

TMT+: Episode 48 – 12/5

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Happy Sunday,

Biggest question of the week... “*what is driving the move?*” Reasons cited: December liquidity, Omicron, awareness of January supply and existing shareholder overhangs, rates/inflation/FED fear into next week’s CPI print, lackluster earnings. All are relevant but to me, this earnings season (thinking back over the last month+) has really caught people off guard on multiple fronts, DOCU (-46% this week) adding to SNAP, PTON, CHGG, ASAN, TWLO, ZM and many other COVID winners, which has been the biggest factor. As Sterling noted in recent Source Code (note [here](#), published Nov-1st), the avg fwd EV/Sales multiple for pure SaaS businesses had doubled from pre-COVID levels (chart below). With growth/upgrades slowing faster than anticipated adding to the already slipping correlation between growth and momentum factors, it’s just been hard for investors to find any valuation support outside of mega-cap tech.

It’s hard to compare what is going on to the Dotcom Bubble, The Taper Tantrum, Dec 2018 with the SPX and NDX off just 4-5% from the highs, however looking under the surface, there has been a real crash. The average move off the 52week high across the constituents of the NASDAQ composite index (CCMP – c.3600 stocks) is 40%. It’s the mega caps that have held up the market and the average equity investor just hasn’t owned enough of them in an attempt to outperform benchmarks.

Follow up question... “*what is going to change the current dynamic?*” Top down, it’s going to be hard for investors to step back into growth ahead of the Nov CPI print (12/10) so I’d expect some volatility between now and then. More fundamentally, M&A is definitely something to start thinking about: mega cap tech is incredibly well capitalized: AAPL, MSFT, GOOGL, FB are sitting on nearly \$300B cumulative net cash and with the 10yr now comfortably below 1.4%, the funding environment is also supportive.

From a positioning perspective, Schlegel has published a few pieces this week with a backdrop of our Prime flows. As you’d expect we’ve been much better for sale across the market; in TMT this has been broad based across all sub-sectors. The 10-day net flow z-score has swung from +1.6z on Nov 11 to -1.6z as of Wednesday and is in line with other lows YTD. However, gross is not being taken down, we actually saw adding to gross positions this week which makes sense looking at performance of consensual shorts – JPTASHT down 12% this week (SPX -1%). Ryan and I hosted a call with Schlegel, Kristen Keyes (D1) and Mike Krueger (Derivs Trading) to run through positioning, flows and ideas on Thursday this week – link to replay [here](#).

We hosted our inaugural Crypto Economy Forum this week (11/30) which had a cracking line up of developers, investors, economists and experts. The irony that JPM hosting a crypto conference could have marked a near-term high in a number of coins isn’t lost on me but the attendance and debate is clearly a reflection how much attention the space is getting right now. I’m around next week if anyone wants to catch up on feedback and key themes from the event.

There is a bunch of conferences to digest next week, the biggest talking point in my world is any trading updates we’ll get from the telco/cable names at UBS over the next 2 days. Despite the group trading near the lows, we continue to see an absence of buyers on the desk. I sent out thoughts on the group earlier this week – note [here](#).

Lastly, our Global Sector Specs team focus our weekly ideas piece this week on “Black Friday Bargains” to highlight names that have been unfairly oversold or are looking too cheap right now (note [here](#)) – across US TMT, we chose MQ, BMBL and CRM. All pasted in ideas section below.

All thoughts welcome, Ryan & Jack

Use the links below to jump straight to each section:

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[Charts of the Week](#)
[Movers and Shakers](#)
[Don’t get Caught Short](#)
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Ideas for Next Week

Long Marqeta (MQ): Fundamentals have been largely irrelevant since IPO with the technical backdrop of pre-IPO supply being a much larger share price driver. Q3 earnings were strong across the board, highlights: 1) top line beat and mgmt to an acceleration in Q4, 2) gross margins bounced back after a weak Q2, 3) Square dependence fell (Q3 68% revenue vs Q2 72%). Despite all this, stock is trading off 30% from IPO price due to the lock-up overhang. Now we have digested some of this supply and liquidity is improving, the backdrop makes it much more interesting into 2022. Stock trades on 26x 23e EV/GP vs SHOP & BILL >40x which I think should be considered as the right comps for a category leader with huge TAM optionality. Marqeta is powering the rise of neobanks alongside a wide range of payment processing for other industries: Food Delivery, BNPL, Supply Chain Management, Crypto, etc.

Short Interest Colour: SI at 2 ADTV to cover or 8.9% of Ffloat

Long Bumble (BMBL): Trading near all-time lows and 25% below IPO price following a miss on Q3 Bumble net ads. Over the next few weeks, we should gain more clarity over AppStore fees with Apple set to allow external payment as of Dec-9th which could be a meaningful profitability tailwind into 2022; Cory sees potential for a 10%pt EBITDA mgn uplift for Apple making these changes globally (note [here](#)). We also hosted Bumble's CEO, CFO, and IR on the road in NYC and Boston next week for their first in person meetings since IPO which carries relevance for a company that relies off social interaction. I'd expect them to give a confident message on holding US share vs Hinge and continuing to drive international expansion. The stock has now derated to 22x 23e EV/EBITDA for 30% 2020-23 EBITDA CAGR with upgrade optionality from AppStore fees (compares to MTCH on 25x for 22% CAGR).

Short Interest Colour: SI at 2 ADTV to cover or 8.4% of Ffloat

Long Salesforce (CRM): CRM's results this week disappointed when looking under the hood as their Mulesoft business decelerated due to some operational changes. Further, while the company reiterated their FY23 outlook, the initial 1Q guidance was below consensus given the street's miss-modeling of the quarterly growth rates for the FY. That reset drove the shares lower and they are not trading at ~8x EV/FY23 sales estimates. This compares to peers such as WDAY trading at ~11x currently yet growing the same (low 20's) at a much lower scale. YoY compares for the next few quarters are also lower than they've been and should allow for decent beats as we move through FY23. Bottom line, this recent pullback in CRM is a buying opportunity

Short Interest Colour: SI at 4 ADTV to cover or 1.6% of Ffloat

Quotes of the Week

Rather than quote a series of investor pain, 2 stats to demonstrate market leadership and the crash we have witnessed below the surface. This helps explain why everything feels so painful despite the QQQs off just 6% from the highs.

"Within the Nasdaq (3765 stocks) 5 stocks Microsoft, Google, Apple, Nvidia, Tesla account for 71% of 19% YTD gain"

"On average, stocks within the Nasdaq are trading off 39.8% from 52 week highs; the bottom quartile are off 77.6% from 52 week highs"

Charts of the Week

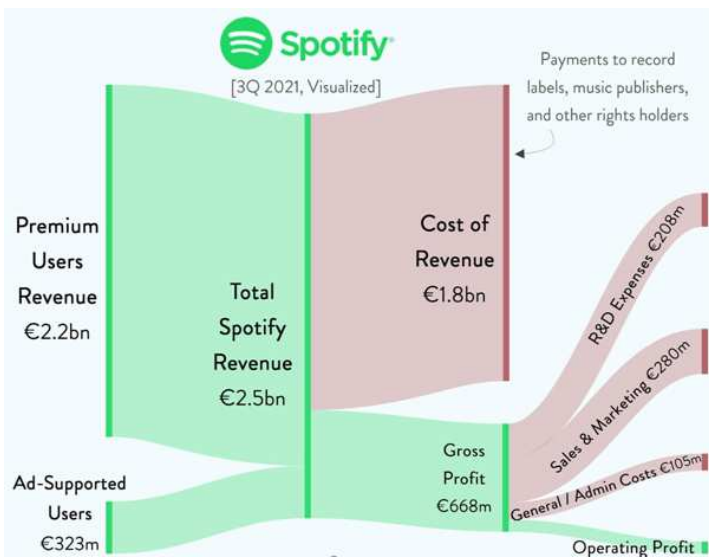
IGV just about holding the 200day



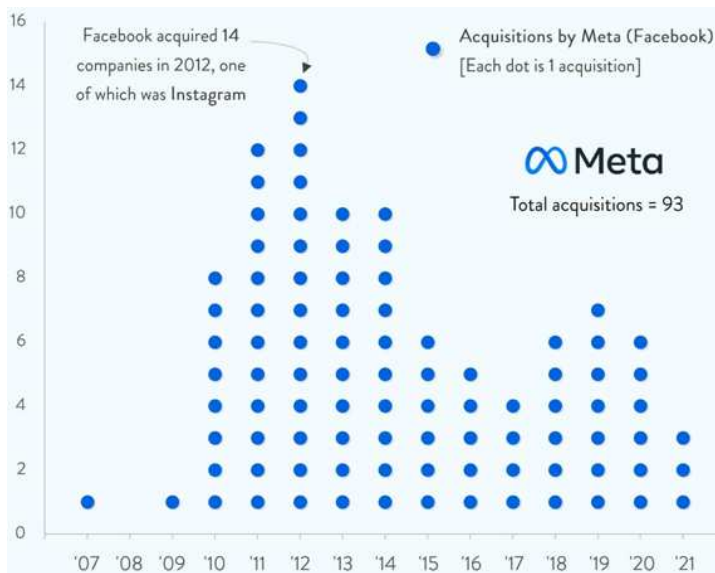
Forward EV/Sales multiple for the pure SaaS space is at 15.4x (up to Nov-1st)



SPOTIFY... Great company, bad economic profile (source: Chartr)



META... Acquisition Time Line (93 total is less than what I would have guessed)



Movers and Shakers

MRVL +17%: Beat and raise with earnings

CHGG +13%: Buyback and CEO buying stock

MGI +12%: Saudi expansion and short squeeze

ESTC -29%: Growth deceleration

ASAN -38%: Growth deceleration

DOCU -46%: Demand slowdown and tempering margins – Sterling cut to UW

Don't get Caught Short

Most Shorted Names as a % Float (>20%):

| Ticker | Short Interest |
|--------|--------------------------------------|
| CXM | 61.6% ffloat, 6.9x ADTV, -5.1% m/m |
| GOGO | 28.2% ffloat, 15.5x ADTV, -13.0% m/m |
| IRBT | 24.2% ffloat, 14.6x ADTV, -7.9% m/m |
| ATUS | 23.8% ffloat, 6.3x ADTV, 8.9% m/m |
| DOCS | 23.5% ffloat, 5.0x ADTV, -12.2% m/m |
| NKLA | 22.9% ffloat, 4.4x ADTV, -13.7% m/m |
| W | 22.6% ffloat, 10.1x ADTV, -5.3% m/m |
| XMTR | 22.3% ffloat, 20.5x ADTV, 41.6% m/m |
| SIRI | 20.8% ffloat, 8.3x ADTV, -4.3% m/m |
| DISCA | 20.5% ffloat, 3.8x ADTV, 8.3% m/m |
| HYLN | 20.5% ffloat, 8.5x ADTV, -2.0% m/m |
| GDRX | 20.3% ffloat, 9.4x ADTV, -14.1% m/m |
| AMCX | 20.3% ffloat, 10.8x ADTV, 0.9% m/m |
| FOUR | 20.2% ffloat, 5.2x ADTV, 3.1% m/m |

Stocks under coverage with largest change in short base m/m (+/- >30%):

| Ticker | Short Interest |
|--------|-------------------------------------|
| MNDY | 17.2% ffloat, 1.9x ADTV, 98.3% m/m |
| NPTN | 4.6% ffloat, 1.4x ADTV, 97.6% m/m |
| PAY | 9.2% ffloat, 5.2x ADTV, 65.3% m/m |
| TASK | 8.2% ffloat, 2.1x ADTV, 46.5% m/m |
| XMTR | 22.3% ffloat, 20.5x ADTV, 41.6% m/m |
| ZIP | 5.3% ffloat, 2.4x ADTV, 40.5% m/m |
| PAGS | 5.3% ffloat, 4.4x ADTV, -30.0% m/m |
| RBLX | 5.6% ffloat, 0.8x ADTV, -30.2% m/m |
| VIAV | 1.9% ffloat, 1.8x ADTV, -32.8% m/m |
| NATI | 1.8% ffloat, 3.4x ADTV, -33.1% m/m |
| EXTR | 3.0% ffloat, 1.9x ADTV, -33.3% m/m |

| | |
|------|------------------------------------|
| EDR | 3.2% ffloat, 3.6x ADTV, -34.0% m/m |
| FROG | 9.4% ffloat, 3.1x ADTV, -37.0% m/m |
| FYBR | 2.4% ffloat, 4.7x ADTV, -37.3% m/m |
| TDS | 1.8% ffloat, 2.8x ADTV, -37.5% m/m |
| TENB | 1.5% ffloat, 1.5x ADTV, -38.9% m/m |
| BNFT | 2.3% ffloat, 3.2x ADTV, -41.7% m/m |
| XM | 2.7% ffloat, 0.9x ADTV, -42.7% m/m |
| VMW | 3.7% ffloat, 2.8x ADTV, -42.7% m/m |
| PRFT | 2.9% ffloat, 2.4x ADTV, -51.6% m/m |
| LLNW | 1.8% ffloat, 2.5x ADTV, -56.5% m/m |

Research Highlights

GlobalFoundries : Off to a Strong Start on Solid Execution and Strong Demand/Visibility; Margin Expansion Remains on Track; PT to \$82. [here](#)

Grab Holdings Limited : Stronger. Faster. Higher – Initiate with OW. [here](#)

European Telecoms: 2022 Outlook. Growing M&A frenzy. Time for take-off? [here](#)

Rogers Communications : Asset Sales Unnecessary Ahead of Deal Close, but Potential Shaw Wireless Sale Could Help Leverage. [here](#)

Zynga: Remain Overweight with Valuation at a Five Year Low; 2022 Estimates Walk-Through. [here](#)

Telecom, Cable, Satellite, & Towers : Spectrum of Opportunity: Ranking Telecom and PayTV Stocks for December Performance. [here](#)

Vivendi : Bollore's Masterplan - End Game: Financial genius at work, but don't expect to share in all of the upside. [here](#)

European Outdoor : Short-term trading might remain bumpy, but the structural growth opportunity remains intact. We like both for 2022. [here](#)

Stone & PagSeguro : Substantial Impact of Rising Selic - Revising PTs and Earnings. [here](#)

Market and Volatility Commentary : What if "Nu" variant Omicron ends up positive for risk? [here](#)

Flows & Liquidity : Equity demand and supply for 2022. [here](#)

TMT Calendar

| Date | Technology | Telecom & Media | Internet |
|-------|---|---|--|
| 12/6 | Results (amc) : COUP, GTLB, SUMO Other : UBS TMT Conf, Ray Jay Tech Conf | Other : UBS TMT Conf, Ray Jay Tech Con | Other : UBS TMT Conf, Ray Jay Tech Con |
| 12/7 | Results (amc) : PD JPM : LPSN Fireside Chat Other : UBS TMT Conf, Barclays TMT Conf, ERICB Bus Update Call | Other : UBS TMT Conf, Barclays TMT Conf, WPP Investor Call, INF CMD | Results (amc) : SFIX Other : UBS TMT Conf, Barclays TMT Conf |
| 12/8 | Results (amc) : PATH JPM : RELY Mgmt Meeting Other : UBS TMT Conf, Barclays TMT Conf | Results (amc) : GME JPM : VIAC Mgmt Dinner, TIGO NDR Other : UBS TMT Conf, Barclays TMT Conf | Other : UBS TMT Conf, Barclays TMT Conf, EU to publish gig-economy proposals |
| 12/9 | Results (bmo) : CIEN Results (amc) : AVGO, ORCL JPM : DOX NDR, FROG NDR, INTU Mgmt Meeting, SMWB NDR Other : GS Fins Conf, IRBT Investor Day, NCR Investor Day | JPM : VZ Mgmt Meeting | Results (bmo) : MOON Results (amc) : CXM Other : AppStore Injunction Date |
| 12/10 | Results (bmo) : BLDE JPM : CIEN Mgmt Meeting | | JPM : ARCE NDR Other : WMT Bus Update Call |

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