OCTOBER 13, 2022

TAPASYA INVESTMENT FUND I

GLOBAL INVESTMENT REVIEW

WELCOME

Welcome to the 1st edition of the "Global Investment Review".

As I had mentioned in my Welcome Letter sent on 10th September 2022, the intent of this document is to detail the thesis of each of the companies the fund has made investments in. This document would not in any way replace the bi-annual performance report that I would be sending out to the investors. Hence this document would not contain any performance metrics.

The Global Investment Review document would focus on 2-3 investments for each edition for ease of reading and also would be less taxing on the fund manager (me)!

Besides articulating the thesis of the investment, it would also help to look back at the assumptions made to understand which ones were true and the ones that did not work out. It would help me become a better investor and help overall returns for the fund. Its a practice I have been following before starting this fund.

I would highly encourage all of you to ask me any questions you may have or challenge the theses. Feel free to do so via email or call me.

INVESTMENTS REVIEWED

In this document we will review 2 investments, **ALPHABET** (GOOG or GOOGL) and **UBER** with the same ticker. I have chosen these 2 companies as I see some similarities within them.

I like to call these companies 'SPAWNERS', basically companies that have or are able to start multiple revenue streams/businesses. The reason I like such companies is when there is a downturn in the economy, not all revenue streams get impacted equally leading to lesser risk as an investor.

Both these companies lead in their respective categories on Marketshare. In the SEARCH business Alphabet via Google search dominates over 90%+ of the marketshare. Similarly UBER is the market leader in most markets it operates.

BRAND plays a big part in the decision making process of a consumer. Having a strong brand means lesser marketing spend leading to improved profitability. Both these companies have become verbs for the activities they perform.

ALPHABET (ALSO KNOWN GOOGLE)

Alphabet makes approx. 20% of our portfolio on a cost basis.

Larry Page and Sergey Brin founded Google in September 1998. Since then, the company has grown to more than 170,000 employees worldwide, with a wide range of popular products and platforms like Search, Maps, Ads, Gmail, Android, Chrome, Google Cloud and YouTube. In October 2015, Alphabet became the parent holding company of Google.It has 3 classes of shares of which 2 of them are traded, Class A which also have voting rights and Class C which do not have voting rights. Class B is largely held by founders which have voting rights, these shares are not traded. As a fund we hold Class C shares.

Let's start with some financial history.

INCOME STATEMENT BALANCE SHEET CASH FLOW STATEMENT RATIOS SEGMENTS

Income Statement	12/31/16	12/31/17	12/31/18	12/31/19	12/31/20	12/31/21	LTM
Revenues	90,272.00	110,855.00	136,819.00	161,857.00	182,527.00	257,637.00	278,139.00
Total Revenues	**90,272.00**	**110,855.00**	**136,819.00**	**161,857.00**	**182,527.00**	**257,637.00**	**278,139.00**
% Change YoY	***20.4%***	***22.8%***	***23.4%***	***18.3%***	***12.8%***	***41.2%***	
Cost of Goods Sold	(35,138.00)	(45,583.00)	(59,549.00)	(71,896.00)	(84,732.00)	(110,939.00)	(120,312.00)
Gross Profit	**55,134.00**	**65,272.00**	**77,270.00**	**89,961.00**	**97,795.00**	**146,698.00**	**157,827.00**
% Change YoY	***17.7%***	***18.4%***	***18.4%***	***16.4%***	***8.7%***	***50.0%***	
% Gross Margins	***61.1%***	***58.9%***	***56.5%***	***55.6%***	***53.6%***	***56.9%***	***56.7%***

As you would see in the chart above revenues have grown from $90B to $278B in the past ~7 years. At the same time the gross margins have stayed relatively stable at over 55%+ for most years. This is a very healthy gross margin. Gross Margin Rate is one of the more important metrics to watch for. In general I prefer to eliminate all companies below 20% Gross margin (exception Costco). This usually suggests significant competition and lack of economic moat or differentiation from competition.

In the **past ~7 years, Net Income increased 3x+ times** and **Free Cash Flow (FCF) increased 2.6x** from $25B to $65B. This is an exceedingly high growth rate. During the same time the stock grew at 15% CAGR (Compounded Annual Growth Rate).

Ratios | TIKR.com	12/31/16	12/31/17	12/31/18	12/31/19	12/31/20	12/31/21	LTM
Return Ratios:							
Return on Assets %	9.4%	9.9%	9.5%	8.8%	8.7%	14.5%	14.9%
Return on Capital %	16.6%	18.4%	17.8%	16.4%	16.2%	27.6%	28.9%
Return On Equity %	15.0%	8.7%	18.6%	18.1%	19.0%	32.1%	29.2%

Some of the other metrics that are very key are Return on Capital and Return on Equity. I prefer the prior one (both marked above). Alphabet has an improving ROCE and moreover above 20% in the past few years. The growth in stock price follows the growth in these metrics over time.

A quote from Charlie Munger below that helps explain this further

"Over the long term, it's hard for a stock to earn a much better return than the business which underlies it earns. If the business earns 6% on capital over 40 years and you hold it for that 40 years, you're not going to make much different from a 6% return even if you originally buy it at a huge discount. Conversely, if a business earns 18% on capital over 20 or 30 years, even if you pay an expensive looking price, you'll end up with a fine result. So the trick is getting into better businesses. And that involves all of these advantages of scale that you could consider momentum effects."

Of course the **investor of today does not profit from yesterday's growth**. The question hence is how confident we are we about its future.

How does Alphabet make money

Google Services is one of the key revenue generators with about 80% of total revenues (2021) coming from advertising.

Google Cloud is another revenue stream that generates about 9% of total revenues and has been growing at a rapid clip. In Q2'2022 it grew at 36% YoY.

Other Bets are like moonshots or areas where Alphabet is betting for long term growth like driverless cars (Waymo), Artificial Intelligence , etc. This currently is just about 0.3% of total revenues.

If we go to the core of advertising revenue and its driver, it is google's search engine. Individuals use google search for multiple reasons such as finding a product to buy , etc. As they do that, advertising revenues are collected based on what is shown to the customers, relevance of search results are very important too.

How susceptible is Google's search business to competition?

Google **Search Engine has a marketshare of 92%**, this is what I would call a monopolistic business. These businesses tend to generate large profits for their shareholders over time. Google is even more dominant in searches made on mobile phones vs. desktops and tablets. This bodes well for them over the long term. This share has stayed consistent over time.

Given this dominant position, the next question is how do they monetize this search and do we expect issues here. This is Pay Per Click (PPC) and Impressions. Though YoY growth on impressions have been negligible, PPC has gone up 23% YoY (2021 vs. 2020).

Alongside, if one looks at YouTube; it represents about 14% of the Advertising revenues. On a run rate basis YouTube alone makes more revenues than Netflix. This is without including the subscription revenues from YouTube.

So overall due to the monopolistic nature of their search — both text and video I do expect this business to continue to have steady growth driven by price increases and YouTube. Profitability of this segment of the business has continued to increase over the years as one would expect. This is the only profitable segment of the business for Alphabet.

Firstly I would like to commend you as the reader, if you have gotten to this point. As much as I enjoy reading about businesses I don't expect everyone else to be similar; hence if you read this THANK YOU!! Now let's move on to Google Cloud.

Google Cloud holds **#3 in Marketshare**, led by Amazon and Microsoft. The cloud computing business currently stands at about $429B and is expected to grow to $1 Trillion by 2028. This should be a tremendous tailwind for Google Cloud. Though I do not expect Google to change market share positioning given its relative weakness in the enterprise business, just the growth in the marketplace will drive revenue growth. Microsoft and Google are gaining share from others while Amazon has been maintaining its share and lead in this market.

The Cloud business has been an unprofitable segment of their business at this time. The profitability has improved over the years.

Other Bets - these are all non-google businesses. Examples of Other Bets are Waymo that is working towards making transportation safer and easier, and Verily is developing tools to improve health outcomes. These are all long term bets to continue Google or Alphabets growth over the coming years.

Given this I do expect Alphabet to be one of the leading and more importantly, lasting businesses in the world with a growth of 20% CAGR over the long term.

At a current P/E of 19 this clearly seems like a mis-priced opportunity for such a wonderful business. This is when I like to back up my truck (hypothetical one.. I don't own a truck) and load it up. Just one more thing to add, you would soon notice I am not good at colloquial or slang hence bear with me when I make references such as above.

UBER

Uber is ~6% allocation at cost of our portfolio. I believe this will be a long term compounder. It's a simpler business to understand in my opinion at the same time a negative cash flow company. Hence we should clearly understand the reason for investing in this business and expect higher returns over time for taking additional risk.

Similar to the earlier example, I will describe the company at a high level, talk through the revenue streams and my expectation from the future. My future expectations may or may not match what the company says just want to make sure you understand the same.

Company Overview

Uber Technologies, Inc. develops and operates proprietary technology applications primarily in the United States, Canada, Latin America, Europe, the Middle East, Africa, and the Asia Pacific. It connects consumers with independent providers of ride services for ride-sharing services, as well as connecting consumers with restaurants and food delivery service providers for meal preparation and delivery services.

Financial history

Uber has had consistent growth in revenues from ~$4B in 2016 to $25B in the last 12 months (LTM). This is an 8x growth in revenues in 7 years. And we had the pandemic during this time. It also has a reasonably high gross margin in the mid-30's.

INCOME STATEMENT BALANCE SHEET CASH FLOW STATEMENT RATIOS SEGMENTS

Income Statement | TIKR.com	12/31/16	12/31/17	12/31/18	12/31/19	12/31/20	12/31/21	LTM
Revenues	3,845.00	7,932.00	10,433.00	13,000.00	11,139.00	17,455.00	25,550.00
Total Revenues	**3,845.00**	**7,932.00**	**10,433.00**	**13,000.00**	**11,139.00**	**17,455.00**	**25,550.00**
% Change YoY		***106.3%***	***31.5%***	***24.6%***	***(14.3%)***	***56.7%***	
Cost of Goods Sold	(3,109.00)	(5,514.00)	(6,302.00)	(8,363.00)	(6,801.00)	(11,228.00)	(16,934.00)
Gross Profit	**736.00**	**2,418.00**	**4,131.00**	**4,637.00**	**4,338.00**	**6,227.00**	**8,616.00**
% Change YoY		***228.5%***	***70.8%***	***12.2%***	***(6.4%)***	***43.5%***	
% Gross Margins	***19.1%***	***30.5%***	***39.6%***	***35.7%***	***38.9%***	***35.7%***	***33.7%***

Why has the stock price perished since its IPO? Look at the table below

INCOME STATEMENT BALANCE SHEET CASH FLOW STATEMENT RATIOS SEGMENTS

Ratios | TIKR.com	12/31/16	12/31/17	12/31/18	12/31/19	12/31/20	12/31/21	LTM
Return Ratios:							
Return on Assets %		(15.5%)	(9.0%)	(19.3%)	(8.3%)	(6.7%)	(4.3%)
Return on Capital %	(26.0%)	(47.1%)	(18.5%)	(35.9%)	(17.4%)	(14.0%)	(12.1%)
Return On Equity %		(77.7%)	18.9%	(77.5%)	(46.9%)	(3.9%)	(86.6%)

As you would see here, it has done very poorly on some metrics, in this chart my favorite metric is Return on Capital. My typical guideline for that metric is 20% or above. That criteria eliminates most of the 100,000+ companies listed in the stock market.

Then why invest?

As you would see the Return on Capital is continuing to improve over time, I do expect it to be positive in 2024 or a year later.

Cash from operations has been negative during this entire timeframe except and that is key the past 12 months at about $961M. I expect Uber to be about $4B in FCF (Free Cash Flow) in 2024. This based on our purchase price is over a 6% Cash Yield (Treasury Bills at this time are about 4%).

So what we are buying here is a company with strong revenue growth, high gross margin and high potential to be a cash machine should it get it right.

What will it take to get Uber to be a value generator for it's investors (us)?

At the end its quite simple, it needs to continue its revenue growth, be able to survive during tough times (but it just did.. When the whole world was shut down) and most importantly deliver a high cash yield that is growing over time ***vs. our buy price***.

Let's try and understand their business and assess the likelihood of that happening.

Uber has 3 businesses and this is why I call it a spawner.

Mobility connects consumers with independent providers of ride services for ride-sharing services. **Delivery** connects consumers with restaurants and food delivery service providers for meal preparation and delivery services and **Freight.**

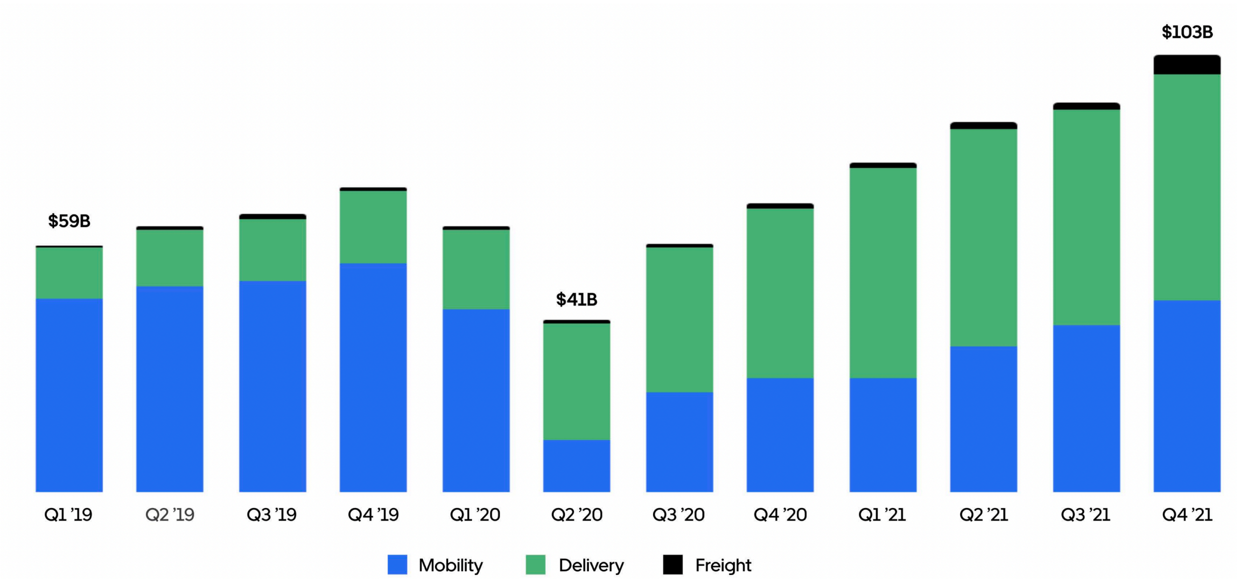


Chart 1 - Uber Revenues by Segment/Quarter

In the above chart, you would see Uber's breakout of gross revenues. Mobility was significantly impacted during COVID (Q1'20 onwards), Delivery offset those impacts in short order. Also pay attention to the Freight business as this one in my opinion is the dark horse over the long run. Let's look at each business and analyze what we can expect.

Mobility: In its simplest form, revenues for this business boils down to the number of rides, distance per ride and price (either per mile or per ride). There may be many reasons for why any of these metrics may move up or down, but that we can leave to the able hands of Dara Khosrowshahi (CEO) and team.

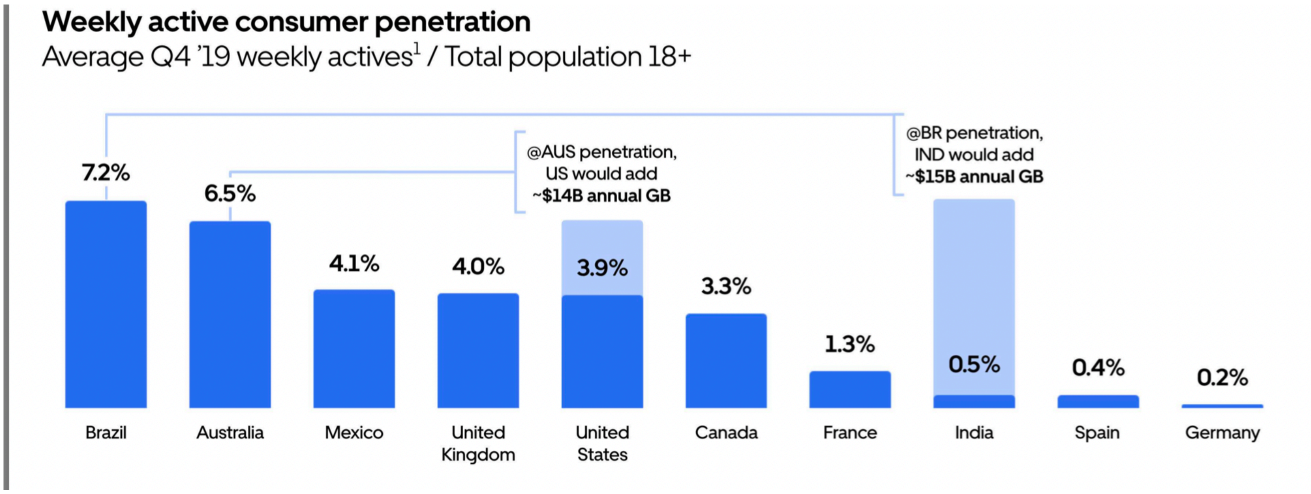
As you would see in Chart 2 below, its # trips are increasing at a steady pace. They are also able to pass the cost increases to the customer. Also, there is still a lot of room to grow (see chart 3) where the US and India penetration is much lower than Brazil and Australia and can be a significant unlock over time.

The mobility business was losing share to Lyft right through 2018, but since then has stabilized. This is an important metric to watch since you do not want to lose to much ground here. They did start from a high marketshare and have about 68% share of the business.

Chart 2 - Annual Trips (Mobility)

Year	Trips (bn)
2017	3.79
2018	5.21
2019	6.9
2020	4.98
2021	6.3

Chart 3



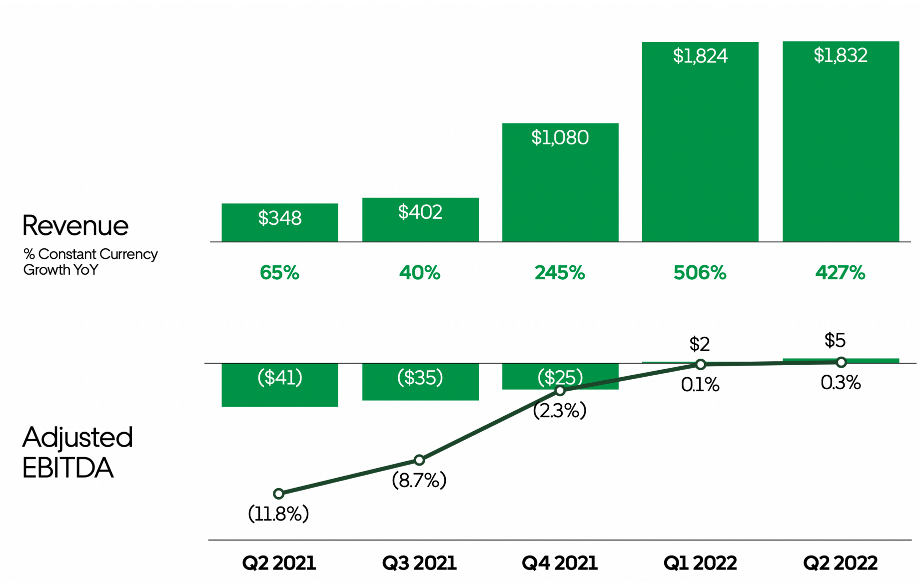
Delivery: Similar to Mobility, this business also boils down to the number of deliveries made and unit economics associated with this business i.e. money (margin) for every delivery.

The pandemic was a significant tailwind for this business growing about 3x times since 2019. Yet this is the business where profitability (basically unit economics) has been an issue. The management team is looking at margin expansion in this business which has historically been negative. There are primarily 3 levers, Fulfillment Cost reduction (courier cost per trip), Take Rate Expansion (Pricing, Ads and Membership) and Promo Reduction.

I do expect healthy growth in their revenues, management teams execution of margin expansion will be looked at closely. There are some markets like France which have reached 6% EBIDTA and hence I do see likelihood of that occurring across other markets as well.

Freight: is the smallest part of the business at this time. 70% of everything sold in the US moves through a truck. The total addressable market (TAM) is over $4T+ with US being $884B (trucks only).

There are significant inefficiencies (inefficient capacity sourcing, >20% tenders being rejected and 30% miles driven empty) in this industry and is ripe for disruption. This in my view could be their largest business or compete closely with Mobility.



As you would see in the above chart the business has been growing very rapidly along with healthy margin expansion. With other levers such as autonomous trucks , etc., this can be a significant revenue/profit driver in the years to come.

Uber I certainly think is a multi-year compounder. Will be fun to revisit this document 3 years from now to see what actually occurred.

CONCLUSION

This document is an attempt to summarize my thesis around each of the investments made. All investments are made with a multi-year horizon. I prefer to give each company at least 2 years from purchase date approx. to understand whether the thesis is being realized or not. Markets are volatile and investment decisions many a times are emotion driven. That is the reason one needs to give time after an investment is made.

I would welcome any feedback you may have on this document and as always feel free to reach out to me by email or phone if you have any questions.

We are in this journey together, our biggest advantage is going to be our collective focus on the long term along with my skills on capital allocation.

If you have managed to read this document in its entirety itself is one measure of success for me, as unless I receive feedback I will assume it was a reasonably good read.

In my next Global Investment Review, I will focus on companies that are lesser known and we are invested in. Wanted to start with companies that are more widely known.

APPENDIX

In regard to the investment thesis document, I want to mention some references that I have used for ideas on writing this document.

Firstly, Nick Sleep and Qais Zakaria (Nomad Investment Partnership), used to provide such documentation to their investors. You would see a common thread across my investment philosophy and how I manage the fund, similar to Nomad's which closed in early 2014.

Others that I have referenced are based on what I have read over the years which includes Warren Buffet's thesis on Geico, Nick's thesis on Costco and also Guy Spier's communication to his investors.

All of this information is in the public domain.

Just a quick note on my view on macro conditions.

Inflation & Macro Conditions

One of the things to note, especially in today's context is that I don't pay too much attention to macro factors, they are very important and do play a large role in impacting the stock prices and at times results of companies. What I do expect, is for the companies invested in, they show far more resilience than the rest of the market. Would like to quote Peter Lynch a legendary investor at Fidelity managing a fund called as Magellan.

"Nobody can predict interest rates, the future direction of the economy or the stock market. Dismiss all such forecasts and concentrate on what actually happening in the companies you have invested in" — Peter Lynch