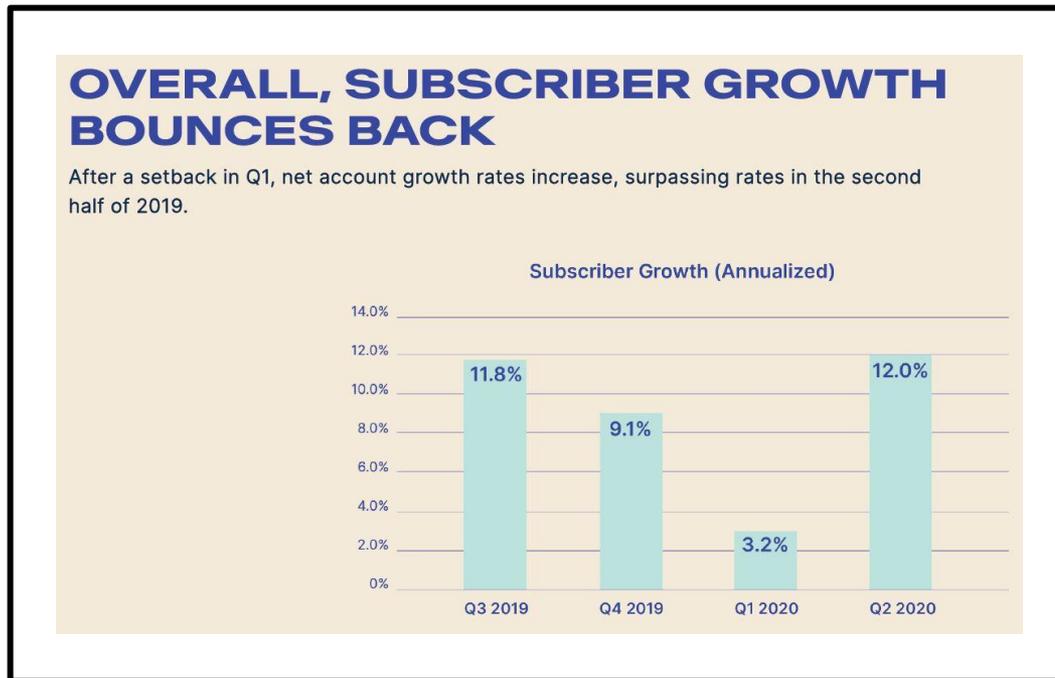


“Now turning to billings which were \$155.9 million, up 39% year-over-year against an exceptionally difficult compare. We have said that we would provide a pro forma to more clearly align billings growth with the economics and growth of the business. And in Q3, there were a number of timing and duration differences that affected the growth of billings in the quarter. First, on last year's Q3 call, we had disclosed that there was an invoice timing difference which increased billings by \$6 million. Pro forma excluding that bill, billings would have been \$106.4 million. Next in the quarter, **we had an \$11 million impact to billings and deferred revenue from our few long-term large customers which moved from annual billing to semiannual or shorter durations upon their renewals. Notably, all of these customers continue to commit on an annual basis. They're simply breaking up their bills as we talked about on the last call into smaller increments.**”

Source: \$DDOG 3Q'20 earnings

Software

Software subscription growth is back to pre-COVID levels...



Source: [Zuora Subscription Economy Index - September 2020](#)

Software

... but discounting seems to be elevated



“Business-to-Enterprise SaaS has begun reacting to customers experiencing pandemic woes, offering steep **discounts**, at an average of nearly 70% to a select number of customers. While in the short term these discounts affect revenue-per-account rates, they could lead to customer retention in the long term.”

Source: [Zuora Subscription Economy Index - September 2020](#)

Questions?

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