

FCL *Capital*

4Q 2022

Technology and its discontents

In 1950, an unpretentious new comic strip that would help define the 20th century was being born in a triumphant, Cold War America.

With its existential melancholy, timeless themes and adventures and its revolutionary (for the time) focus on children's perspectives in an adult's world (grownups were only seen from their waists down, the way a child would experience interaction with them), "Peanuts", features the characters Charlie Brown (a round faced typical 8 year old boy who loves baseball), Snoopy (an enigmatic Beagle with a number of alter egos and personalities including a First World War British pilot), and Linus (a depressive boy that suffers from anxiety and has an inseparable blanket which he uses as a security amulet). The comic strip was the work of cartoonist Charles Shultz and ran for half a century alongside a wildly popular animated series since the 1960s, with numerous films and book adaptations.

Schultz would be celebrating 100 years this past quarter and rightly, he is the subject of many exhibitions and a brand new biography celebrating his legacy.

Although the cartoons and the comic strip purposely never give an exact location for where the children live and go to school, fans generally agree the stories were likely set in Minneapolis, the hometown of Schulz. This is based on the fact that Charlie Brown once stated his address as 1770 James Street, which was a few houses down from Schulz himself. Although the comic also makes allusions to California locations, where Schulz moved to in 1958, many of the stories take place in heavy snow and in the Thanksgiving pieces usually the stories show very leafy autumns, which certainly makes Minnesota the more likely setting.

Just like millions of kids around the world, this manager also grew up watching and reading the Peanuts. And just all the other kids he could relate to the stories of unrequited love, loneliness, friendship and camaraderie. What is most astonishing, the comic strip was already running for many decades when he was born. How could those fictional lives seem so similar?





The focus of this letter will be technology. The new possibilities and realities behind the technological revolution underpin many ideas behind our FCL Opportunities fund and are one of our major “macro thesis” under which many of this house’s investments in long term trends take place.

Crucially, we will try to address one question: is technological advancement, as many prominent economists put it, really decelerating?

Going back to Peanuts and Charlie Brown, it is astonishing, and possibly a little scary, to realize how similar were the fictitious lives of those kids back in the 1950s to the way children live their lives now in the western world: cars, electricity, running water, telephones and TVs. A school bus would sometimes bring the kids home from school. No internet or cellphones, true, but paved roads, packaged goods and most of the infrastructure we nowadays take for granted.

If we take a plane, go to 2022 Minnesota and visit some random houses in a random suburb, it won’t be very different from the ones that first appeared in Peanuts, again with the obvious exception of computers, cellphones and the internet.

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In economic terms, productivity is hard to define, almost magical component with world changing consequences. The level of output in an economy is the number of workers, times the number of hours each worker labors per year (two easy to reach numbers) times the productivity, which is how much output per hour worked an economy reaches.

It is well known that a more educated workforce in a country with more stable and predictable rules, where contracts can be enforced in an efficient manner, with private

property and so on, has obviously a higher level of output per hour, as would be expected, than an unstable country with an uneducated workforce.¹

But what about the long term rate of change of productivity? Well, ever since the industrial revolution, output per hour has exploded thanks to technology. It makes intuitive sense: a train or automobile can make us go faster, a computer can make us think better and so on until we progressively produce more than in the past as has been happening in our planet for over 200 years² with amazing consistency.

It sounds too good to be true but that is where problems start to emerge: back in the 1970s the computer revolution that was just starting was widely expected to bring an unprecedented explosion in productivity. That didn't happen. In fact that was the moment when productivity growth began a gentle and slow descent toward lower levels. In other words, at least when it comes to being measured, back the 1970s, technology began to advance more slowly than in the past.

This was obviously met with some skepticism. How could that be in the age of Mac computers and international phone calls?

In 1987 a Nobel winning economist called Robert Solow famously said that “the computer revolution was everywhere except in productivity statistics³”. So is it true that technology really is slowing down and progressing more slowly than in the past? This is not to say of course, that our society in 2022 has less technology than in the past, only that the 70 years that distance 2022 from 1952, when Peanuts was a brand new comic strip, saw way less technological evolution than the same 70 years from 1952 to 1882, when life was unrecognizably different.



¹ A remarkable statistic is the fact that even illegal immigrant workers have their productivity immediately doubled when they cross the border and get work in the USA thanks to better processes and techniques.

² Before the advent of the industrial revolution technological progress was relatively close to zero as was the overall level of output growth

³ https://en.wikipedia.org/wiki/Productivity_paradox

This theme is not merely academic for this house. Since our belief in the technological revolution has been the framework under which so many of our investment thesis over the years were conceived: from Match Group and the revolution in online dating; Entain with its online casinos; GoDaddy and the promise of global digitalization; to HelloFresh; Cryptocurrencies; Uber, the thesis of this letter (see section 2); to many others past and present investments, a correct understanding of this topic is crucial for our investment process.

There are at least four major theories⁴ that try to explain and understand the debate behind technological evolution in economic circles.

The first and most pessimistic one, the unproductivity and low hanging fruit hypothesis, states that, although technology is obviously still marching ahead, its advancement has not only slowed down for good but it will continue to do so.

There is not natural law that says that technology should always advance with the same speed as in the past, say the believers in this theory.

Once we put most people in school, once we discovered electricity, the internet, running water and vaccines that saved billions of lives, we are starting to exhaust the low hanging fruits in the tree. There are still countless discoveries to be made and inventions to change the world, for sure, it's just that naturally, we already done the easiest ones and from now on it is going to get harder and harder.

Advocates of this theory like to point out that while the average age of Noble Prize winners in the first half of the 20th century was “only” 56 years, it is now more than 72, meaning that nowadays, on average, scientists have to dedicate their whole life in order to achieve a scientific breakthrough⁵.

Obviously, many people will at this point recall innovations made in the past seven decades since Peanuts first appeared. After all, 70 years ago there were no iPhones, no Uber, no Facebook, no Netflix, no laptops or seamless internet delivery. True, but did those amazing creations changed the world more than the creations in the 70 years prior to Peanuts: the airplane, the car, a nationwide road system that shortened distances, the advent of mass vaccination and antibiotics, the surge in global literacy, the creation of TV and radio, that arguably had a bigger worldwide impact than the internet? There is a reason a house in Minnesota in 2022 resembles a lot a house in the same place in 1952 (with fridges, electricity a car in the garage and a TV in the living room). A house in the same place in 1882 would look like an artifact from the medieval ages.

Some people also point to the inutility of recent innovations, like Facebook, that might even decrease productivity bringing distraction. Bill Gates famously claimed, speaking recently about the Bored Ape Yacht Club fever, that “expensive digital images of

⁴ Actually dozens more but we will stick with these four for the sake of brevity in this letter

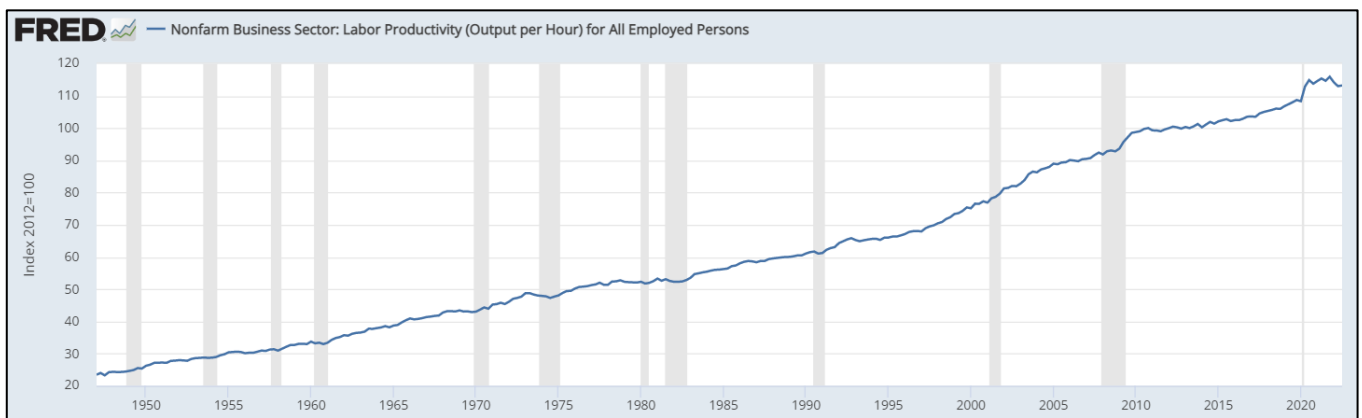
⁵ <https://www.bbc.com/news/science-environment-37578899>

monkeys are going to improve the world immensely, that's so incredible!", he said sarcastically.

But there is a second, more optimistic camp. It is not, say those proponents, that technology and consequently productivity are advancing more slowly, it's just that evolution is not that straightforward. Innovations take time to become diffused in society as a whole and only then it will show up in productivity statistics.

Indeed, if we take the long term view and look at productivity data in the USA we see that only in 2004, 12 years after commercial internet became available in the country, that productivity started to jump, in what is widely believed to be a dividend from the IT revolution. The boom, however, was relatively short lived, lasting only for a few years.

To this camp, technological evolution is like climbing a mountain, it has its valleys and alleys, but overall the direction is up and there is no serious indication the rate of speed will diminish for good.



Source: U.S. Bureau of Labor Statistics

A third camp focuses on the change of composition in the world economy: back in the 1950s the global economy was basically made of agriculture (in poor countries) and manufacturing (in rich ones) with a very small share of service industries. As it turns out, those industries are more prone to new processes, automatization and evolution. It is hard to cut a hair in a saloon 10x more efficiently with new techniques. It is entirely possible to do so in manufacturing. Since services are now a major (and still growing) share of global economic output, it is natural that productivity growth as a whole is decreasing.

The problem, however, with this theory is that productivity seems to be advancing more slowly in every sector.

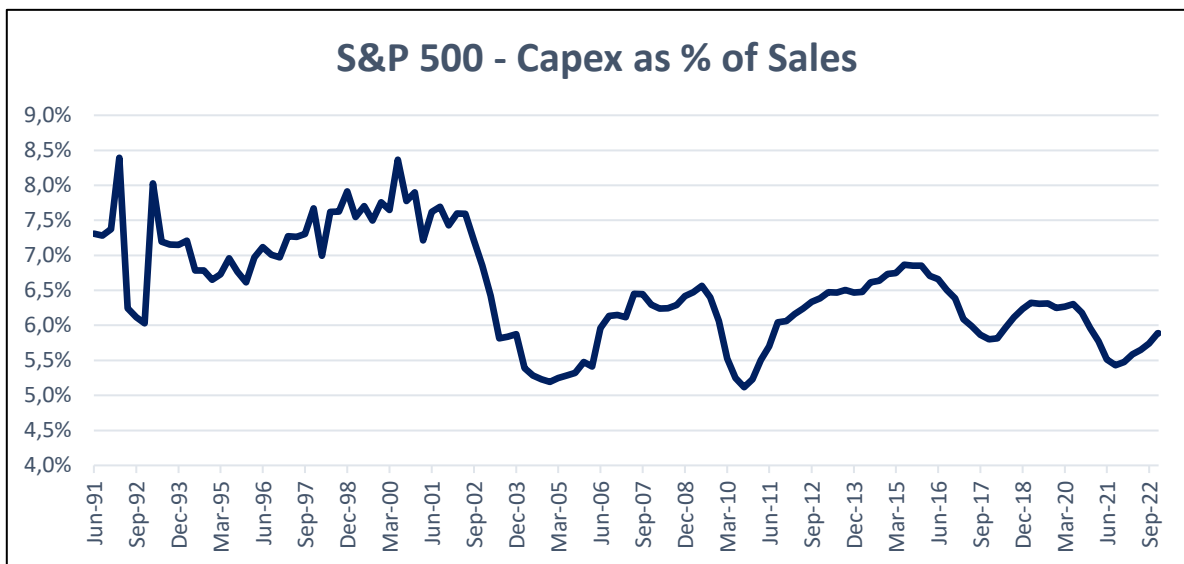
Finally, there's the fourth and more optimistic camp. They think that technology has been improving faster than ever in human history, it's just that we are not able to properly measure it. Unsurprisingly, most of Silicon Valley sits in this camp.

There is at least some truth to their arguments: GDP is a relatively straightforward way to measure an economy when it is made of agriculture and manufacturing. In other words, when it is made of tangible things. It becomes a lot trickier when value is not in machines

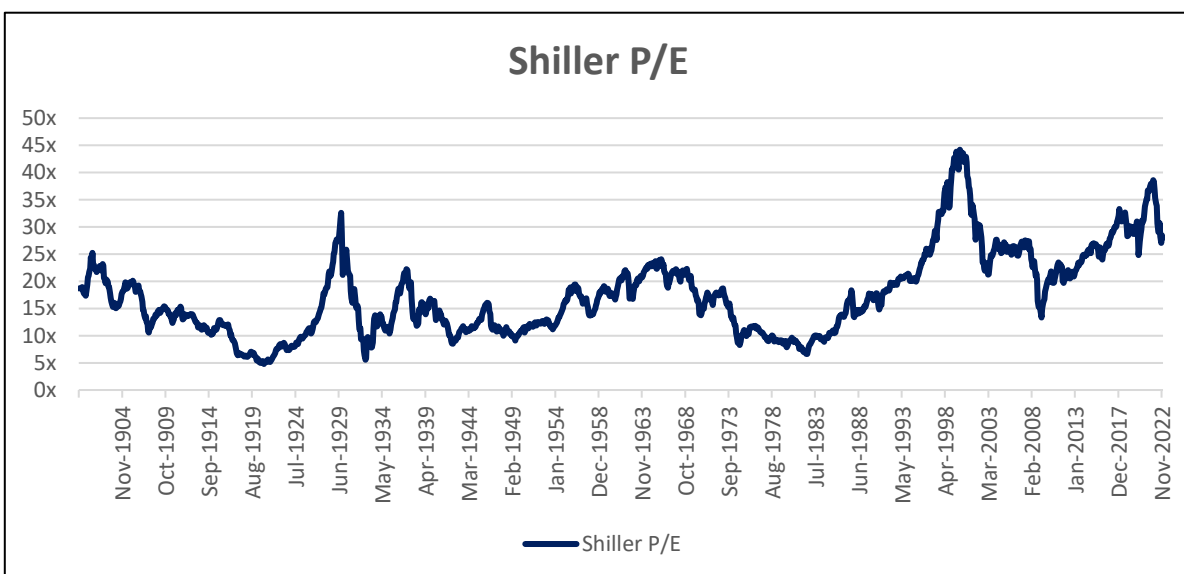
or land or factories but in brands, processes and human ingenuity. It is very, very hard to properly measure those things and their evolution.

There are undoubtedly many distortions like that in the global economy, especially in the US economy, being the frontier one, that weren't observed before. The S&P 500 is becoming less capital intensive and more related to intangibles and brands. That is the major flaw in arguments that try to compare multiples and margins of US companies from decades ago to the present day: it compares apples to oranges. Should Google with its scalability and reach be traded at similar multiples than, say, Walmart or Exxon Mobil? Two amazing companies for sure, but ones where future growth requires additional factories and capex.

How to measure an artificial intelligence app like Chat Box3 that is, arguably, 100 times better than its predecessor that came out only a couple of years ago?



Source: Bloomberg, FCL Capital



Source: <http://www.econ.yale.edu/~shiller/data.htm>, FCL Capital

Is it all a problem of measurement, of economists not having the proper tools to deal with the information age we now live in?

In this house's opinion, there is some truth in all four camps.

So how do we approach our investments in technology? What framework do we use? After all technology related investments are, possibly, the most common theme, or macro thesis, we've used as a way to bet on the future and find investments in global markets.

It is our belief that technology will progressively change the world that made us bet in Match Group and their vision that dating and relationships would be approached in a new way with technology.

It is our belief in technology that makes us think that people will move around in different, more efficient ways (Uber), that the work from home revolution will permanently change habits (HelloFresh, IWG) or that payments and financial transactions had to be made in a more efficient way (PayPal, Ethereum)⁶

The future, as we all know, is hard to predict. Where do we start?

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To this house, more important than correctly predicting how the future is going to play out exactly, is trying to dissect winners and losers. For investors, being right, but not correctly acting on it, a surprisingly difficult part of the investment equation, counts for little⁷.

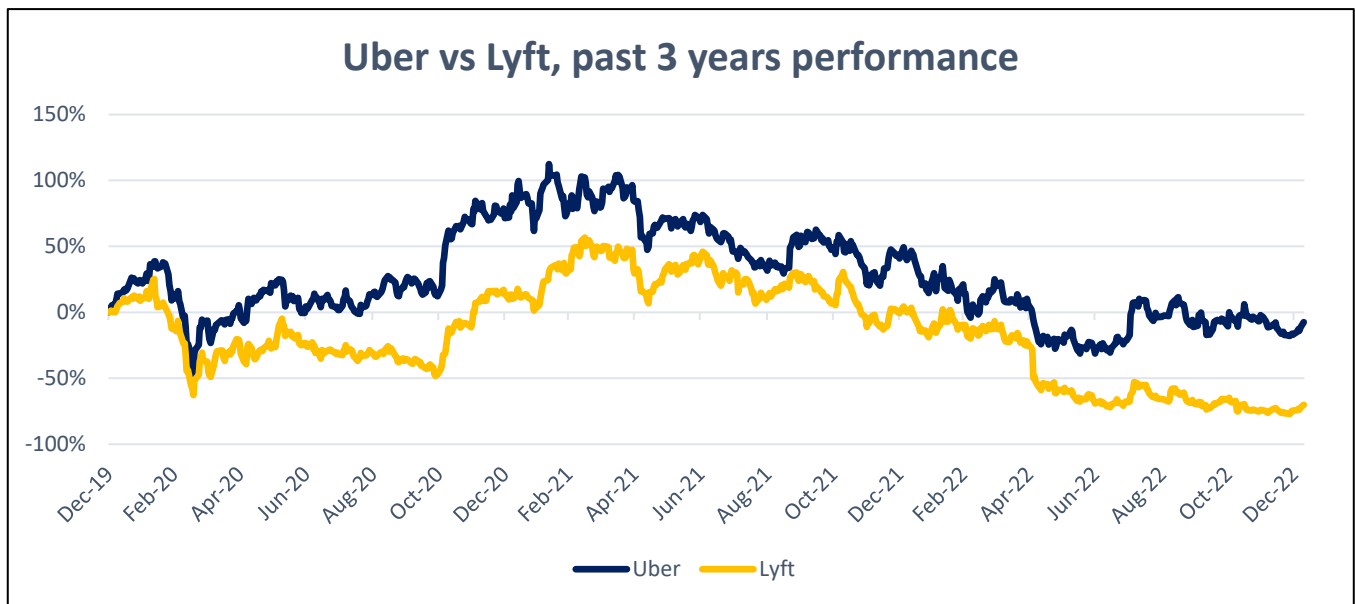
Over time, we progressively iterated our models in trying to do just that and even in a tough year like 2022 we are modestly satisfied with the results.

Two examples: amid the tech rout that has happened everywhere two of our portfolio companies, Uber and HelloFresh, dramatically outperformed their most important public rivals.

Amid the terrible fall in stock prices in the past year, Uber, while not immune to the carnage, was able to grab additional market share in the ride hailing US and global market. In California, probably the most important battleground in the world, Uber rides are arriving faster than a year ago and with the number of drivers and their satisfaction increasing, especially with major tweaks done in the past 12 months under the leadership of Dara Khosrowshahi, like the possibility for drivers to see where riders intend to go.

⁶ Important to note, not all of those examples are still in FCL Capital's investment portfolio but were at some point relevant investments.

⁷ The investment world is replete of stories of traders that were able to correctly anticipate major event, but choose the wrong instruments or had the wrong timing. Thus despite being right, still lost money.



Source: Bloomberg, FCL Capital

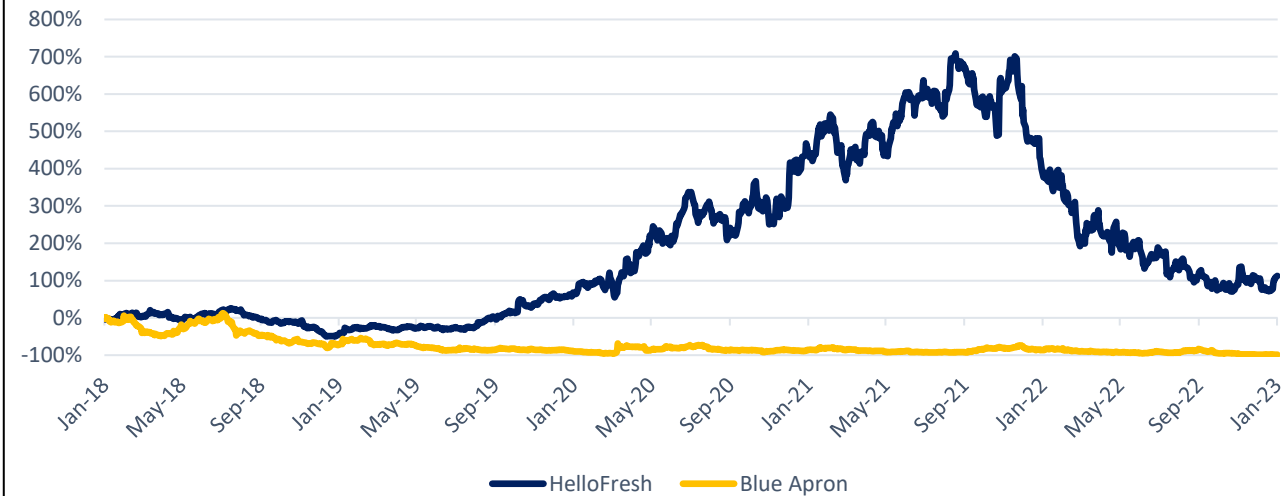
The result was an outperformance of more than 40 percentage points against Lyft, its biggest public rival, in their respective share prices in the past year. Although in tough markets the baby is usually thrown out with the bath water, winners are made through ups and downs and in this cycle Uber clearly reinforced its leadership.

When it comes to delivery meal kits the story of HelloFresh is even more extreme: although the market is now very short term oriented, the company, even with the end of lockdowns and consequent return to the office, was able to invest and grow its delivery meal kits business, both in Europe and, especially, in the US while its most important listed peer, Blue Apron, practically went out of business after a desperate attempt to inject new money in the company failed.

At the same time, UK based Gusto, a private company that is the other serious competitor, was unable to do a new funding round thanks to the tech bear market and announced it will no longer seek plans to expand outside of the UK in the medium term.

After the current storm passes, and they always do, the market will realize that HelloFresh's global leadership is completely undisputed with its major competitors out of the equation.

HelloFresh vs Blue Apron, past 4 years performance



Source: Bloomberg, FCL Capital

To sum it up, for the leaders, downturns are blessings in disguise because that is when they reinforce their lock, or, to use a Buffet term, their moat.

To be sure, circumstances when this house no longer feels confident about who the winner is going to be in a particular sector or niche do happen all the time. The major reason we exited our investments in cryptocurrencies wasn't because we are no longer bullish in the fact that crypto might change the world. Instead, it was due to the fact that, with user cases taking longer to materialize, we no longer feel confident about who the winners (and the losers) are going to be. But the beauty of investing is that a strong opinion on everything is not required. Just to be able to figure out a few things, from time to time, better, or earlier, than others.

Technology will keep changing the world, no matter the academic discussion about how fast it will continue to evolve. As Bill Gates famously said: "we always exaggerate the rate of change a year in our lives can bring, but always underestimate the rate of change 10 years will bring".

Change, just like investments, happen through compounding and as Einstein once observed, compounding is the most marvelous and scary thing in the universe, the "eighth wonder of the world".

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Thesis: Uber

“...and suddenly, the world would never be the same...”

Most people recall the first time they ever took an Uber. It is one of those defining technological moments when we feel new possibilities emerge, that things will not quite be the same ever again. Just like the first iPod: “so from now on I can take hundreds of my favorite songs with me anywhere?”, the first cellphone, first electric car and so on.

Uber is, for better or worse, one of the defining companies of our era. To techno optimists, like this house, it is a miraculous invention that blends concepts from tech, economics⁸ and more to make the world a more efficient and seamless place. To politicians on the left, it is blamed for the “uberization” of everything, especially employment relationships.

The core concept of Uber, alongside companies like Airbnb in housing and Spotify for music, was the sharing economy, or the notion that we don’t really need to “own” anything as long as we can summon it and use it whenever we want it⁹.

This insight quickly gave birth to countless copycats funded by venture capitalists trying to do “Uber for...” just about everything, from tennis buddies to private chefs, to babysitters and dogwalkers and even to an app made for on-demand use of bathrooms complete with a “rate your pee” rating system.¹⁰

As it turns out, there have always been unused cars, houses that sit empty, and so on, and Uber and Airbnb were the first two companies to notice on a large scale that the internet had decreased communications and coordination difficulties, allowing for a more efficient use of resources.

Over the past year, after the general and indiscriminate rout in tech stocks global financial markets experienced in 2022, this house gradually began to build a substantial position in Uber that already sits among out top 7 overall positions.

So we decided to dedicate the thesis space in this letter to dive into the company and try to explain why we think its journey is only just beginning.

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⁸ The surge pricing system, hated as it is, is an economist’s dream of how to beat the scarcity of drivers.

⁹ As a side note, it is clear now that Uber and the other sharing economy companies have an incredible potential to change not only business, but social norms and expectations. It is not surprising that teenagers no longer anxiously await the day they are finally able to drive, why bother when it is clear that what they always wanted was the freedom, now provided by ride hailing, and not the car itself? Ditto for Airbnb and its new “digital nomad” users that are even making countries revisit their visa processes to attract this new emerging class of travelers.

¹⁰ <https://www.code-brew.com/nothing-conventional-list-7-weird-uber-for-x-startups/>

Uber was founded in March 2009 in San Francisco, California, close to the heart of Silicon Valley, by Garret Camp and Travis Kallanick. Once, while in Europe, they tried to hire a private driver for an event and were bummed about how costly and difficult the process was. They simply couldn't get a car. So what if, they thought, you could call a car by your phone? At first they thought on a "timeshare limo service scheduled by the hour", that gradually evolved into something resembling the familiar experience we all have today.

In its first investor's pitch deck, the company tried to raise 200.000 USD and boasted that it could someday disrupt the private chauffeur market, a "\$ 4 billion market"¹¹ (a number that Uber's current annual gross bookings alone surpass by more than 20 times over)

Among important early investors were First Round Capital, which was the lead investor in the first major funding round at 1.25 million USD, Benchmark, and Chris Sicca's Lowercase Capital¹²

Unlike in astronomy where meteors usually follow the predictable laws of physics, in business, supernovas have an incredible tendency to explode, to burn, to move in unexpected ways.

This house will not bother in getting into too many details, most of which were later made public and covered extensively in international financial media. But to sum it up in a few points:

After a lot of speculation the company finally opened its finances for the first time in early 2018 preparing for the IPO that would finally happen the following year, after a lot of delay.

The content was shocking. It revealed the extraordinary level of cash burn and subsidies Uber was splashing on its users to convince them to try its services. The level of losses was greater than even its most ardent skeptics speculated about.

This cash burn was most extraordinary in China, where in its attempt to displace the local leader, Didi Chuxing, the company miserably failed and had to settle for a 14% stake in the combined enterprise thanks to the pressure from venture capitalists that were beginning to lose patience with the huge amount of losses.

All of this mismanagement and single minded focus on growth with a lack of consideration for profits made the company gradually lose favor and "hopeness" with venture investors. Back in 2015, Chris Sacca was openly speculating that "once public, Uber would be worth between \$150 to \$200 billion"¹³. However, the company gradually lost favor with investors after so many missteps, with a subsequent funding round led by Softbank valuing the company at "only" \$ 48 billion in a down round from the previous

¹¹ <https://techcrunch.com/gallery/here-is-ubers-first-pitch-deck/>

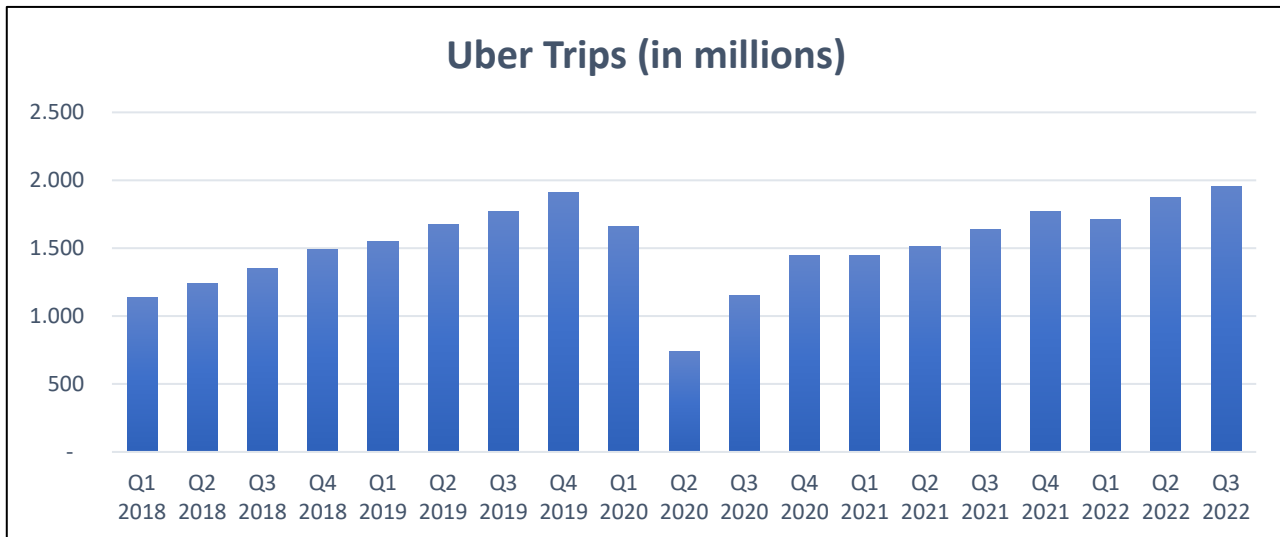
¹² Which thanks to its attempts to increase its exposure through secondary share purchases seems to no longer be in speaking terms with Kallanick

¹³ As shown in a famous Bloomberg West interview

\$ 68 billion¹⁴. It started to seem like the next gem of Silicon Valley, after Google and Facebook, was simply not on par with the previous great ones.

But the worst of all had yet to be addressed, the founder problem:

First of all, Travis Kallanick's merit is undeniable and, in our view, even understated in some ways. He founded one of the few era defining companies that exist in the world. A company that has as much potential to change the planet as an Apple or an Amazon.



Source: Uber, FCL Capital

At the same time, after a lot of researching in public files and also through informal conversations by this house with some past and current Uber employees, we feel confident to say that the level of craziness and mismanagement the early Uber years experienced will certainly be the stuff of some (good) Netflix series in the future.

Probably the first sign of public trouble came back in 2017, when after leaving the company, one of Uber's first female employees detailed, in an excruciating 3,000 word memo, the company's sexist culture. The post went viral and a number of high profile employees immediately resigned afterwards¹⁵.

Desperate to maintain some credibility, the board hired an independent investigation that resulted in 47 recommendations, including the firing of more than 20 personnel at the organization.

But month after month, while Uber was in its own battle with regulatory and city officials usually hostile to the notion that a startup company from Silicon Valley would disrupt long established taxi and transport unions, more scandals and sexism allegations were

¹⁴ It is beyond the scope of this letter to get into minutia about how venture funding rounds work but suffice to say that a "down round", or when new funding by a company's investors value it at a lower level than a previous funding round, is traditionally seen as a sign that a company is on a downward trajectory.

¹⁵ <https://www.investopedia.com/articles/personal-finance/111015/story-uber.asp>

coming frequently and increasingly it seemed the whole problem was coming from the very top of the company.

Finally, after being caught on video arguing with an Uber driver about lowering fares the board finally made the decision to oust Travis Kallanick as CEO, replacing him with Dara Khosrowshahi, who was then CEO of Expedia.

Dara certainly didn't start in an easy position. He inherit one of the greatest companies of our time, true, but a messy one, replete with regulatory problems that was battling for its own survival while burning cash and producing losses at an astronomical rate while also losing trust of regulators, employees and the financial community.

Where to start? The first two tasks Khosrowshahi had clearly were to clean up the company's image and to prepare for an IPO.

He succeeded in both tasks. Gradually, the soft spoken new CEO, an Iranian-American just like Steve Jobs, rebuilt trust, became the company's public persona and gave Uber a new level of predictability and reliability. Investors, employees and financial media gradually saw a future in the company again.

As for the IPO, although the timing was certainly not perfect, the company finally did it in the first half of 2019. The sad fact was that, with so much trouble and drama, Uber's valuation reached "only" \$ 70 billion during the offering, as opposed to the more than \$150 billion Sacca was originally expecting.

Why did the company decide to go ahead anyway despite the poor valuation? Well, because due to its high global growth, Uber was still burning cash at an alarming rate and its venture capitalists were losing patience. So, considering the company's troubled history, the bad timing and the need to raise cash just to keep it going, that IPO valuation didn't seem so bad after all.

In its IPO prospectus, Uber detailed its operations in a way that was starting to resemble the company that exists today, comprised basically of 3 different areas:

- Mobility: Where we summon drivers to take us to a specific city destinations;
- Uber Eats: A strong player in the fast growing food delivery segment;
- Freight: A smaller, but promising segment that intends to revolutionize the logistics business, connecting truck drivers and transportation capacity to help goods be transported.

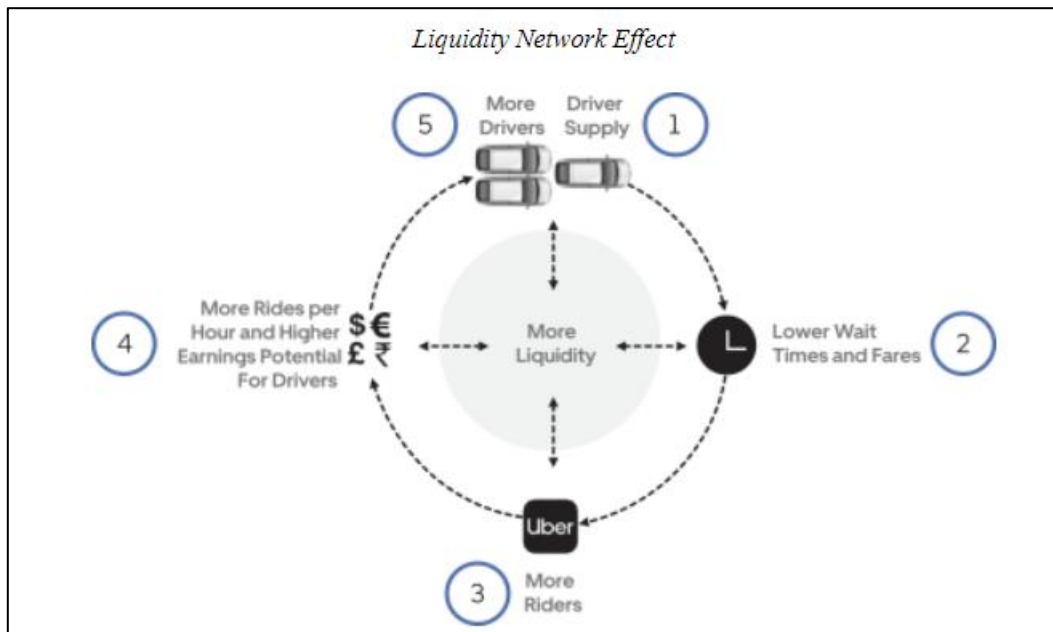
In its mobility business the company competes with other urban transport solutions, like taxi companies, buses, trains and also other technology enabled players like Lyft and 99.

Food delivery is a bet by Uber that ride hailing and delivery have synergies, both for users (that would be able to use a single app) as for drivers (that would be able to have revenues

throughout the day since peak hours for ride hailing and delivery usually differ). So the idea was to lock users and drivers in the company's ecosystem¹⁶.

Its main competitors in this division are companies like DoorDash and SeamlessWeb in the USA, Glovo and Deliveroo in Europe and iFood in Brazil.

Finally Freight, a still nascent division, holds a lot of promise and is finally becoming profitable.



Source: Uber's 2019 IPO prospectus

By any measure, the company is delivering an incredible execution since its IPO under the leadership of Dara Khosrowshahi.

Its revenues went from \$ 13 billion in 2019 to some \$ 29 billion in the past four quarters (until September 2022) and, most crucially after so many years, thanks to the flywheel effect in the image above, some newfound cost discipline and some smart divestitures (like exiting China in exchange for Didi 14% stake) it seems to us that Uber is finally on an inflection point towards profitability and positive cash flow generation

Uber Financials (in millions USD)	LTM	2021	2020	2019
Market Cap	54.646,8	81.734,8	94.339,5	51.054,1
Revenue	29.048	17.455	11.139	13.000
EBITDA	- 426	- 3.391	- 3.185	- 7.387
Free Cash Flow	506	- 743	- 3.361	- 4.909

¹⁶<https://www.indigo9digital.com/blog/ubereatsstrategy>
<https://www.theverge.com/2019/5/30/18646470/uber-eats-ride-hailing-promotions-dara-khosrowshahi>

Over the past year, this house has been monitoring Uber's financials, attending its conference calls and talking to every knowledgeable source we could find. When in the last two quarters Uber finally turned cash flow positive, we felt the timing was perfect to start a position especially with the global rout in tech stocks. The results were first seen as a "one off" for the financial community only to gradually be perceived as a turning point.

It is important to note, while the Nasdaq index fell "just" 33% in dollars in 2022, unprofitable tech companies fared much worse, experiencing falls of 70% or more in many cases.

And ironically, since that was just the moment Uber was reaching profitability, the market punished the company and made it trade at a lower market cap even than when it was still going public and unprofitable. So, although this is operationally speaking a turning point, the market is not giving Uber the benefit of the doubt: it still trades and is still seen as an unprofitable tech company. In the eyes of the market it hasn't "graduated" yet.

Gradually though, general market consensus started to realize the mistake it was making when it comes to Uber financial projections and began to upward adjust its estimates.

While in 2019, its IPO year, Uber burnt almost \$5 billion in cash, now, according to Bloomberg, Uber "consensus" expectation is for a positive \$ 2.1 billion in cash flow generation for the year of 2023 and, incredibly for such a fast growing high profile company, a \$ 4 billion consensus estimative for 2024 Free Cash Flow, making Uber trade now at an 8% 2024 Free Cash Flow Yield, while delivering almost 20% annual sales growth until 2026.

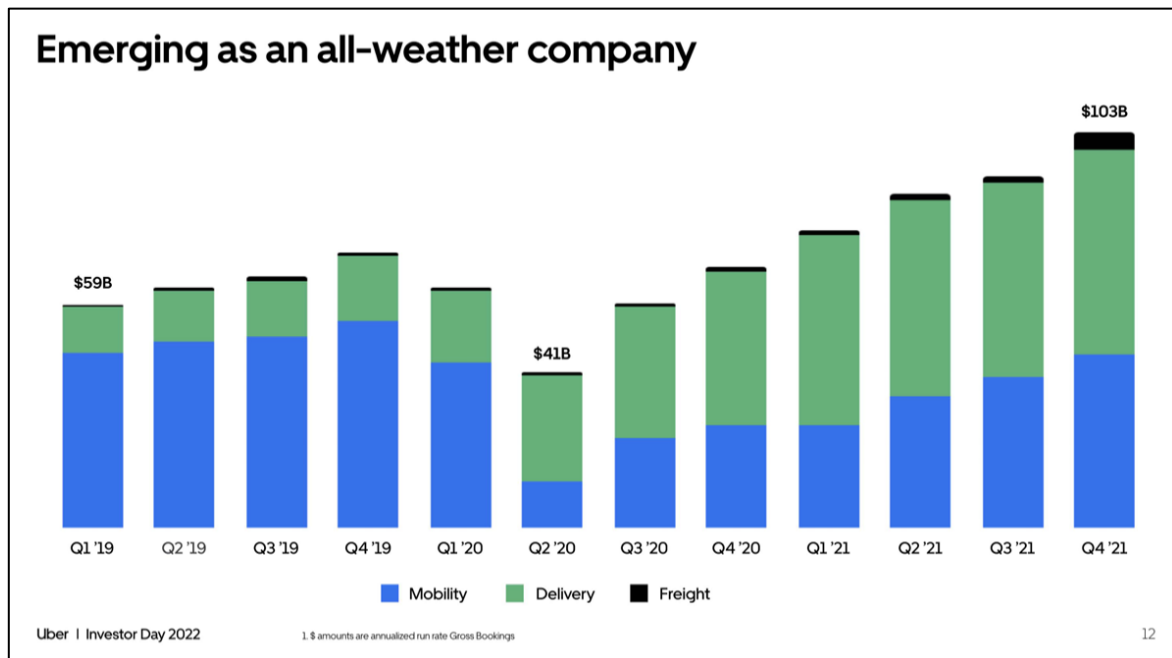
We moved rapidly to focus on growth opportunities while securing our future

Divestitures	Operating initiatives	Acquisitions	Product development
Uber delivery in India → zomato	Exited 15+ sub-scale delivery markets	Careem	Grocery delivery
JUMP → Lime	SK Telecom JV	CornerShop	Uber Advertising
Freight in Europe → sennder	Freight funding	Postmates	Uber Eats
Uber Elevate → Joby	Headcount reduction	autocab	Uber Eats for Business
ATG → Aurora		DRIZLY	Uber Direct
		TRANSPLACE	Uber One
			Uber Reserve

\$1B run-rate fixed costs reduction

Uber | Investor Day 2022

Source: Uber's 2022 Investor Day Presentation



* Uber's annualized Gross Bookings

Source: Uber's 2022 Investor Day Presentation

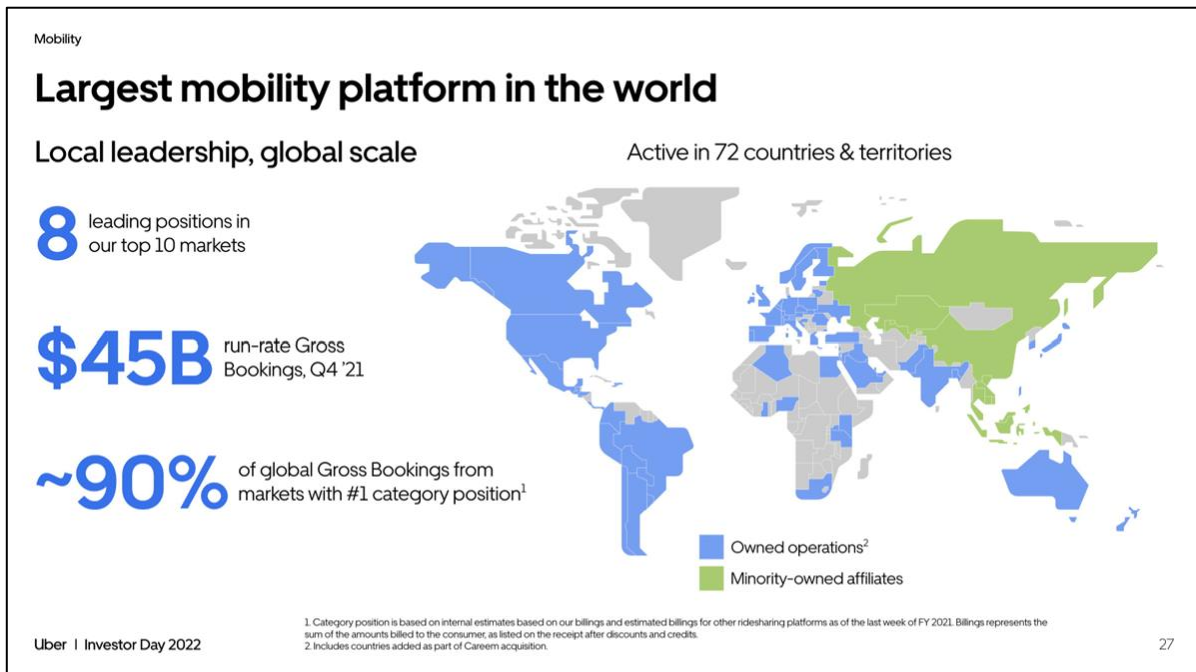
This house struggles to find another company that grows so fast, still has so many obvious avenues of growth and trades at such multiples. Clearly the general tech meltdown made the market disregard the Uber Free Cash Flow inflection we now confidently see in the horizon.

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At this point our investors might fairly ask: since everyone has always known that Uber is a deeply promising company, why does this house think the company is finally ready to deliver on its promise? Why is now the right time?

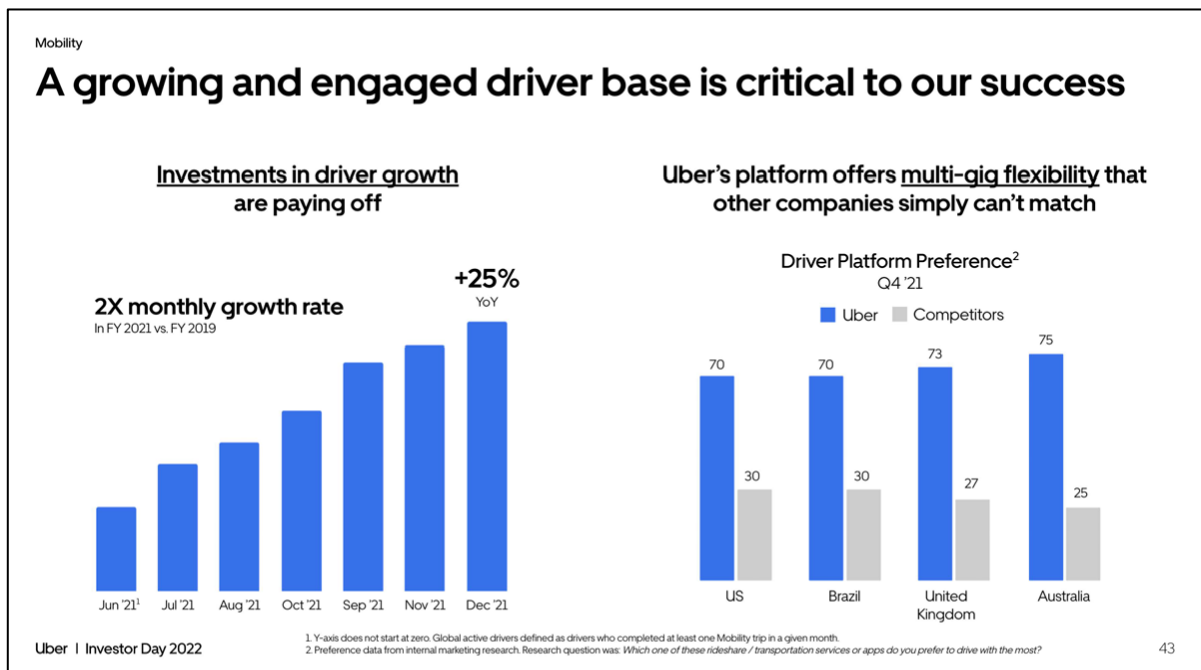
The answer, we think, lies in each of the three areas of the company as well as in a sum of the parts exercise:

First, in mobility the preference by user for Uber instead of competitors and its scale advantage has only increased throughout the pandemic and in the subsequent reopening period.



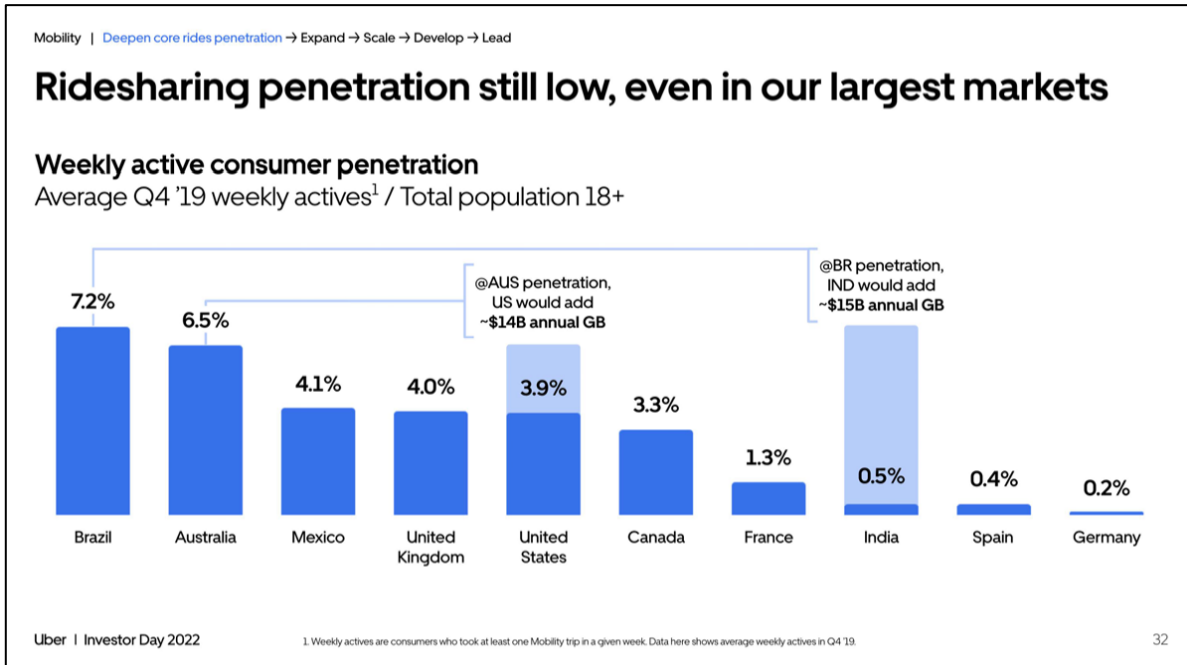
Source: Uber's 2022 Investor Day Presentation

Back in 2019, there was open talk of Lyft surpassing Uber in the US market. Under Dara's leadership that talk has increasingly been put aside.



Source: Uber's 2022 Investor Day Presentation

And that is before we contemplate the rest of the world, where ridesharing penetration is still low and there is still a long avenue of growth ahead as Uber gradually replaces other forms of transportation like taxis, trains and private car ownership.



Source: Uber's 2022 Investor Day Presentation

Uber is only starting. Some promising movements this house foresees for the next few years include Uber's plan to connect every US taxi to its app until 2025 as well as possible initiatives towards longer intercity journeys (a vast and promising market in its own right) or public transportation initiatives. Ironically, the company that was seen by city majors all over the world as an enemy, is gradually seen as an inevitability and, more and more, integrating its services with the cities where it operates and being part of the solution for urban mobility.

When it comes to delivery, Uber Eats has become the largest food delivery company outside of China, even accounting for the fact that it is not hugely dominant in any single market it operates. Its transportation and delivery synergies, its technology and its brands make it, at the very least, a very serious competitor able to grab share in virtually every market¹⁷.

¹⁷ With some high profile exists when this couldn't be achieved, like in Brazil.



Source: Uber's 2022 Investor Day Presentation

Finally and perhaps most intriguingly, comes a new wildcard: Uber Freight. This is Uber's attempt to revolutionize one of the most traditional global industries the same way the company did with mobility and delivery.

So how do we assess the sum of the parts of this amazing and incredibly complex company?

First, our thesis rests on three main assumptions:

- After some false dawns the inflection from cash burn to positive free cash flow is happening at the time of this writing and will accelerate;
- Uber's fast growth in its three main areas will continue for the next few years, especially in delivery and freight. Gradually, the margins in the three areas will somewhat increase;
- Uber will retain and eventually monetize its strategic minority assets, especially in Didi Chuxing.

The first assumption is finally being acknowledged by the market. In a recent Bloomberg snapshot, this house collected a few consensus numbers sent by Wall Street analysts:

Uber in 2025 (Bloomberg Consensus)	
Revenue	\$52 billions
EBITDA	\$7.1 billions
Free Cash Flow	\$6.3 billion

For the second assumption, in which this house is also increasingly in agreement with Wall Street analysts, the project sales growth remains close to 20% yearly at least until 2026.

We feel those assumptions to be conservative given that in the past five years (and despite a pandemic), Uber was able to grow from a \$8 billion to a \$29 billion revenue company and, especially considering that its delivery and freight businesses are only scratching the surface in terms of future potential. But for the sake of conservatism we will stick to Wall Street consensus numbers.

Finally, Uber's web of minority participations, which this house expects to face some simplification and optimization in the future¹⁸ clearly still has one crown jewel: its 14% stake in Didi Chuxing which alone is probably worth somewhere between \$5 billion and \$15 billion.

To put that in perspective, the whole of Uber is currently worth \$50 billion after 2022's tech rout.

If we were to apply a 20x multiple (which a company as dominant in its industry as Uber certainly deserves) to the company's consensus 2025 Free Cash Flow and conservatively add \$ 5 billion for the Didi stake while disregarding every other strategic investment, we would reach a \$65 fair price value, instead of the \$25 Uber is currently trading at.

As our longtime investors know, this house doesn't really use fair price models too heavily, preferring to be approximately right in its thoughts than precisely wrong. But any way we look at it, we find a grossly mispriced company if one shares the three main insights we share: the vision that the company is here to stay, it is on an inflection point and it will keep growing.

Like we said before, not many companies around the world can claim to change social norms. From 16 year olds that no longer dream of the day when they will get their car; to couples in parties and celebrations that no longer dread the moment they have to drive back home after a few drinks; and to millennials used to getting everything on their door in minutes in a lifestyle that only billionaires had a while ago.

Uber is a company that is helping to define the 21st century and its own situation is in itself an apt metaphor, because finally, the very company that was responsible for so many of the planet's journeys is now, for the first time, on a journey of its own and with an open road ahead.

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¹⁸ Like the recent, \$390 million sale of Uber's stake in the Indian food delivery company Zomato

Performance

FCL Opportunities	
2022, in BRL	-27,11%
2022, in USD	-23,17%
MSCI All Country Index, 2022, in USD	-18,36%
Since Inception (30/01/2017), in BRL	90,35%
Since Inception (30/01/2017), in USD	12,22%
Avg Annual Return, since inception, in BRL	11,32%
Avg Annual Return, since inception, in USD	1,94%

At the end of the year, FCL Opportunities top 5 positions were:

Position	Country	% Fund NAV
Capri Holdings	USA	15,1%
Go Daddy	USA	12,7%
Entain	UK	11,2%
Moncler	Italy	9,8%
HelloFresh	Germany	7,3%

FCL Opportunities Portfolio Composition on December 30th, 2022:

Portfolio Composition by Sector	
Consumer Discretionary	44,5%
Technology	30,4%
Healthcare	12,0%
Financials	5,9%
Industrials	2,6%
Telecom Services	2,2%

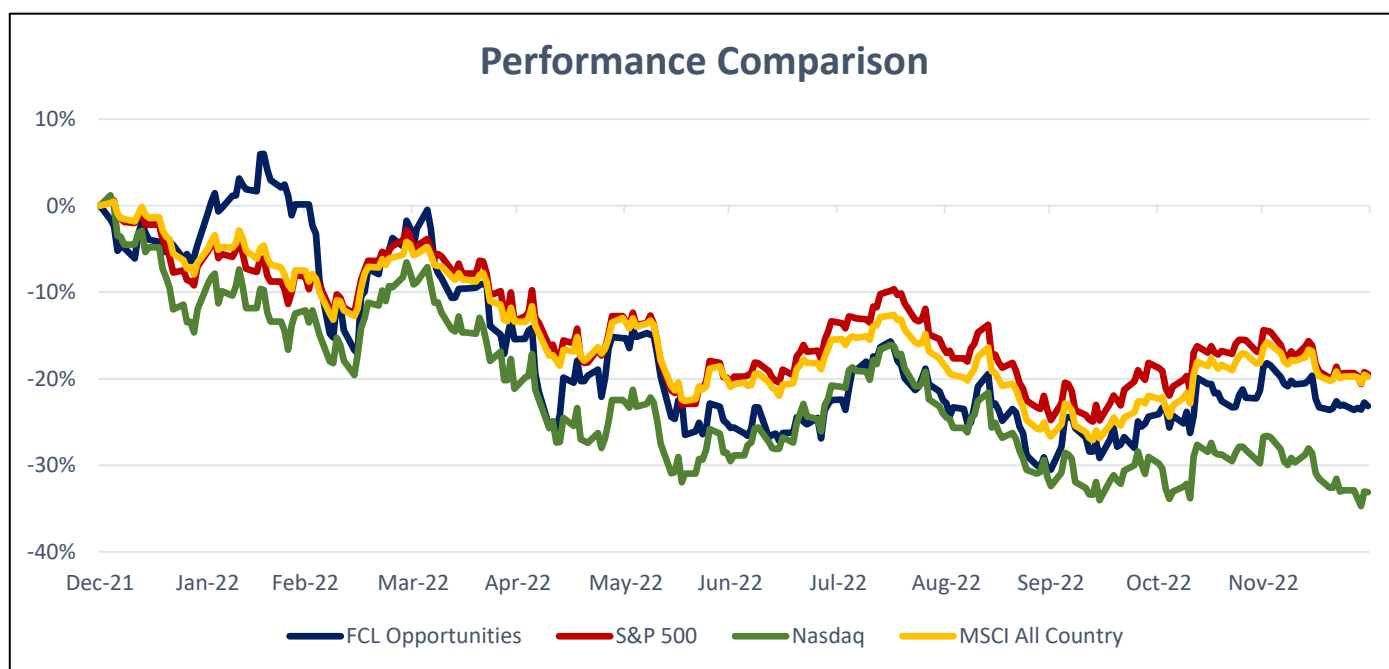
Currency Exposure	
USD	40,5%
EUR	17,1%
BRL	16,9%
GBP	11,2%
HKD	6,8%
Others	7,4%

Geographic Distribution	
USA	38,3%
Europe	28,3%
Brazil	14,6%
China	12,2%
Nigeria	2,2%
India	1,9%

Portfolio Concentration	
Top 5	56,1%
Top 10	86,3%
Top 15	97,6%

FCL Opportunities had a tough 2022, in line with most global stock indexes. At yearend, our performance was -27,1% in BRL and -23,2% in USD, a performance that is not on par with what our investors rightly expect from this house and also not on par with our own track record, making this by far our worst year.

Doing a comparative analysis, the performance was certainly disappointing (since we were not able to deliver differentiated and uncorrelated returns), but certainly not catastrophic since global financial markets also had their worst year since the depth of the global financial crisis in 2008. To put it in context, the S&P500, the MSCI All Country Index and the Nasdaq all fell, respectively, 19,4%, 18,4% and 33,1% in 2022.

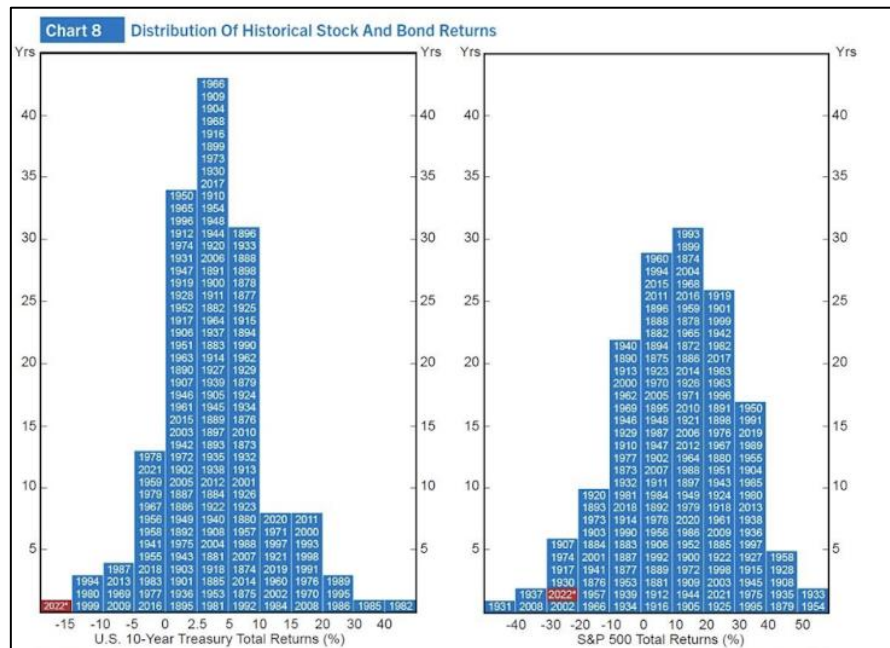


Source: Bloomberg, FCL Capital

The good news is that, if history is any guide, this kind of horrible performance while certainly not unseen or impossible, is quite unusual in global financial markets.

If we look at the distribution of annual stock returns of the S&P500 since 1931, only five years (1931, 1937, 1974, 2002 and 2008) had worst returns. Although this doesn't guarantee good returns for next year, at least it puts things into perspective: years like 2022 are unusual and even when they do happen, people that hold on tight during those painful days, are likely to eventually reach new all-time highs, as has been the case in all those years presented above.

As for bonds, they fared even worse, with their worst annual performance ever at least in the US.¹⁹



Source: Alpine Macro

So to sum it up, it was a year where most asset classes experienced terrible performance, especially in global developed markets, thanks to the triple combination of: rising interest rates in the US; a tragic war in Europe; and Covid lockdowns together with a high degree of uncertainty in China, wreaking havoc on the three major parts of the global economy at the same time. If the global economy were a plane, it would have three main engines (the US, Europe and China) and, in 2022, each one of them caught fire.

But even the tragic global index performance we outlined above probably paints too rosy a picture. The returns of the S&P500 and the Nasdaq, unlike, say, the Brazilian or Japanese stock indexes, are market cap weighted. In other words, the more valuable a company is, the bigger its weight in the stock index.

So a company that is worth trillions of dollars, like Apple or Amazon, will have an outsized influence in the index composition, as opposed to a company only worth a few hundred million dollars. Also, there was some distortion in the indexes because of the influence of oil companies that shone throughout the year and belonged to the one sector that delivered positive returns.

¹⁹ <https://awealthofcommonsense.com/2023/01/2022-was-one-of-the-worst-years-ever-for-markets/>

To have a better idea of how markets behaved in general, just look at the numbers on a company level. In the USA, not by any means the only market where the price compression happened, some 20% of all stocks ended the year down 80% or more, with one in ten stocks ending the year down 90% or more.

For a niche fund like FCL Opportunities, that tries to identify and surf in the major long term global trends that will change the world, a year where investors focus turns more short term oriented is a perfect environment for bad returns like the ones we experienced in the past 18 months. The good news is that the intrinsic value of all of our positions, this house believes, has only increased.

As seasoned investors surely know, there are only two possible ways losses can occur in global stock markets: through earnings decreases or through multiple compression (when although the company's earnings keep increasing, the multiple investors are willing to pay for those earnings decreases). In 2022, the terrible performance for the S&P 500 for example was almost exclusively caused by multiple compression since earnings as a whole remained basically flat throughout the year²⁰.

A recent study²¹ showed that since 1960 while earnings multiples increased only 0,3% per year, earnings growth averaged 7% per year in the same period, meaning that in the long run, it is quite clear that the earnings growth is what should matter to an investor and that multiples do tend to revert to the mean over time.

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As for 2023:

After a painful 18 months that were very detrimental to our performance, we finally feel confident to say that the tables are turning in China. Zero-Covid ended in December 2022 in a more spectacular, uncoordinated and unforeseen way than any of us could have imagined. The good news is that as soon as the inevitable current wave subsides which should happen very soon, consumption, business formation and normal daily lives should slowly, but surely, start to resemble what it was in 2019, with virtually every company and the Chinese and whole global economies accelerating dramatically.

This is not the sole reason for our newfound optimism about China: its leadership is once again showing signs of being less ideological and control obsessed and more pragmatic with a number of positive noises, like recent approvals for new video games, a blessing for a funding round for Ant Financial (the very company which was chapter zero in the whole tech crackdown campaign) and a well-engineered government support package for the crucial real estate sector.

Most dear to this house, after almost two years of an intense spat with American regulators, the US Public Company Accounting Oversight Board has successfully gained access to the audit records of Chinese companies listed in the US, like Alibaba or

²⁰ <https://www.forbes.com/sites/chuckjones/2022/12/31/stocks-hit-by-valuation-compression-in-2022/?sh=3c5931af30cb>

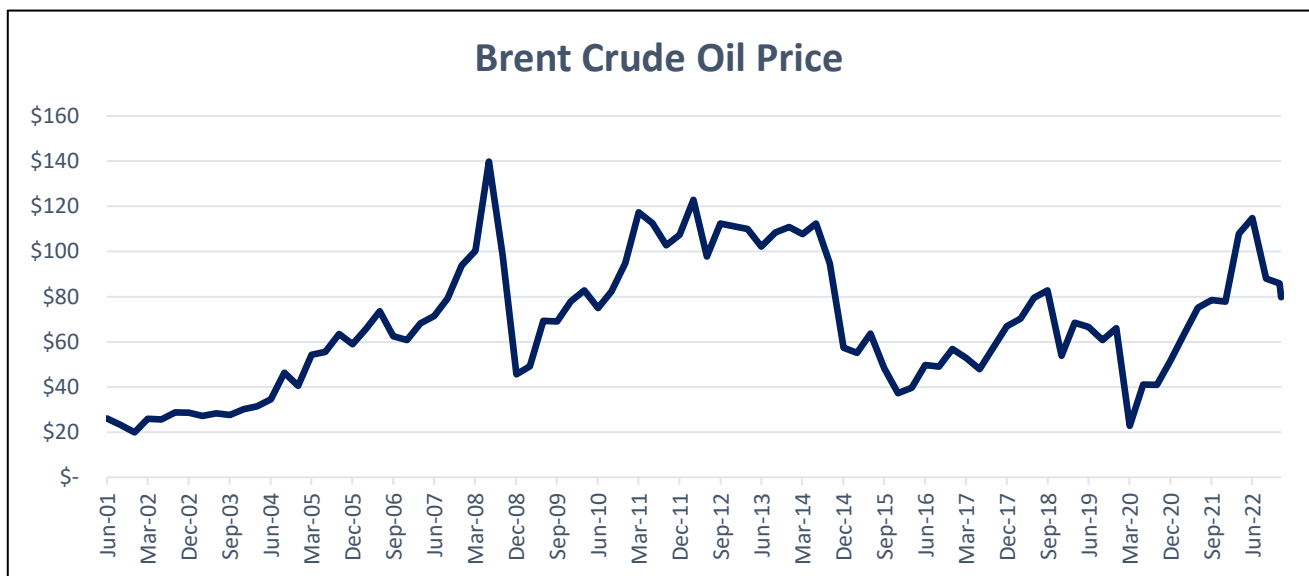
²¹ www.institutionalinvestor.com/article/b212vq7pzvc5hd/Why-Private-Equity-Gets-Valuations-Right

Pinduoduo. This episode, in our opinion, showed immense pragmatism of the Chinese leadership in finally allowing foreign access to audit documents, paving the way for a significant bit of cooperation between the two superpowers and all but eliminating the risk of hundreds of Chinese firms being kicked out of New York exchanges.²²

Tech is another pocket of optimism for this house. We are fully aware that in markets narratives are powerful things and they come and go, like the wind. So in 2022 the narrative that the world was changing and the belief in tech's rise and its inevitability was completely forgotten in favor of companies that made tangible products and already had tangible profits. We feel the truth lies somewhere in between and as much as this house was very vocal in criticizing tech companies valuations²³ we feel the pendulum has swung too far in the opposite direction.

As for our macro thesis (the global long term beliefs we hold that serve as a compass for our investment ideas), we feel that 2023 will bring new ideas in the long term transition the planet is facing in the energy markets, towards renewable and sustainable sources. We have been in close contact with batteries manufacturers, environment service providers²⁴, Lithium producers and a lot more.

But also, perhaps counterintuitively, we feel increasingly more excited and conducting deeper research in traditional oil companies, because we feel that with all the capex being redirected towards cleaner energy, oil might, as an unintended consequence, become scarcer and dearer in the medium term. So, to sum it up, we think the energy sector as a whole might be one major new theme for our fund in 2023.



Source: Bloomberg, FCL Capital

²² <https://www.nytimes.com/2022/08/26/business/us-china-audit-deal.html>

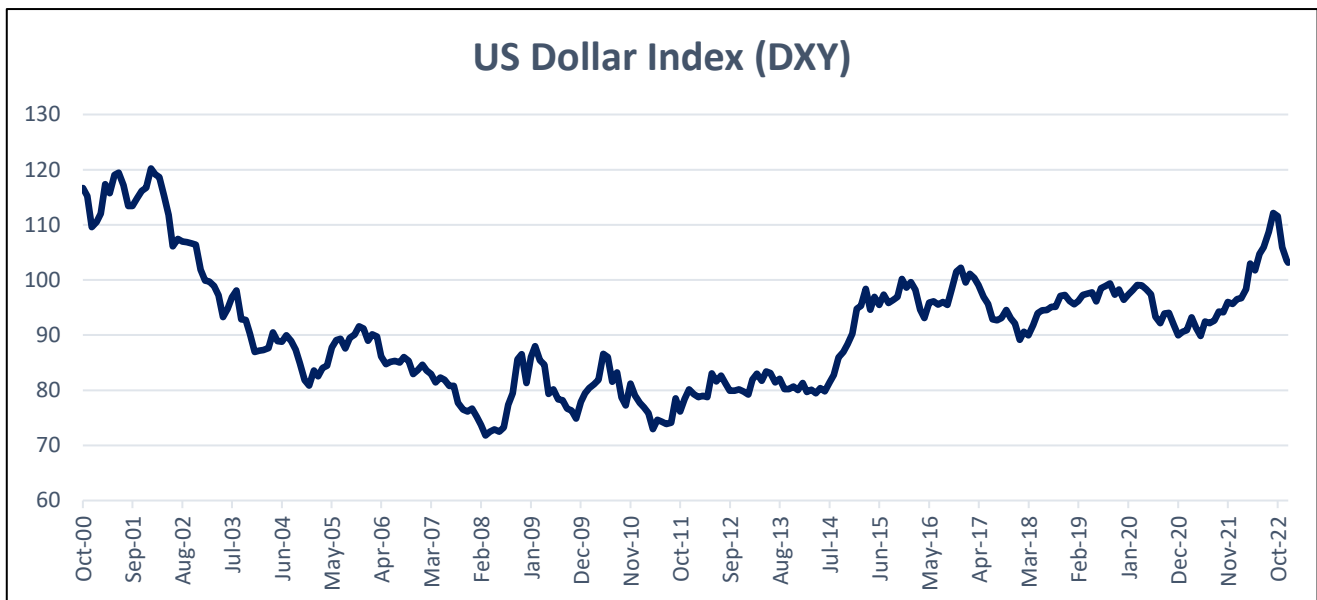
²³ See our 4Q 2020 letter - https://84471c97-e192-4d57-a61f-283398a4101f.usrfiles.com/ugd/8d6b17_a78e179454ee4ed680f6cb847c9bccff.pdf

²⁴ See our Ambipar thesis for one of our first major investments in this space - https://84471c97-e192-4d57-a61f-283398a4101f.usrfiles.com/ugd/8d6b17_f85fe96800b44c45bc1ad8a35086d3f3.pdf

As for points of attention and possible macro positions where this house might want to hedge or opportunistically take advantage in possible market dislocations, the first place to look at would certainly be Japan.

Recently the BOJ raised its interest rate ceiling (a local anomaly where the central bank has an interest rate target as opposed to an inflation target) from 0,25% up to 0,5%. We feel this ceiling might break this year with Japan's monetary policy increasingly out of sync with other developed central banks.

Another asset which we feel is overvalued is the US dollar. Even after the selloff in the past few weeks of 2022, the DXY remains near the top levels of the past 20 years. This was an additional factor that harmed our US dollar returns as we discussed in length in the past quarterly letter. We think and hope that in 2023 the reverse effect might serve as a tailwind for our fund's performance



* The index goes up when the USD gains strength

Source: Bloomberg, FCL Capital

Finally some thoughts on Brazil. It is undeniable, as many local Brazilian fund managers point out, that by any traditional valuation metric, the Brazilian stock index is certainly among the cheapest in the world, possibly alongside that of Turkey and Russia, which for most global investors are not even investible countries anymore.

At the same time, it is also a fact that the country of Brazil has been experiencing not only a clear economic deterioration in its fundamentals, but also some decomposition in its democratic institutions and some decay in its moral fabric.

How to square the circle and account both for the amazing assets listed in the country trading at incredibly depressed valuations (the micro) versus the economic and institutional decay in the country (the macro)?

Certainly, this macro versus micro dilemma is not uncommon in financial markets and there is no correct clear cut answer, it depends on each investor's time frame, its risk appetite and so on.

For this house, taking advantage of our global mandate, we have been acting in several fronts:

- 1) Decreasing the overall fund exposure to Brazil, from a high of more than 30% reached in 2021 to around 13% now and falling;
- 2) Concentrating our exposure in strategic sectors and companies where we have a deep confidence in management and feel comfortable waiting for results to materialize. All of that in countries that we felt the macro risk is more than worth it;
- 3) Searching for possible hedges that further mitigate our country exposure risk while not letting go our positions in companies we know and admire.

Certainly over the course of 2023 a lot will still be written about this micro versus macro reality in the Brazilian market and we feel confident we will be able to navigate this dichotomy to deliver differentiated returns to our investors.

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Our annual FCL Day will happen on April 25th on Zoom and once again it will be open not only to all our past, present and prospective investors as to all other interested parties. More details to follow soon!

Over the past month we proudly launched our brand new monthly podcast, for now only available in Portuguese. The first episode, discussing our global macro thesis and our investments in the global luxury industry is already live on Spotify – link: <https://open.spotify.com/show/3HjC6M3yp4SibhdUK98W8v?si=833d2c447c24495e>

We end this letter, as always, thanking all our investors and looking forward to your question or comments at info@fclcapital.com. Please feel free to reach out.

Wishing you all an amazing year of 2023,

FCL Team