A Few Things We Learned in…

2020 Q1

OCTAHEDRON CAPITAL

E-Commerce

Covid-19 caused a step-function change in the shift offline-to-online;
Shopify played a key role in enabling small retailers

shopify

"While GMV through the point of sale (POS) channel declined by 71% between March 13 and April 24 2020 *(w/w)*…

Retail merchants managed to replace 94% of lost POS GMV with online sales over the same period."

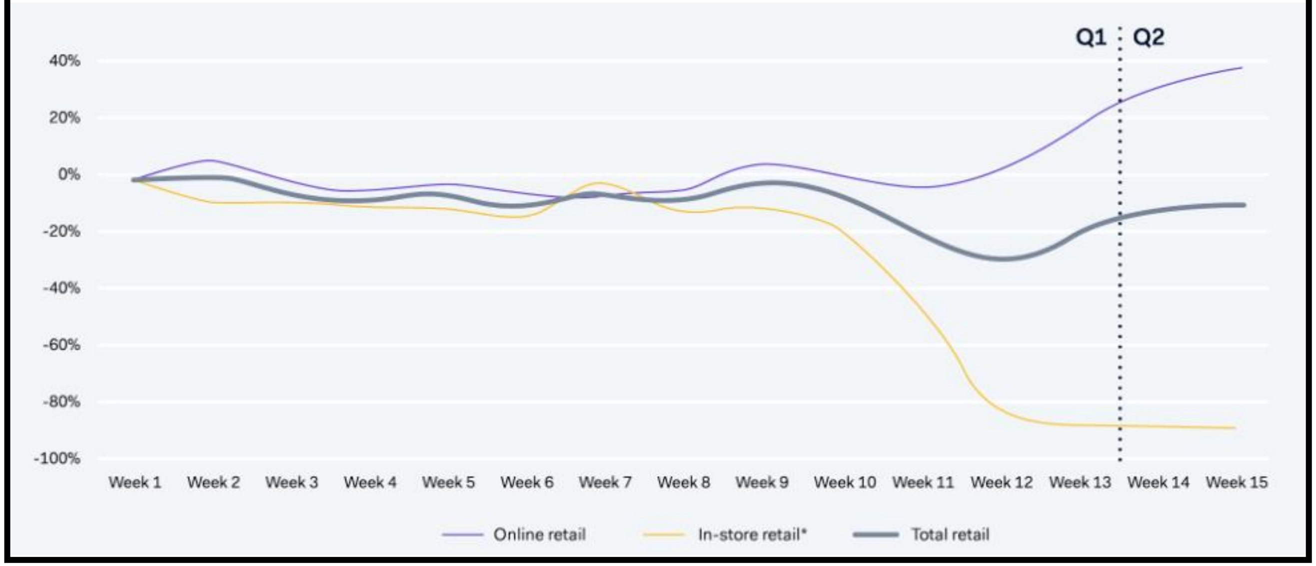
Source: $SHOP 1Q'20 press release, https://twitter.com/jmwind/status/1250816681024331777

E-Commerce

Transactional data from Adyen depicts how lost offline volumes quickly switched online

adyen

"**Online retail volume largely compensates for the decline in in-store volume** …
This underscores the robustness of unified commerce strategies – these merchants are able to seamlessly move volume from in-store to online sales channels."



Source: [$ADYEN Q1 2020 and COVID-19 Trading update]

E-Commerce

Stripe believes we have "pulled forward" the future by years

stripe

"While the full economic impact of COVID-19 remains uncertain,

several years of offline-to-online migration are being compressed into several weeks.

The current disruption underscores the need for reliable, easy-to-use infrastructure for internet businesses. In this context, Stripe's mission—to grow the GDP of the internet—means providing an on-ramp to the digital economy for businesses around the world. The rate of new businesses going live on Stripe has accelerated since the start of the year."

Source: [Stripe 4/16/20 press release]

E-Commerce

Niche players such as Etsy benefited disproportionately from Covid-19, as giants such as Amazon focused on supplying essentials. Is this structural?

Etsy

"After a volatile March, Etsy experienced a dramatic shift in demand during the month of April as global buyers turned to Etsy for cloth face masks given updated guidelines to slow the spread of COVID-19…

We also experienced broad-based demand across the marketplace leading to over 100% growth for the Etsy marketplace in April."

Source: [$ETSY 1Q'20 press release]

E-Commerce

Consumers went out to seek online transactional apps that they had not tried before – companies such as HomeAdvisor saw an influx of new customers

HomeAdvisor
Angie's list

"… in terms of the mix of customers coming to our site, we've seen since the beginning of sometime in February, we've seen a **pretty significant shift in terms of mix toward new customers that we've never seen come to our marketplace before**. And we've got a 20-year history. So we have served over that 20 years a great deal of households. But we are seeing more people that are completely new to us as a percentage of our customers than we ever had or that we ever had of late."

Source: $ANGI 1Q'20 earnings call

E-Commerce

Customers spent excess time (& money) improving their homes while sheltering-in-place

HomeAdvisor
Angie's list

"People are staying at home and have fewer alternatives in terms of their time and money … How long that secular trend lasts, I don't think any of us know… But for the moment, **the home is top of mind and people are spending a lot of time there. There's more wear and tear. There's more desire to improve.**"

wayfair

"as many physical retail stores closed temporarily, customers move(d) increasingly towards shopping online … the **roll-out of stimulus monies in mid-April served as an added accelerant of new and repeat customers coming to Wayfair**. As a result, we have seen gross sales momentum build across almost all classes of goods, across mobile and desktop platforms and across all regions in the US, Canada, the UK and Germany."

Source: $ANGI 1Q'20 earnings call, $W 1Q'20 earnings call

E-Commerce

Luxury may have permanently moved online, as cross-border travel seems impaired in the mid-term and offline competitors face bankruptcy

FARFETCH

"Over the course of the past decades and economic downturns, the luxury fashion industry has proven to be extremely resilient, and we expect that to remain true. But one thing that has become evident over the past weeks is that **the world will not go back to the same "normal" as we knew it pre-COVID-19.**"

"**Neiman Marcus is the first luxury retail to enter bankruptcy protection; J.C. Penney has also declared bankruptcy, while Nordstrom is insulating itself by closing 16 of its stores and its three Jeffrey boutiques** … The high temples of New York fashion are thinning out: Barneys is gone, as is Jeffrey, as is Opening Ceremony. Can fashion lovers afford to lose Bergdorf Goodman?"

Source: $FTCH 1Q'20 earnings call,
Vogue – 5/28/20 – "As Neiman Marcus Navigates Bankruptcy, What Happens to Bergdorf Goodman?"

E-Commerce

Online sales of high AOV categories such as vehicles were resilient as volumes shifted online. What will happen as offline dealers re-open?

CARVANA

"We began to see significant reductions in demand in the back half of March, with

a sales trough in early April at approximately 30% reduction in sales year-over-year.

From there, we've consistently improved week after week

with sales in the most recent weeks being up about 20% to 30% year-over-year.

It is difficult to get clear visibility into exactly how the industry performed over the last several weeks, but every indication says Carvana has outperformed the industry quite significantly and grown our market share accordingly over this period … We don't yet know how precipitous these customer preference changes will be, but we are optimistic. Viewed through a medium-term lens, we believe customer behavior shifts are likely to accelerate our progress."

Source: $CVNA 1Q'20 earnings call

E-Commerce

Companies like PinDuoDuo that constructed entirely new supply chains in previous years distinguished themselves at the peak of the crisis

"Over the course of 2019, we brought over 900 companies into the pilot phase of this initiative to develop, manufacture and price tailor-made goods specifically to our users' requirements.

2,200 custom SKUs were created, spanning 20 categories,

such as household electric appliances, digital and bedlinen for over 150 million orders placed cumulatively."

Source: $PDD 1Q'20 earnings call

E-Commerce

Amazon appears to be entering yet another investment phase as it scales investments to keep up with demand

amazon

"If you're a shareowner in Amazon, you may want to take a seat, because we're not thinking small.

Under normal circumstances, in this coming Q2, we'd expect to make some $4 billion or more in operating profit. But these aren't normal circumstances. Instead, we expect to spend the entirety of that $4 billion, and perhaps a bit more, on COVID-related expenses getting products to customers and keeping employees safe."

Source: [$AMZN 1Q'20 press release]

E-Commerce

On-demand companies such as Instacart are hiring 100s of 1000's people – they may play a key role in reducing record high unemployment

instacart

"These last few months have been the busiest in Instacart's history… One month ago, **we shared our plans to bring on 300,000 additional full-service shoppers** to help us meet increased customer demand we've seen. We quickly met that goal and are **now planning to bring on an additional 250,000 full-service shoppers** in an effort to get back to same-day delivery across our platform."

Source: [Instacart 4/23/20 blog post]

E-Commerce

Brick-and-mortar retailers who built e-commerce muscle are rapidly emerging as net winners despite headwinds to offline retail

TARGET

(Overall) "first quarter store sales grew about 1%, while digital comp sales increased by 141%. Of course, these quarterly numbers mask how quickly trends changed within the quarter. Specifically, we began the quarter with **a relatively normal February, in which we saw overall comp growth of 3.8% and digital comp growth of 33%**, and ended in April, which saw total company comp growth of more than 16% and **a jaw-dropping 282% increase in digital comp sales**.

"**to put this volume into perspective, on an average day in April, our operations were fulfilling many more items and orders than last year's Cyber Monday, a day for which we had planned months ahead of time**."

Source: $TGT 1Q'20 earnings call

E-Commerce

China seems to be back to normal

Alibaba Group

"By March 9, China announced full recovery of logistics operation nationwide except for Hubei province where Wuhan is and **normal life began to return for most of people in the country** when Wuhan 10-week lockdown was lifted on April 8. Since March, we have seen a healthy recovery in our China retail marketplaces."

Source: $BABA fiscal 4Q'20 earnings call

E-Commerce

Facebook aspires to become the leader in social commerce

"**Facebook Shops make it easy for businesses to set up a single online store for customers to access on both Facebook and Instagram.** Creating a Facebook Shop is free and simple. Businesses can choose the products they want to feature from their catalog and then customize the look and feel of their shop with a cover image and accent colors that showcase their brand. This means any seller, no matter their size or budget, can bring their business online and connect with customers wherever and whenever it's convenient for them."

Source: $FB 5/19/20 press release

Online food delivery

Uber has adapted amidst a slowdown in ride-hailing volume to grow its food delivery business during Covid-19

Uber

"at a time when our Rides business is down significantly due to shelter-in-place, **our Eats business is surging**. We've seen an enormous acceleration in demand since mid-March, with **89% year-over-year gross bookings growth in April** excluding India. And just last week, **Eats crossed the $25 billion gross bookings annual run rate**."

Source: $UBER 1Q'20 earnings call

Online food delivery

DoorDash is seizing an opportunity to extend the services it provides for restaurants

DOORDASH

"As part of our promise to help restaurants get back on their feet, **we want to empower any restaurant to build and operate their own end-to-end digital ordering solution.** So today, we are introducing DoorDash Storefront, which enables restaurants to create their own online stores at the click of a button. Through these online stores, customers can order takeout or delivery directly from the restaurant, with deliveries fulfilled by DoorDash Dashers. Because this is the restaurant's channel, they control the customer experience and do not pay a commission to DoorDash on orders they receive through their Storefront."

Source: [DoorDash 5/28/20 blog post]

Payments

Credit card data serves as a barometer for underlying economic trends – home improvement continues to be a winner

VISA

The table below shows the increase / (decrease) in certain key metrics against the comparable 2019 periods for April, May, and quarter-to-date (April 1 - May 31, 2020):

Year-over-Year Increase / (Decrease)	April	May	Quarter-to-Date
U.S. Payments Volume	(18%)	(5%)	(11%)
Credit	(30%)	(21%)	(25%)
Debit	(5%)	12%	4%
Processed Transactions	(24%)	(12%)	(18%)
Cross-Border Volume Excluding Intra-Europe Transactions*	(51%)	(45%)	(48%)
Cross-Border Volume Including Intra-Europe Transactions*	(43%)	(35%)	(39%)

*In constant dollars

The table below shows the May year-over-year performance in certain U.S. payments volume categories:

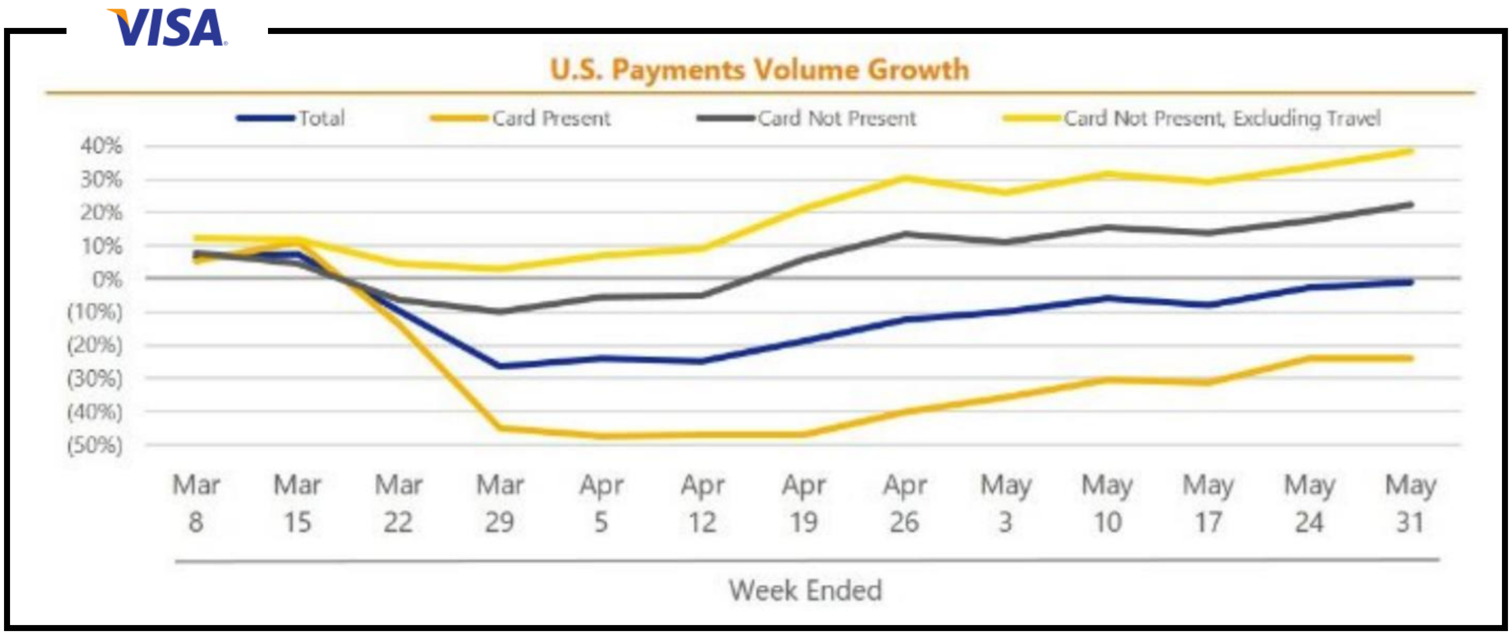
Growing 20%+	Growing 0-20%	Declining 0-20%	Declining 20-40%	Declining 40%+
Food & Drugstores Home Improvement Retail Services	Automotive Retail Goods Telecom & Utilities	Business Supplies Department Stores Education & Gov't Healthcare	Restaurant & QSR	Entertainment Fuel Travel*

*Travel declined more than 70% in May year-over-year

Source: $V 6/1/20 8-K

Payments

Card-Not-Present volumes continue to robust into May



Source: [$V 6/1/20 8-K]

Payments

Online payments companies such as PayPal are experiencing domestic holiday-level volumes

PayPal

"In the past month, there has been unprecedented demand for our products and services. Our transactions are up 20% year over year, with branded transactions up over 43%, more than double pre-COVID levels in January and February. **On May 1, we had our largest single day of transactions in our history, larger than last year's transactions on Black Friday or Cyber Monday.** Our net new actives hit record highs in April, surging over 140% from January and February levels, averaging approximately 250,000 net new active accounts per day."

Source: $PYPL 1Q'20 earnings call

Internet traffic

Even with surging Internet traffic, gaming is an outlier …

CLOUDFLARE

"**The growth in Internet traffic has been unprecedented.** Across our platform, we saw as much growth in traffic in 12 weeks as we have seen in the previous 12 months … Thus far, we've been able to continue to receive the equipment we needed without meaningful delay in order to expand our network during this time of unprecedented demand, and the demand has been unprecedented. We've seen Internet traffic use nearly double through March and April versus the beginning of the year."

Type of usage:	Week over week change	Change vs. pre-COVID-19 typical day
Gaming	4%	115%
VPN	-5%	49%
Video	0%	36%
Downloads	-1%	39%
Web	-2%	27%
Social	-8%	-12%
Voice minutes of use	-5%	25%

Source: $NET 1Q'20 earnings call, 4/9 Update: Verizon Network Report

Internet traffic

… along with news content and video streaming

fastly

"**Many industries are seeing a boost, but none more than news and digital publishing.** News and publishing sites averaged a 70.16% increase in RPS [Requests Per Second] globally between February and March, as the world went online to gather information about how the pandemic was affecting both the world and our hometowns alike.

"**Video streaming services saw a 29.6% increase between February and March.** With theaters closing their doors due to shelter-in-place and stay-at-home orders, many streaming services brought movies that were meant to open on the big screen straight to our living rooms.

"**Another major source of entertainment, the gaming industry saw a 28.54% increase in RPS between February and March.** This includes both game downloads and gameplay, including the ability to speak with fellow gamers via VOIP."

Source: [$FSLY 4/8/20 blog post]

Gaming

High gaming engagement could remain structurally high post-pandemic

"There is no doubt that our recent results have benefited from people sheltering at home as players have sought interactive entertainment to stay connected and engaged with friends and family. **The connections and communities built will remain in place once people resume their normal activities and should continue to benefit our industry's results**."

Source: $TTWO fiscal Q4/20 earnings call

Digital Advertising

Social media use accelerated while the consumer stayed at home

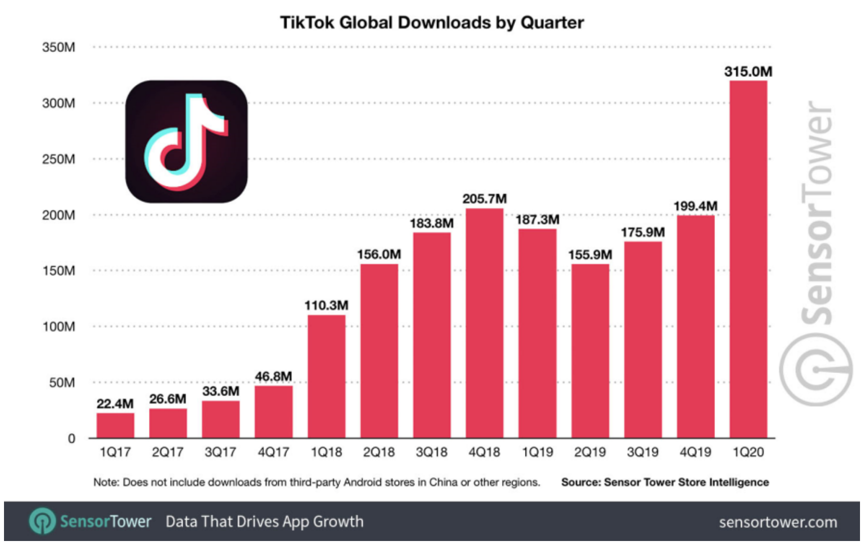
"**We're seeing sustained communication volumes on our service that eclipse the peaks we see during major holidays.** For example, communication with friends increased by over 30% in the last week of March, compared to the last week of January, with more than a 50% increase in some of our larger markets."

Source: $SNAP 1Q'20 earnings call

Digital Advertising

TikTok made waves in 1Q'20, amassing record downloads

"Social video app TikTok from ByteDance has been downloaded more than 2 billion times globally on the App Store and Google Play … The latest milestone comes just five months after TikTok surpassed 1.5 billion downloads. **In Q1 2020, it generated the most downloads for any app ever in a quarter**, accumulating more than 315 million installs across the App Store and Google Play."



Source: SensorTower – 4/29/20 – "TikTok Crosses 2 Billion Downloads After Best Quarter For Any App Ever"

Digital Advertising

Twitter's high user engagement is not translating to revenues due to its dependence on brand advertising dollars, which are in decline

"And so you saw some of that impact in the March quarter where we talked about that March 11 to March 31 timeframe and ads revenue being down 27%, we know that part of that was that **we're so strong in brand and when we see challenges across the economy in brand advertising, we're going to feel those disproportionately given the mix of advertising products that we have today**."

Source: $TWTR from 5/13/20 JPM conference

Digital Advertising

Ad spending severely cut at T&E, O&E and automotive industries

OmnicomGroup

"**Our agencies that have a larger share of clients in sectors that have been most vulnerable, for example, travel and entertainment, oil and gas, automotive, and nonessential retail, have clients that have acted quickly to cut costs, including postponing or reducing marketing spend in the second quarter.** On the other hand, certain client sectors and our agencies that serve them, such as pharma, healthcare, tech and telecom, have generally performed better to date. In our healthcare discipline, Omnicom Health Group, which is one of the largest specialized communications group in the world, has also continued to perform very well to date."

Source: $OMC 1Q'20 earnings call

Streaming

Covid-19 has accelerated the transition from linear to connected TV (CTV)

theTradeDesk

"We thought this CTV revolution would play out across the next two years. But the last 8 to 10 weeks have changed all of that. I believe that the media landscape has changed forever, starting in the middle of March. Every channel and every participant is in a different position today versus a few months ago, because of one dramatic shift. Linear TV's shelf life has shortened as viewers have moved en masse to CTV. **The biggest loser in all this is traditional, linear television and CTV is without a doubt the biggest winner.**"

Source: $TTD 1Q'20 earnings call

Streaming

Netflix experienced a pull-forward in subscriptions which will likely remain intact post-pandemic

NETFLIX

"At Netflix, we're acutely aware that **we are fortunate to have a service that is even more meaningful to people confined at home**, and which we can operate remotely with minimal disruption in the short to medium term. Like other home entertainment services, **we're seeing temporarily higher viewing and increased membership growth.**"

Source: [$NFLX 1Q'20 shareholders' letter]

Streaming

YouTube engagement has similarly increased globally

"Maybe stepping back, I would say we are overall seeing strong momentum on YouTube. People are turning to YouTube. Our watch time has increased across the board. People are also looking for our authoritative news content. Viewership on YouTube has increased significantly compared to last year too. **So, in many ways, through the pandemic, people are using YouTube, and the trends are global across North America, EMEA, and Asia-Pacific as well.**"

Source: $GOOGL 1Q'20 earnings call

Streaming

Spotify is seeing trends like Netflix for its audio streaming business

"When I look ahead, both short and long term, I'm always thinking about what's Spotify's role within the larger ecosystem. And while most focus is on competition between streaming services, we continue to be focused on the billions of users that are listening to linear radio. **The 20-year trend is that everything linear dies, and on-demand wins.** This is a trend that we suspect will be accelerated by the COVID pandemic."

Source: $SPOT 1Q'20 earnings call

Work-from-home

Twitter will allow employees to work from home indefinitely created a domino effect …

"We were uniquely positioned to respond quickly and allow folks to work from home given our emphasis on decentralization and supporting a distributed workforce capable of working from anywhere. The past few months have proven we can make that work. **So if our employees are in a role and situation that enables them to work from home and they want to continue to do so forever, we will make that happen.** If not, our offices will be their warm and welcoming selves, with some additional precautions, when we feel it's safe to return."

Source: [$TWTR 5/12/20 blog post]

Work-from-home

… joined unsurprisingly by Square

Square

"We want employees to be able to work where they feel most creative and productive. **Moving forward, Squares will be able to work from home permanently, even once offices begin to reopen**. Over the past several weeks, we've learned a lot about what it takes for people to effectively perform roles outside of an office, and we will continue to learn as we go."

Source: The Verge – 5/18/20 – "Square announces permanent work-from-home policy"

Work-from-home

Facebook declared ambitions to create a leading remote workforce culture

"**We're going to be the most forward-leaning company on remote work at our scale.** We need to do this in a way that's thoughtful and responsible, so we're going to do this in a measured way. But **I think that it's possible that over the next five to 10 years – maybe closer to 10 than five, but somewhere in that range – I think we could get to about half of the company working remotely permanently.**"

– Facebook Co-Founder and CEO Mark Zuckerberg

Source: The Verge – 5/21/20 – "Facebook Says It Will Permanently Shift Tens of Thousands of Jobs to Remote Work"

Work-from-home

However, a hybrid work-from-home approach may be sub-optimal

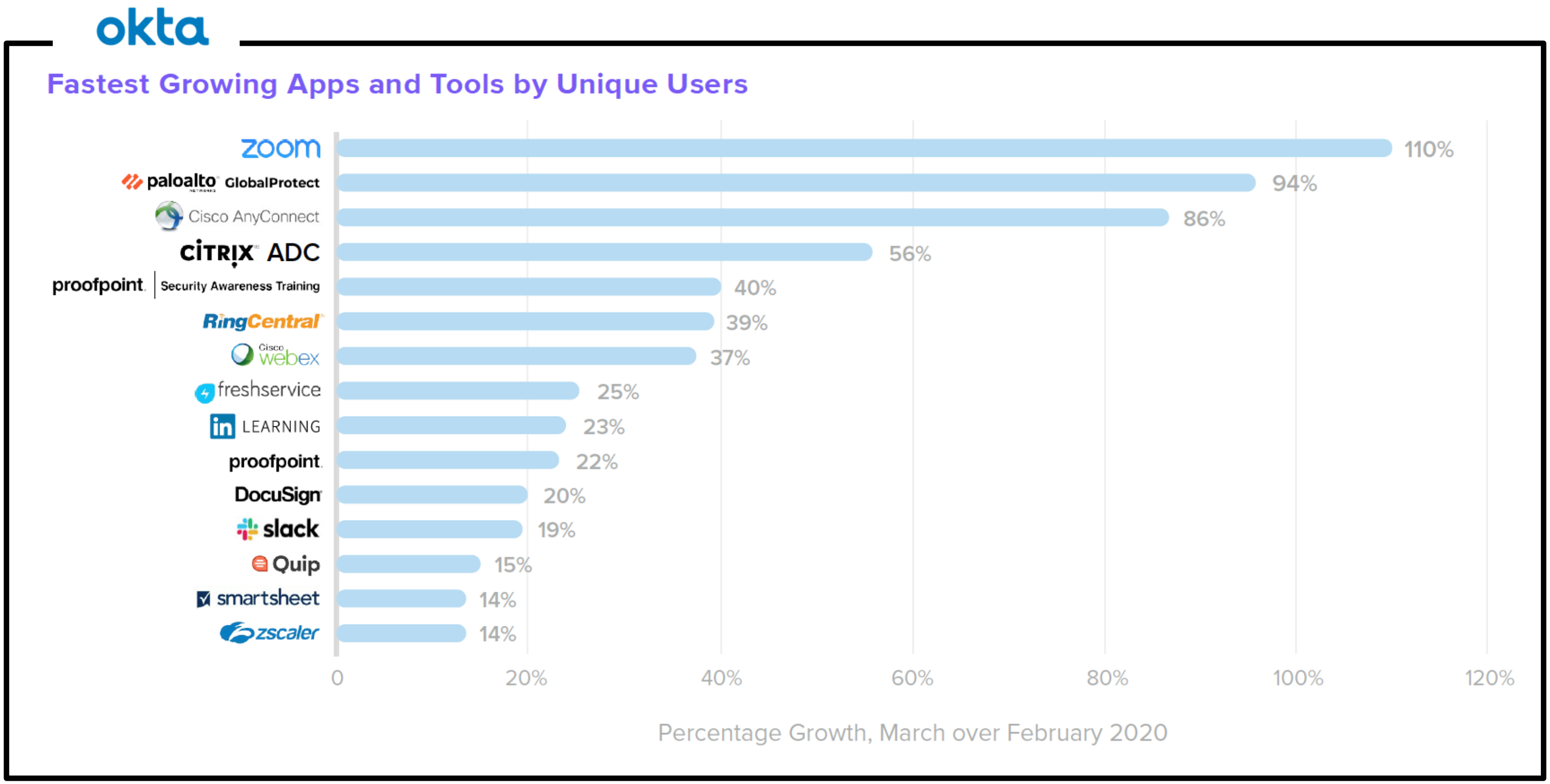
GitLab

"I predict that **remote will go through a trough of sorrow due to hybrid not working out**, and most companies will return to being office based … With hybrid it is hard to give everyone the same work experience … I think that whenever there is a headquarter there will always be two ways of communicating. To get everyone on the same level you need the leadership to leave the shared office so that the only headquarter is the one online … My prediction is that at most hybrid companies the leadership will keep working from the headquarters and the default way of working will degrade from 'remote first' to 'remote allowed' **(remote employees a second-class citizens)**. **Employees will discover that the company didn't make the shift from rewarding attendance to rewarding output, and that remote workers are not getting promoted at an equal rate because they are less visible.**"

Source: https://twitter.com/sytses/status/1250946875143815168 (Gitlab co-founder Sid Sijbradij)

Software

Video conferencing and security emerging as clear winners from the WFH trend



Source: [Okta 2020 Businesses @ Work (from Home)]

Software

Despite the secular trend of enterprise digitization, the medium-term outlook for software seems cloudy …

Sector	CIO comment
Consumer Non-Durables	Reduced IT capex by 20%, further cuts expected, hoping for rebound in '21 if COVID impact fades completely
Consumer Non-Services	Taking "material" cuts to IT spending, anticipating a slow recovery, expecting '21 to be a period of consolidation and 2H21/'22 before new initiatives are considered
Consumer Services	Expects spending to be curtailed for two years and is in the process of renegotiating contract terms with the firm's entire technology supply chain
Commercial Services	Cutting opex by 20% and capex by 80%, no prospect of budget recovery until '21
Electronic Tech	Likely to cut IT budget by >25%, concerned this will continue for a prolonged period
Energy Minerals	Sees 5%-10% cut to budget in '20 and a further 10% cut in '21
Industrial Services	Already cut IT budget; could cut again in '21
Non-energy minerals	Cutting IT budget by 30% and capex down 50%, no real visibility on recovery but '21 earliest for any kind of uptick
Producer Manufacturing	Working towards a 10% cut to overall IT budget this year, next year likely flat and not expecting a recovery for 2 to 3 years
Retail Trade	Already cut budget by 30%, now likely to have an additional 10-20% cut on investment
Transportation	Working towards a 20% cut on overall IT budget. Even if business recovers in the next few months, spending unlikely to recover until '21, and major capex could get pushed out to '22
Utilities	Just heading into the cutting phase, too early to think about recovery but 2H20 uplift in spend looks very unlikely

Source: Arete Research

Software

Top-down sales-driven software models see tailwinds – Anaplan missed plan

Anaplan

"We entered this quarter with a pipeline where late-stage deals were more heavily weighted on new logos versus expands, which is similar to what we saw in the first quarter of last year. **As customers began to pause projects due to COVID-19, new logo deals were most impacted as customers deferred decisions on these new projects.** In this uncertain environment, **especially with large digital transformation deals, it can be challenging to get all the stakeholders to make decisions quickly, which means that a deal can take longer to get these through the cycle.** While virtually every vertical was impacted due to COVID-19, we saw a greater impact in hospitality and travel where businesses essentially came to a standstill. In other cases, companies in healthcare and certain types of retail had to deal with unprecedented demand and capacity constraint. Our sales cycles were reflective of this environment."

Source: $PLAN fiscal 1Q'21 earnings call

Software

Palo Alto Networks executed strongly but voiced caution

paloalto NETWORKS

"In many industries, budgets have been cut, spending has slowed. **It's difficult to imagine a scenario where many of our customers are facing severe financial impact to not have that trickle down in some way, shape or form into IT spending, including security spending, as important as it is.** We did see a few deals in the quarter pushed out, and we monitor them closely. But as you know, the environment is going to evolve on a daily basis."

Source: $PANW fiscal 3Q'20 earnings call

Software

Best-in-breed companies like Workday indicate a tough six months ahead and assume a 4Q'20 recovery, but will there be one?

workday.

"**there are companies that are prolonging *(the software purchase)* decision process** as they focus first on assessing and responding to the immediate impacts on their business.

The good news is that, based on where we stand today, **most of the pipeline impact has been opportunities moving into later periods rather than deals altogether going away, with the largest expected impact to be in Q2 and Q3.**

It's also important to note, we have seen improved prospect engagement since April. **We have also seen healthy pipeline growth for FY 2022 as opportunities shift from first half to both Q4 and into FY 2022** … As a result, while we may see some moderation in retention rates in the near term, likely due to increased bankruptcies and reduction in base worker counts during renewals, we expect that our retention rates will remain high …"

Source: $WDAY fiscal 1Q'21 earnings call

Software

Even WFH software beneficiaries like Okta sounded circumspect about the next 6 months …

okta

"Our revenue guidance is predicated on our strong first quarter results, but also our expectation that **pandemic-related headwinds that we began to see during the first quarter will persist and increase in Q2 and Q3 before we see a return to more normal business activity as we exit Q4.**

In summary, we executed and performed well given the current environment. While we believe there will be some business impact from the pandemic in the near term, the value of our products is more clear than ever as organizations shift to a more decentralized work environment."

Source: $OKTA fiscal 1Q'21 earnings call

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