SPREE CAPITAL
ADVISERS

Weekend Thoughts 8/13/22

- Information Technology
  - AppLovin (APP)
    - "Up until a couple of years ago, our adtech business was very similar to Unity Operate. We were both successful in growing ad networks. But in the last 2 years, we launched our machine learning engine, AXON, which powers our ad network and helped it grow by over 500% since. . . Their ironSource bid made it clear that they now see the potential of a full stack solution"
    - "We have a lot of respect for the Create business. Frankly, it's one of the most complicated and impressive technologies in the technological world today, and it enables creators of all kinds to bring their content online in a 3D real-time manner. And the value of that to us and why we were excited about making this proposal is that we've built this complex and very powerful machine learning technology, AXON, and it does better if it has more data. Create is the underlying technology in over -- in the majority of mobile games. So if you think about that, the contextual data that Unity has access to is very compelling. We also reach a lot of the mobile games in the ecosystem through our technologies on MAX and AppDiscovery, but that combination could be very compelling. And that's why Create is important to us and why we see this path of being able to unlock a lot of synergies by the complementary nature of these 2 complicated technologies, which could unlock a lot. . . It is very, very difficult for anybody to chase them down now. And they are on the precipice of migrating over to being cash flow positive on that business. So our view in the medium and long term, that's a very, very unique software asset that's high growth and ultimately will also be contributing to free cash flow, which we're excited about."
    - "So on Google bidding, obviously, we announced that we're 1 of 3 mediation platforms they're externally bidding into for the first time ever. This is truly exciting for us. When we built MAX, our intent with it was to create an open, transparent and fair platform for real-time auction. But a lot of the ad technologies in the industry weren't there yet. Now we've got a good amount of the market already bidding, but Google is the biggest company, and they were the big one to go tip into bidding to really make this initial goal that we have for the platform a reality, where we 1 day envision the entire market real-time bidding on our exchange and that being the best way to create efficiency for all constituents in the market, the publisher, the advertiser and the consumer. And so Google taking this step, we think, is giant. And they're still in the midst of testing. We're in a beta period with them on the platform, but as it ramps, of course, and we've disclosed our economics on MAX, our 5% of the dollars that flow through our ecosystem from a bidder, we take. So today, we're not generating any dollars or any material dollars, I should say, from Google into our platform. And the day that they can scale bidding, it will become a material revenue stream for our business, which we're excited about"
    - "They (Unity) do have an amazing engine that's basically the operating system for the mobile gaming industry or a large portion of it. That's also applicable outside the gaming industry, which is very interesting. That is a different business model

that I just mentioned from the one that we've been pursuing with cash flow focused. On the other side, their Operate business, combined with ours, it will be a very, very powerful business, and we're excited to go put our capital behind that.”
    - “And of course, over the years, we assessed the Unity business and been very -- really impressed with what they put together.”
- Confluent (CFLT)
    - “What we saw was really continued strong demand and enthusiasm. We didn't see fewer projects in this space that would use the technology. We didn't see projects be kind of shelved, which sometimes, in tighter times, you can see. We did see more scrutiny on deals, so just like a little more scrutiny on TCO, payoff times. . . we did see a handful of deals that just moved slower than we would have expected. And particularly, we saw more, just analysis on how money is being spent.”
- IAC/InterActiveCorp (IAC)
    - “As far as the macro environment, the -- this has been a very clear disparity we've seen so far. And the presumption is that corporations are ahead of the consumer on this, meaning they're expecting the consumer to get worse and, therefore, preparing for that. We don't know if that ends up being the case or not. But being prepared just means that we're being much tighter on expenses and being much more focused on margins so that we have that flexibility if consumers start spending less, and that's entirely possible. It also means thinking about our products in the context of what that means in the consumer spending less.”
    - “looking at M&A is very much something that we'll be active in. And I still think that the public markets, as far as opportunities, are much more attractive than the private markets. It just takes time for the private markets to catch up, and they haven't really yet. So the companies raised enough money, but they don't have to worry about it for a little while. And so I think the opportunities are certainly much more in the public markets today.”
- Micron Technology (MU)
    - “At that time, we pointed to challenging market conditions and weakness particularly in PCs and smartphones. We -- at that time, in this August quarter, we anticipated there would be inventory adjustments in PC and smartphones and then some isolated adjustments in some other areas like enterprise. And that happened, of course. But actually, in the quarter here that we're in, the August quarter, it's broadened and actually weakened more. We're seeing inventory adjustments across most end markets. That includes the cloud. Now the cloud is a bit of a unique case because we still see strong end market demand. So cloud adjustments are likely just customers taking stock of the macro uncertainty, maybe the market conditions, and thus adjusting their inventory levels down. We do see some isolated supply chain disruptions affecting cloud as well, but it's principally macro and market conditions, inventory adjustment. We're also beginning to see some inventory adjustments occurring in automotive and industrial markets. And so that's beginning, and we'd expect that to continue through this quarter and into our first quarter. And then, of course, we see PC and smartphone and enterprise continue to be weak. So it's a challenging setup for this quarter that we're in and our first quarter. In conditions like this, you -- we've chosen to build up our inventories even more as a function of just the pricing in the market is -- I think is not reflecting fair value for the products.”
    - “In fact, as we go into this downturn, what gives us some confidence is that the

company is better positioned than it ever has been going into a downturn. The balance sheet is rock solid, the technology leadership is clear, and that's evidenced by even the latest 232 announcement ramp there and 1-beta later in the year. The product portfolio is as strong as it's ever been, and we're targeting the right markets. Our manufacturing capabilities are outstanding, and we're adapting very quickly to this environment."

    - "We think memory and storage are underpinning a lot of the advances in technology today, be it AI, automotive applications, others. Just increased compute generally"
    - "We see even more weakening in smartphone and PC."
    - "Inventory levels have been coming down versus the levels they were. They're still not down to pre-COVID levels. We wouldn't necessarily expect them to go that low given changes in supply chains and people's sensitivities around inventories. But we have been seeing them come down."
    - "We are seeing pockets where there's probably end market demand issues maybe related to consumer. The -- at a minimum, companies are -- given the macro setup, companies are being more cautious about inventory levels they hold. And so you're probably seeing that begin to move into those spaces."
    - "Back -- if you went back, say, 10 years ago, the cost declines in the industry were 30%, 40% a year. It was very difficult to hold inventories. Now, as Mark said, with leading edge, you will have this inventory competitive for a very long time to come. And the reason we can talk about it is because we can hold inventory."
- Monday.com (MNDY)
    - "we did see some softness in Europe. We think it's broad-based. It's not specific countries, but you see it across many countries and also not specific to any segment. It started in June. We also see it in July, to be honest."
    - "So we're going to slow down the hiring and focus on positions that will now help us to complete the supporting functions to scale the company."
    - "When you think about extension, so the conversations are different. If you think about companies, now the sales cycles are taking longer. Companies are taking some of the -- companies out there are making a decision with regards to the level of spend with regard to the level of expansion. This is on the extension side. On the top of funnel, when you get into new audiences, definitely the spend or the online spend that companies are doing is different. Therefore, there is, I believe, some slowdown in this in the environment as part of the macroeconomy challenges."
    - "We're trying to be a bit cautious, remaining optimistic with regards to next year. But by the end of this year, we think it's going to be the same environment that we see today."
- NXP Semiconductors (NXPI)
    - "the PC, the mobile market, the consumer market is soft."
    - "We've not seen anybody try to back out of their commitments. They've taken product. There have been no commitments. There have been no push-outs."
- ON Semiconductor (ON)
    - "just like a lot of our peers that have much more exposure to the consumer and compute. You're starting to see signs of softness."
- Semrush Holdings (SEMR)
    - "we acquired Backlinko in the first quarter. Backlinko is one of the most visited sites for streaming. And our rationale for acquiring the site was what we could get better monetization of the traffic by improving our conversion rates. We split out in the

second quarter, as we doubled the number of conversions from Backlinko as compared to the year ago."
    - "proud of what we're doing in competitive intelligence space, especially after acquisition of Kompyte. So now we have really good self-service product for kind of SMB and mid-market, and we have this more enterprise-focused product for larger companies, and not just marketing teams but also sales teams and leadership teams."
- SoftBank Group (SFTBY)
    - "So since the foundation of SoftBank Group, I made 2 consecutive quarters loss. So previous quarter and this time quarter, consecutively, we made JPY 3 trillion level of the loss. So in total, JPY 6 trillion loss was made in the past 6 months."
    - "So far, SoftBank Vision Fund have invested in 473 companies, mainly AI-related unicorn. . .under the current circumstances, of the 473 companies that we have, we believe that some of them will play a key role in AI revolutions in the future. That's why we are committed to supporting them."
    - "For new investments, we have to be more selective. 470 companies that we have already invested in. Without new investment, we need to focus on enhancing the value of the current portfolio. So those are the things that we have to focus on at the moment."
    - "But unfortunately, unicorn companies' leaders still believe in their valuations, and they would not accept the fact that they may have to see their valuation lower than they think. So until multiple of unlisted company is lower than multiple of listed companies, we should wait. So listed companies' winter is still continuing, but unlisted companies' winter may be longer than listed companies' winter."
    - "you can't have too many investment teams. So Vision Fund headcount may need to be reduced dramatically, not only Vision Fund but corporate-wise. Since we have been seeing a huge loss, we have to reduce cost in our own company"
- Toshiba (TOSBF)
    - "For the consumer electronics checks, we do see some signs of slowdown. But for automotive applications for industrial applications, the market is still quite brisk."
- The Trade Desk (TTD)
    - "marketers shifted to decision data-driven advertising on the open Internet more rapidly than ever. And as a result, The Trade Desk has become increasingly indispensable as the default DSP for the open Internet and connected TV."
    - "First, there is a secular tailwind that continues to propel us forward, and that's the worldwide shift to advertising-fueled connected television. I don't know that we've ever experienced a secular tailwind like this before. CTV is evolving faster than anyone predicted. . . The second macro factor that is helping us grab share is that walled gardens like Google's ad network are being downgraded in priority. For most of the last 2 decades, when dollars moved over from off-line spending to online spending, they have gone first to Google and other walled gardens. . .CTV has started to change this dynamic in our industry though because no one in CTV is big enough to be as dominant in TV as Google has been with search or with Chrome or DoubleClick, their ad server that is almost irreversibly integrated into the Google ad network machine. As a result, the marketplace for premium CTV is fair, especially in relative terms and extremely competitive. Because of the efficacy of moving picture and sound, coupled with these competitive market dynamics, for the first time ever, some of the biggest brands in the world have a new place to spend their first dollar

on the Internet, which is premium CTV. CTV is fast becoming a must buy, and in some cases, is the highest staff ranked part of the digital media plan for many brands. This trend is changing the makeup of the whole Internet, and it is likely to change the role of walled gardens in our industry, especially the smaller walled gardens. So the bottom line on this second major macro trend, the draconian tactics of walled gardens are now being challenged because of the competitive nature of CTV as advertisers increasingly prioritize premium CTV content. . . The third macro trend that is creating market opportunity for us is the worldwide pressure on Google."

  - "The Netflix partnership with Microsoft is very positive news for the open Internet. The fact that Netflix didn't choose Google is very telling. We believe it's another strong indication that more industry leaders recognize the opportunity of the open Internet compared to the dangers and limitations of walled gardens. By partnering with Microsoft on the supply side of the digital advertising equation, Netflix controls its own destiny. . . Once they've done the work on the supply side, driving as much demand as possible toward those ad impressions will come next. Over time, Netflix is very well positioned to open their ad inventory on the demand side to the open Internet. That would enable the demand-side players to compete in an open, objective and decision market, driving high CPMs and maximizing the value for both the advertiser and the publisher, in this case, Netflix. They will need to figure out how to do what Disney and their properties like Hulu are doing so well right now, which is creating a personalized TV and ad experience that respects consumer privacy."
  - "So television is going to get better and better, which is there are going to be fewer ads. They are going to be more relevant. They're going to be highly effective, and that funds content at a rate that has never been seen before. That can only be done by a spot market and a forward market, not a legacy upfront market and scatter market."
- WIX.com (WIX)
  - "announcing a series of cost-reduction actions. . .These measures will allow us to increase our investments in our highest conviction growth opportunities. And we expect to see free cash flow margin expansion in 2023 and beyond. . .These changes allow us to continue to grow with a greater emphasis on profitability that is needed. We believe that these changes will make us stronger and prepare us for an even better future once the market stabilizes."
  - "In the second quarter, we saw conversion of new users to paid subscriptions continue at a stable rate, ARPS increase, and retention remains strong. Following the end of the quarter, we began to see early signs of improvement in top of the funnel trends and higher return on marketing dollars in July into August."
  - "if you remember, last year, we were the first -- Wix was the first to actually notice the decline, right? And I think our customers are reacting faster than most to changes because they are small and very agile. And so maybe that's what we're seeing now. It's very early to say. . .But we are seeing some positive changes."
- Workiva (WK)
  - "given macro conditions, we have increased our focus on achieving greater operating leverage and have slowed our hiring plans for the balance of 2022. Across the business, we continue to carefully review our spend and efficiency to balance achieving our growth targets, and at the same time, improving our margin profile."

- Consumer Discretionary
    - 1rstdibs.com (DIBS)
        - “During the quarter, GMV growth rates softened month-over-month from April through June, and this trend has carried over into July. Given the slowdown, we're focusing on what we can control and taking actions to better align expenses to demand. For example, we have drastically reduced the number of open roles, limited hiring to critical positions and increased the efficiency targets on our performance marketing spend. However, fundamentals like traffic and supply growth remain healthy, and our strategic initiatives are gaining traction, which we believe in turn sets us up for future success.”
    - Dutch Bros (BROS)
        - “our lower-income, younger customer base is where we're seeing the impact. We've seen if you have a customer base of 40,000 -- household income of $40,000 or lower, we've seen up to 45% declines”
    - Party City (PRTY)
        - “We've not seen a material change in elasticity versus what we had been seeing, and we're satisfied we have a good enough view of elasticity and competitive pricing that we've pushed prices to the proper threshold, especially given we see these cost pressures as largely transitory.”
    - Wynn Resorts (WYNN)
        - “while we are keenly aware of the macro environment and the uncertainty facing the economy, we've been encouraged that the strength we have experienced over the past several quarters has continued into Q3.”
        - “While we haven't seen any noticeable signs of weakness in our current operations or in our outlook, we are watching this closely. Our experience during the pandemic has made us nimbler than ever, and we are confident that we can adapt quickly to changes in the economic landscape, should they arise.”
- Consumer Staples
    - Ahold (ADRNY)
        - “When we look at the U.S., what we do find is that the consumer remains healthier. They're still continue to be pretty well supported.”
    - National Vision Holdings (EYE)
        - “Our lower-income, predominantly uninsured consumers are feeling the greatest pressure. Demand softness is noticeably more pronounced for these customers who are paying out of pocket for our products and services. Last quarter, we noticed that we're seeing the beginnings of a trade-down of higher-income consumers into our stores, what we've referred to in the past as "nicer cars in the parking lot." We especially are seeing stronger trade-down behavior in markets where our stores are exposed to higher concentrations of higher-income consumers. We continue to be in the early stages of this trade-down and would expect it to build over time.”
    - Tyson Foods (TSN)
        - “And given the macroeconomic environment, we are taking action to cut costs, reduce spend and reassess every role across the business to ensure that the work we do is value added for our customers and consumers.”
        - “Sales in the quarter remained strong supported by higher volume but offset by lower average sales price driven by softer consumer demand for premium cuts of beef.”
        - “In-home dining continues to increase in this environment, which we would

suspected. . .overall, we are starting to see some elasticity, but I would tell you they're below what historical elasticity you would expect. . . elasticities are better than historical lows. They still are impacting the business. And given the macroeconomic environment, we're ensuring that we provide a breadth of value offerings across our portfolio"

    - TreeHouse Foods (THS)
        - "Input cost inflation continued in the second quarter, particularly in inputs like eggs, wheat and oats. In response, we have communicated and are implementing additional pricing that will be reflected late in the third quarter."
        - "The combination of high shelf prices and high-priced gas translates into a dollar savings for a basket of private label goods that has never been greater. This is translating into a shift in consumer purchasing behavior toward private label"
        - "History would tell you that during periods of economic downturn, private label gains trial, new consumers and, as a result, share increases. Historically, these periods have been step changes for private label. Today, private label is positioned significantly better than in past periods of economic downturn. First, the quality and assortment of private label has improved dramatically. The number of options now include a spectrum from natural and organic to national brand equivalent to value offerings. And second, the retail landscape has also changed dramatically. Growth in terms of number of outlets has been driven in a large part by private label-focused discount retailers. Today, there are also retailers whose private label programs not only drive traffic but play a key role in their store image. And finally, retailers are more committed than ever to their private label strategies and are making meaningful investments to support their store brands."
- Industrials
    - Cummins Inc (CMI)
        - "We're seeing some moderation in the input cost. So commodity costs are coming down, some freight costs at least on a spot basis are coming down. Those take some time to flow through the system, usually about 4 -- a quarter or 2, 4 to 6 months. But as those costs that come down, that's helpful for us because we tend to hold on more in pricing in the short term. So we have better incremental or decremental margins depending on the direction of the revenue in those times where costs are coming down."
    - Watsco (WSO)
        - "the distributor will be the last to introduce deflation in the channel because we think of -- we think of things in basis points where --we don't have a factory margin to help us."
- Real Estate
    - Brookfield Asset Management (BAM)
        - "but even with the rate hikes we have seen, rates remain historically low-ish, and we expect them to settle in a historically lowest range in the fullness of time."
- Communication Services
    - Walt Disney Company (DIS)
        - "Disney+ ad tier goes live on December 8, and we are taking a thoughtful approach by launching with a lower ad load and frequency to ensure a great experience for viewers. This approach, coupled with strong advertiser demand, translated into Disney+ earning industry-leading CPM rates at the most recent upfront."
        - "what we're all preparing for is the future of what ESPN would look like in a direct-

to-consumer -- in a true direct-to-consumer fashion. And I think the way that we're looking at this is that we want to proactively prepare for that future without prematurely disrupting the cash flow that we get from the Linear Networks right now. And as you know, we've negotiated flexibility into our rights agreements across the board for any new rights that we have acquired over the last several years. But we're still bullish on sports. We believe there's tremendous degrees of freedom in terms of what ESPN DTC ultimately looks like. I think we're very proud of what we've done to date on ESPN+, but that no way limits how we envision what true ESPN DTC proposition would look like going into the future."

    - "we have not yet seen demand abate at all. And we still have many days when people cannot get reservations. So we're still seeing demand in excess of the reservations that we are making available for our guests."
- Bumble (BMBL)
    - "we are not noticing any impact on the business so far as it pertains to these macro moving trends. We tend to have a more affluent customer base on Bumble Apps. And the behaviors we have seen, to Tariq's point earlier, suggests that they are continuing as they always have. . . on Badoo, we do have a more economically disadvantaged customer base who has struggled throughout the pandemic. So we're seeing some of those struggles continue with that audience. Their travel is slightly down, as Tariq said. But as we mentioned, we are starting to see some green shoots in that business as well as our new initiatives start to take hold."
- Advertising
    - Magnite (MGNI)
        - "Looking ahead to the second half of the year, our overall growth rate could be tempered by a macro environment that is challenging."
        - "we spend a lot of time in the market with buyers at agencies and at marketer level. And I think there's a general -- obviously, depending on the advertising vertical. But there's a general feeling that their budgets that have been cut have really more been paused than taken off the table. And so there is a hope across the board that as we get into the late second half of the year, you're going to be able to see a resumption of that.
        - "(NFLX) That was quite a different process than what the normal publisher would go through, right? The talk of pieces of the cloud deal, revenue guarantees, all that. And that is not what a normal publisher goes through. A publisher goes through testing the technology capabilities, whether or not it can meet their needs, almost all of these publishers have large sales teams so they aren't starting from 0. And so I would say that they haven't really proven an ability to compete on that level, on a normal RFP-driven level. So I think I feel really comfortable where we stand and the pieces that we put together, but it would be silly to discount Microsoft and the resources that they have as someone who doesn't have aspirations to ultimately be a player in this space.
        - "buyers want choice. They want to be able to use their data. They want to have their choices as it relates to what data they want to bring into the mix. And lastly, they want to be able to track their results, learn from their spending and be able to apply that learning onto other buys. And as you know, in a walled garden situation, all that data and all that information stays within the walled garden and it doesn't make a big marketer any

smarter on their next buy across the web. We've also been very clear that in CTV particular, it's very, very difficult to run the table and create a monopoly, like Google has done in search, like Facebook has done in social. Premium video content is available in many places, and it's only increasing à la Netflix and Disney now coming to the market with ad-supported vehicles. And so I think that what you're finding here is that for the first time, marketers, agencies have a true choice, a real choice. You're getting every bit as good targeting. You're getting every bit as good effects from the advertising. And you're not being held captive because someone has -- run the table on a certain type of inventory, you need to buy from them. And so I think you might be seeing some of that play through."

    - "we've already crossed that tipping point in terms of the larger audience being on streaming products. They're more desirable, they're younger, they're harder to reach and ergo, I think that you're just going to find more and more dollars. I don't think it gets cannibalistic out of the gate. I don't think Disney+'s gain is Warner -- Discovery+ is HBO Max's loss. I think it's really -- the dollars that are getting up for grab are more of the linear dollars being pulled into the streaming environment. So I see it as an expansion of a SAM as opposed to cannibalizing each other in price erosion because the premium services are still holding a high premium in terms of CPM. And I don't think that's going to also [occur -- also a race to kind of the bottom of CPMs] in a finite pool of dollars to fight over."
    - "So from an overall trend perspective, I think we saw a little bit of weakening -- continued weakening, I think, in the latter half of the second quarter, kind of continuing challenges, strengthening dollar has impacted EMEA in particular and our DV+ business. And so we're sort of seeing that trend. And there's a lot of weariness. Michael highlighted with buyers, some of the big agencies have talked about some spend increases, but everyone is just sort of weary and just seeing where things will go. And so we're just kind of feeling that with tepidness, I guess, in the current spending levels."
    - "we're seeing some pullback, particularly in retail, health and fitness, home and garden, strength in travel as you highlighted, some strength in technology and computing, and some green shoots in auto, particularly in our mid-market team -- managed service team."
- Roblox (RBLX)
    - "The vision of immersive advertising has been around for a long time, and this is both performance as well as brand advertising. We are going to be rolling out tests ultimately along both of these lines. And it's the notion that in an immersive 3D space, it's a lot less -- there's a lot less friction when we see appropriate advertising, just like we would in the real world of billboard ads, for example, which we could scale across all the experiences on Roblox. But we're also optimistic now that we see many brands establishing a presence in Roblox that some of these brands will also want performance marketing, which is a way for -- in the appropriate case for people to be able to go to one of our brand partners directly from someone else's 3D experience."
    - "Imagine a AAA partner had a small pop up in the town square, and players will be able to choose whether to stop by, use that pop up or portal or door,

you name it, to jump over to one of our brand experiences, experience something new, pick up some free merchant and back, pop back to the experience that they're playing. So this is a very scalable potential way to incorporate gently, both playing as well as performance and brand advertising. Given that we did 4.7 billion hours of engagement in the month of July, even at a very conservative gentle way is an initially trying this with top-notch brands, you can see the potential there relative to the advertising per hour. So I said it before, this has been always a visionary type of advertising. It's exciting because it doesn't get in the way of a user or add friction like some other types of advertising."

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