



Internet and Tech in 2016: Put On Your Hard Hats



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Integrity

Excellence

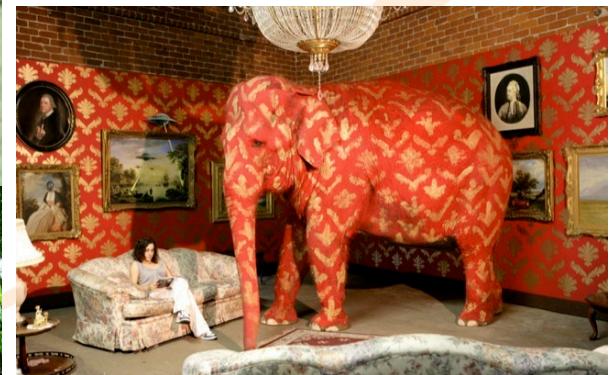
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Global

⌚ Look at ALL tech HW, SW, telco/cable, Internet, etc.

Unlike banks or industry analysts,
free to tell the truth

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**Out of 45
analysts, only
one said SELL**

**Stock
fell
62% in
12
months**



**Stock
fell
40% in
one day**

Investors: Beware Banking Cheerleaders!

Unprofitable IPOs

The percentage of IPOs with negative

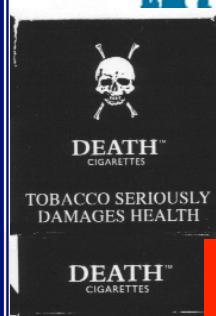
**"If you want to kill yourself - great!
We'll help you AND profit from it!"**



150!



Levitas disagreed. Contacted by The Chronicle, she said her data, which tracked social media use on smartphones, could not be used to back up the 150 times-a-day statistic in any reasonable way. She also said her data had been public since March, so anyone could have used it in a presentation.



1995 2000 2005 2010

Source: SentimenTrader

"New Tech" adds ~\$500bn in market cap in the last 18mos.

Morgan Stanley sees 'iWatch' ringing up \$17.5B from iPhone users in first year



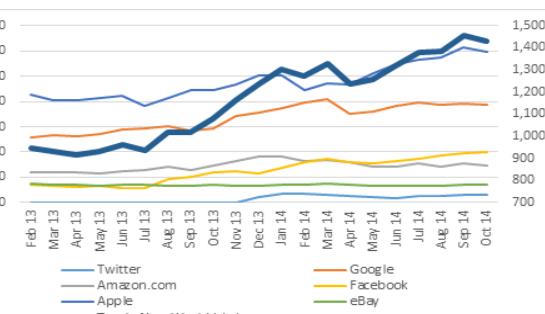
VCs fan the flames



Start-up Funding Points to New Tech Bubble



Make no mistake, Bubbles are Bursting!



Still \$400bn of cash burning holes in pockets of tech balance sheets, very hard to put to use...

Bubble? Just Out-Gunned...

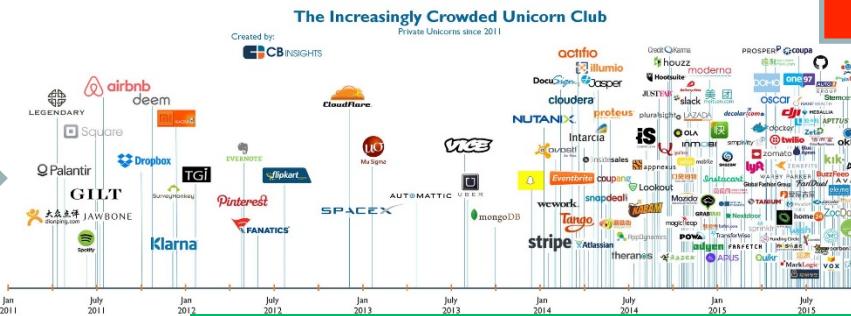
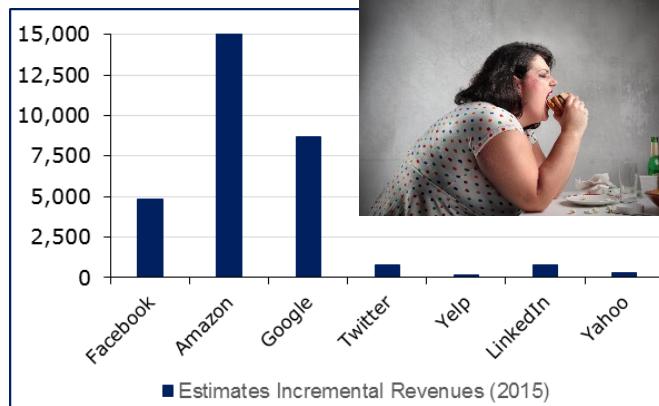


Table 1: R&D (ex-stock comp)

	2014	2015	Abs.	%	Sales Incr.
Google	7,632	9,271	1,639	21%	13%
Amazon	8,470	11,018	2,548	30%	20%
Facebook	1,338	2,539	1,201	90%	41%
Apple*	5,305	6,888	1,583	30%	18%

Four giants invested \$7.0bn *incremental* R&D in 2015
... 18 listed ad-tech firms have a combined market cap of \$5.4bn (CRTC is 36% of that, SCOR is 31%)



This reflects market “power”



R&D Spend of Ad Tech/Internet Firms			
Company	R&D Spend	as a % of ex-Sales Comp	FY14 sales
Brightcove	27	21%	
ComScore	56	17%	
Criteo	56	6%	
LinkedIn	381	17%	
Marin Software	25	25%	
Rocket Fuel	35	9%	
Rubicon Project	20	16%	
Sizmek	12	7%	
Tremor Video	16	10%	
Trip Advisor	144	12%	
TubeMogul	21	18%	
Yelp	50	13%	
YuMe	5	3%	

The bubble was in Funding, not audience/time spent



David vs. Goliath: Digital Empires

"Open" is a Four-Letter Word...

This is about fishing rights



Microsoft

Fishing (or "phishing") innovations led by hyper-scale Internet players - Devices just enable it...



amazon



Web brands are giant drag-nets aim to collect oceans of meta-data

Vampire Squids of the Web

Google

Wearables just another type of fishing rod!

facebook

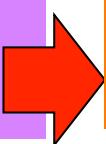


No companies want *their* fishing waters "open"!
They want to construct digital empires!

Web players see world of 80%+ smartphone use w/ horizontal services, ecosystems, OS, etc.



Dealing with Digital Empires



Empires control distribution, "ecosystems," economics...

Make the law...

1



Have cash

\$50bn+
profit
pools

2



Set/collect tolls

3



"Data Donation
Agreement"

Most apps aim to drain
users of PII/location data.

4

Control what is seen

Mode of interaction, apps,
content all shift to **video**,
cuts across cultures



Video = #1 growth segment of digital ads



Digital Empires? or... ...the New Walled Gardens

Google

\$68bn
Cash



\$20bn
Cash



\$160bn
Cash



\$80bn sales
15%+
growth

\$20bn sales
40%+
growth

\$234bn sales
+27% growth
in FY15!

\$40bn sales
+20-40%
growth

\$30bn
Cash

Content distribution channels, ecosystems, messaging...

Increasing reach into e-commerce, “curated content”



Plenty of “hooks”: deep links, E2E encryption “going dark,” joint “initiatives” (MVNO)

Dividing up world in overlapping split of users, ecosystem reach

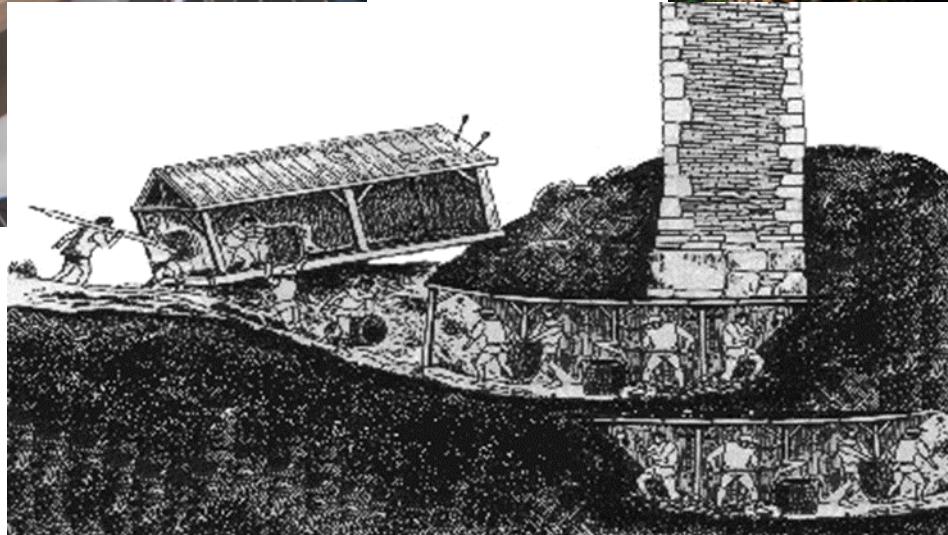


(in thousands)
Payments to social & mobile platform providers
Marketing and advertising
Employee benefits expense (note 8)
Office, data center and related services
Operating lease payments
Depreciation of property, plant and equipment (note 15)
Amortization of intangibles (note 14)
Commissions paid to advertising partners & agencies
Payments to online partners & service providers
Other expenses
Total costs and expenses

	2014	2013
Payments to social & mobile platform providers	\$ 684,804	\$ 563,853
Marketing and advertising	422,140	362,478
Employee benefits expense (note 8)	298,521	152,457
Office, data center and related services	32,158	16,168
Operating lease payments	11,238	4,420
Depreciation of property, plant and equipment (note 15)	9,580	4,189
Amortization of intangibles (note 14)	5,265	2,174
Commissions paid to advertising partners & agencies	-	3,255
Payments to online partners & service providers	2,798	2,236
Other expenses	67,817	56,195
Total costs and expenses	<u>\$ 1,534,321</u>	<u>\$ 1,167,425</u>

Platform Power =
King Digital spent
\$685m on Apps
Installs/Rev Share
w/ FB, GOOG,
AAPL in '14



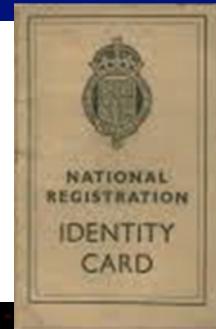


Every Empire Has its Failings

Uneasy Industry Issues



Authentication/
identity across
platforms....



More awareness of digital
surveillance invites regulatory
scrutiny (FTC, EU)

Faustian
bargains on
personal data



**Blocking is Hard... ...
but it's Happening**



AdBlock



Microsoft
YAHOO!

verizon
Aol.

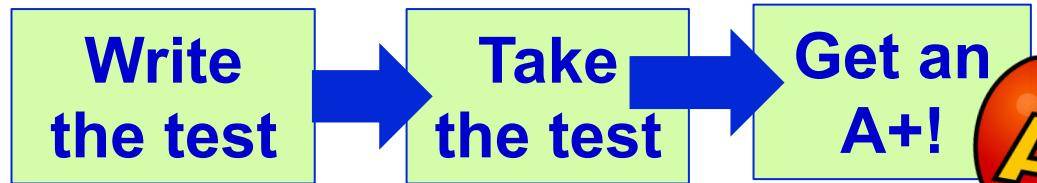
Mobile = \$30bn ad
market in US in '15!

Anti-Google
Alliance – In U.S.,
trying to create
alternative in
search/display ads.

Everyone sees three risks of duopoly
even if AMP/Instant Articles is seductive

- Ad agencies amusingly huffing over “viewability, “bots” traffic quality
- Most are living off arbitrage or mark-ups on ad spend

Attribution...or Cheating?



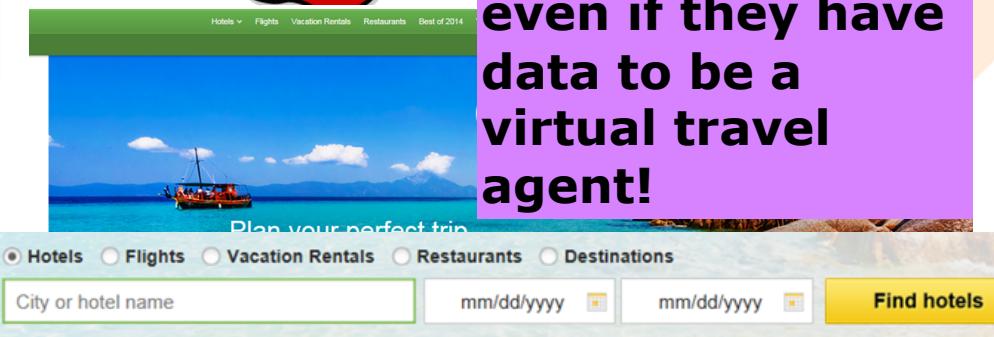
Making Money vs. Helping Users

TRIP financially addicted to referral fees, even if they have data to be a virtual travel agent!

Freshness Counts



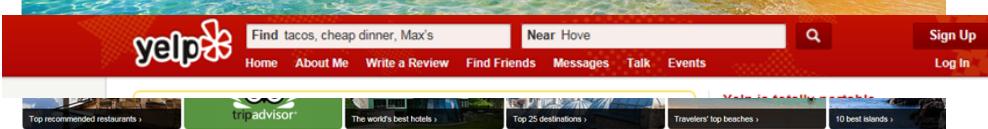
How many apps need a refresh?
Usage killed by poor UX.



Last boat to Alcatraz?



- “Closing the loop” in commerce, paid listings is hard!



Where Are The Developers Yachts?

Most of the UX in apps is AWFUL. Much of it designed to fool the user into revealing PII/location data.

~\$5K/month = \$60K p.a.
Doesn't pay many bills!

If apps were a scale business, you'd see more IPOs than gaming cos. + and the rare platform (Twitter).

vision

Increasingly, mobile means apps

FLURRY

Year	Mobile Web	Apps
2011	27%	73%
2012	19%	81%
2013	13%	87%

Source: Nielsen – State of the App Nation 2012 report and June 2013 Cross Platform report

Apps = Content
A few "aggregators" + local/specialist ones

Apps = Utilities
Move "self-service" costs from co. to consumer.

Publicly Available Apps (End 2012)

Industry	Number of Apps
Automotive	~220
Industrial	~180
Media	~150
Hotels	~120

Curb their enthusiasm! BMW, Honda, ABB offer 200+ apps!

Top 25 Apps = 50% of Spend!

➤ AppStores = Multi-channel distribution

Except for pricey trade sales!

Forget Apple's \$16bn paid out to developers in the "app economy"

Logos Needs To Learn



BlackBerry

SONY

SIEMENS



Leading mobile phone vendors had collective \$500bn market value

Internet world lacks "management universities"

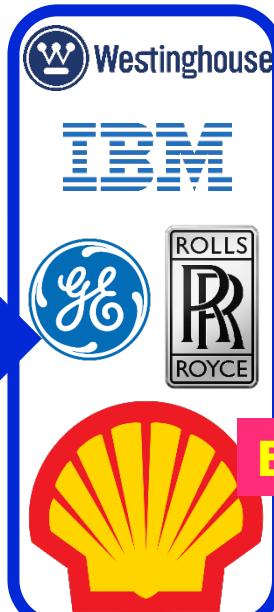


Competing for time spent....

Telefonica



vodafone



Very different issues for "vertical" apps and utilities... classifieds is one case!



Management matters... often taken for granted



Empires are deeply dysfunctional

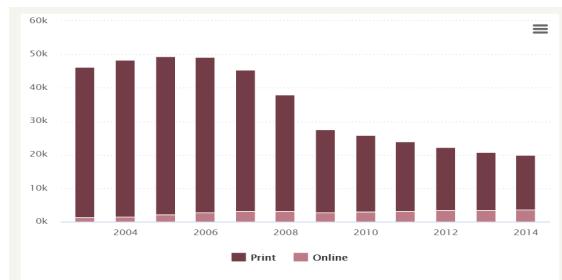
Spending money doesn't help (e.g. MSFT \$9bn R&D budget)



Digital Marketing Snake Oil or Science?

Let's Be Honest (2)

I don't know much about classifieds...
 ~\$3-4bn in US, ~\$15-17bn worldwide



We see newspaper revenue plunge

There is a lazy or easy conclusion...



Smart global brands out-gun local ones

We see local Internet services flounder

We see crazy land-grab multiples getting paid...
 \$850m for 30% Avito

We're sceptical of the Luxor "winner takes all" investment thesis...



...and of consolidated multi-company JVs/ cross-holdings



...Let's Be Honest (3)

Schibsted

- \$700m, +19%
- 20-35% Margins



eBay

- \$700m+, +17%
- 30-40% Margins



Naspers

- \$200m+, +40%
- ?? Margins



58.com

- \$700m+, +100%
- -35% Margins



So, this sector could be displaced, or evolve into a set of apps



Or maybe conventional wisdom is wrong ...

- Local brands, peculiarities matter more...
- Margins are sustainable
- Its been more innovation than just financial engineering....

We've taken a view that China is different... but not like some think!





What Did He Say?

Don't trust any financial market commentary.
Conflicts abound.

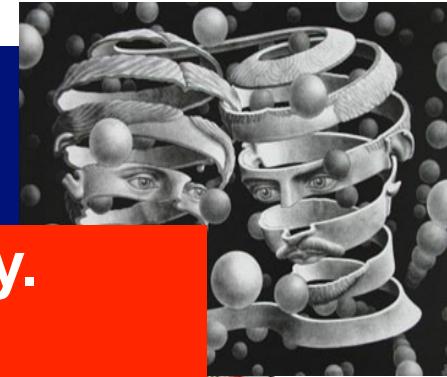
Deal with the reality of digital empires. **No Digital Empire wants open anything.**
Empires are dysfunctional, vulnerable.

Mobile device = personal video viewer;
low-cost s'phones = global reach for content, services.

A very difficult year in markets...death of many unicorns. **Tech hardware remains in Crisis!**

Super dynamic period in tech. – Land-grab behaviour still backed by seemingly limitless capital.

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