HINDE GROUP

A 580 California St.
12th Floor
San Francisco, CA 94104

T (415) 992-8125

W hinde-group.com

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To My Partners:

The performance of our portfolio for the third quarter of 2020 and since inception is summarized below.

	1578 Partners, LP		S&P 500
	Gross	Net	Total Return
2020:			
Q3	16.24%	15.81%	8.93%
Year-to-Date	22.29%	20.92%	5.57%
Since Inception (08/01/15):			
Annualized	13.46%	11.77%	11.76%
Cumulative	92.03%	77.67%	77.60%

During the third quarter, global economic activity experienced a large – but only partial – recovery from the historically depressed levels hit earlier in the year. Although a rebound was expected, it surprised to the upside. In June, the International Monetary Fund ("IMF") had forecast that the U.S. economy would shrink by a horrific 8.0% in 2020. Based on data for the third quarter, the IMF now projects a somewhat-less-horrific 4.7% decline.

Make no mistake, the pandemic and the measures to contain it continue to weigh heavily on the economy. At the end of the third quarter, the U.S. prime-age employment-to-population ratio – a much broader measure of employment than the headline unemployment rate – sat at roughly the same level it hit during the depths of the last recession. The Federal Reserve's most recent projections show the unemployment rate remaining elevated until 2023. How fast the economy recovers will ultimately depend on how quickly we bring the virus to heel and how effective the fiscal response to the economic damage from the pandemic ultimately proves to be.

Better-than-feared economic data supported financial market conditions. Broad stock indexes rose and credit spreads generally tightened. Corporate bond and equity issuance volumes were strong. Treasury yields remained near historic lows based on the expectation of a prolonged period of depressed economic activity and correspondingly accommodative monetary policy. The benign conditions in financial markets presented a stark and awkward contrast to the huge disruptions occurring in the economy.

The mark-to-market performance of our portfolio outperformed that of the S&P 500 during the quarter. The lion's share of our portfolio's gains came from three positions, Covetrus, Inc. common stock (NASDAQ: CVET), Sleep Number Corporation common stock (NASDAQ: SNBR) and Interactive Brokers Group, Inc. class A common stock (NASDAQ: IBKR). CVET, SNBR and IBKR gained 36.4%, 17.5% and 15.7%, respectively. None of our positions detracted from performance during the quarter to a noteworthy extent.

Performance Attribution

Positions that had a material impact on the portfolio's mark-to-market performance for the quarter and year-to-date are outlined below.

Performance Attribution			
3Q 2020		YTD	
Covetrus	8.77%	Covetrus	15.07%
Sleep Number	2.93%	Sleep Number	5.49%
Interactive Brokers Group	2.42%	Amazon.com	2.31%
Alphabet	0.77%	Alphabet	1.92%
Amazon.com	0.69%	Northeast Bank	-2.20%
Other	0.66%	Other	-0.29%
Gross Performance	16.24%	Gross Performance	22.29%

Portfolio Composition

The composition of the portfolio at the end of the quarter is depicted below.

Portfolio Composition	
Equities – Long	96.0%
Equities – Short	-1.1%
Cash[1]	5.1%

During the quarter, we added a new long equity position in Uber Technologies, Inc. common stock (NYSE: UBER). We also trimmed our positions in Amazon.com, Inc. common stock (NASDAQ: AMZN), Colfax Corporation common stock (NYSE: CFX) and Fastenal Company common stock (NASDAQ: FAST). At the end of the quarter, our portfolio included nine long equity positions, one short equity position and cash.

Select Portfolio Updates

The lone portfolio update for this quarter covers our new investment in Uber Technologies, Inc. common stock (NYSE: UBER), a compounder.

Uber Technologies, Inc. (NYSE: UBER)

With operations in more than 10,000 cities across 69 countries and gross bookings of $65 billion last year, Uber Technologies, Inc. ("Uber") is one of the largest transportation network companies in the world. Uber provides mobility (a.k.a. "ridehailing") and delivery services to approximately 100 million users worldwide each month by connecting them with more than 4 million independent drivers and delivery people. Uber's services are enabled by a highly sophisticated and efficient technology platform that automatically manages and optimizes demand prediction, matching & dispatching, routing, pricing and personalization, among other functions. In all of the geographic markets in which it operates, Uber has a leading share of the market for mobility services, often in excess of 65%.

[1] Includes cash collateral related to short positions.

Uber has no shortage of critics, skeptics and naysayers. The company has raised and spent a huge amount of money since it was founded in 2010. Despite the substantial scale and leading competitive positions it has built, it remains unprofitable today. Additionally, the pandemic has delivered a devastating, albeit temporary, body blow to Uber's mobility business. Far fewer people are going out to eat, heading to the airport or coming home from the office now than was the case just a year ago. Uber also faces legislative and regulatory challenges in many of its markets around the world, the most high profile of which has been California's recent efforts to force Uber to classify its drivers as employees. While there are kernels of truth in all the criticisms of and concerns about Uber, the company is on the whole deeply misunderstood, underappreciated and out-of-favor. In reality, Uber should prove to be a great business over time.

There are meaningful economies of scale in Uber's business. At the local market level, a certain minimum efficient scale is required to profitably provide a competitive level of service, generally defined as a wait time of around three minutes in the mobility business. Even in the most dense urban markets, like New York, with the highest rates of adoption and utilization of mobility services, a market share of at least 20% may be necessary to sustainably compete. Smaller, less dense markets may prove to be natural monopolies over time. There are also some modest demand-side economies of scale at the local-market level. Opportunities to pool rides and batch deliveries increase as the scale of demand on a network in a given local market increases. Economies of scale exist at the enterprise level as well. The greater a mobility network's national and global scale is, the more likely it is to win a disproportionate share of the demand from business and leisure travelers in any given local market. Greater enterprise scale also makes a transportation network company more able to afford the immense technology investments required to optimize performance and remain competitive. These varied sources of economies of scale suggest the markets for mobility and delivery services will evolve in a way that should provide Uber, which has extremely strong market share positions at both the local market and enterprise levels, with meaningful and durable market power over time that allows it to achieve highly attractive markups, margins and returns on capital.

You may wonder, "if Uber has meaningful and durable market power, why has it lost – and why does it continue to lose – so much money?" The answer is pretty simple. Because of the economies of scale present in the mobility and delivery businesses, Uber and other companies in the industry have been engaged in a massive land grab to establish their positions. This has mainly come in the form of aggressive discounts to acquire users and incentives to recruit drivers and delivery people. Given that Uber receives only a small portion of what its users pay, it is expensive for Uber to fully fund discounts and incentives. A 25% discount to a user on an Uber ride wipes out Uber's revenue on the transaction. Fortunately, use of discounts and incentives should recede as the markets in which Uber operates transition from the land grab phase to a more mature one. That is precisely what Uber's experience in many of its markets has been and what has led its mobility segment's adjusted EBITDA margin to increase from -1.4% in 2017 to 15.4% in 2018 to 30% for the first two months of 2020. Uber's delivery business, which lost $1.4 billion last year at the segment adjusted EBITDA level, is simply at an earlier stage of development than the mobility business. Beyond its mobility and delivery businesses, Uber has also been investing aggressively in developing its freight business and automated driving technology. Investments in both of those areas have been validated by external funding raised at attractive valuations relative to the investments Uber has made. Once you account for Uber's aggressive investments in growth, you find a business with compelling unit economics that are just as strong as you would expect based on the market power Uber should enjoy as a result of its scale.

Uber should also turn out to be a highly stable, predictable and recession-resistant business over time, notwithstanding the hit its mobility business is taking at the moment from the pandemic. Uber's mobility and delivery services are relatively low-priced services that meet everyday needs. Demand for those services should be insulated from changes in economic activity. Uber also enjoys highly diverse sources of

demand. It provides a variety of mobility and delivery services involving numerous use cases to over 100 million users across thousands of cities in many different countries. Although Uber is exposed to the whims of regulators and legislators to a degree, diversity helps mitigate risk on that front as well. No individual city or state is significant enough to Uber's business to deliver it an unbearable blow. Uber's asset light, highly flexible business model means it should be able to easily weather any fluctuations in demand without an outsized impact on profitability or cash flow. Finally, Uber's long-term vision is to move to a two-part tariff pricing model similar to that of Costco. If the company were to successfully make that transition, a meaningful portion of its revenue and profits would become explicitly recurring.

As attractive as Uber's prospective market power and predictability appear to be, the most compelling argument for Uber as a great business probably comes from its opportunity for growth. The mobility and delivery services that Uber offers are still in the relatively early stages of adoption. Cars last a long-time and behaviors around car ownership are slow to change. The roughly 100 million people who use Uber in any given month account for only around 2% of the combined population of the countries in which it operates. Even in Uber's most established sub-markets, such as downtown San Francisco, its mobility and delivery services remained on healthy growth trajectories prior to the pandemic hitting.

Moreover, the development and deployment of automated vehicles has the potential to expand Uber's addressable market by an order of magnitude or more. General Motors in late 2017 estimated that at a cost of less than $1.00 per mile, a ridehailing service based on automated vehicles would have an addressable market in the U.S. alone of $1.6 trillion.[2] Similarly, McKinsey estimates that fleets of autonomous robotaxis could generate as much as $1.5 trillion to $2.0 trillion in revenue per year by 2030.[3] No one can say precisely over what time frame and to what extent automated vehicles will be developed, deployed and adopted, but the potential is so large that even slow progress could have an enormous impact on Uber's growth trajectory.

While the dawn of automated vehicles carries the potential to disrupt Uber's competitive position, Uber is far more likely to benefit than be disrupted. There are a number of reasons to believe automated vehicles will ultimately be deployed commercially at-scale as part of hybrid human-automated mobility and delivery networks as opposed to as standalone automated networks. These hybrid mobility and delivery networks would then only gradually shift toward full automation.

First, the domain capability of automated vehicles – where and under what conditions they are able to safely drive – is likely to develop over an extended period of time. As an MIT task force put it earlier this year, "fully automated driving will be restricted to limited geographic regions and climates for at least the next decade, and…increasingly automated mobility systems will thrive in subsequent decades."[4] An AV fleet that cannot drive safely when it is raining or that can only handle some fraction of your trips cannot alone support a competitive mobility service.

Second, regulators are likely to restrict the deployment of AVs even further than the technical capabilities of AVs do for safety reasons. In 2018, human drivers in the U.S. caused 1.13 fatalities for every 100 million miles driven.[5] To statistically prove that automated vehicles are at least as safe as human drivers, AVs would

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[2] General Motors Company. (2017) *Changing the World with AV*. Retrieved from: https://investor.gm.com/events/event-details/general-motors-host-investor-event

[3] McKinsey (2019) *How Sharing the Road Is Likely to Transform American Mobility*. Retrieved from: https://www.mckinsey.com/industries/automotive-and-assembly/our-insights/how-sharing-the-road-is-likely-to-transform-american-mobility

[4] Massachusetts Institute of Technology. (2020) *Autonomous Vehicles, Mobility, and Employment Policy: The Roads Ahead*. Retrieved from: https://workofthefuture.mit.edu/research-post/autonomous-vehicles-mobility-and-employment-policy-the-roads-ahead/

[5] National Highway Traffic Safety Administration. (2019) *2018 Fatal Motor Vehicle Crashes: Overview*. Retrieved from: https://crashstats.nhtsa.dot.gov/Api/Public/ViewPublication/812826

have to drive a representative sample of 11 billion miles by some estimates.[6] To put that into context, Waymo, the company that is furthest along in developing AVs, has only driven *20 million* real world miles since 2009.[7] It is simply not feasible to prove the safety of AVs relative to human drivers through testing alone, so it is unlikely that regulators will support the "big bang" approach to commercial deployment of AVs that would be necessary to launch a standalone ridehailing service.

Third, deploying AVs requires a large, up-front capital investment. Although the cost of AVs will likely improve substantially over time, each AV today costs anywhere from $150,000 to $300,000 because of the extensive array of LIDAR and radar sensors, cameras, GPS and inertial measurement units, and computing hardware that is required in addition to the vehicle itself. To launch a fully automated ridehailing service with competitive service levels (i.e. ~3-minute wait times) in just a single a market like San Francisco could cost over $1 billion *just for the vehicles*. Moreover, that daunting level of capital investment would be fraught with operational complexity and risk. In contrast, AVs deployed as part of an existing mobility network could be rolled out in any desired increments and would achieve optimal levels of utilization on day one.

Fourth, the variable demand that mobility and delivery networks experience over time create challenges to efficiently utilizing a fleet composed solely of AVs. Demand for mobility and delivery services varies dramatically based on the time of day, the day of the week, the time of year and whether any special events or holidays are taking place. A fleet composed only of fixed capacity in the form of AVs would face a challenge in balancing service levels during peak periods with overall utilization of its AVs. While effective pooling of rides and batching of deliveries during peak periods as well as declines in the cost of AVs could alleviate that conflict, achieving those goals could take time, scale and changes in user behaviors. Hybrid human-AV mobility and delivery networks would have a distinct advantage in being able to use cost efficient AVs to serve a certain base level of demand and to supplement capacity with human drivers during peak periods.

Finally, it remains to be seen how readily users will adopt AVs, especially for mobility services. Surveys suggest around half of the population would be extremely or somewhat unlikely to use AVs if they were available today, primarily due to a lack of trust in the technology and safety concerns.[8] The adoption curve that AVs face could constrain the ability of a fully autonomous ridehailing service to be successful in the near-term. In contrast, a hybrid ridehailing service could seamlessly offer users the option to use a low cost AV as it suits their preferences.

Uber's solid management team rounds out the case for Uber as a great business. Dara Khosrowshahi, who replaced Travis Kalanick as CEO in 2017, is an impressive and accomplished leader. Prior to joining Uber, he led Expedia as CEO for 12 years during which time Expedia's revenue grew more than four-fold and its stock price increased by almost seven-fold. He has already left his mark on the business with a number of strategic transactions and cost cutting measures that have moved Uber toward a better balance between growth and progress toward realizing its profit potential.

Our investment in UBER should deliver compelling long-term returns. Even without a meaningful benefit from the deployment of AVs, Uber should be able to grow its combined mobility and delivery services revenue at a compound annual rate of around 20% from 2019 levels over the next seven years as the world recovers from the pandemic. Successful deployment of AVs could dramatically increase that figure. Uber

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[6] RAND Corporation. (2016) *Driving to Safety*. Retrieved from: https://www.rand.org/content/dam/rand/pubs/research_reports/RR1400/RR1478/RAND_RR1478.pdf

[7] Waymo. (2020) *Safety*. https://waymo.com/safety/

[8] Texas A&M Transportation Institute. (2018) *Examining Future Automated Vehicle Usage: A Focus on the Role of Ride Hailing*. Retrieved from: https://static.tti.tamu.edu/tti.tamu.edu/documents/TTI-2018-2.pdf

should also make substantial progress toward its long-term corporate-level adjusted EBITDA margin target of 25% over that time frame. As it does, the business will begin generating meaningful free cash flow. Adjusting for the net value of Uber's non-core and non-operating assets and liabilities, which include Uber's majority stakes in its freight business and Advanced Technologies Group, its minority equity stakes in other mobility and delivery networks around the world, deferred tax assets related to net operating loss carryforwards and certain intangible assets, and cash, the price we paid for the shares valued Uber's core mobility and delivery businesses at around 3.0x 2019 revenue. That is right around where Uber will likely trade once it is a mature business. In other words, there is substantial scope for Uber's valuation multiple to expand over time as understanding and appreciation of – and sentiment toward – the company improve. Combining all of those factors points to a compound annual returns of 25% or more over a multi-year period. In an optimistic scenario for the deployment of AVs, UBER could prove to be one of the top-performing stocks of the coming decade.

UBER also enjoys meaningful downside protection from the strategic value of the global scale, leading competitive positions and sophisticated technology platform the company has built. Most of the major technology companies, including Alphabet, Amazon and Apple, are investing in automated vehicles. All of the major companies involved in the automotive sector, including several large enough to swallow Uber at its current market capitalization, are as well. Uber would be an immensely strategic acquisition candidate for any of those companies.

We purchased our shares UBER prior to the recent election in which California voters voted on Proposition 22. Proposition 22 was a ballot initiative designed to exempt app-based transportation and delivery companies from having to treat their drivers and delivery people as employees in California. Concerns about the outcome of the vote were weighing on UBER at the time we purchased the shares. Data from several professionally conducted surveys and data from prediction markets helped inform the decision to purchase UBER ahead of the election results. Ultimately, California voters approved Proposition 22, a favorable outcome for Uber.

During the third quarter, our portfolio released some of the "potential energy" it had built up. It has continued to do so during the fourth quarter thus far. It is far from done. I remain optimistic about the outlook for our portfolio's performance.

I am also encouraged by the results of the recent election and the prospects for bringing the pandemic under control in 2021 through a combination of vaccines, treatments and widespread, rapid testing.

Thank you for your continued confidence and support.

Regards,

Marc Werres
Managing Partner

Important Disclosures

The performance figures depicted herein relate to 1578 Partners, LP. This account serves as the model account for the taxable accounts Hinde Group manages. The performance of investor partner accounts may differ from the figures depicted herein for several reasons, including, but not limited to, cost basis differentials, the timing of account inflows, and tax considerations. 1578 Partners, LP's gross results reflect the deduction of trading commissions and other fees charged by Hinde Group's broker. Net results reflect the hypothetical deduction of management fees (1.5% of AUM per annum billed quarterly in advance).

1578 Partners, LP's inception date is August 1, 2015.

The statistical data regarding the performance of the S&P 500 was obtained from the website of S&P Dow Jones Indices. The S&P 500 returns shown do not represent the results of actual trading of investible assets/securities.

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