

INTERNET TRENDS 2016 – CODE CONFERENCE

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kpcb.com/InternetTrends

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Outline

- 1) Global Internet Trends
- 2) Global Macro Trends
- 3) Advertising / Commerce + Brand Trends
- 4) Re-Imagining Communication – Video / Image / Messaging
- 5) Re-Imagining Human-Computer Interfaces – Voice / Transportation
- 6) China = Internet Leader on Many Metrics
(Provided by Hillhouse Capital)
- 7) Public / Private Company Data
- 8) Data as a Platform / Data Privacy

Thanks...

KPCB Partners

Especially Alex Tran / Dino Becirovic / Alexander Krey / Cindy Cheng who helped develop the ideas / presentation we hope you find useful...

Hillhouse Capital

Especially Liang Wu...his / their contribution of the China section of Internet Trends provides an especially thoughtful overview of the largest market of Internet users in the world...

Participants in Evolution of Internet Connectivity

From creators to consumers who keep us on our toes 24x7...and the people who directly help us prepare this presentation...

Kara & Walt

For continuing to do what you do so well...

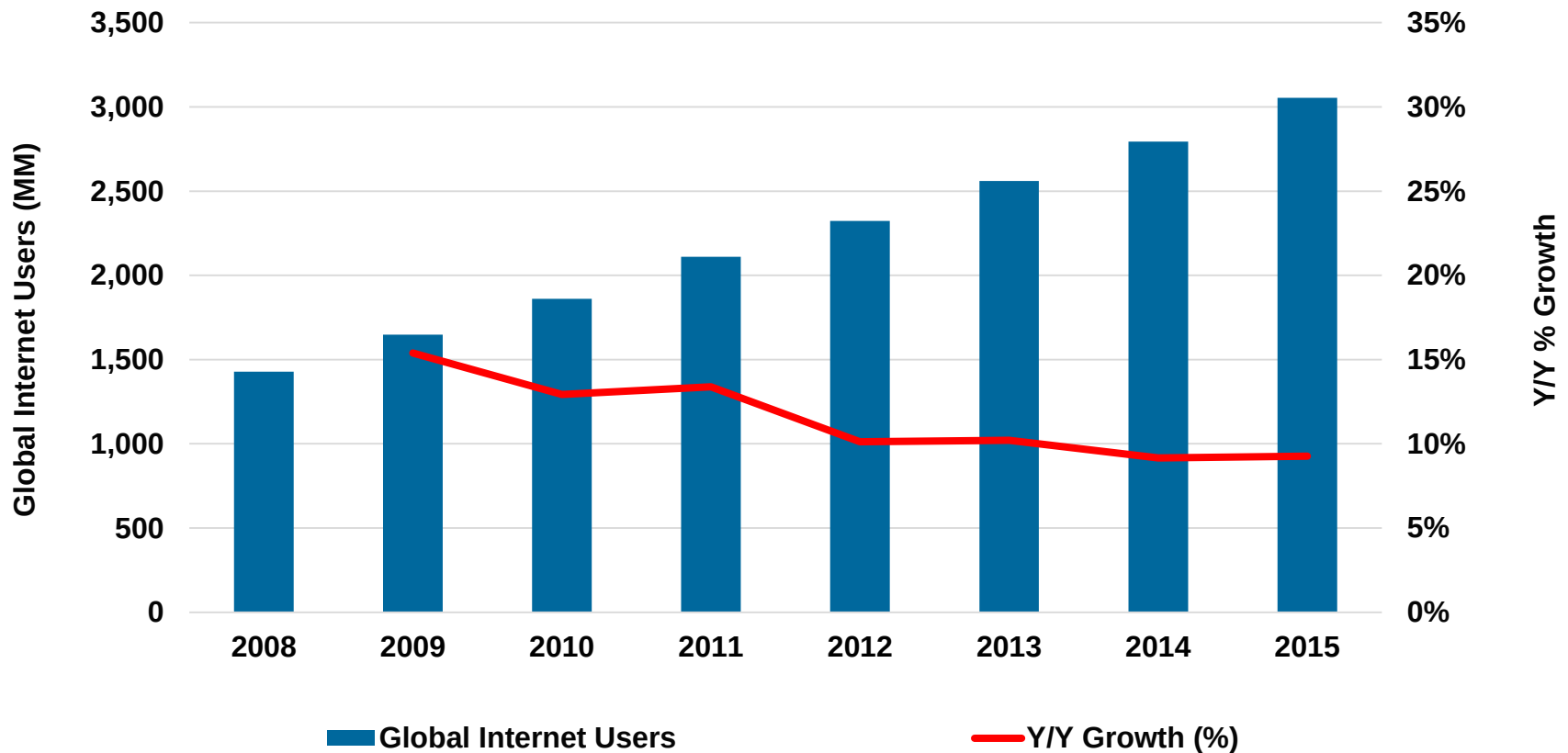
GLOBAL INTERNET TRENDS

Global Internet Users @ 3B

*Growth Flat =
+9% vs. +9% Y/Y...
+7% Y/Y (Excluding India)*

Global Internet Users = 3B @ 42% Penetration...
+9% vs. +9% Y/Y...+7% (Excluding India)

Global Internet Users, 2008 – 2015

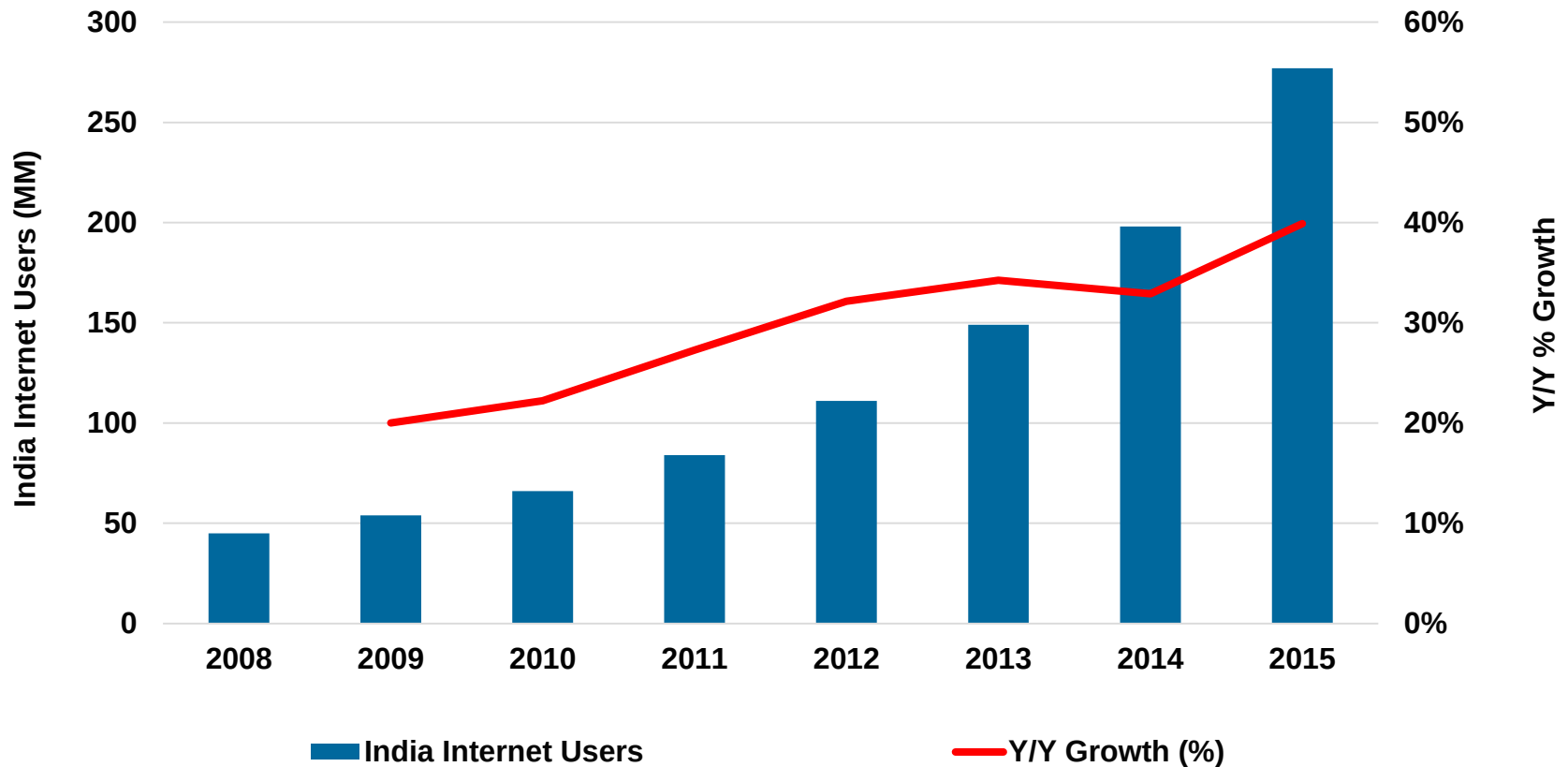


*India Internet User
Growth Accelerating =
+40% vs. +33% Y/Y...*

*@ 277MM Users...
India Passed USA to Become
#2 Global User Market
Behind China*

India Internet Users = 277MM @ 22% Penetration... +40% vs. +33% Y/Y

India Internet Users, 2008 – 2015



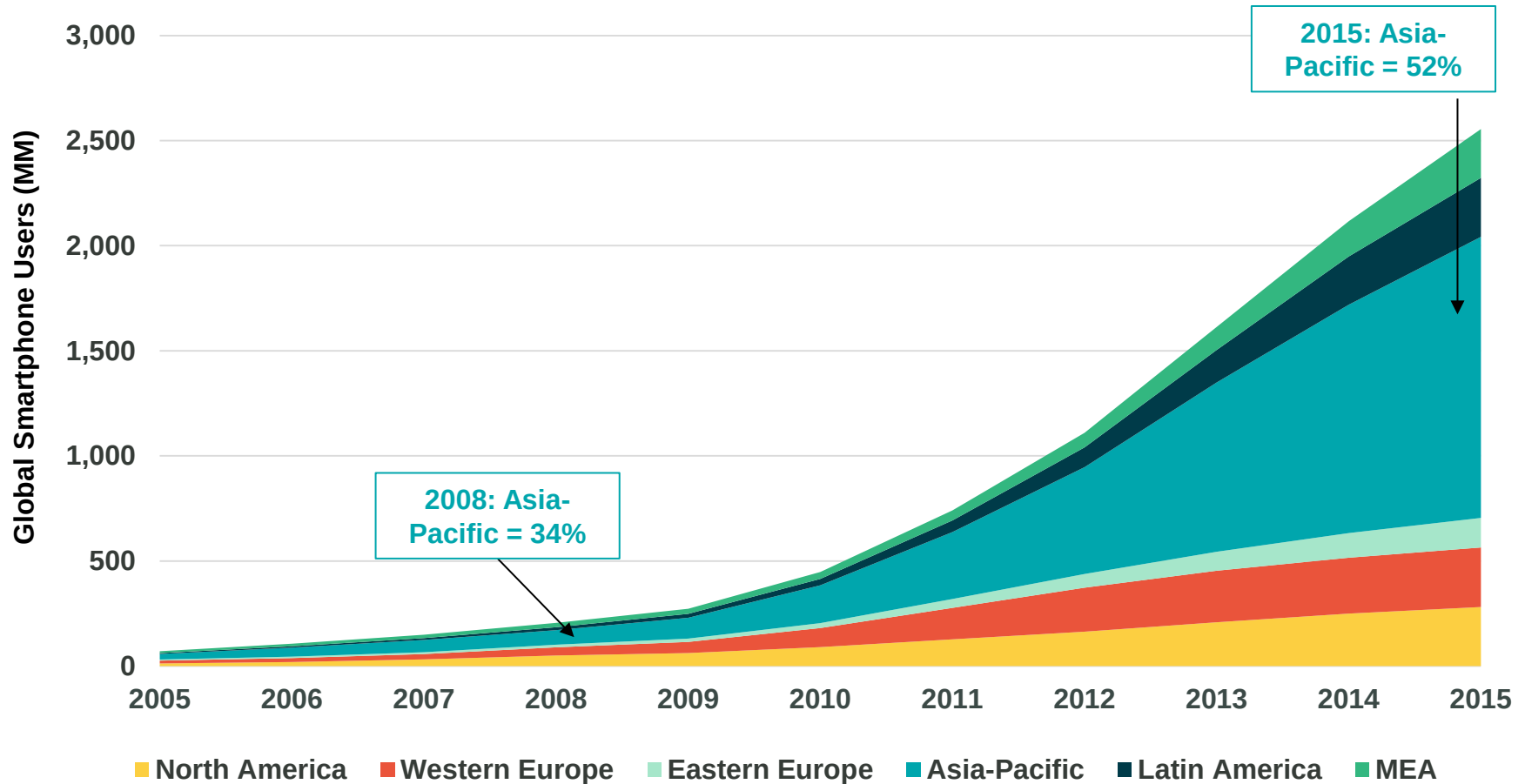
*Global Smartphone
Users Slowing =
+21% vs. +31% Y/Y*

*Global Smartphone
Unit Shipments Slowing
Dramatically =
+10% vs. +28% Y/Y*

Global Smartphone User Growth Slowing...

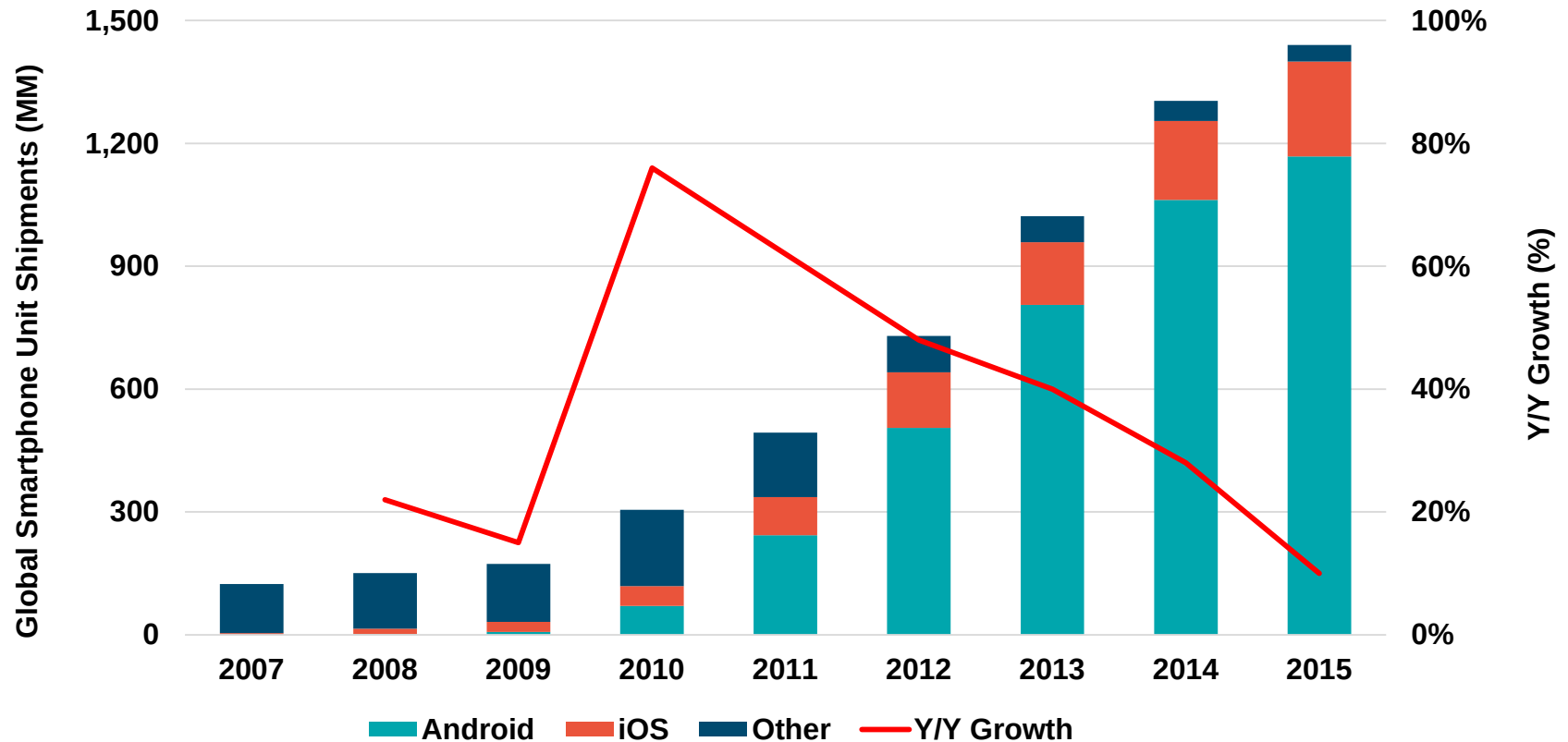
Largest Market (Asia-Pacific) = +23% vs. +35% Y/Y

Smartphone Users, Global, 2005 – 2015



Global Smartphone Units Slowing Dramatically... After 5 Years of High Growth @ +10% vs. +28% Y/Y

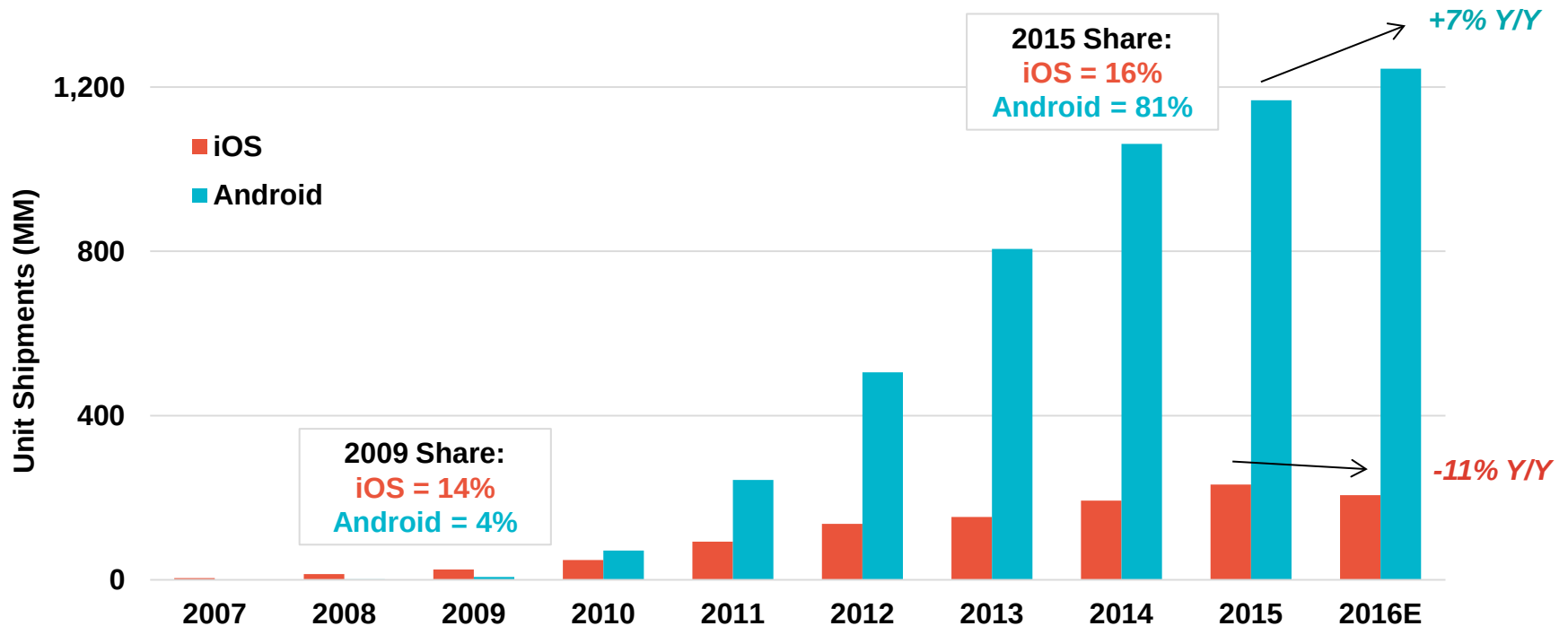
Smartphone Unit Shipments by Operating System, Global, 2007 – 2015



Android Smartphone Share Gains Continue vs. iOS...

Android ASP Declines Continue...Delta to iOS @ ~3x

Smartphone Unit Shipments, iOS vs. Android, Global, 2007 – 2016E



iOS ASP (\$)	\$594	\$621	\$623	\$703	\$712	\$686	\$669	\$680	\$717	\$651
Y/Y Growth	–	4%	0%	13%	1%	-4%	-2%	2%	5%	-9%

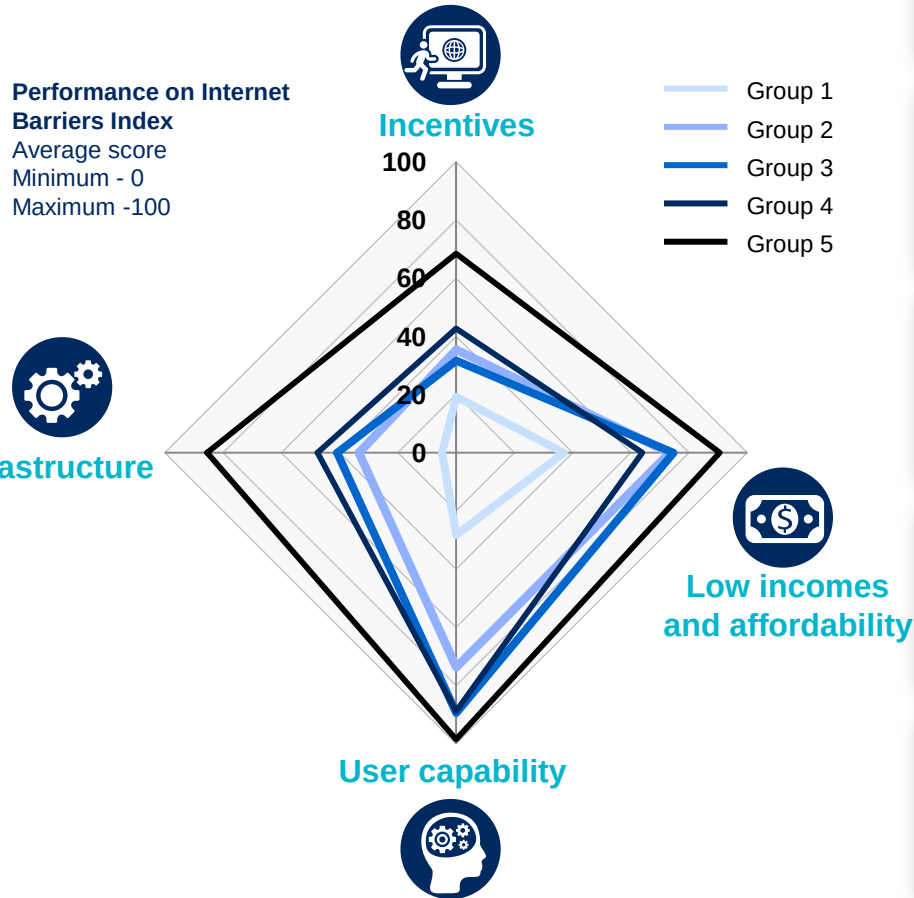
Android ASP	–	\$403	\$435	\$441	\$380	\$318	\$272	\$237	\$216	\$208
Y/Y Growth	–	–	8%	1%	-14%	-16%	-15%	-13%	-8%	-4%

New Internet Users =

Continue to be Harder to
Garner Owing to High Penetration
in Developed Markets

With Already High Mobile Penetration in More Developed / Affluent Countries... New Users in Less Developed / Affluent Countries Harder to Garner, per McKinsey

Countries fall into one of 5 groups based on barriers they face to Internet adoption



Group 1: High barriers across the board; offline populations that are young, rural, and have low literacy

Countries: Bangladesh, Ethiopia, Nigeria, Pakistan, Tanzania

Offline population, 2014: 548 million

Internet penetration, 2014: 18%

Group 2: Medium to high barriers with larger challenges in incentives and infrastructure; mixed demographics

Countries: Egypt, India, Indonesia, Philippines, Thailand

Offline population, 2014: 1,438 million

Internet penetration, 2014: 20%

Group 3: Medium barriers with greatest challenge in incentives; rural and literate offline populations

Countries: China, Sri Lanka, Vietnam

Offline population, 2014: 753 million

Internet penetration, 2014: 49%

Group 4: Medium barriers with greatest challenge in low incomes and affordability; offline populations predominantly urban / literate / low income

Countries: Brazil, Colombia, Mexico, South Africa, Turkey

Offline population, 2014: 244 million

Internet penetration, 2014: 52%

Group 5: Low barriers across the board; offline populations that are highly literate and disproportionately low income and female

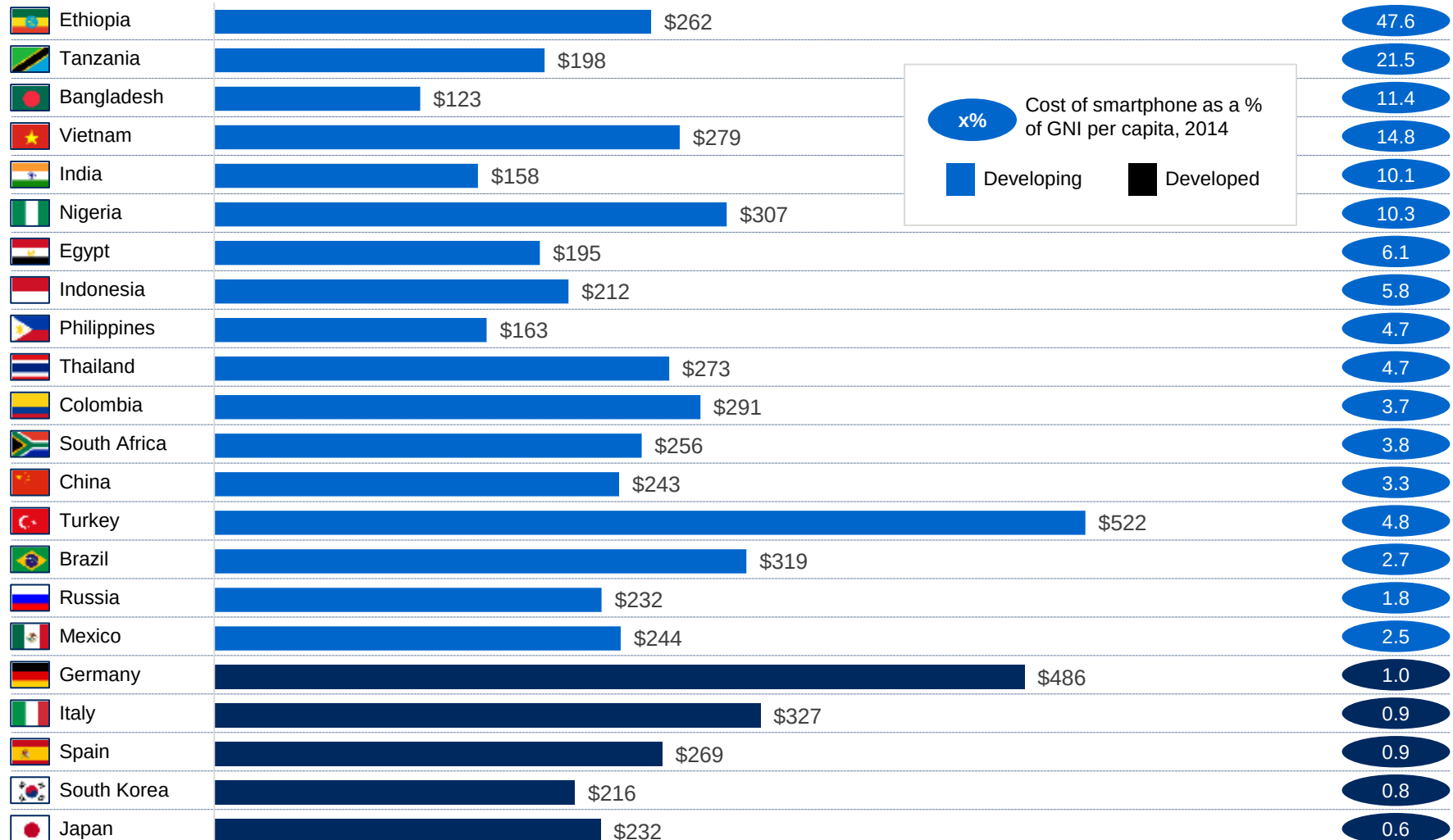
Countries: Germany, Italy, Japan, Korea, Russia, USA

Offline population, 2014: 147 million

Internet penetration, 2014: 82%

Smartphone Cost in Many Developing Markets = Material % of Per Capita Income... 15% (Vietnam) / 10% (Nigeria) / 10% (India) / 6% (Indonesia), per McKinsey

Average retail price of a smart phone, \$USD, 2014

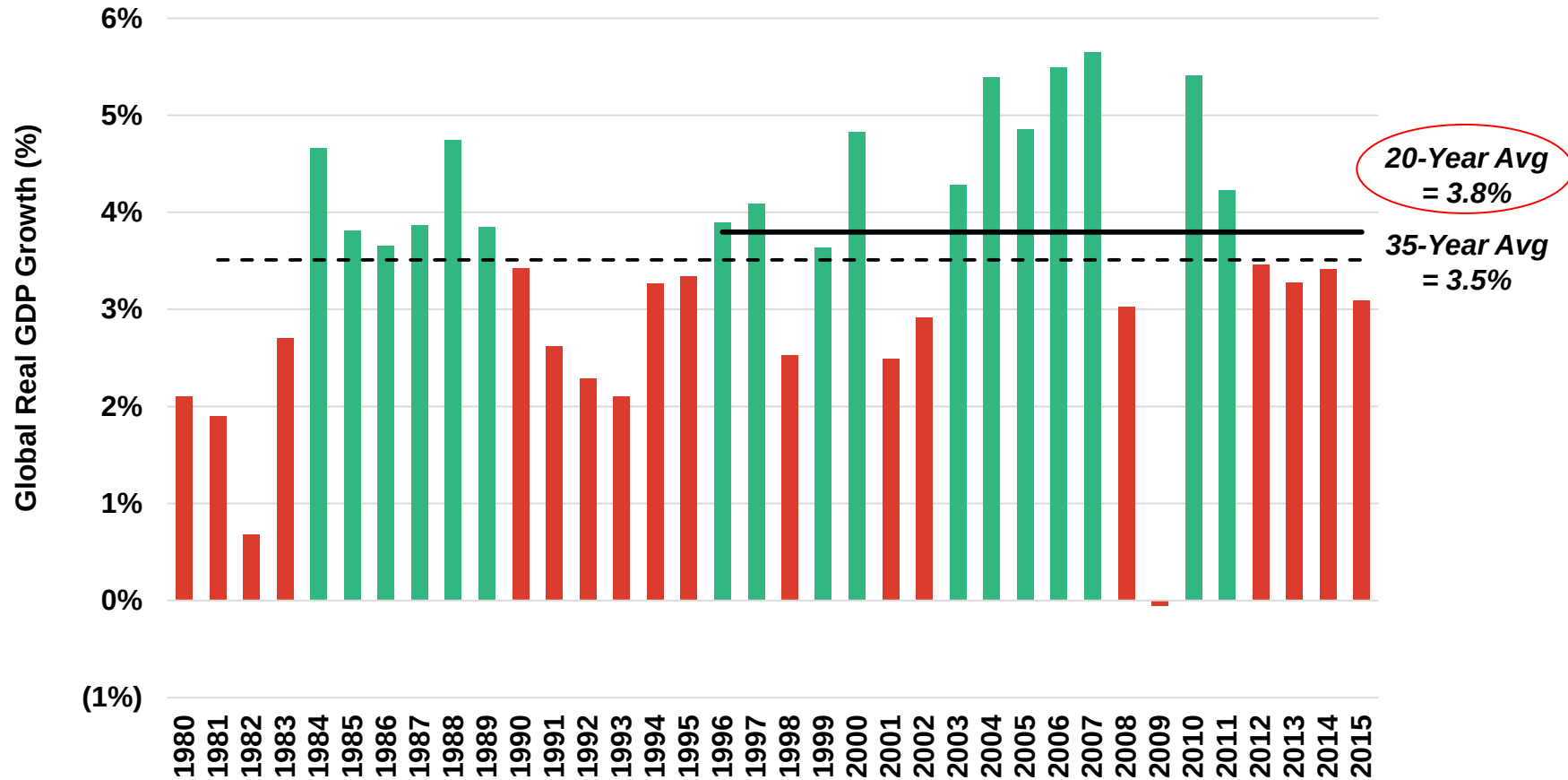


GLOBAL MACRO TRENDS

*Global Economic Growth =
Slowing*

Global GDP Growth Slowing = Growth in 6 of Last 8 Years @ Below 20-Year Average

Global Real GDP Growth (%), 1980 – 2015



Commodity Price Trends =

*In Part, Tell Tale of
Slowing Global Growth*

Commodity Prices Down = -39% Since 5/14 vs. -8% Annual Average (5/11-4/14) & +6% (1/00-4/11)

Global Commodity Prices, Bloomberg Commodity Index (Indexed to 0 @ 1/00), 2000 – 2016YTD



Source: Morgan Stanley, Bloomberg as of 5/25/16

Note: Bloomberg Commodity Index represents 22 globally traded commodities, weighted as: 31% Energy, 23% Grains, 17% Industrial Metals, 16% Precious Metals, 7% Softs (Sugar, Coffee, Cotton), and 6% Livestock.

*Global Growth Engines =
Evolve Over Time*

Global Growth Engines @ ~2/3 of Global GDP Growth...

1985 = N. America + Europe + Japan

2015 = China + Emerging Asia

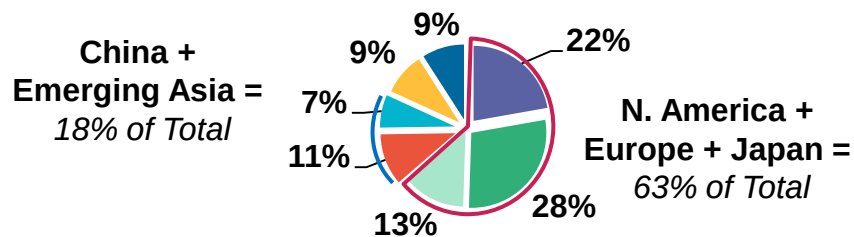
Real GDP Growth Contribution by Region, 1985 / 2015

(Based on Purchasing Power Parity)

1985

\$19T = World GDP

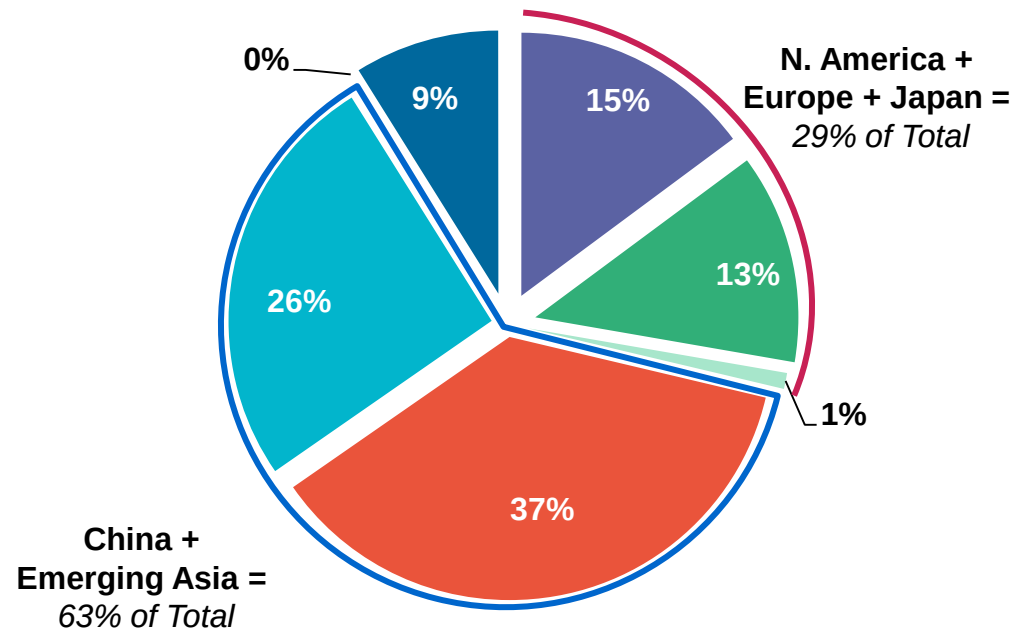
+4% Y/Y



2015

\$114T = World GDP

+3% Y/Y



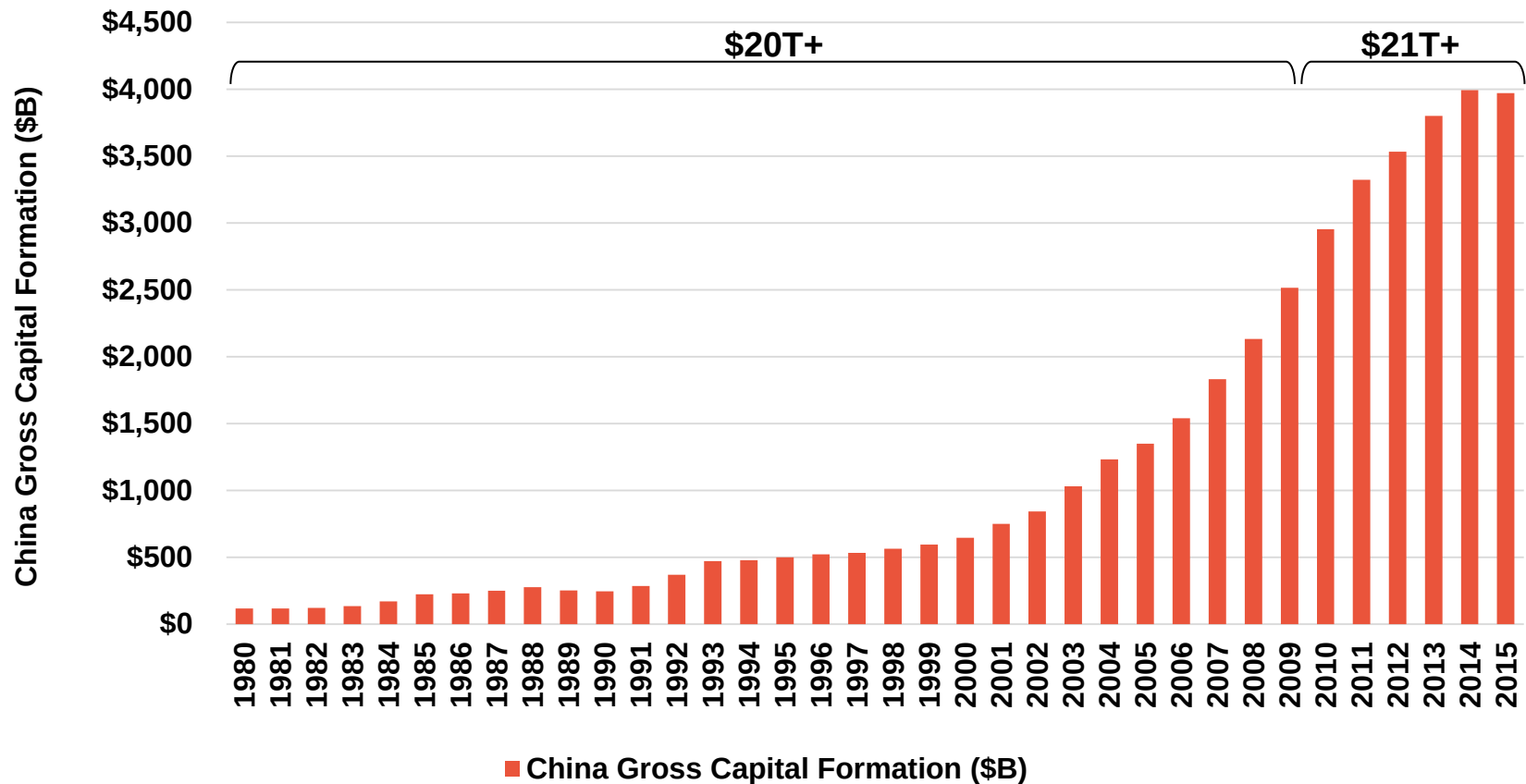
■ Europe ■ N. America ■ Japan ■ China ■ Emerging Asia (ex-China) ■ Lat Am ■ Middle East, Africa, Other

*China's
Gross Capital Formation
(Capital Equipment /
Roads / Buildings...)*

*Past 6 Years >
Previous 30 Years*

China Gross Capital Formation = Slowing... Sum of Past 6 Years > Previous 30 Years

China Gross Capital Formation, 1980 – 2015
(In 2010 Dollars)



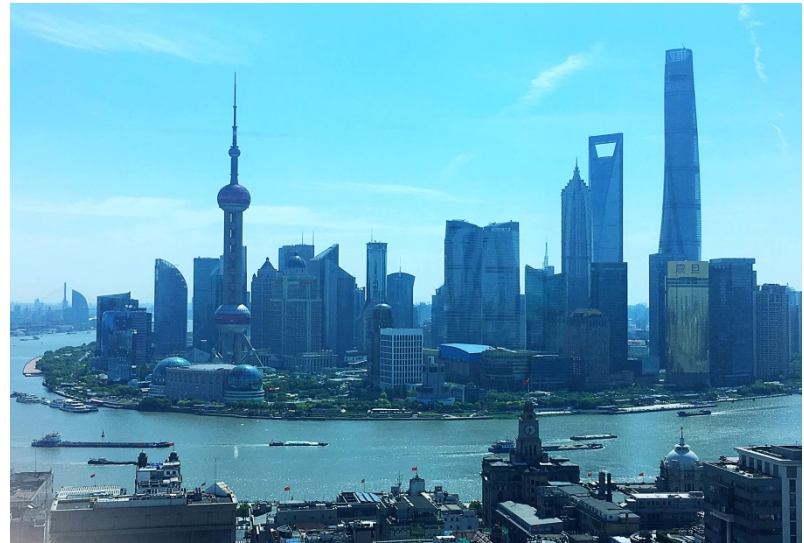
Shanghai Area Over Past 2+ Decades = Illustrates Magnitude of China (& Emerging Asia) Growth

Shanghai, China, Pudong District

1987



2016



*Re-Imagination of China
Over Past 3+ Decades –
World's Population Leader +
#3 in Land Mass –*

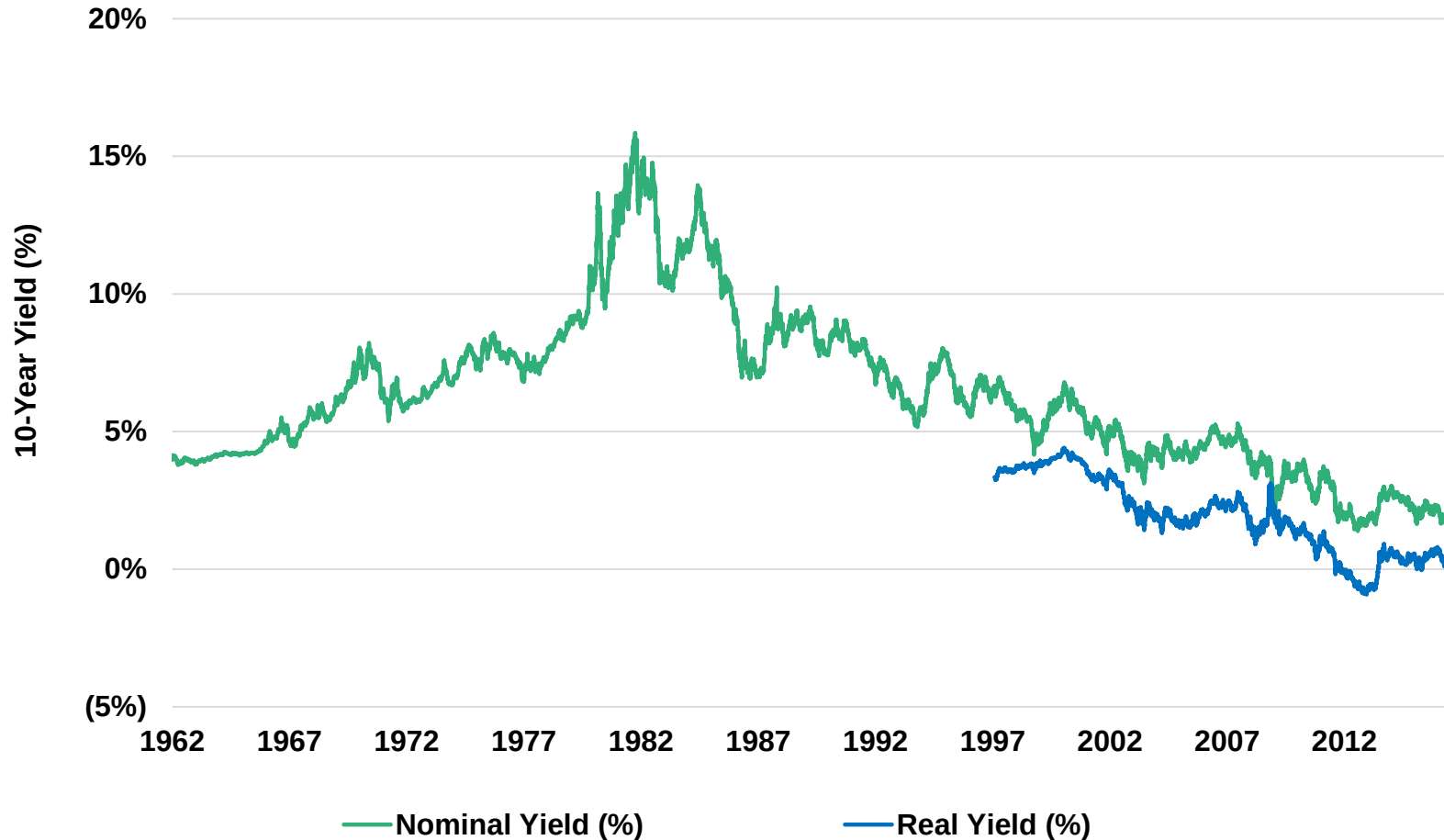
*Helped Drive Incremental
Global Growth of Likes Which is
Difficult to Repeat*

*Interest Rates Have Fallen to
Historically Low Levels =*

*Interest Rate Trends =
Can be Indicative of
Perception for Growth Outlook*

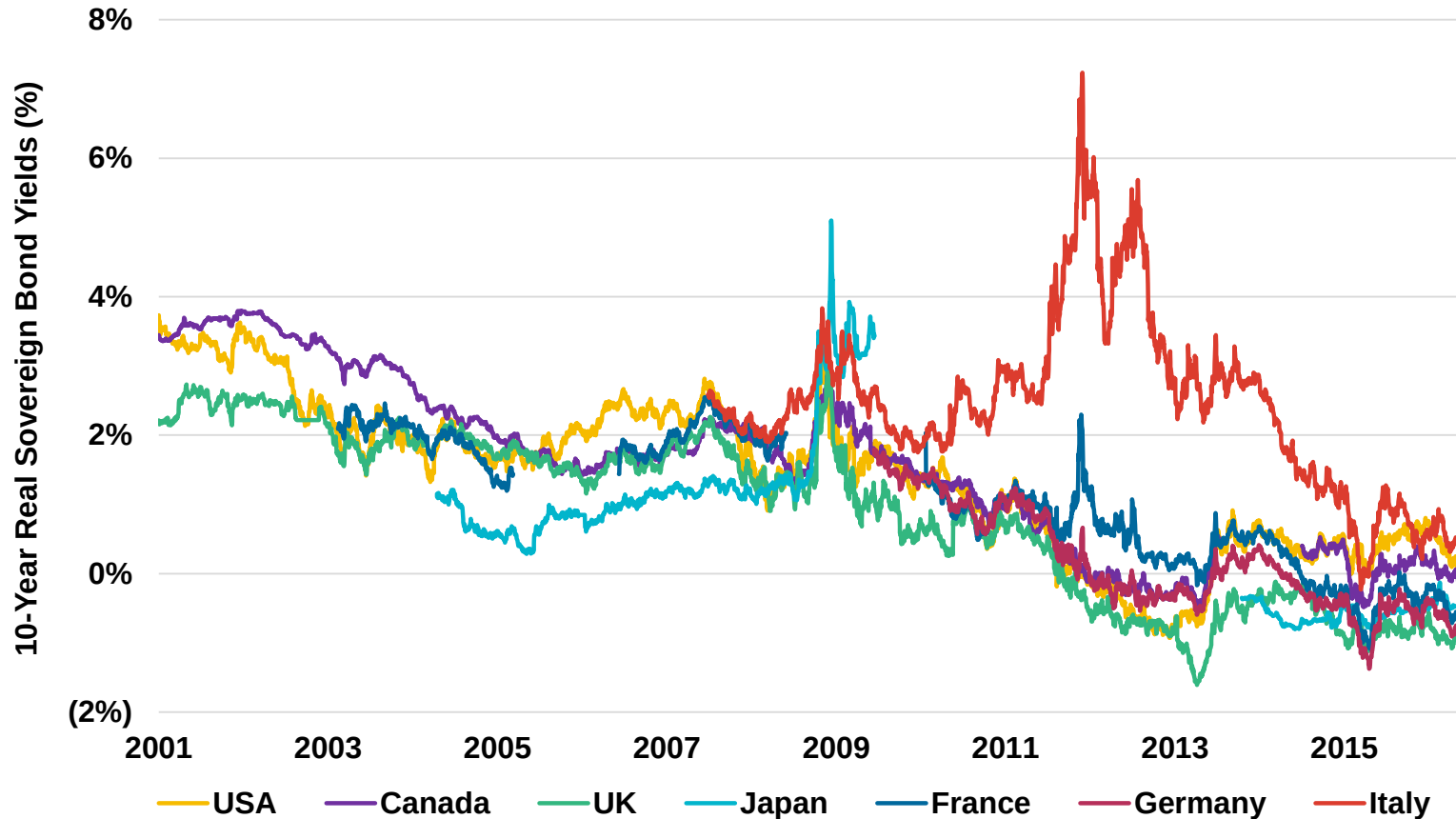
USA 10-Year Treasury Yield = Low by Historical Standards

USA 10-Year Treasury Yields, Nominal and Real, 1962 – 2016YTD



Global 10-Year Bond Yields = Have Trended Down

10-Year Real Sovereign Bond Yields (%), Various Countries, 2001 – 2016YTD

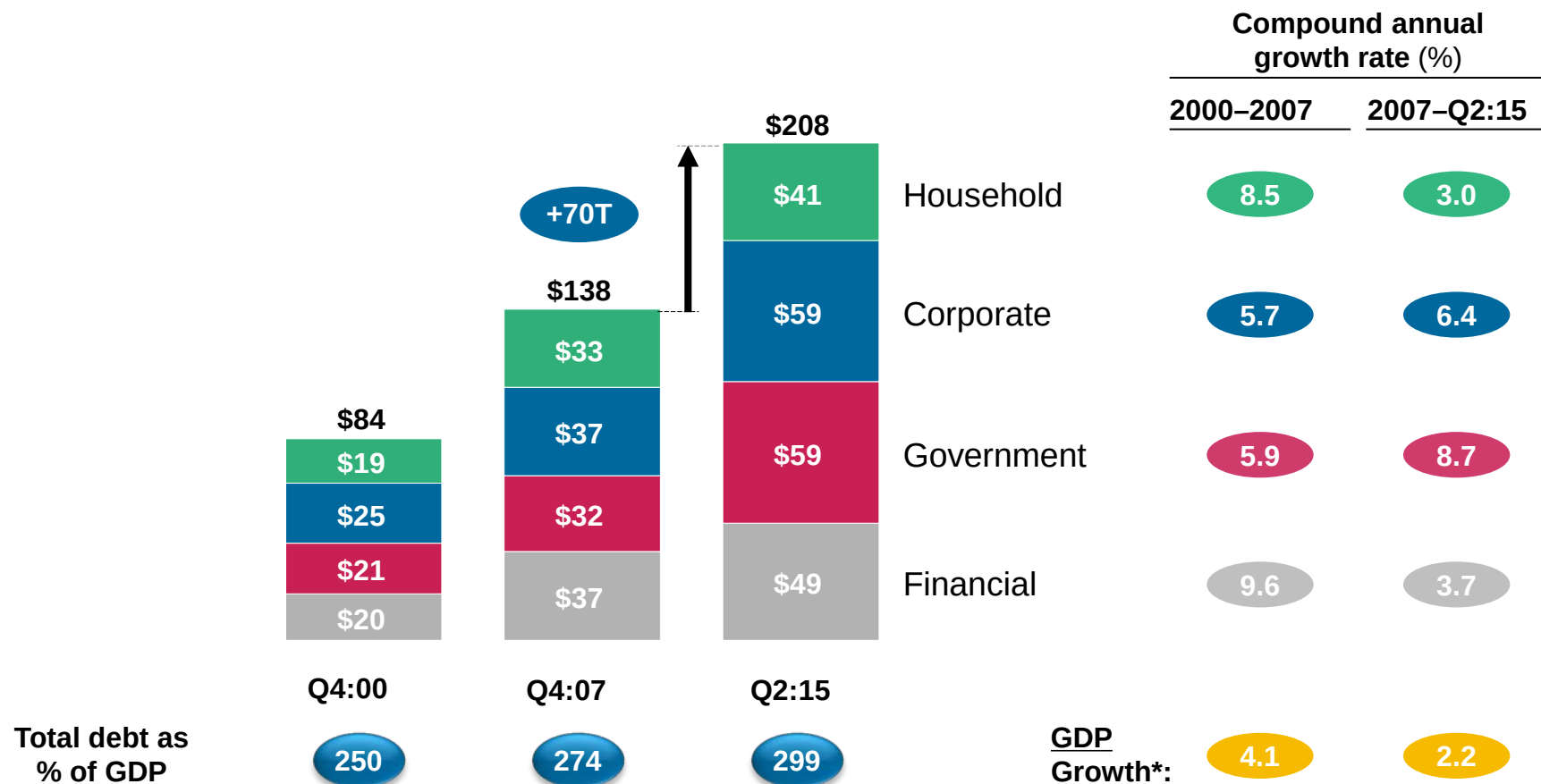


*Total Global Debt Loads
Over 2 Decades =*

High & Rising Faster Than GDP

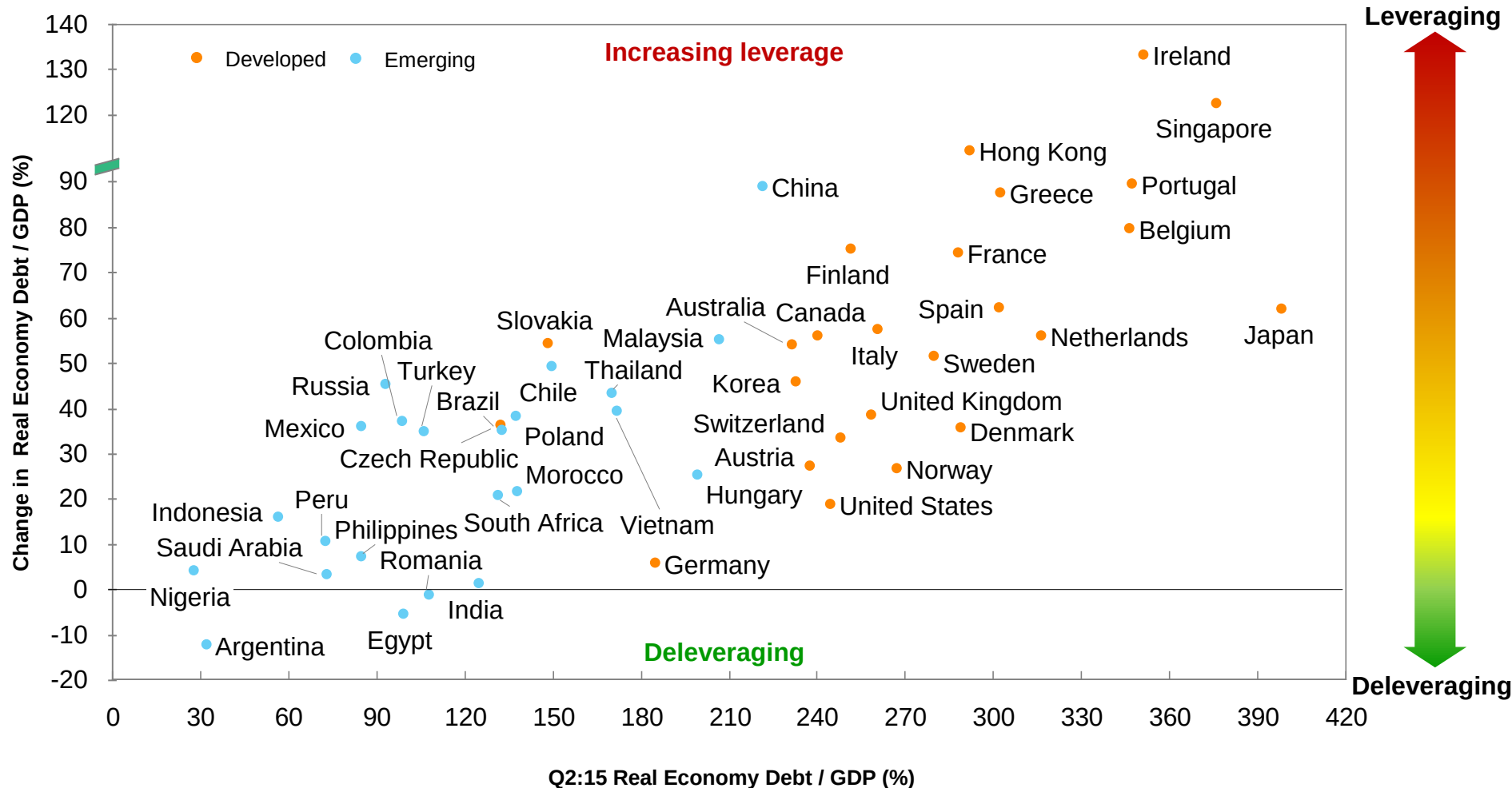
Global Government Debt @ 66% Average Debt / GDP (2015) & Up... +9% Annually Over 8 Years vs. +2% GDP Growth* for 50 Major Countries

Global Debt By Type (\$T, Constant 2014 FX), Q4:00 – Q2:15



Total Debt-to-GDP Ratios = High & Up in Most Major Countries... @ 202% Average vs. 147% (2000)*

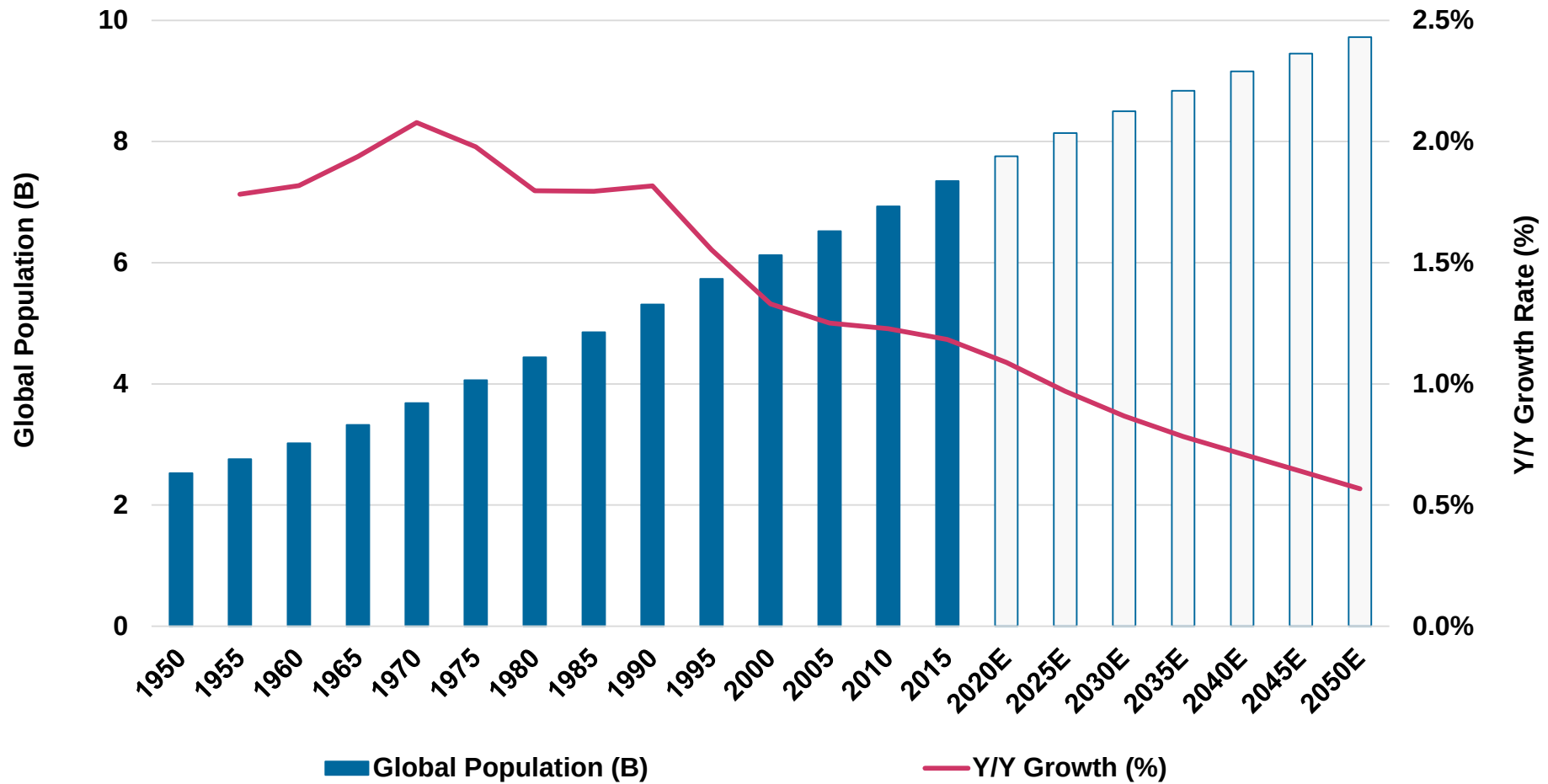
Change in Real Economy Debt / GDP (%), 2007 – Q2:15



*Demographic Trends =
Slowing Population Growth...
Slowing Birthrates +
Rising Lifespans*

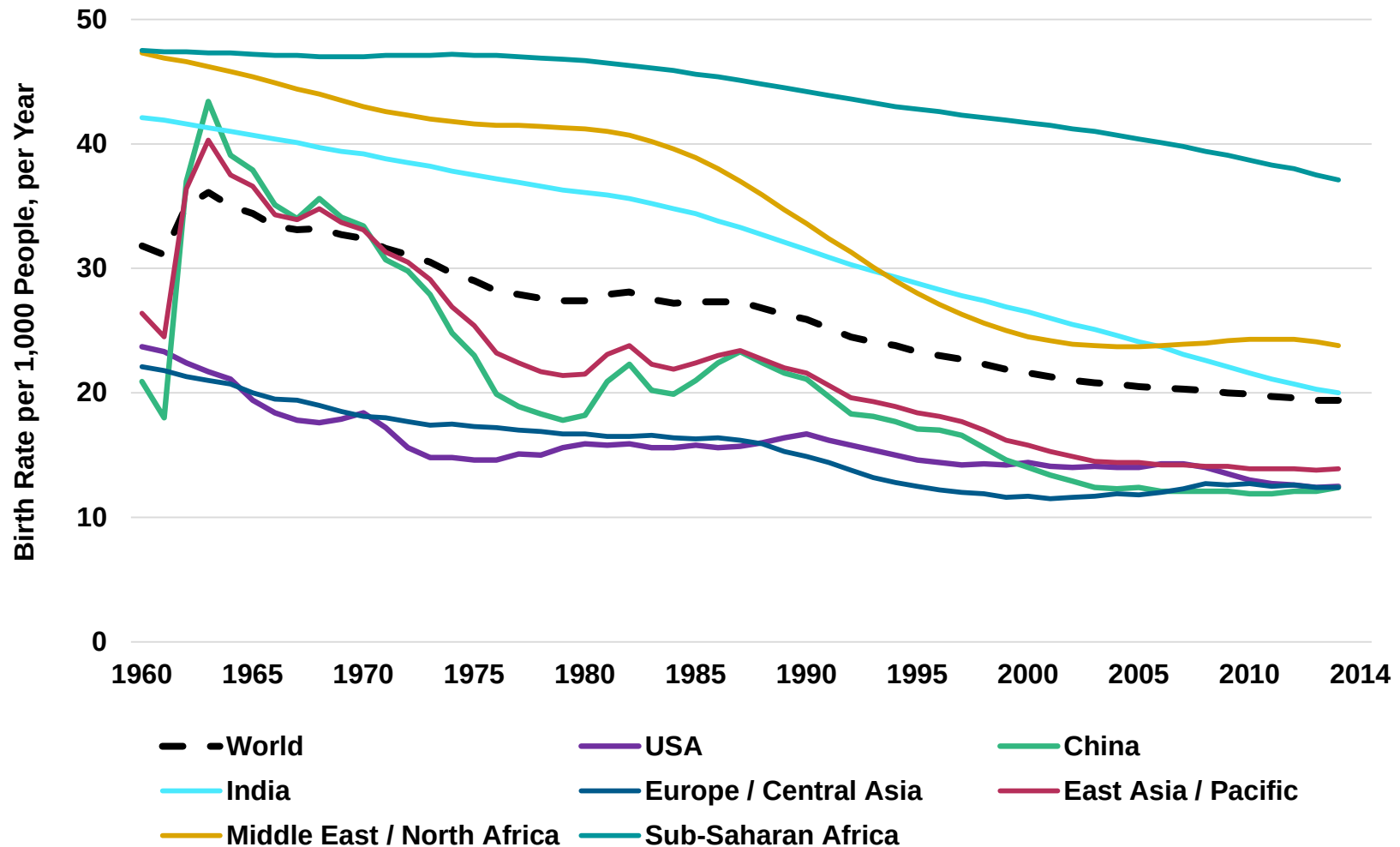
World Population Growth Rate Slowing = +1.2% vs. +2.0% (1975)

Global Population and Y/Y % Growth, 1950 – 2050E

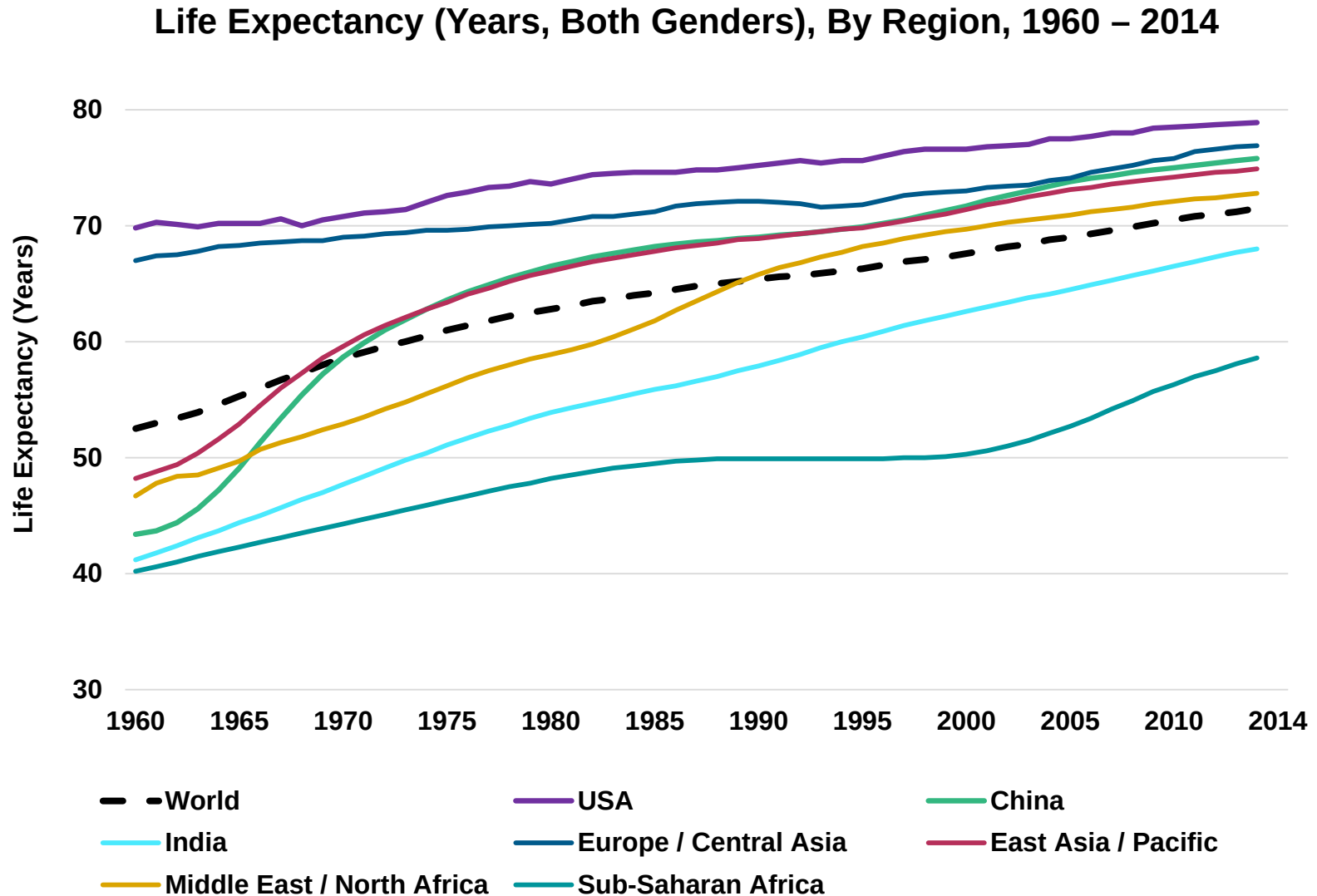


Global Birth Rates = Down 39% Since 1960 (1% Annual Average Decline)

Birth Rates per 1,000 People per Year, By Region, 1960 – 2014



Global Life Expectancy @ 72 Years = Up 36% Since 1960 (0.6% Annual Average Increase)



*Net, Net,
Economic Growth Slowing +
Margins for Error Declining =

Easy Growth Behind Us*

5 Epic Growth Drivers Over Past 2 Decades = Losing Mojo

1) Connectivity Growth Slowing –

Internet Users rose to 3B from 35MM (1995)

2) Emerging Country Growth Slowing –

Underdeveloped regions developed – including China / Emerging Asia / Middle East which rose to 69% of global GDP growth from 43%...

3) Government Debt Rising (& High) –

Spending rose to help support growth...Government debt-to-GDP rose to 66% from 51% (2000) for 50 major economies

4) Interest Rates Have Declined –

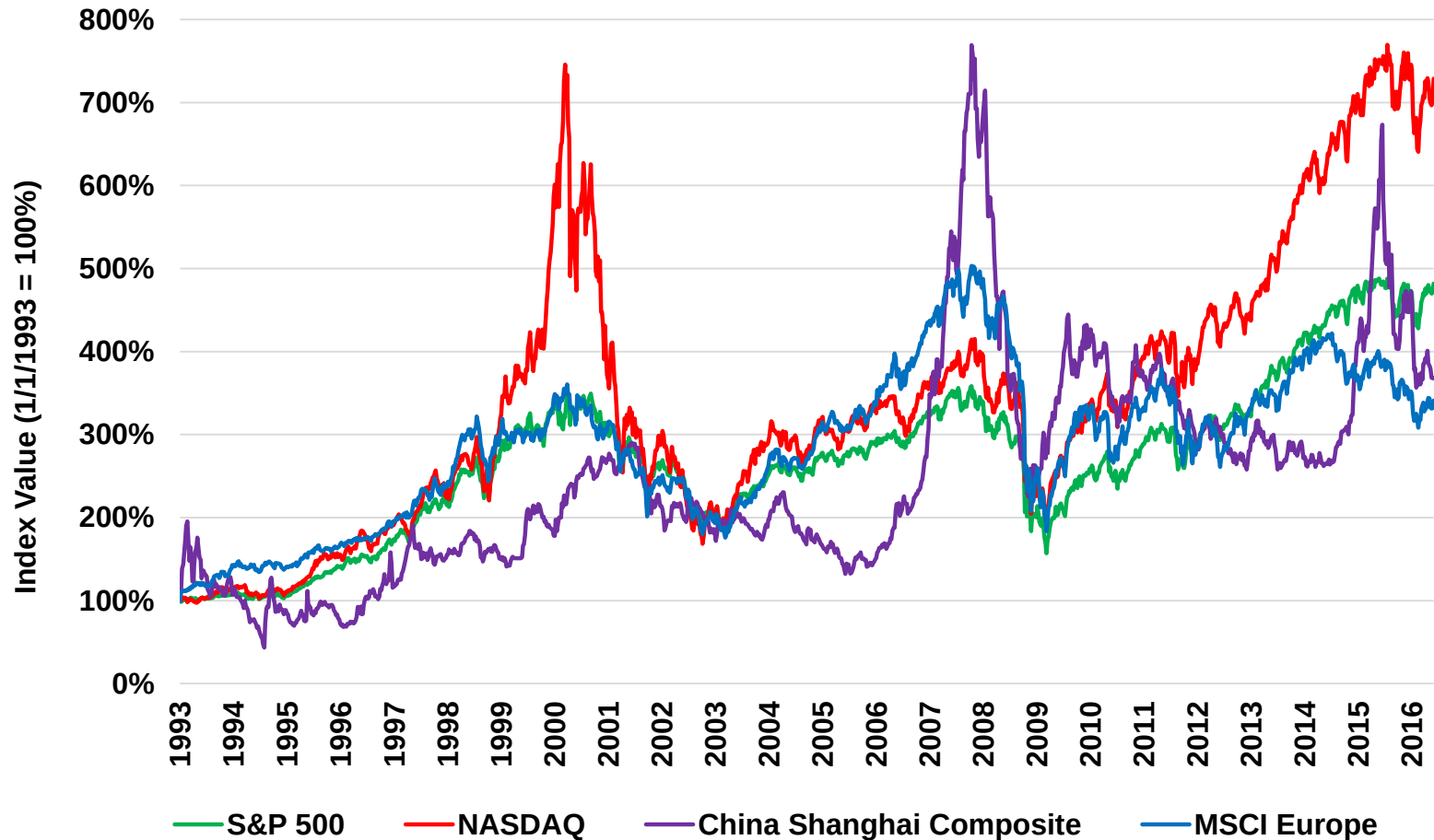
Helped fuel borrowing – USA 10-Year Nominal Treasury Yield fell to 1.9% (2016) from 6.6% (1995)

5) Population Growth Rate Slowing & Population Aging –

Higher birth rates helped drive labor force growth – population growth rate continued to fall – to 1.2% from 1.6% (1995)

Several Up / Down Cycles in Past 2 Decades = Internet 1.0 (2000)...Property / Credit (2008)...

Stock / Commodity Markets Performance (% Change From 1/93), 1/93 – 5/16



*Adjusting to Slower Growth +
Higher Debt + Aging Population
Creates Rising Risks...*

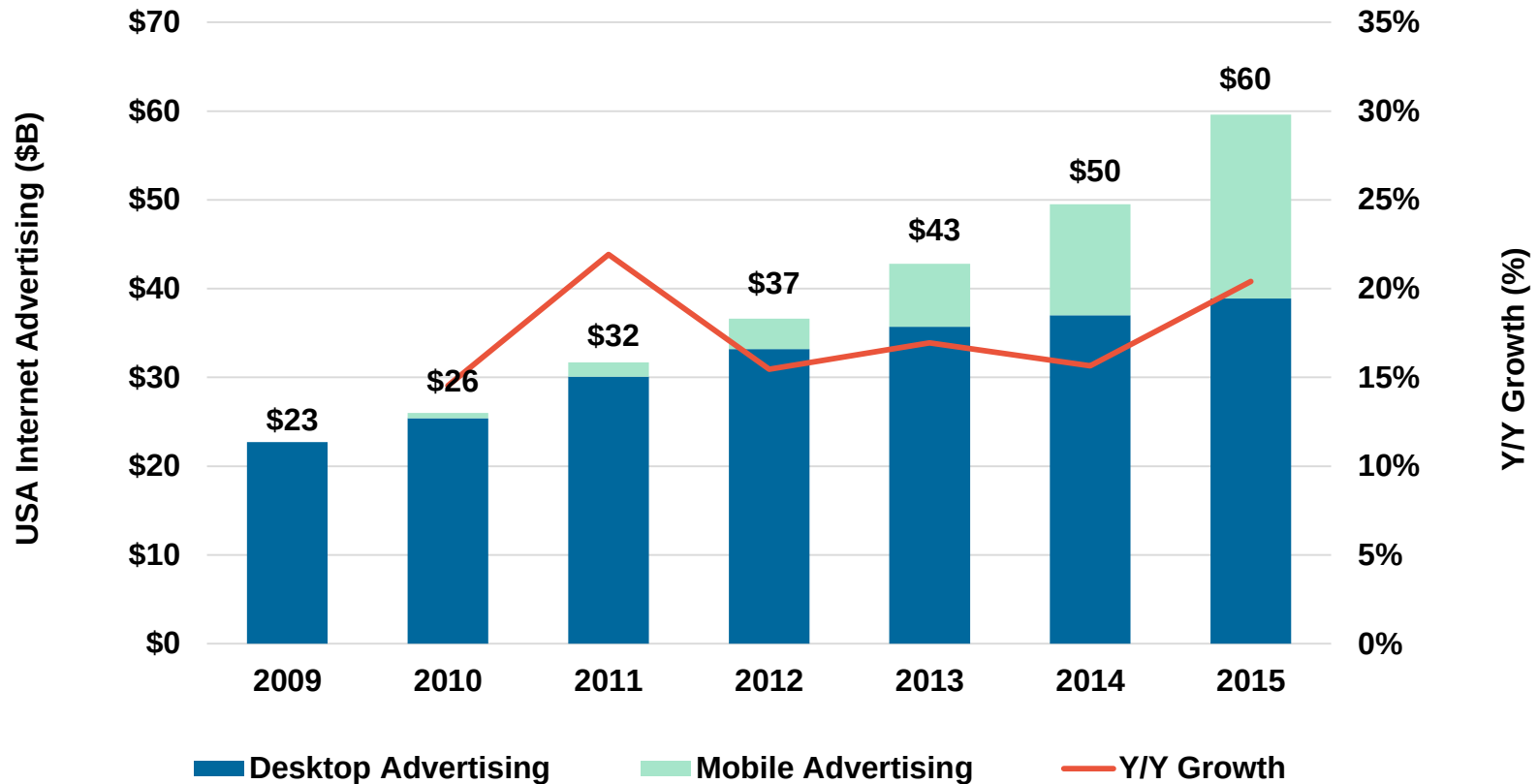
*Creates Opportunities for Businesses that
Innovate / Increase Efficiency /
Lower Prices / Create Jobs –
Internet Can Be @ Core of This...*

ADVERTISING / COMMERCE + BRAND TRENDS

***Online Advertising =
Mobile + Majors + Newcomers
Continue to Crank Away***

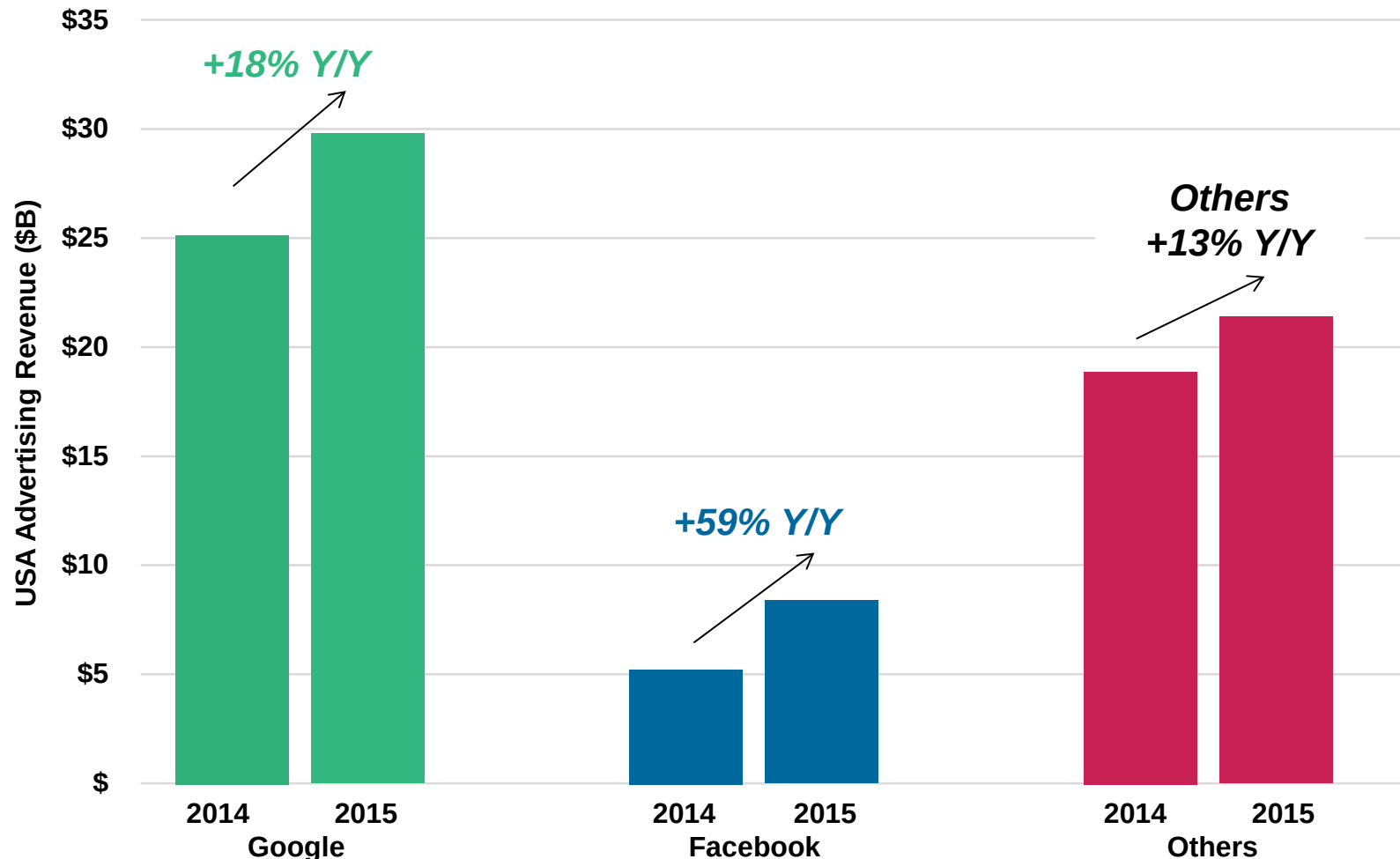
USA Internet Advertising Growth = Accelerating, +20% vs. +16% Y/Y... Owing to Mobile (+66%) vs. Desktop (+5%)

USA Internet Advertising, 2009 – 2015



Google + Facebook = 76% (& Rising) Share of Internet Advertising Growth, USA

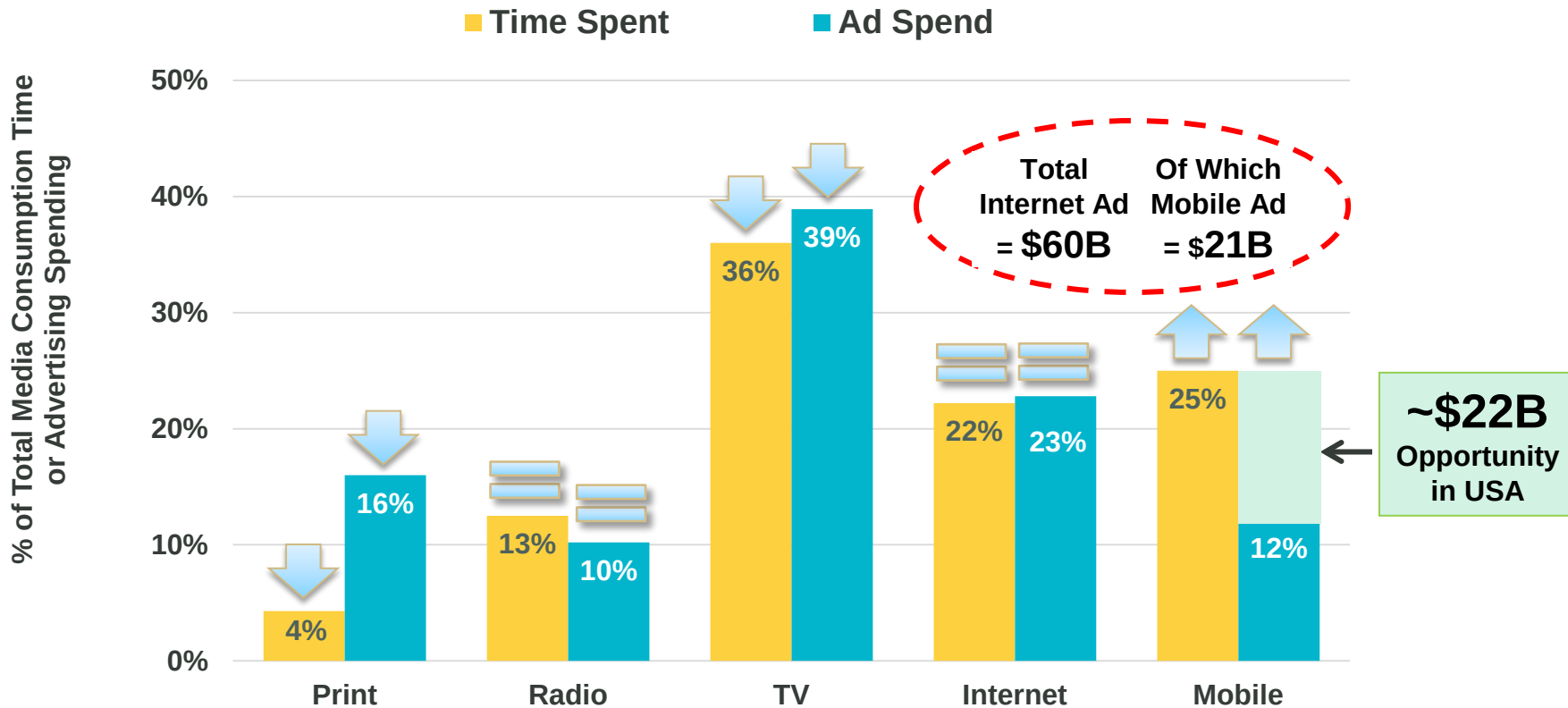
Advertising Revenue and Growth Rates (%) of Google vs. Facebook vs. Other, USA, 2014 – 2015



@ Margin...

Advertisers Remain Over-Indexed to Legacy Media

% of Time Spent in Media vs. % of Advertising Spending, USA, 2015



Online Advertising Efficacy = Still Has Long Way to Go

Google Has Proven Effective Online Advertising Works...

Google = \$75B Revenue (2015), +14% Y/Y / \$510B Market Value (5/31/16)

...But Many Online (Video) Ads are Ineffective, per Unruly...

81% = Mute Video Ads

62% = Annoyed with / Put Off by Brand Forcing Pre-Roll Viewing

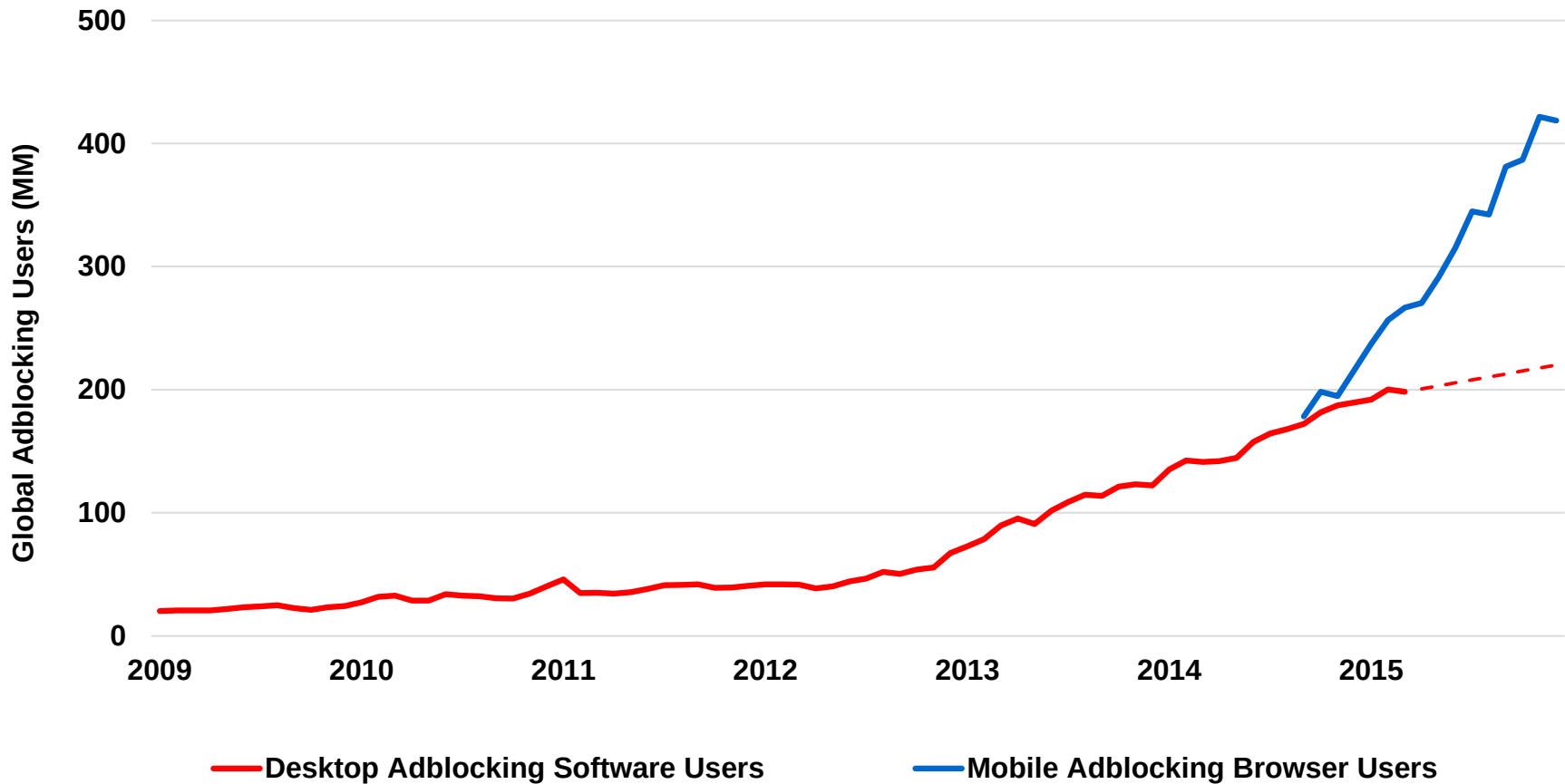
93% = Consider Using Ad Blocking Software

...But There are Ways Video Ads Can Work, per Unruly

- 1) Authentic
- 2) Entertaining
- 3) Evoke Emotion
- 4) Personal / Relatable
- 5) Useful
- 6) Viewer Control
- 7) Work with Sound Off
- 8) Non-Interruptive Ad Format

Adblocking @ ~220MM Desktop Users (+16% Y/Y)...~420MM+ Mobile (+94%)...
Majority in China / India / Indonesia = Call-to-Arms to Create Better Ads, per PageFair

Global Adblocking Users on Web (Mobile + Desktop), 4/09 – 3/16



Source: PageFair, 5/16. Dotted line represents estimated data. These two data sets have not been de-duplicated. The number of desktop adblockers after 6/15 are estimates based on the observed trend in desktop adblocking and provided by PageFair. Note that mobile adblocking refers to web / browser-based adblocking and not in-app adblocking. Desktop adblocking estimates are for global monthly active users of desktop adblocking software between 4/09 – 6/15, as calculated in the PageFair & Adobe 2015 Adblocking Report. Mobile adblocking estimates are for global monthly active users of mobile browsers that block ads by default between 9/14 – 3/16, including the number of Digicel subscribers in the Caribbean (added 10/15), as calculated in the PageFair & Priori Data 2016 Adblocking Report.

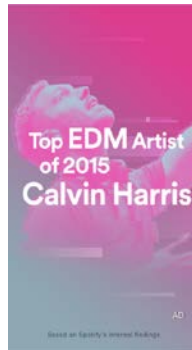
Video Ads that Work = Authentic / Entertaining / In-Context / Often Brief

Snapchat's 3V Advertising

Vertical (Made for Mobiles) / ***Video*** (Great Way to Tell Story) / ***Viewing*** (Always Full Screen)

Spotify (10-Second Ad) in...
Snapchat Live Stories + Discover

26MM+ Views, 12/15



.....

**+30% Lift in Subscription Intent,
2x More Effective Than
Typical Mobile Channels**

Furious 7 (10-Second Ad) in...
Ultra Music Festival Miami Live Story

14MM+ Views, 3/15



.....

**+3x Attendance Among Target Demo for
Snapchatters vs. Non-Snapchatters
= Opening Weekend Box Office**

***Commerce + Brands =
Evolving Rapidly By / For
This Generation***

*Each Generation Has
Slightly Different Core Values +
Expectations...*

*Shaped by Events that
Occur in Their Lifetimes*

Consumer Preference / Value Evolution by Generation, USA...

Millennials = More Global / Optimistic / Tolerant..., per Acosta



	Silent	Baby Boomers	Gen X	Millennials
Birth Years	1928 – 1945	1946 – 1964	1965 – 1980	1981 – 1996
Year Most of Generation 18-33 Years Old	1963	1980	1998	2014
Summary	- Grew up during Great Depression - Fought 2nd “war to end all wars” - Went to college on G.I. Bill - Raised “nuclear” families in time of great prosperity + Cold War	- Grew up during time of idealism with TV + car for every suburban home - Apollo, Civil Rights, Women's Liberation - Disillusionment set in with assassination of JFK, Vietnam War, Watergate + increase in divorce rates	- Grew up during time of change politically, socially + economically - Experienced end of the Cold War, Reaganomics, shift from manufacturing to services economy, + AIDS epidemic - Rise of cable TV + PCs	- Grew up during digital era with internet, mobile computing, social media + streaming media on iPhones - Experiencing time of rising globalization, diversity in race + lifestyle, 9/11, war on terror, mass murder in schools + the Great Recession
Core Values	- Discipline - Dedication - Family focus - Patriotism	- Anything is possible - Equal opportunity - Question authority - Personal gratification	- Independent - Pragmatic - Entrepreneurial - Self reliance	- Globally minded - Optimistic - Tolerant
Work / Life Balance	Work hard for job security	- Climb corporate ladder - Family time not first on list	- Work / life balance important - Don't want to repeat Boomer parents' workaholic lifestyles	Expanded view on work / life balance including time for community service + self-development
Technology	Have assimilated in order to keep in touch and stay informed	Use technology as needed for work + increasingly to stay in touch through social media such as Facebook	Technology assimilated seamlessly into day-to-day life	- Technology is integral - Early adopters who move technology forward
Financial Approach	Save, save, save	Buy now, pay later	Cautious, conservative	Earn to spend

Characteristic Evolution by Generation @ Peak Adult Years (18-33), USA...

Millennials = More Urban / Diverse / Single...



	Silent	Baby Boomers	Gen X	Millennials
Birth Years	1928 – 1945	1946 – 1964	1965 – 1980	1981 – 1996
Year Most of Generation 18-33 Years Old	1963	1980	1998	2014
Location When Ages 18-33 <i>Metropolitan as % Total</i>	64%	68%	83%	86%
Diversity When Ages 18-33 <i>White as % Total</i>	84%	77%	66%	57%
Marital Status When Ages 18-33 <i>Married as % Total</i>	64%	49%	38%	28%
Education by Gender When Ages 18-33 <i>% with Bachelor's Degree</i>	12% Male / 7% Female	17% Male / 14% Female	18% Male / 20% Female	21% Male / 27% Female
Employment Status by Gender When Ages 18-33 <i>Employed as % Total*</i>	78% Male / 38% Female	78% Male / 60% Female	78% Male / 69% Female	68% Male / 63% Female
Median Household Income ** When Ages 18-33	N/A	\$61,115	\$64,469	\$62,066
Population of Generation When Ages 18-33	35MM	61MM	60MM	68MM

Source: Pew Research

Image: Doomsteadtiner.net, Billboard.com, Metro.co.uk

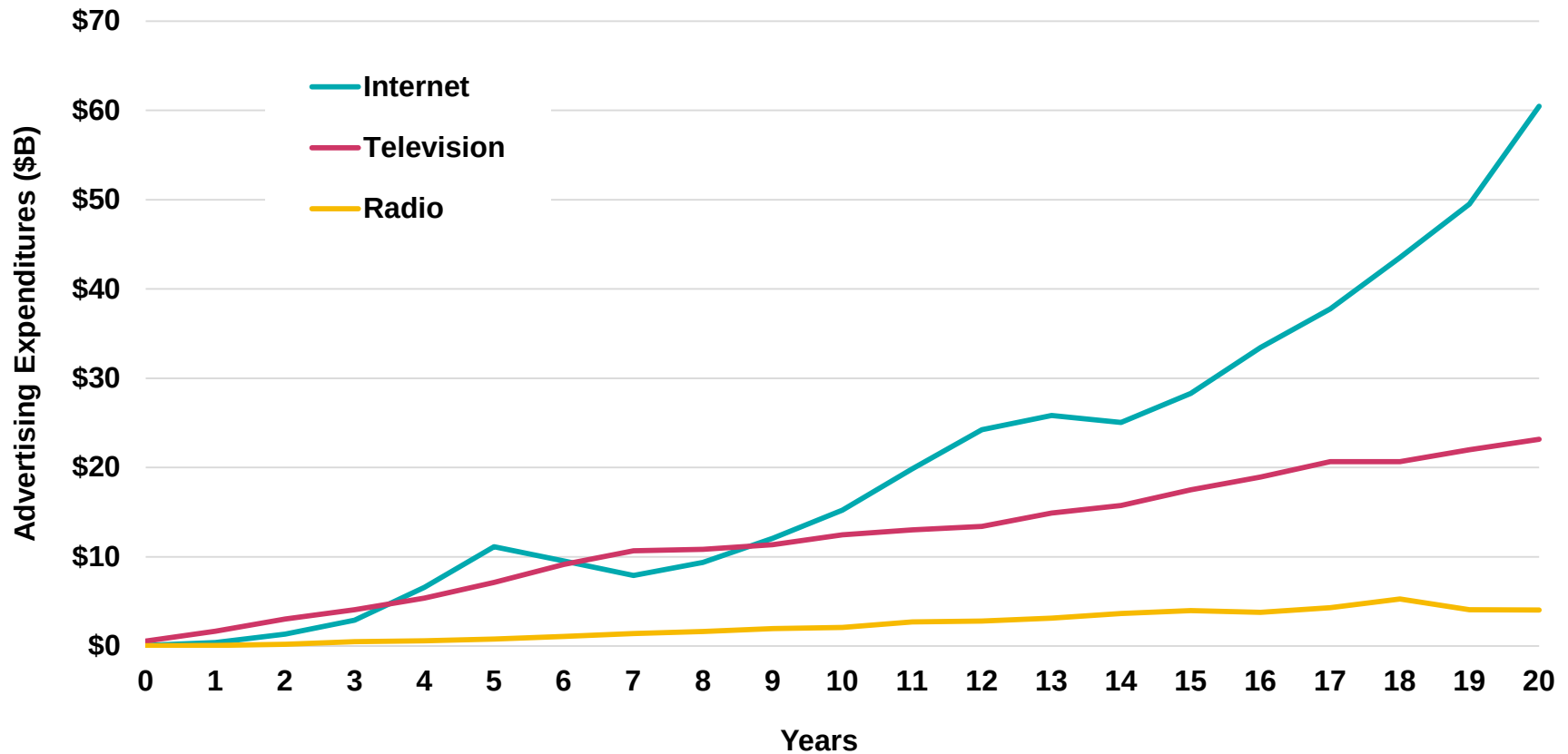
Note: *Only shows those that were civilian employed (i.e. excludes armed forces, unemployed civilians, and those not in labor force). **Median household income shown in 2015 dollars. Pew Research Center tabulations of the March Current Population Surveys (1963, 1980, 1998, and 2014). Pew Research defines each generation and may differ from other sources as there are varying opinions on what years each generation begin and end.

*Marketing Channels
Evolve With Time...*

*Shaped by Evolution of
Technology + Media*

Each New Marketing Channel = Grew Faster... Internet > TV > Radio

Advertising Expenditure Ramp by Channel, First 20 Years, USA, 1926 – 2015
(In 2015 Dollars)



*Retailing Channels
Evolve With Time...*

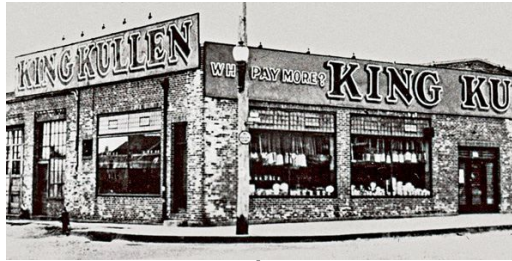
*Shaped by Evolution of
Technology + Distribution*

Evolution of Commerce Over Past ~2 Centuries, USA = Stores → More Stores → Malls → E-Commerce

Corner / General Stores
1800s



Supermarkets
1930s



Discount Chains
1950-60s



Wholesale Clubs
1970-80s



Illustrative Generational Overlap

Millennials

Generation X

Baby Boomers

Silent Generation

Department Stores
Mid-1800s



Shopping Malls
1950s



Superstores
1960-80s

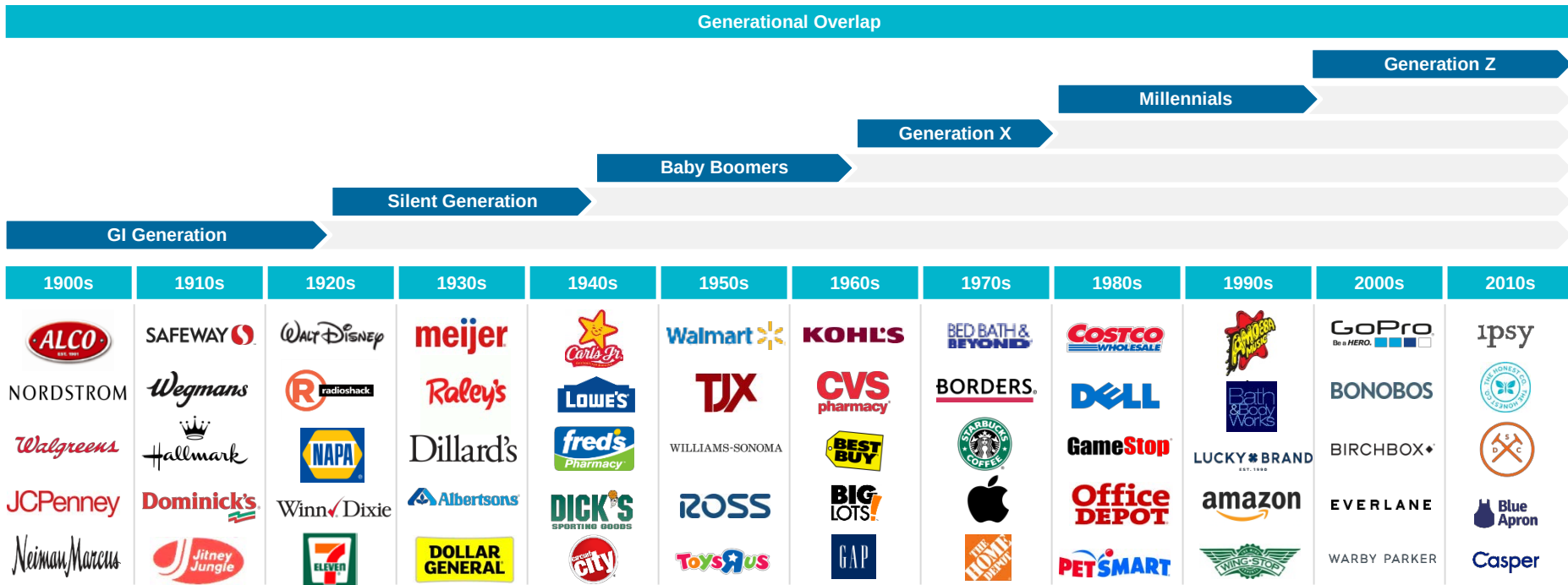


E-Commerce
1990s



New / Emerging Retailers Optimize for Generational Change = J.C. Penney → Meijer → Walmart → Costco → Amazon → Casper

Retail Companies Founded by Decade (Illustrative Example), USA, 1900 – 2015

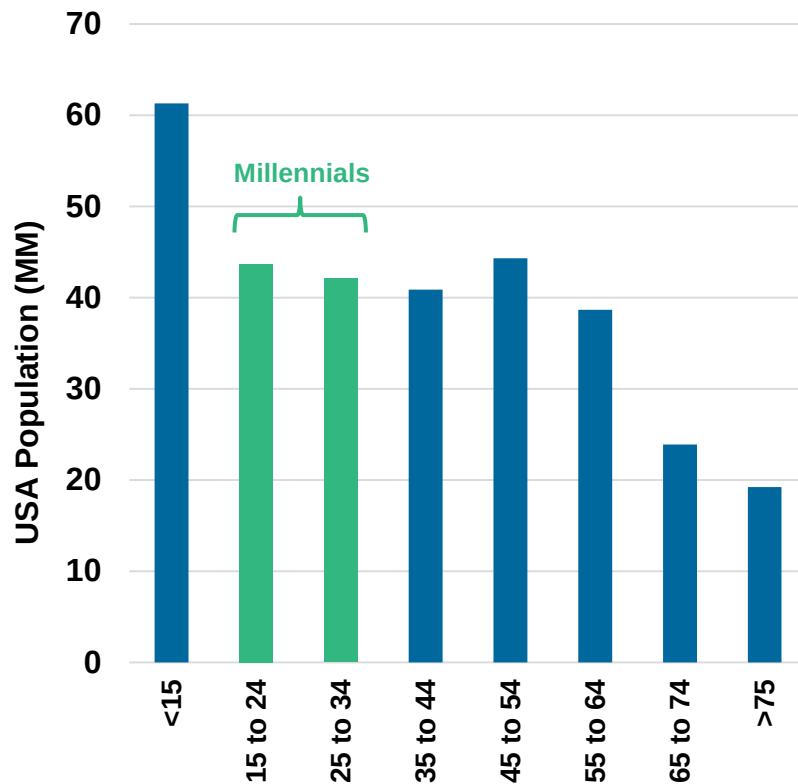


Source: KPCB, Retailindustry.about.com (1900s – 1980s), Ranker (1990s), Internet Retailer "2016 Top 500 Guide" (2000s – 2010s)
 Note: Companies shown above in chronological order by founding year by decade. Companies from 2000s onwards selected as diverse set of fast-growing companies based on web sales data from the Internet Retailer "2016 Top 500 Guide." Gen Z defined as those born after 2000. In 2015, they are ages 0-15. Millennials defined as those born between 1980 and 2000. In 2015, they are ages 15-35. Gen X defined as those born between 1965 and 1979. In 2015, they are ages 36-50. Boomers defined as those born between 1946-1964. In 2015, they are ages 51-70. Silents defined as those born between 1925 – 1945. In 2015, they are ages 71 – 90. GI Generation defined as those born between 1900 – 1924. In 2015, they are age 91 – 115. Note there are varying opinions on what years each generation begin and end.

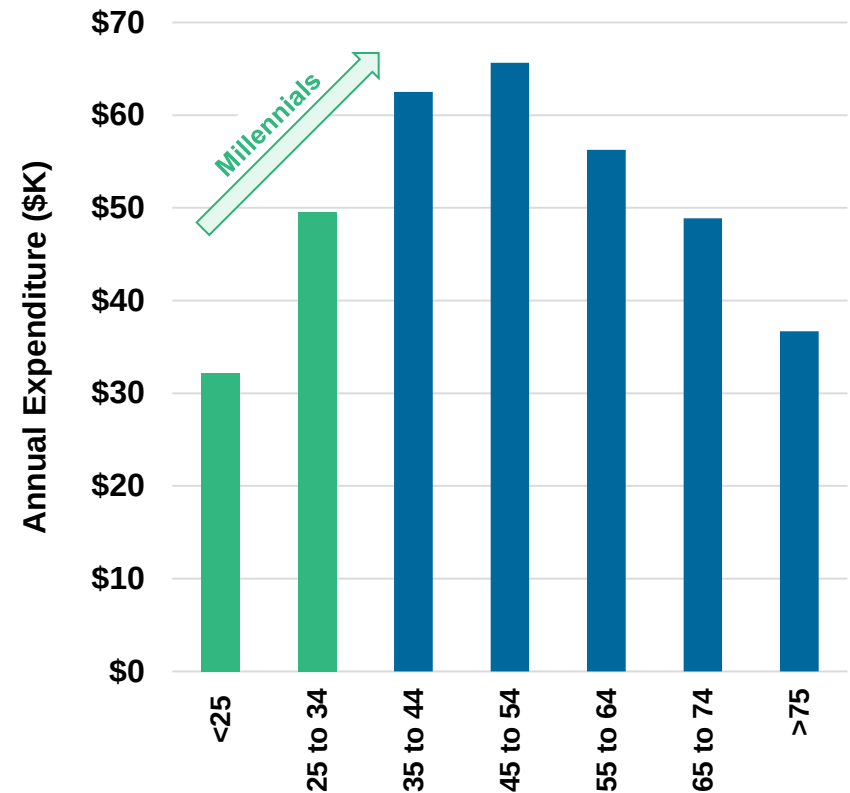
*Millennials =
Impacting + Evolving Retail...*

Millennials @ 27% of Population = Largest Generation, USA... Spending Power Should Rise Significantly in Next 10-20 Years

Population by Age Range, USA, 2014

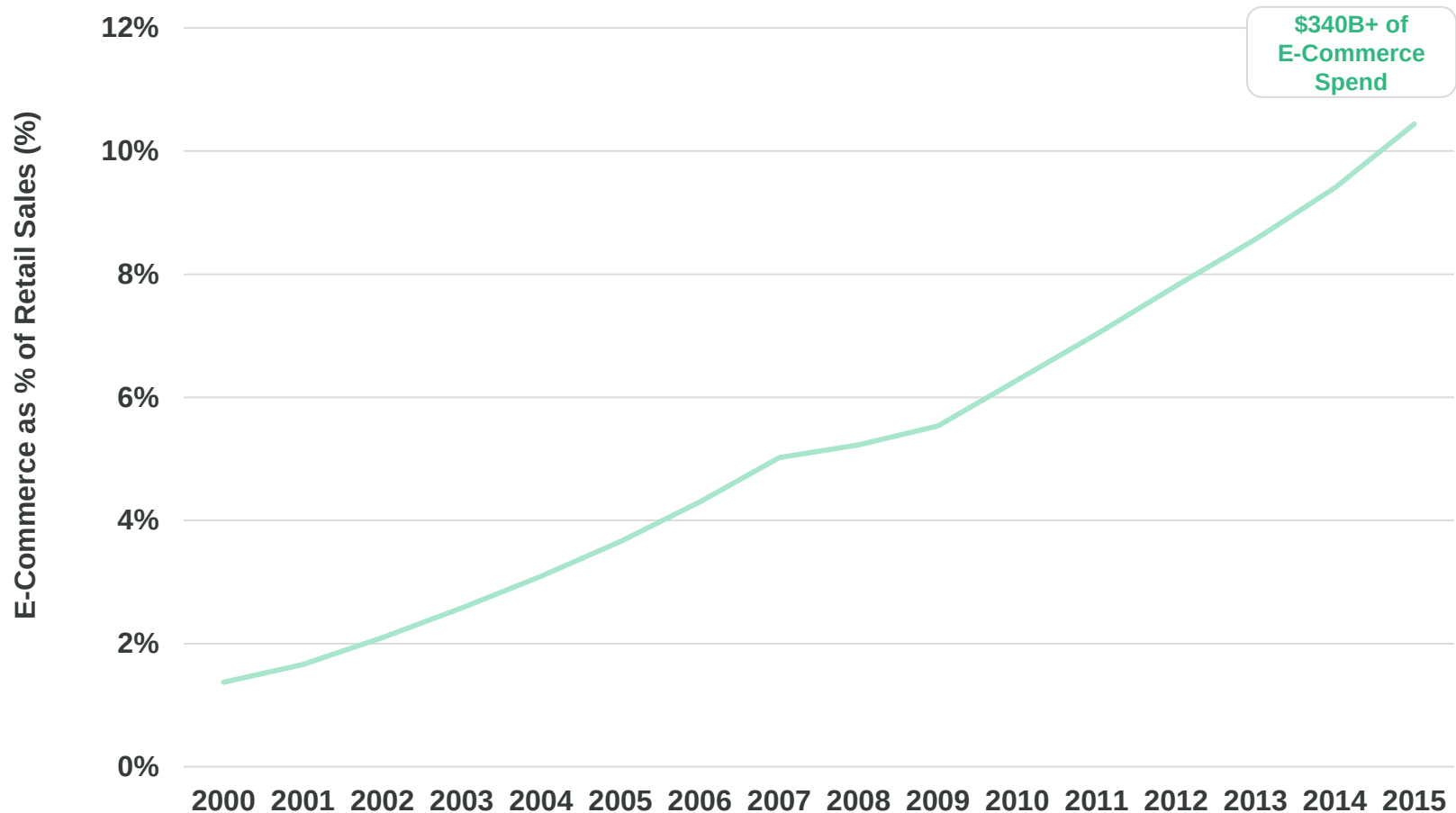


Household Expenditure, Annual Average, by Age of Reference Person, USA, 2014



Internet Continues to Ramp as Retail Distribution Channel = 10% of Retail Sales vs. <2% in 2000

E-Commerce as % of Total Retail Sales, USA, 2000 – 2015



Source: U.S. Census Bureau, Federal Reserve Bank of St. Louis (5/16)

Note: E-commerce and retail sales data are seasonally adjusted. Retail sales exclude food services, retail trade from gasoline stations, and retail trade from automobiles and other motor vehicles.

*Retail =
Technology + Media + Distribution
Increasingly Intertwined*

Retail – The New Normal = Drive Transaction Volume → Collect / Use Data → Launch New Products / Private Labels...

Amazon – Private Label Brand Launches, 2004 – 2015

Outdoor Furniture

Strathwood
2004



% Total Amazon Purchasers
Which Purchased Home &
Garden Products:

11%

Home Goods

Pinzon
2008



% Total Amazon Purchasers
Which Purchased Household
Products:

10%

Electronic Accessories

AmazonBasics
2009



% Total Amazon Purchasers
Which Purchased
Electronics (<\$50) Products:

21%

Fashion Brands

*Franklin & Freeman, Franklin
Tailored, James & Erin, Lark & Ro,
North Eleven, Scout + Ro, Society
New York*
2015



% Total Amazon Purchasers
Which Purchased:

Men's Apparel – **12%**
Women's Clothing – **9%**

...Products Become Brands...Brands Become Retailers... Retailers Become Products / Brands...Retailers Come Into Homes...

Less differentiation between products / brands / retailers as single products evolve into brands + consumers shop directly from brands + retailers leverage insights to develop own vertically-integrated brands...New distribution models emerging enabling direct-to-consumer commerce in the home...

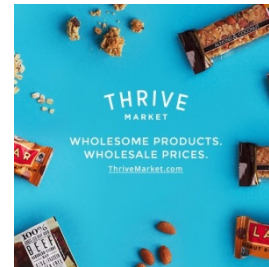
Products → Brands (Casper)



Brands → Retailers (Warby Parker)



Retailers → Products / Brands (Thrive Market)



New DTC Distribution Models (Stitch Fix)

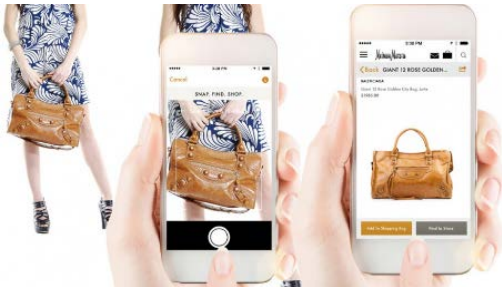


...Physical Retailers Become Digital Retailers... Digital Retailers Become Data-Optimized Physical Retailers...

Physical Retailers Evolving & Increasing E-Commerce Presence...New Products / Brands / Retailers Launching Physical Stores / Showrooms / Retail Channels...Omni-Channel is Key...Warby Parker @ \$3K Annual Sales per Square Foot = One of Top Grossing Physical Retailers per Square Foot in USA

Offline → Online (Neiman Marcus)

26% of F2015 Sales on Internet, +24% Y/Y



Online → Offline (Warby Parker)



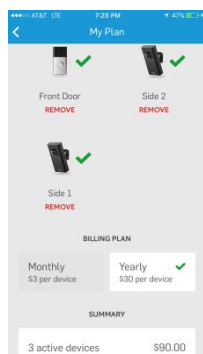
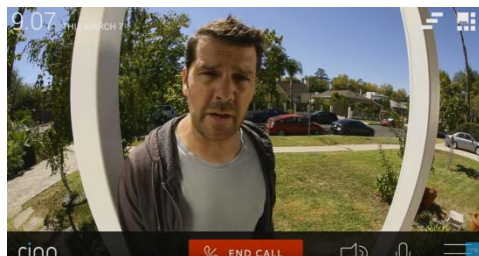
31 locations (5/16),
up from 10 locations
(12/14)

Top 5 Physical Retailers by Sales / Sq. Ft., USA, 2015*

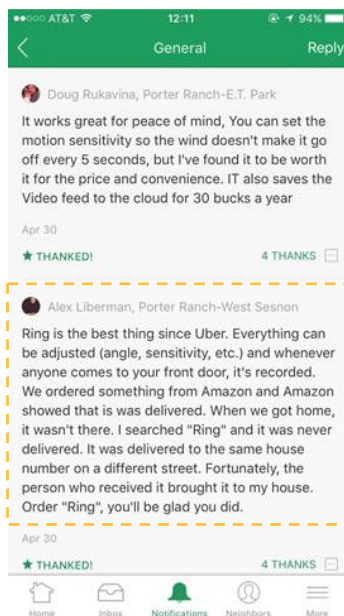
Apple	\$5,546
Warby Parker	\$3,000
Tiffany & Co.	\$2,951
Lululemon Athletica	\$1,560
Michael Kors	\$1,466

...Connected Product Users Easily Notified When to Buy / Upgrade... Can Benefit from Viral Sharing

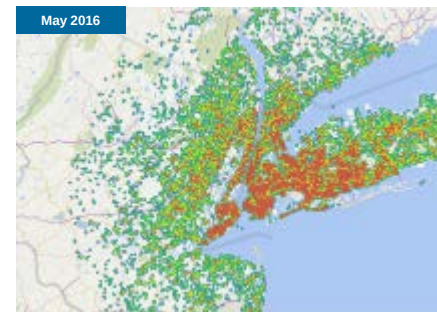
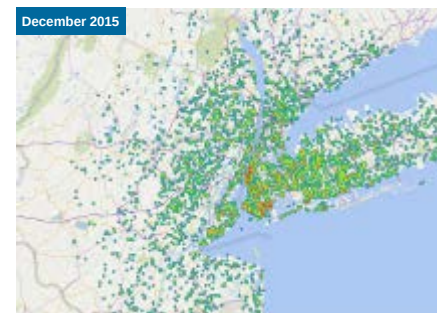
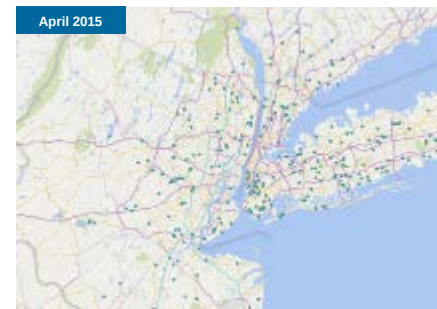
Ring Connected Devices with Sharable Content



Sharing of Events Captured on Ring on Neighborhood Level – Nextdoor, TV...



Proliferation of Ring Connected Devices Serving Broader Communities



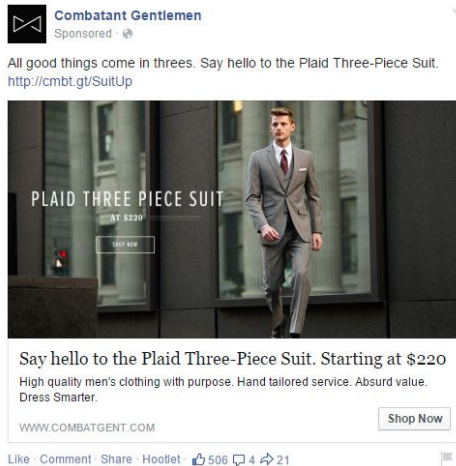
*Internet-Enabled
Retailers / Products / Brands
On Rise =*

*Bolstered by
Always-On Connectivity +
Hyper-Targeted Marketing +
Images + Personalization*

Hyper-Targeted Marketing = Driving Growth for Retailers / Products / Brands

Internet = Driving Force for New Product Introductions with Hypertargeting / Intent-Based Marketing via Facebook / Twitter / Instagram / Google...

Combatant Gentlemen

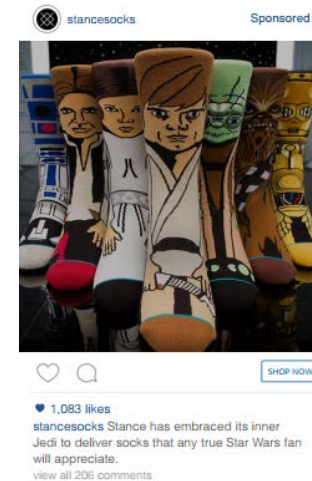


'Our customer acquisition strategy was Facebook. Our [target customer] typically spends a lot of time on Facebook...**Every \$100 we spent on Facebook was worth \$1,000 in sales. For us, it was a simple math equation.**

'We target based on [Facebook] likes...For example, **we have a lot of guys in real estate who are climbing up the ladder. What we do is we put these guys into cohorts and we say, 'These are our real estate guys.'**

- Vishaal Melwani
CEO and Founder, Combatant Gentlemen

Stance



After noticing that its Instagram placements were outperforming all other placement types in its Star Wars collection launch campaign, Stance decided to create a dedicated ad set to maximize its ad spend against this placemen & build upon Instagram's unique visual nature and strong targeting capabilities.

Stance **targeted the ads to adults whose interests include the Star Wars movies, but excluded those interested only in specific Star Wars characters.** The 'Sock Wars' campaign generated an impressive **36% boost to return on ad spend.**

Stitch Fix User Experience = Micro Data-Driven Engagement & Satisfaction... Data Collection + Personalization / Curation + Feedback...

***Stitch Fix = Applying Netflix / Spotify-Like Content Discovery to Fashion...
Each Customer = Differentiated Experience...99.99% of Fixes Shipped = Unique***

Data-Driven Onboarding Process = Mix of Art + Science

Collect data points on customer preferences / style / activities. 46% of active clients provide Pinterest profiles. Stylists use Pinterest boards + access to algorithms to help improve product selection



The screenshot shows the 'TAKE THE STYLE QUIZ' interface. At the top, there's a progress bar with tabs for STYLE, FIT/CUT, SIZE, PRICE, and MO. The current question is 'How often do you dress for the following occasions?'. Below this, there are two sections: 'WORK / BUSINESS CASUAL' and 'COCKTAIL / WEDDING / EVENT'. Each section has four radio button options: 'Most of the time', 'About once or twice a week', 'About once or twice a month', and 'Rarely'. At the bottom, 'LAID-BACK CASUAL' is listed as a category. The interface is clean and user-friendly, with a 'Next' button at the top right.

Ship 'Fixes' with Curated Items Based on Preferences / Style

Allows clients to try products selected by stylists in comfort of home / return items they don't like



Customer Preferences & Feedback

Collect information on customer experience to drive future product selection



The screenshot shows the feedback form. At the top, there are two buttons: 'RETURN' and 'KEEP'. Below this, there are four sliders for 'STYLE', 'FIT / CUT', 'SIZE', and 'PRICE'. Each slider has a scale from 'Hate it' to 'Love it' (or 'Too small' to 'Too big' for size, and 'Too low' to 'Too high' for price). The 'STYLE' slider is currently set to 'Just ok'. The 'FIT / CUT' slider is set to 'Like it'. The 'SIZE' slider is set to 'Just right'. The 'PRICE' slider is set to 'Just right'. At the bottom, there is a 'COMMENTS' section with a text input field.

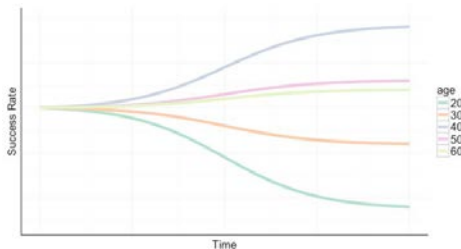
...Stitch Fix Back-End Experience = 39% of Clients Purchase Majority of Clothing from Stitch Fix vs. ~30% of Clients Y/Y

Stitch Fix = Data On Users + Data on Items + Constantly Improving Algorithms = Drive High Customer Satisfaction...100% of Purchases from Recommendations

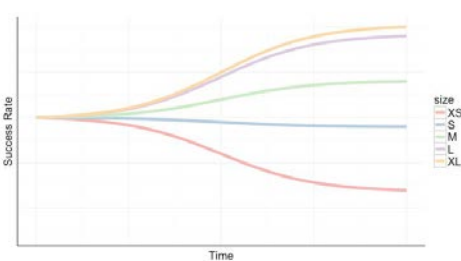
Data Collection on Item-by-Item Basis Coupled with User Insights

Stitch Fix captures 50-150 attributes on each item, uses algorithms + feedback to determine probability of success (i.e. item will be purchased) for specific demographics, allows stylists to better select items for clients

Example of Product Success Probability by Age

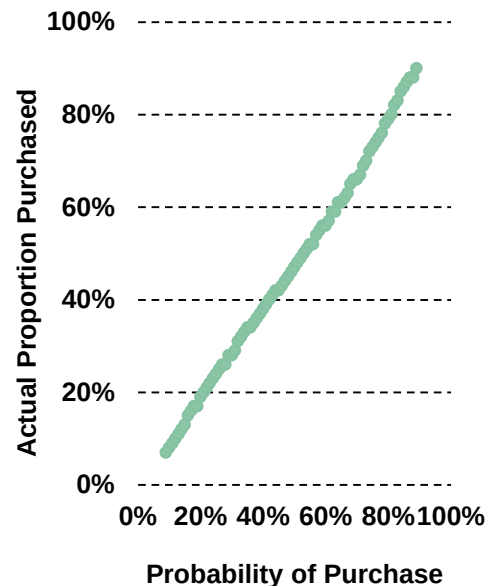


Example of Product Success Probability by Sizing



Data Networking Effect... Helps Stylist Predict Success of Items with Specific Client

The more information collected, the better the probability of success. Stitch Fix showing 1:1 correlation between probability of purchase per item and observed purchase rate over time



Strong Consumer Engagement / Anticipation...Increased Wallet Share...

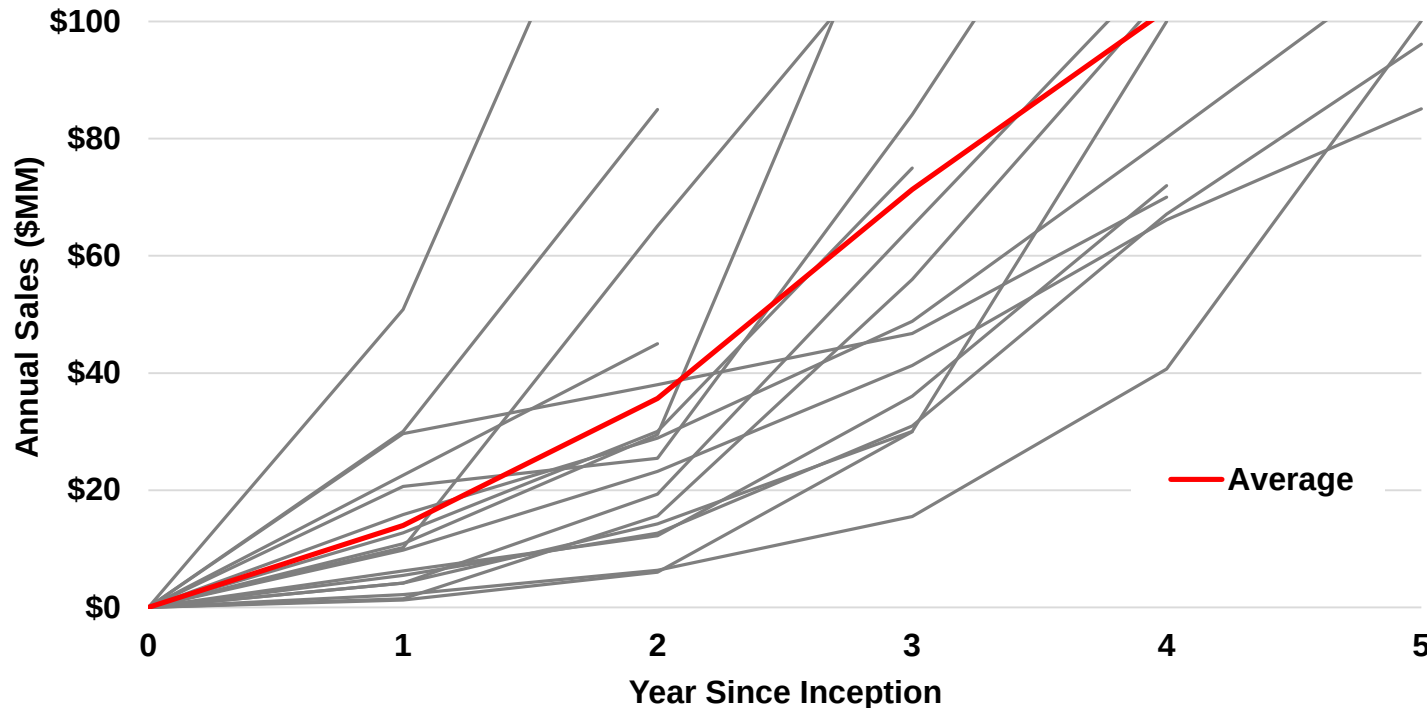
39% of Stitch Fix clients get majority of clothing from Stitch Fix, up from ~30% of clients a year ago



Many Internet Retailers / Brands @ \$100MM in Annual Sales* in <5 Years... Took Nike = 14 Years / Lululemon = 9 / Under Armour = 8**

*Viral Marketing / Sharing Mechanisms (Facebook / Instagram / Snapchat / Twitter...)
+ On-Demand Purchasing Options via Mobile / Web + Access to Growth Capital
+ Millennial Appeal = Enabling Rapid Growth for New Products / Brands / Retailers*

Sales Growth For Select Internet Retailers*, USA, First 5 Years Since Inception



Source: Internet Retailer "2016 Top 500 Guide", company filings
Note: *Data only for e-commerce sales and shown in 2015 dollars. **Years to reach \$100MM in annual revenue in 2015 dollars. Chart includes pure-play e-commerce retailers and evolved pure-play retailers. Companies shown include Birchbox, Blue Apron, Bonobos, Boxed, Casper, Dollar Shave Club, Everlane, FitBit, GoPro, Harry's, Honest Company, Ipsy, Nasty Gal, Rent the Runway, TheRealReal, Touch of Modern, and Warby Parker. The Top 500 Guide uses a combination of internal research staff and well-known e-commerce market measurement firms such as Compuware APM, comScore, ForeSee, Experian Marketing Services, StellaService and ROI Revolution to collect and verify information.

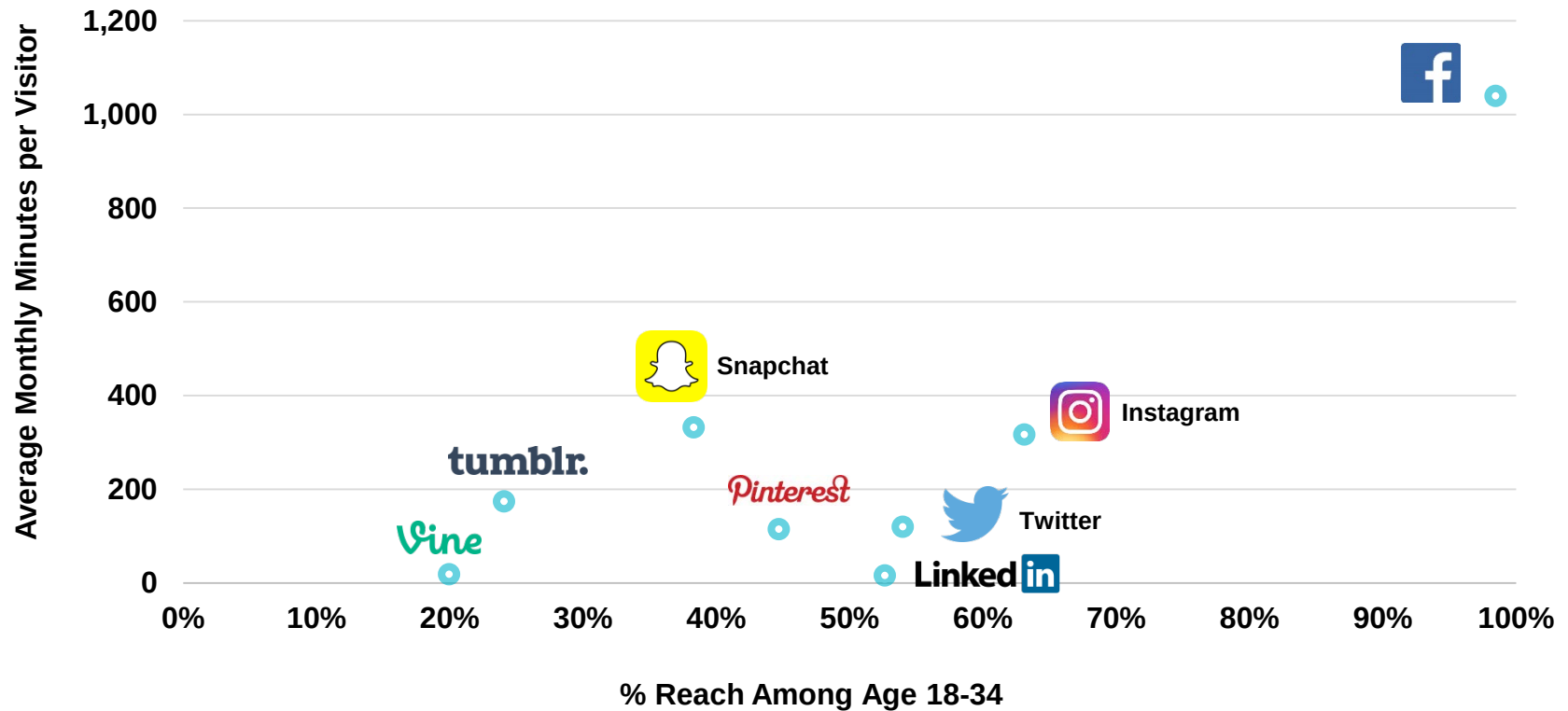
RE-IMAGINING COMMUNICATION VIA SOCIAL PLATFORMS –

- VIDEO**
- IMAGE**
- MESSAGING**

***Visual
(Video + Image)
Usage Continues to Rise***

Millennial Social Network Engagement Leaders = Visual... Facebook / Snapchat / Instagram...

Age 18-34 Digital Audience Penetration vs.
Engagement of Leading Social Networks, USA, 12/15



Generation Z (Ages 1-20) = Communicates with Images

Attributes – Millennials vs. Gen Z

Millennials

Tech Savvy: 2 screens at once

Communicate with text

Curators and Sharers

Now-focused

Optimists

Want to be discovered

vs

Gen Z

Tech Innate: 5 screens at once

Communicate with images

Creators and Collaborators

Future-focused

Realists

Want to work for success

Video Viewing Evolution Over Past Century =

Live → On-Demand → Semi-Live → Real-Live

Video Evolution = Accelerating Live (Linear) → On-Demand → Semi-Live → Real-Live

Live (Linear)

Traditional TV
1926

Tune-In or
Miss Out

Mass Concurrent
Audience

Real-Time Buzz



On-Demand

DVR / Streaming
1999

Watch on
Own Terms

Mass Disparate
Audience

Anytime Buzz



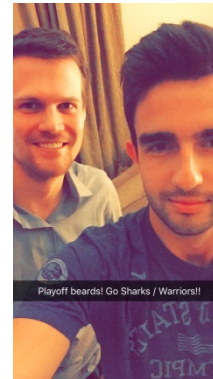
Semi-Live

Snapchat Stories
2013

Tune-In Within 24
Hours or Miss Out

Mostly Personal
Audience

Anytime Buzz



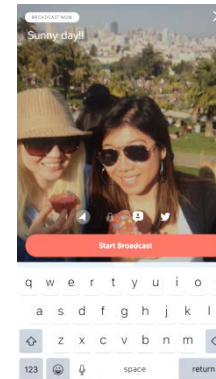
Real-Live

Periscope + Facebook Live
2015 / 2016

Tune-In / Watch
on Own Terms

Mass Audience,
yet Personal

Real Time + Anytime Buzz

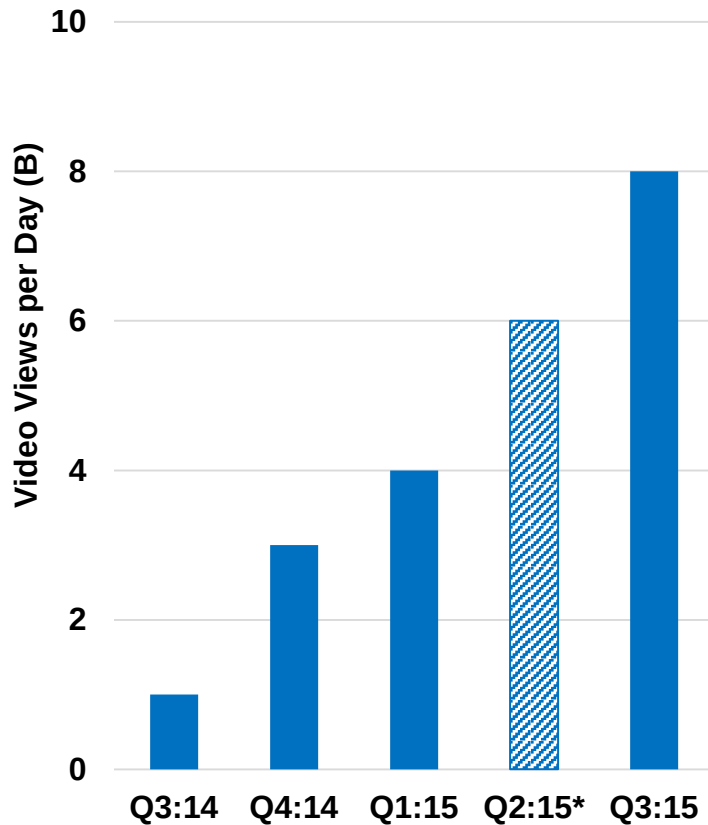


Video

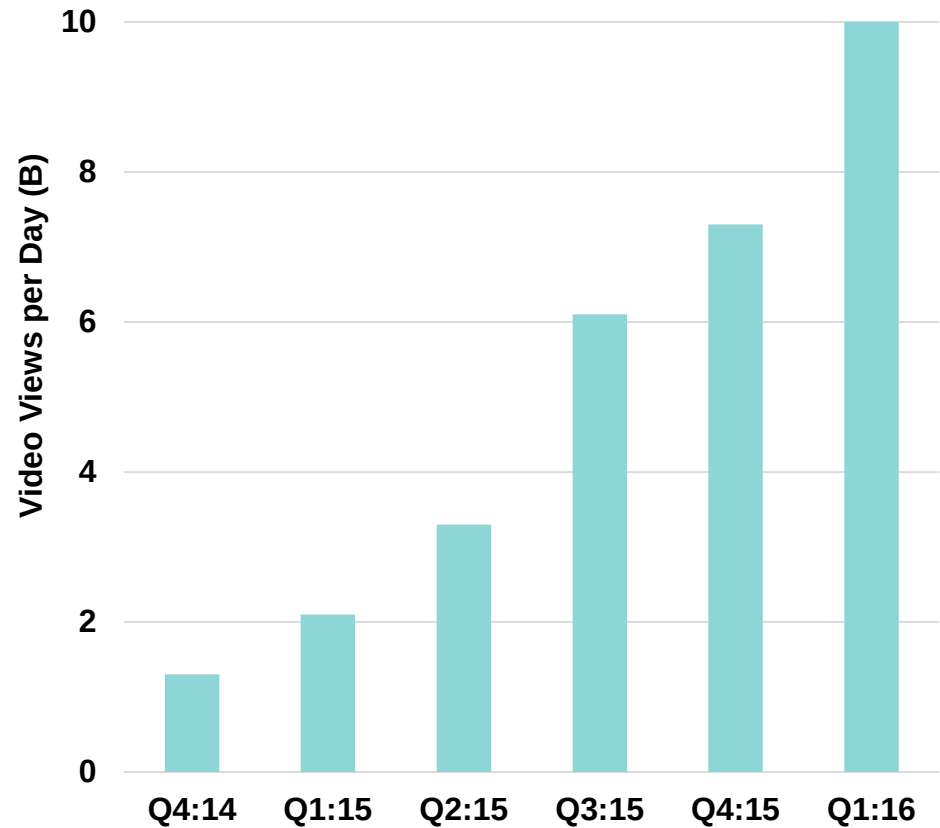
***Usage / Sophistication / Relevance
Continues to Grow Rapidly***

User-Shared Video Views on Snapchat & Facebook = Growing Fast

**Facebook Daily Video Views,
Global, Q3:14 – Q3:15**



**Snapchat Daily Video Views,
Global, Q4:14 – Q1:16**

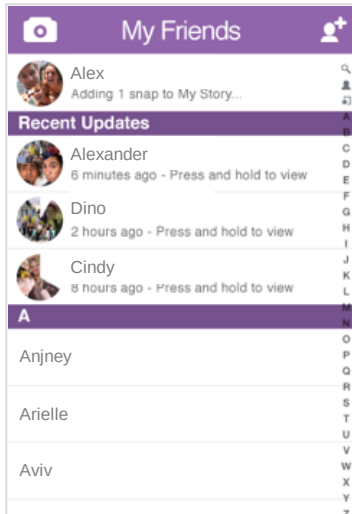


*Smartphone Usage Increasingly =
Camera + Storytelling + Creativity +
Messaging / Sharing*

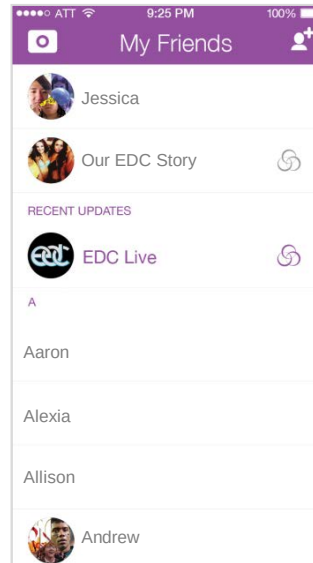
Snapchat Trifecta = Communications + Video + Platform...

Stories (Personal) → Live (Personal + Pro Curation) → Discover (Pro)

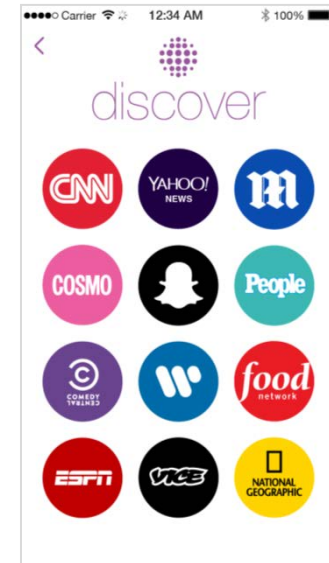
Stories (Personal) 10/13 Launch



Live (Personal + Pro Curation) 6/14



Discover (Professional) 1/15



**10–20MM Snapchatters View
Live Stories Each Day**

*More Users Watched College
Football and MTV Music Awards on
Snapchat than Watched the Events
on TV*

**70MM+ Snapchatters View
Discover Each Month**

*Top Performing Channels Average
6 – 7 minutes per Snapchatter per
Day*

*Advertisers / Brands =
Finding Ways Into...*

*Camera-Based
Storytelling + Creativity +
Messaging / Sharing*

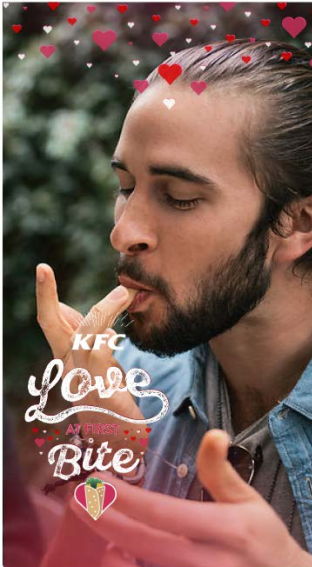
Brand Filters Integrated into Snapchat Snaps by Users... Often Geo-Fenced, in Venue

‘Love at First Bite’

by KFC

9MM+ Views

Geofilter offered @ 900+ KFCs
in UK and applied 200K+ times,
12/15 – 2/16



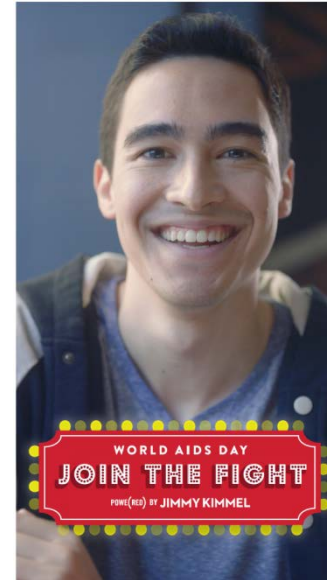
**+23% Visitation Lift Within 7 Days
of Seeing Friend's Geofilter**

‘World AIDS Day – Join the Fight’

by (RED)

76MM+ Views

Each time a geofilter was sent, Bill & Melinda Gates
Foundation donated \$3 to (RED)'s fight against AIDS
12/15



**+90% Higher Likelihood of Donating to (RED)
Among Those Who Saw Geofilter**

Branded Snapchat Lenses & Facebook Filters... Increasingly Applied by Users

Taco Bell Cinco de Mayo Lens
224MM Views on Snapchat
5/5/16



Gatorade Super Bowl Lens
165MM Views on Snapchat
2/7/16



Iron Man Filter from MSQRD
8MM+ Views on Facebook
3/9/16



Average Snapchatter Plays With Sponsored Lens for
20 Seconds

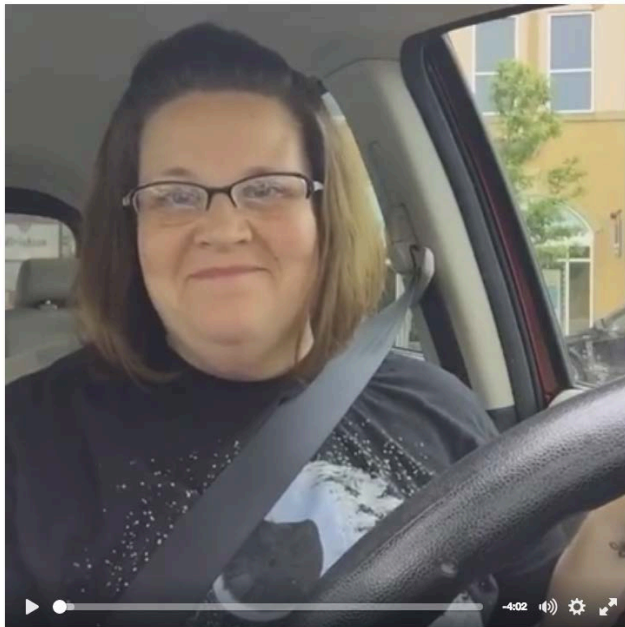
*Real-Live =
Facebook Live...*

*New Paradigm for
Live Broadcasting*

UGC (User Generated Content) @ New Orders of Viewing Magnitude... Facebook Live = Raw / Authentic / Accessible for Creators & Consumers

Candace Payne in Chewbacca Mask on Facebook Live

Most Viewed Live Video @ 153MM+ Views, 5/16
Kohl's = Mentioned 2 Times in Video
Kohl's = Became Leading App in USA iOS App Store
Chewbacca Mask Demand Rose Dramatically



Candace Payne was live.
It's the simple joys in life....
Like · Share · May 19

Shared with: Public
152,750,864 Views



Candace Payne was live.
It's the simple joys in life....
Like · Share · May 19

Shared with: Public
152,750,864 Views

*Live Sports Viewing =
Has Always Been Social But....
It's Just Getting Started*

*How Often are You Able to Watch a Game
(on Sidelines or TV) with All Your Friends
Who Share Your Team Love?*

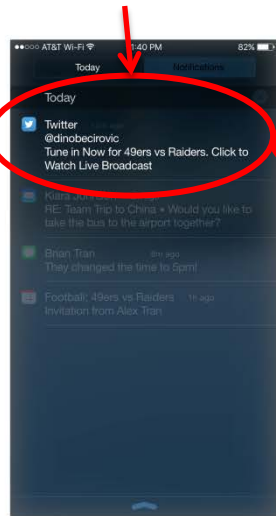
***Live Streaming –
Wrapped with Social Media Tools –
Helps Make that More of a Reality...***

2016E = Milestone Year for 'Traditional' Live Streaming on Social Networks... NFL Live Broadcast TV of Thursday Night Football on Twitter (Fall 2016)

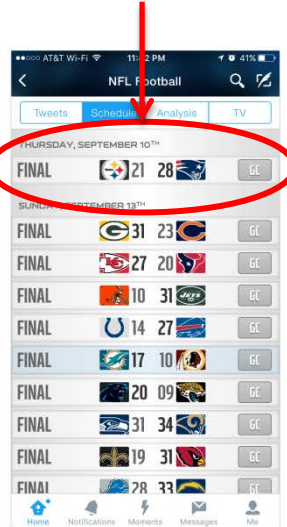
Hypothetical Mock-Up

Complete Sports Viewing Platform =
Live Broadcast + Analysis + Scores + Replays + Notifications + Social Media Tools

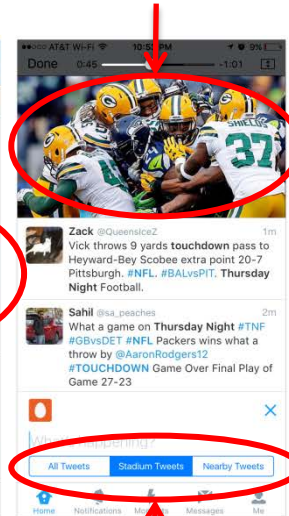
Tune-In Notifications,
Game Reminders,
Breaking Actions



Scoreboard Allows Fans to
Follow Play-by-Play



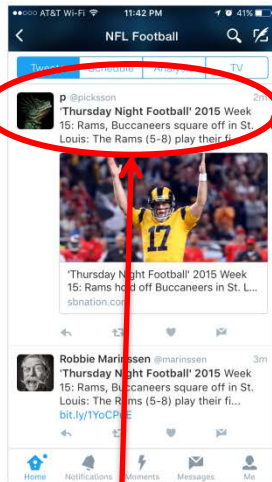
Vertical View =
Live Broadcast + Tweets
Dashboard for Social
Media Engagement



Horizontal View =
Unencumbered, Full-
Screen, TV-like Viewing
Experience



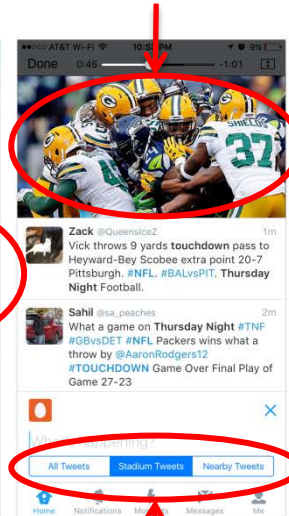
Tweets Engage Fans in
Real-Time Conversation



Professional
Commentary and
Analysis



Toggle Between Tweets
from Stadium / Nearby / All

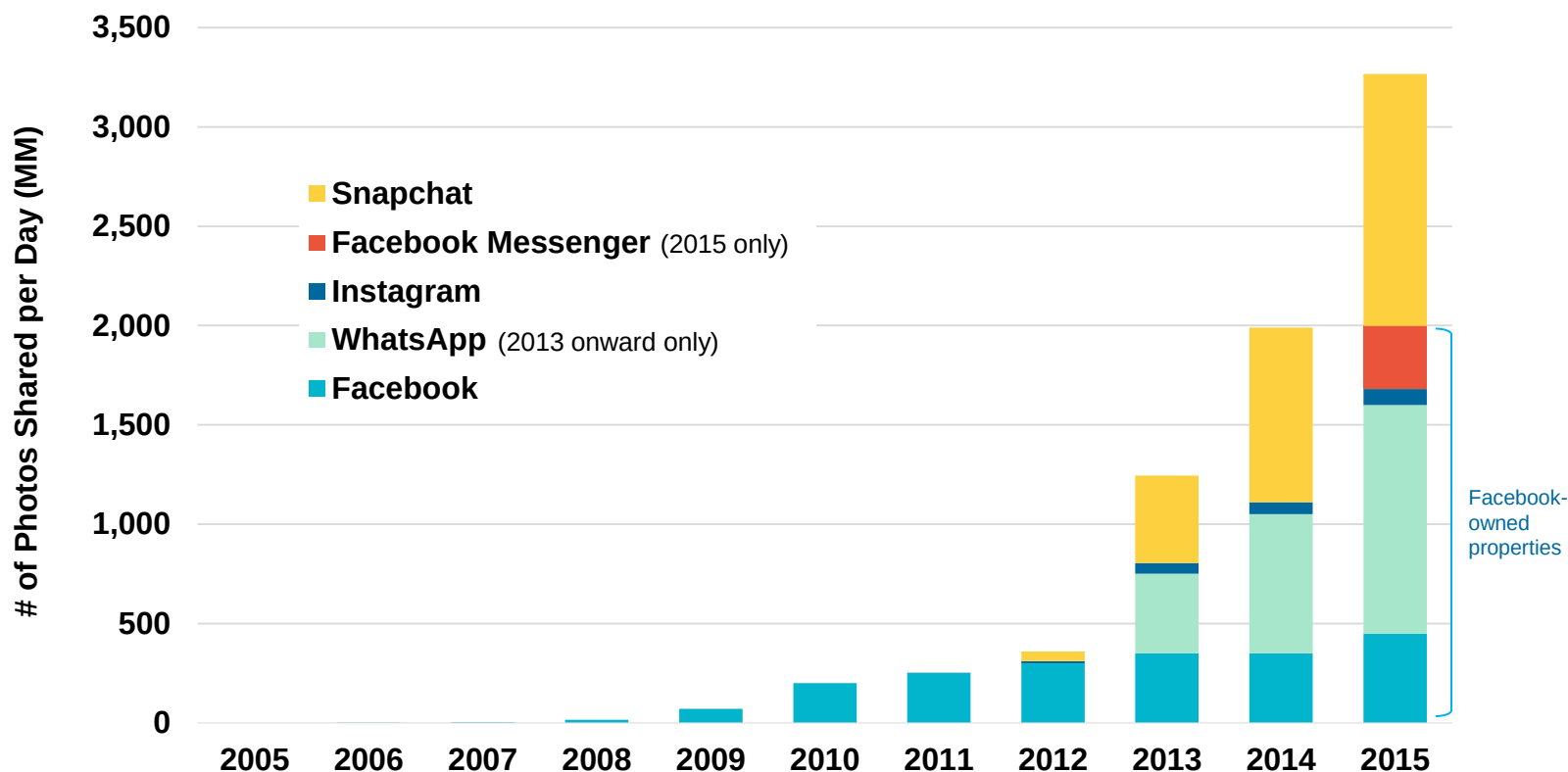


Image

*Usage / Sophistication / Relevance
Continues to Grow Rapidly*

Image Growth Remains Strong

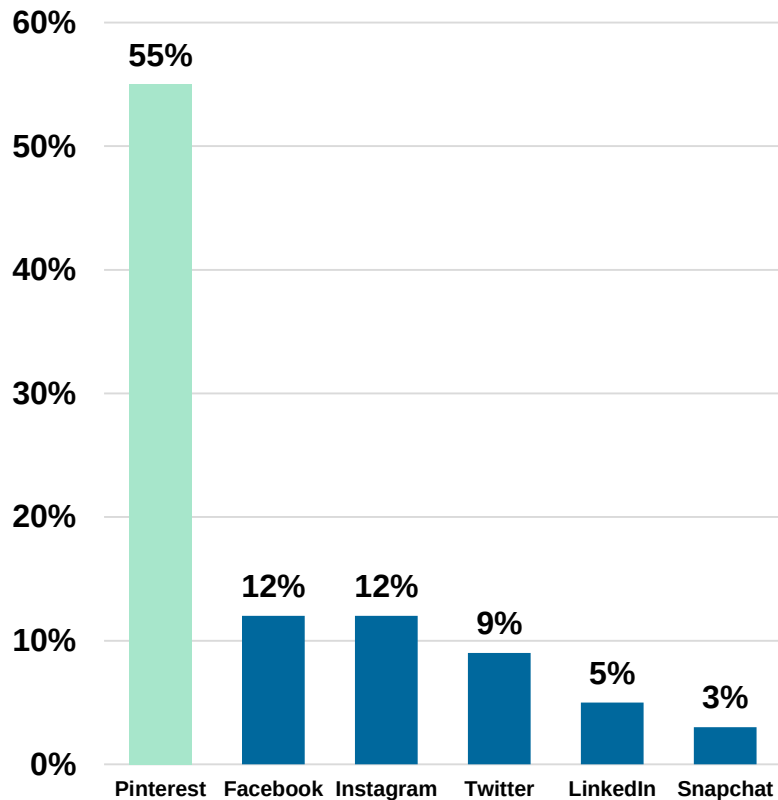
Daily Number of Photos Shared on Select Platforms, Global, 2005 – 2015



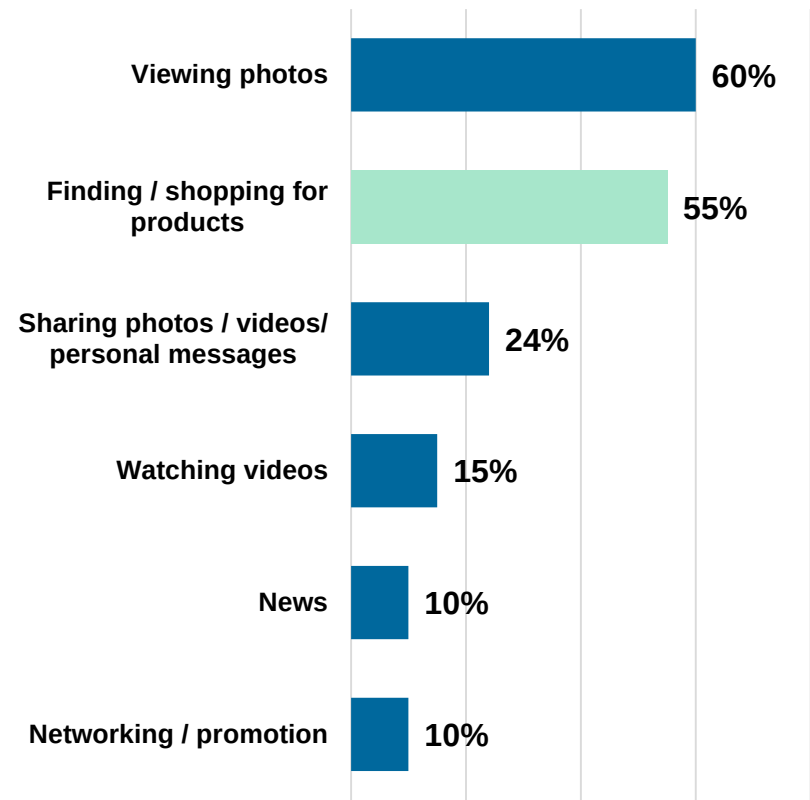
*Images =
Monetization Options Rising*

Image-Based Platforms Like Pinterest = Often Used for Finding Products / Shopping...

% of Users on Each Platform Who Utilize to Find / Shop for Products, USA, 4/16

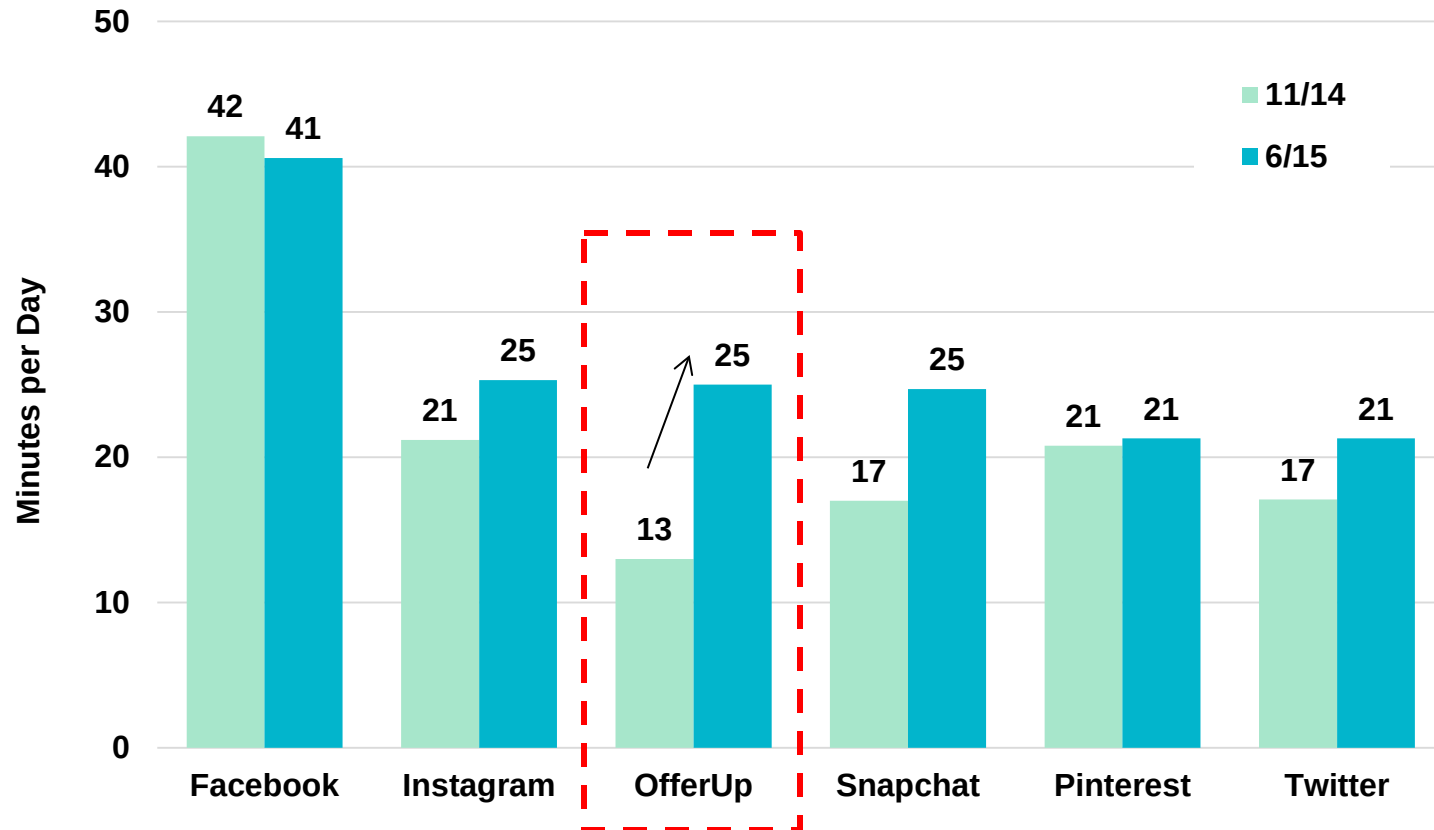


'What Do You Use Pinterest For?' (% of Respondents), USA, 4/16



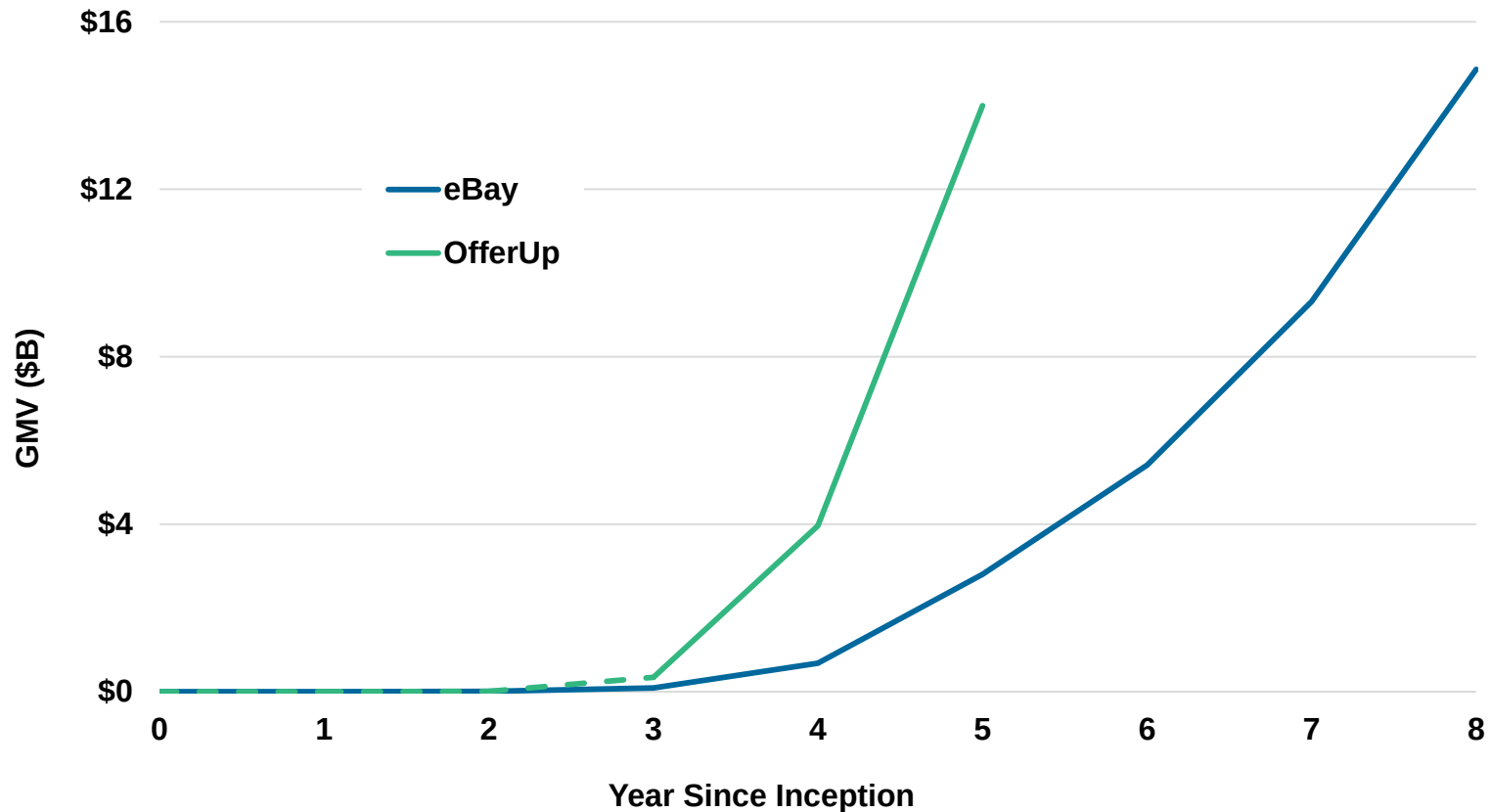
...Image-Based Platforms Like OfferUp = High (& Rising) Engagement Levels & Used for Commerce...

Average Daily Time Spent per User, USA, 11/14 & 6/15



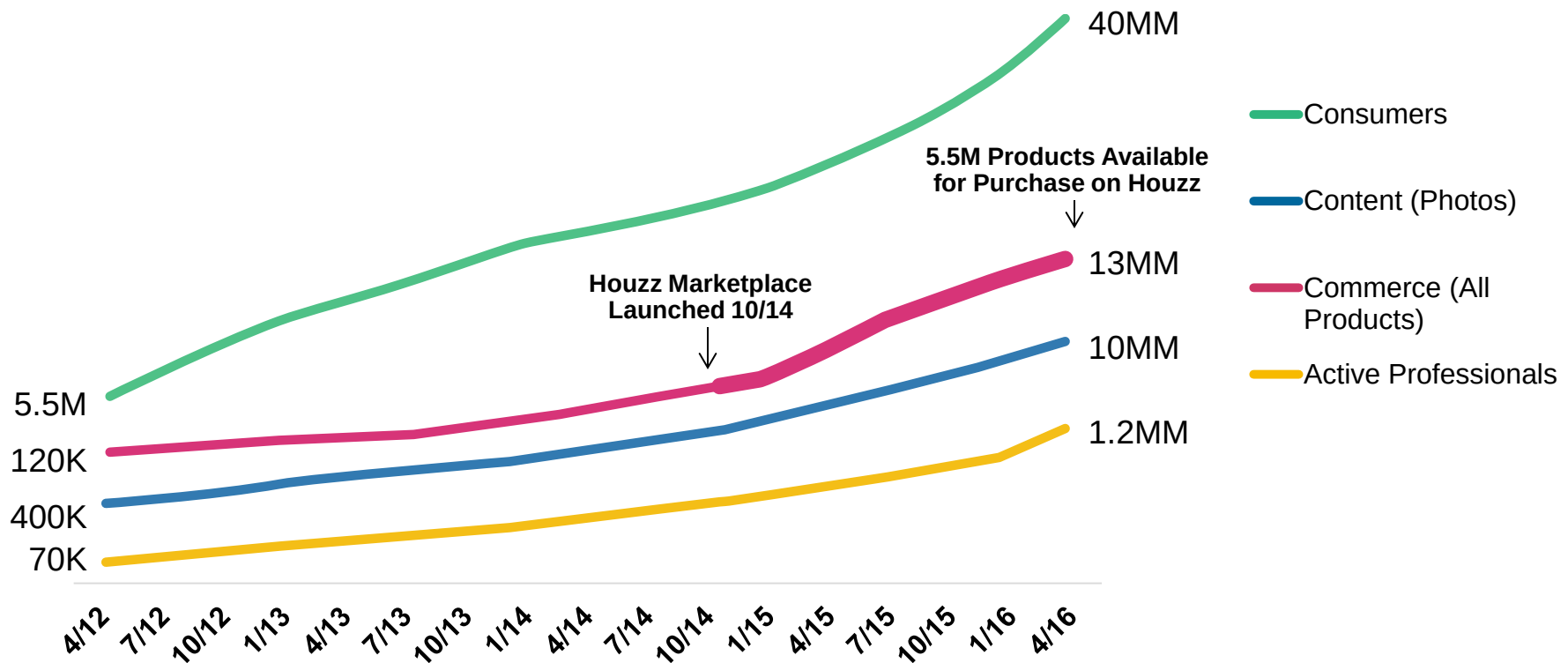
...Image-Based Peer-to-Peer (P2P) Marketplace OfferUp = Ramping Faster than eBay @ Same Stage...

OfferUp vs. eBay GMV Growth, First 8 Years Since Inception



...Image-Based Platform Houzz = Content + Community + Commerce Continue to Ramp...

**Houzz – Content (Photos) / Community (Professionals + Consumers) /
Commerce (Products), 4/12 – 4/16**



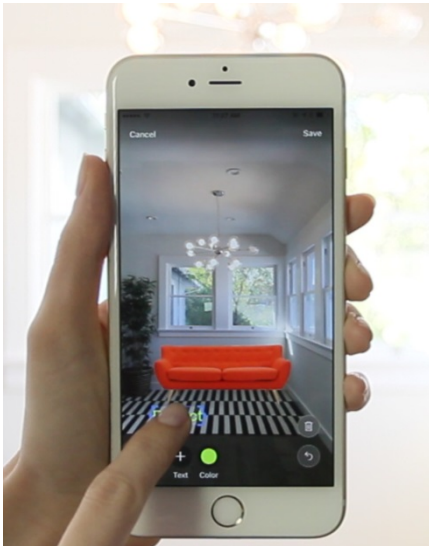
...Houzz Personalized Planning with Images = 3-4x Higher Engagement...5x Higher Purchase Conversion

View In My Room (2/16 Launch)

*Pick a Product & Preview What It Looks Like
In Any Room Through Camera*

50% of Users Who Made a Purchase in Latest
Version of Houzz App (Since 2/17/16)
Used View In My Room

Users = 97% More Likely to Use Houzz Next Time
They Shop...5.5x More Likely to Purchase...
Spend 3x More Time in App



Sketch (12/15)

*Add Products from Houzz Marketplace to
Any Photo on Houzz or Your Own Sketch*

Over 500K Sketches Saved Since Launch

Sketch Users = 5x More Likely to Purchase...
Spend 4x More Time in App



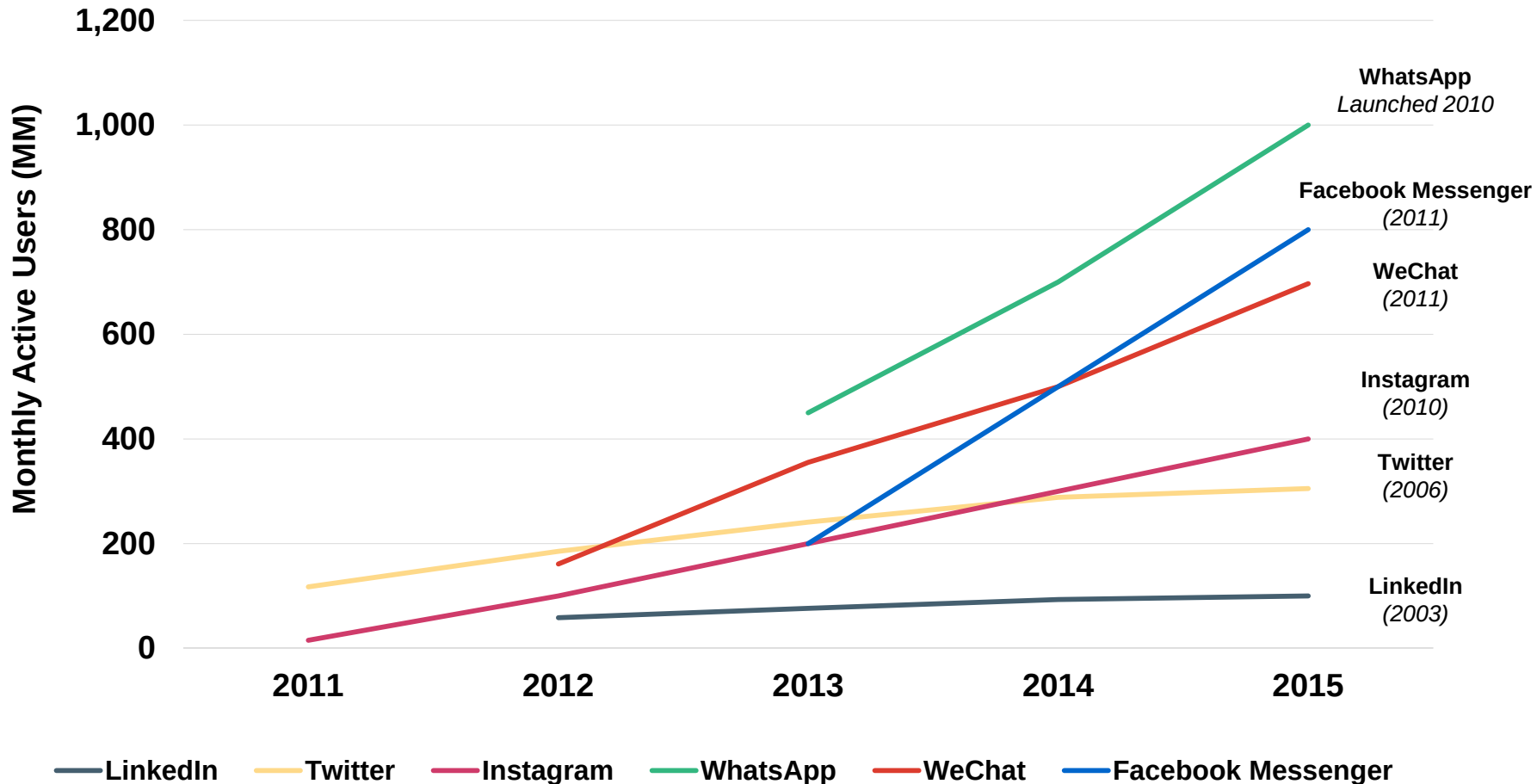
***Messaging =
Evolving Rapidly***

*Messaging Leaders =
Strong User (+ Use) Growth*

Messaging Continues to Grow Rapidly...

Leaders = WhatsApp / Facebook Messenger / WeChat

Monthly Active Users on Select Social Networks and Messengers,
Global, 2011 – 2015



Messaging =

Evolving from
Simple Social Conversations to
More Expressive
Communication...

Messaging Platform Evolution = More Tools for Simple Self-Expression

Global Electronic Messaging Platforms – Evolution of Simple Self-Expression

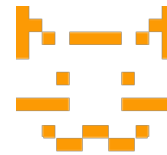
*Japanese Cell Phones – Type-
Based Emoji
1990s*



*AOL Instant Messenger –
Convert Text Emoticon to
Graphical Smiley
1997*



*NTT DoCoMo-
Emoji
1999*



*Apple iOS 5 –
Native Emoji
2011*



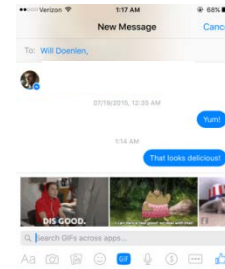
*Line –
Stickers
2011*



*Bitstrips – Bitmoji
Personalized Emoji
2014*



*Facebook Messenger –
GIF Keyboard
2015*



*Snapchat –
Lenses
2015*



...Messaging =

*Evolving from
Simple Social Conversations to
Business-Related Conversations*

Asia-Based Messaging Leaders = Continue to Expand Uses / Services Beyond Social Messaging



Name
Launch
Primary Country

KakaoTalk
March 2010
Korea

WeChat
January 2011
China

LINE
June 2011
Japan

Banking / Financial Services

Kakao Bank (11/15)

WeBank (1/15)

Debit Card (2016)

Enterprise

✗

Enterprise WeChat (3/16)

✗

Online-To-Offline (O2O)

Kakao Hairshop (1H:16E)
Kakao Driver (1H:16E)

✓

Grocery Delivery (2015)

TV

Kakao TV (6/15)

✓

Line Live & Line TV (2015)

Video Calls / Chat

(6/15)

✓

✓

Taxi Services

Kakao Taxi
(3/15)

✓

✓

Messaging

✓

✓

✓

Group Messaging

✓

✓

✓

Voice Calls

Free VoIP calls (2012)

WeChat Phonebook
(2014)

✓

Payments

KakaoPay (2014)

(2013)

Line Pay (2014)

Stickers

(2012)

Sticker shop
(2013)

(2011)

Games

Game Center (2012)

(2014)

(2011)

Commerce

Kakao Page (2013)

Delivery support
w / Yixun (2013)

Line Mall (2013)

Media

Kakao Topic (2014)

✓

✓

QR Codes

✓

QR code
identity (2012)

✓

User Stories / Moments

Kakao Story (2012)

WeChat Moments

Line Home (2012)

Developer Platform

KakaoDevelopers

WeChat API

Line Partner (2012)

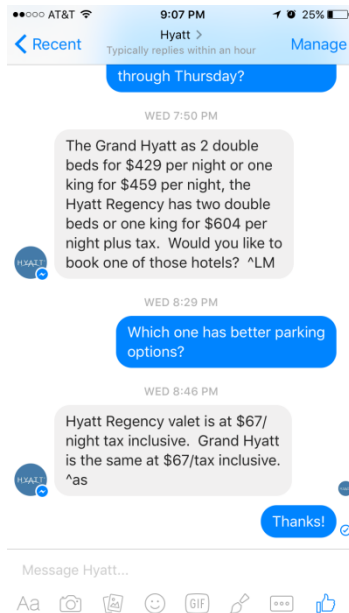
New Services
Added 2015 -16*

Previous Existing
Services

Messaging Secret Sauce = Magic of the Thread = Conversational... Remembers Identity / Time / Specifics / Preferences / Context

Hyatt

Check Availability / Reservations / Order Room Service

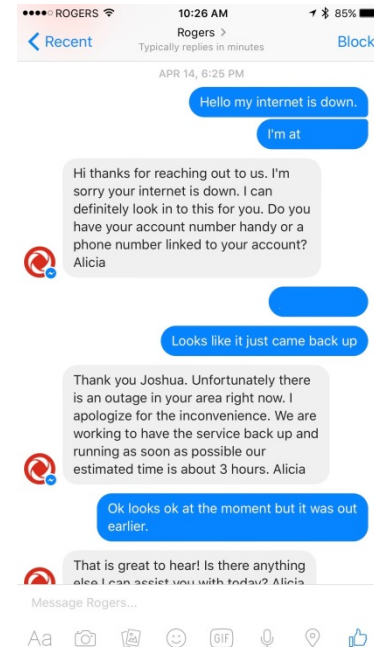


Started Offering Customer Service on Facebook Messenger in 11/15

+20x Increase in Messages Received by Hyatt Within ~1 Month

Rogers Communications

Ask Questions / Update Account / Set Up New Plan



Started Offering Customer Service on Facebook Messenger in 12/15

*65% Increase in Customer Satisfaction
65% Decrease in Customer Complaints*

Messaging Platforms = Millions of Business Accounts Helping Facilitate Customer Service & Commerce...

	Business / Official Accounts	Engagement	Payments	B2C Chat for SMEs	Advertising (Within Messengers)	Partnerships / Other Services
	10MM+ Official Accounts	~80% Users Follow Official Accounts	WeChat Pay (2013)	Official Accounts (2012)	Official Accounts (2012)	Weidian (2014)
Facebook 	50MM+ Small Business Pages	1B+ Messages / Month Between Businesses and Users, +2x Y/Y 80% Businesses Active on Mobile	Payments (2015)	Messaging via Pages (2011) Chatbots Platform (2016)	Sponsored Messages (2016)	Shopify & Zendesk Partnership (2015 / 2016)
	2MM+ Line@ + Official Accounts	--	Line Pay (2014)	Official Accounts & Line @ (2012 / 2015) Chatbots Platform (2016)	Official Accounts (2012)	Commerce / Stores on Line@ (2016)

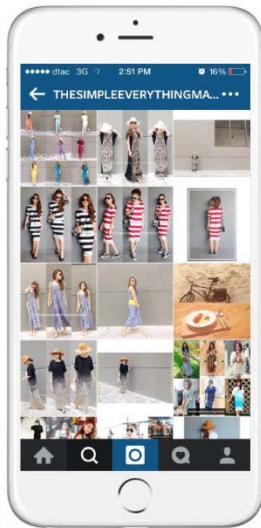
...Messaging Platforms = Conversational Commerce Ramping

Shopper in Thailand on Instagram

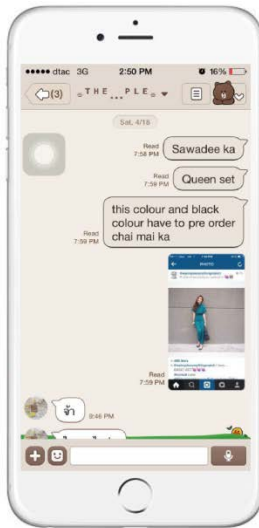
Browsing Begins on Instagram...Conversation / Payment / Confirmation Ends on Line



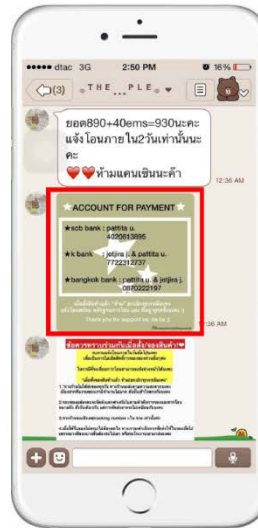
Visit Instagram
Shop



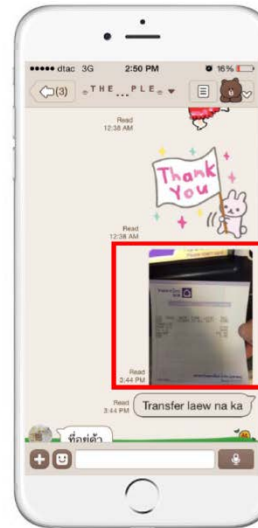
Browse
Products



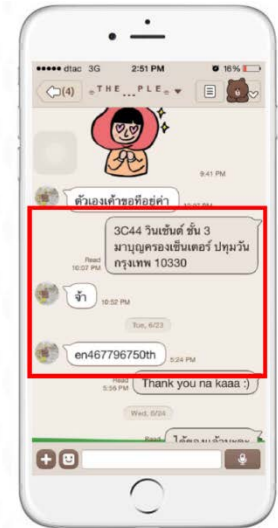
Inquire
About
Product via
Line



Get
Payment
Details



Confirm
Payment



Ship &
Track Order

Best Ways for Businesses to Contact Millennials = Social Media & Chat... Worst Way = Telephone

Popularity of Business Contact Channels, by Age

*Which channels are most popular with your age-profiled customers?
(% of contact centers)*

	% of Centers Reporting Most Popular Contact Channels by Generation				
	Internet / Web Chat	Social Media	Electronic Messaging (e.g. email, SMS)	Smartphone Application	Telephone
Generation Y (born 1981-1999)	24% (1 st choice)	24% (1 st choice)	21% (3 rd choice)	19% (4 th choice)	12% (5 th choice)
Generation X (born 1961-1980)	21% (3 rd choice)	12% (4 th choice)	28% (2 nd choice)	11% (5 th choice)	29% (1 st choice)
Baby Boomers (born 1945-1960)	7% (3 rd choice)	2% (5 th choice)	24% (2 nd choice)	3% (4 th choice)	64% (1 st choice)
Silent Generation (born before 1944)	2% (3 rd choice)	1% (4 th choice)	6% (2 nd choice)	1% (5 th choice)	90% (1 st choice)

*Android / iOS Home Screens
(Like Portals in Internet 1.0) =
Mobile Power Alleys (~2008-2016)...*

*Messaging Leaders =
Want to Change That*

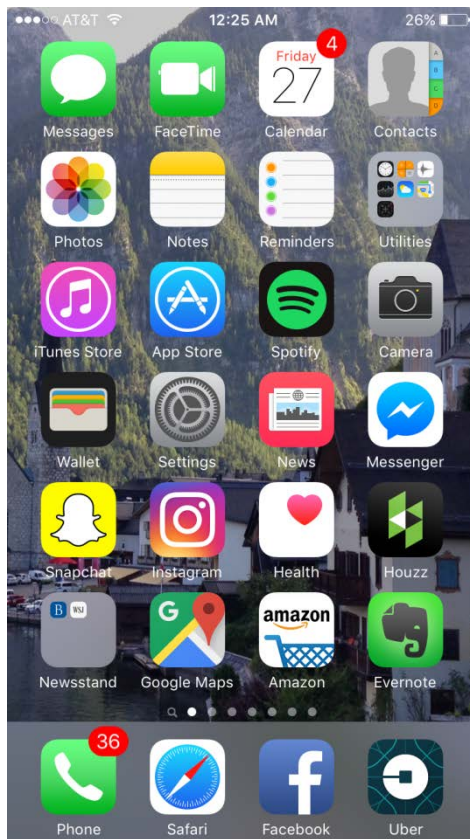
Average Global Mobile User = ~33 Apps...12 Apps Used Daily... 80% of Time Spent in 3 Apps

Day in Life of a Mobile User, 2016

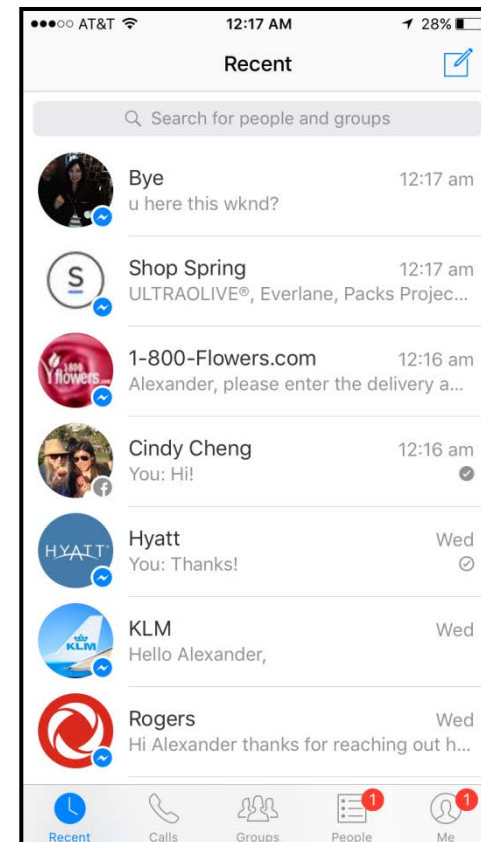
	Average # Apps Installed on Device*	Average Number of Apps Used Daily	Average Number of Apps Accounting for 80%+ of App Usage	Time Spent on Phone (per Day)	Most Commonly Used Apps
USA	37	12	3	5 Hours	Facebook Chrome YouTube
Worldwide	33	12	3	4 Hours	Facebook WhatsApp Chrome

Messaging Apps = Increasingly Becoming Second Home Screen...

iOS Home Screen



Facebook Messenger Inbox



RE-IMAGINING HUMAN / COMPUTER INTERFACES –

- VOICE

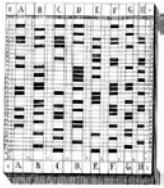
- TRANSPORTATION

Re-Imagining Voice = A New Paradigm in Human-Computer Interaction

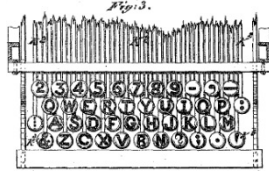
*Evolution of Basic
Human-Computer Interaction
Over ~2 Centuries =*

*Innovations Every Decade
Over Past 75 Years*

Human-Computer Interaction (1830s – 2015), USA = Touch 1.0 → Touch 2.0 → Touch 3.0 → Voice



Punch Cards for
Informatics
1832



QWERTY
Keyboard
1872



Electromechanical
Computer (Z3)
1941



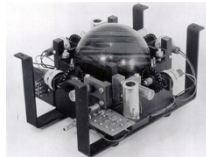
Electronic Computer
(ENIAC)
1943



Paper Tape Reader
(Harvard Mark I)
1944



Mainframe Computers
(IBM SSEC)
1948



Trackball
1952



Joystick
1967



Microcomputers
(IBM Mark-8)
1974



Portable Computer
(IBM 5100)
1975



Commercial Use of
Window-Based GUI
(Xerox Star)
1981



Commercial Use
of Mouse
(Apple Lisa)
1983



Commercial Use
of Mobile
Computing
(PalmPilot)
1996



Touch + Camera -
based Mobile
Computing
(iPhone 2G)
2007



Voice on Mobile
(Siri)
2011



Voice on Connected /
Ambient Devices
(Amazon Echo)
2014

*Voice as
Computing Interface =*

Why Now?

Voice = Should Be Most Efficient Form of Computing Input

Voice Interfaces – Consumer Benefits

1) Fast

Humans can speak 150 vs. type 40 words per minute, on average...

2) Easy

Convenient, hands-free, instant...

3) Personalized + Context-Driven / Keyboard Free

Ability to understand wide context of questions based on prior questions / interactions / location / other semantics

Voice Interfaces – Unique Qualities

1) Random Access vs. Hierarchical GUI

Think Google Search vs. Yahoo! Directory...

2) Low Cost + Small Footprint

Requires microphone / speaker / processor / connectivity – great for Internet of Things...

3) Requires Natural Language Recognition & Processing

Person to Machine (P2M) Voice Interaction Adoption Keys = 99% Accuracy in Understanding & Meaning + Low Latency

*As speech recognition accuracy goes from say 95% to 99%, all of us in the room will go from barely using it today to using it all the time. Most people underestimate the difference between 95% and 99% accuracy – **99% is a game changer...***

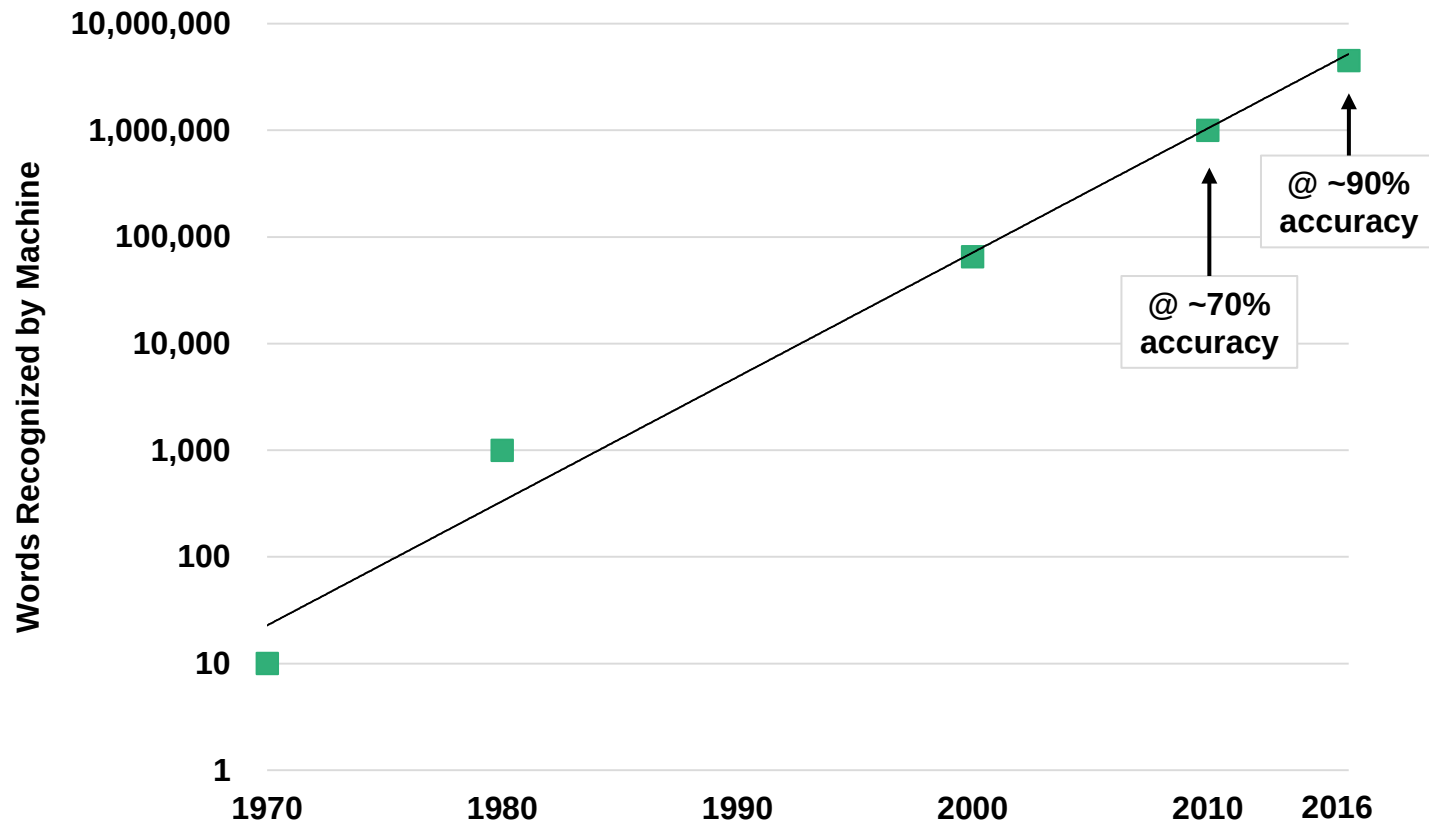
***No one wants to wait 10 seconds for a response.** Accuracy, followed by latency, are the two key metrics for a production speech system...*

- **ANDREW NG, CHIEF SCIENTIST AT BAIDU**

Machine Speech Recognition @ Human Level Recognition for... Voice Search in Low Noise Environment, per Google

***Next Frontier** = Recognition in heavy background noise in far-field & across diverse speaker characteristics (accents, pitch...)*

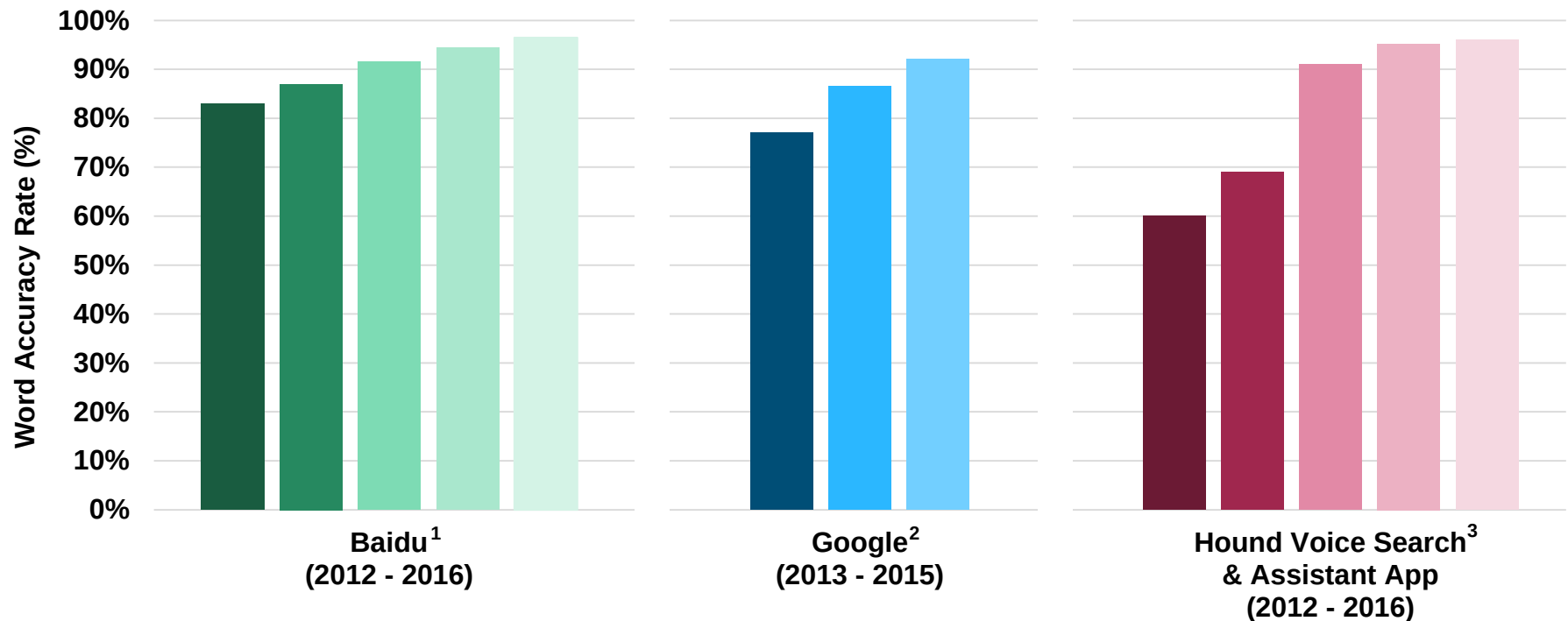
Words Recognized by Machine (per Google), 1970 – 2016



Voice Word Accuracy Rates Improving Rapidly... +90% Accuracy for Major Platforms

Word Accuracy Rates by Platform*, 2012 – 2016

**Word accuracy rate definitions are unique to each company...see footnotes for more details*



Source: Baidu, Google, VentureBeat, SoundHound

Note: *Word Error Rate (WER) definitions are specific to each company. Word accuracy rate = 1 - WER. (1) Data shown is word accuracy rate on Mandarin speech recognition on one of Baidu's speech tasks. Real world mobile phone speech data is very noisy and hard for humans to transcribe. A 3.5% WER is better than what most native speakers can accomplish on this task. WER across different datasets and languages are generally not comparable. (2) Data as of 5/15 and refers to recognition accuracy for English language. Word error rate is evaluated using real world search data which is extremely diverse and more error prone than typical human dialogue. (3) Data as of 1/16 and refers to recognition accuracy for English language. Word accuracy rate based on data collected from thousands of speakers and real world queries with noise and accents.

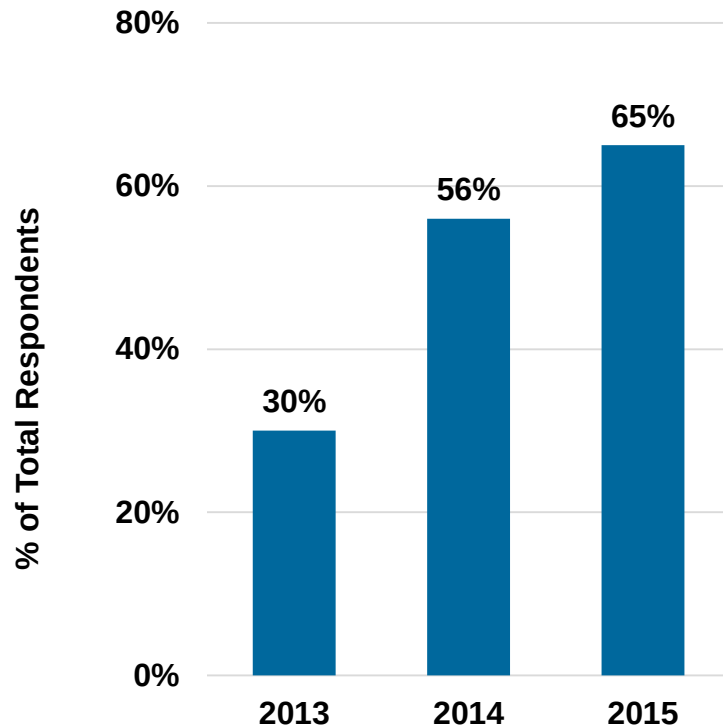
Computing Interface...

*Evolving from Keyboards to
Microphones & Keyboards =*

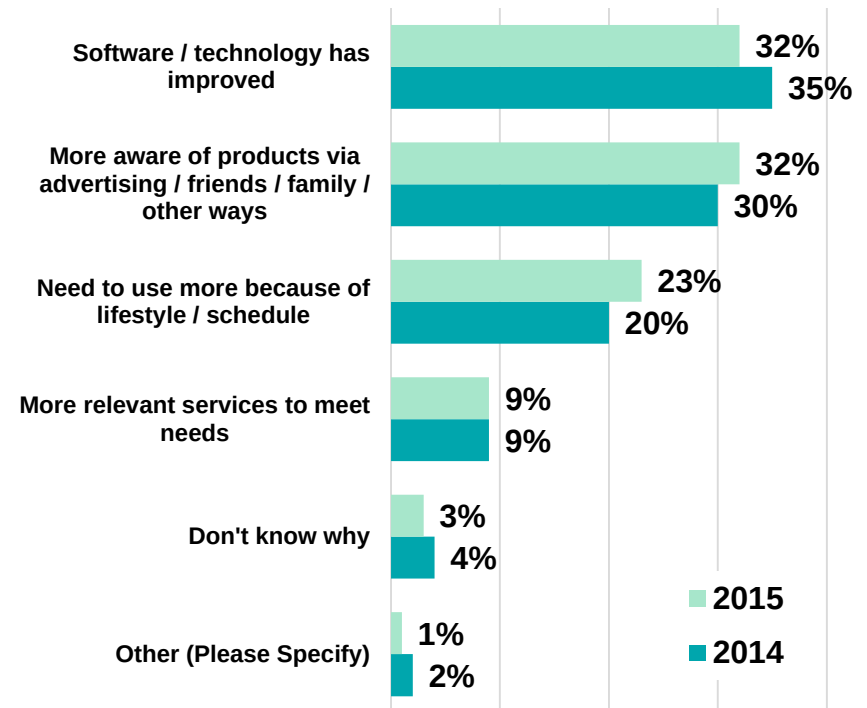
Still Early Innings

Mobile Voice Assistant Usage = Rising Quickly... Primarily Driven By Technology Improvements

**% of Smartphone Owners Using Voice Assistants
Annually, USA, 2013 – 2015**



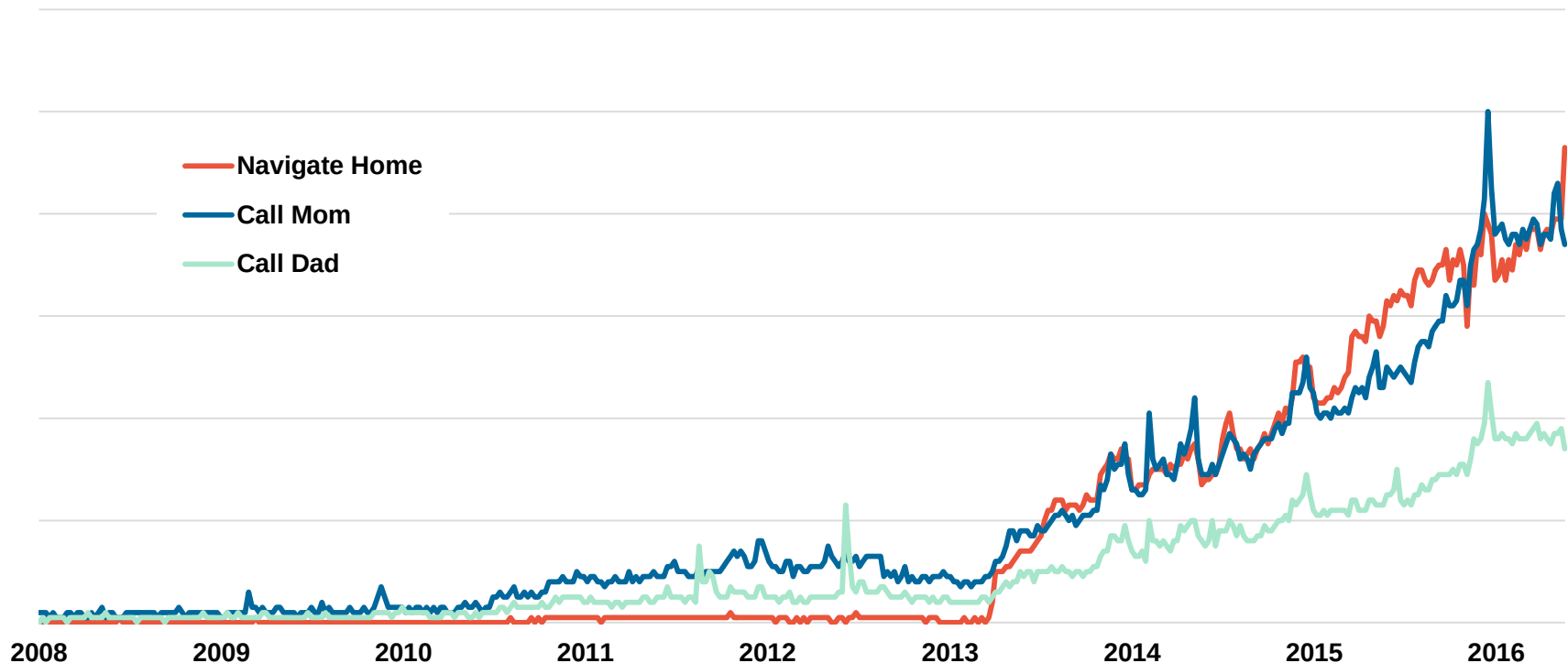
**Voice Assistant Usage – Primary Reason for
Change, % of Respondents, USA, 2014 – 2015**



Google Voice Search Queries = Up >35x Since 2008 & >7x Since 2010, per Google Trends

Google Trends imply queries associated with voice-related commands have risen >35x since 2008 after launch of iPhone & Google Voice Search

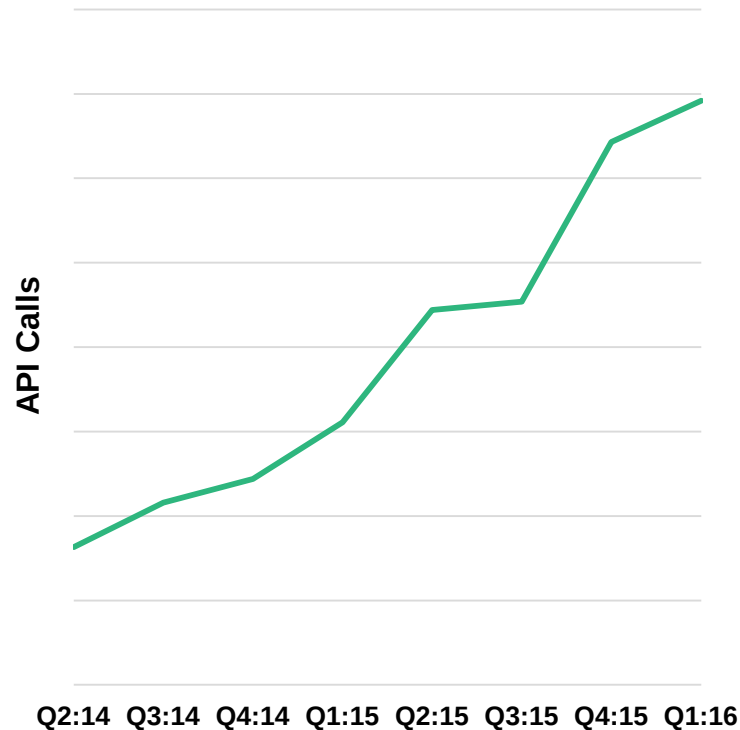
Google Trends, Worldwide, 2008 – 2016



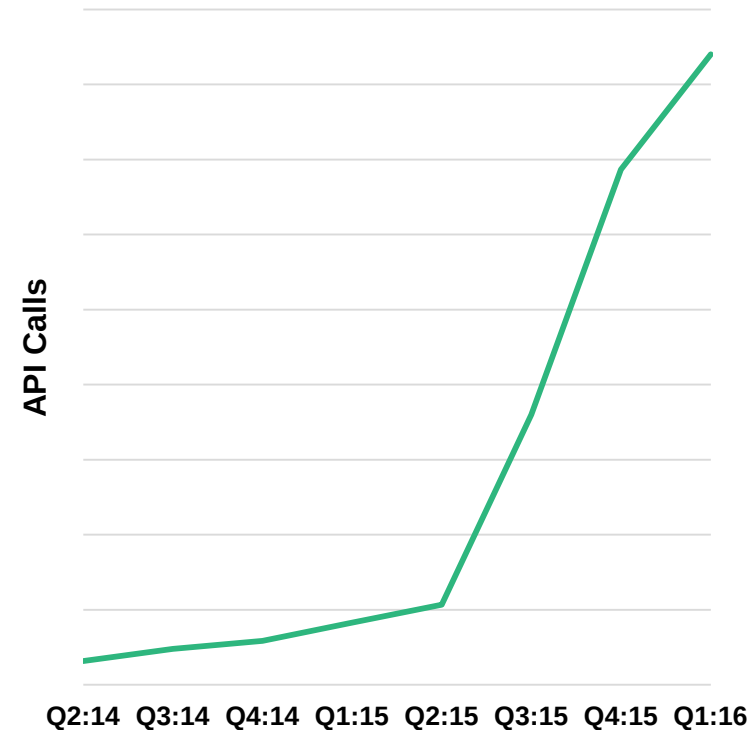
Baidu Voice = Input Growth >4x...Output >26x, Since Q2:14

Usage across all Baidu products growing rapidly...typing Chinese on small cellphone keyboard even more difficult than typing English...Text-to-Speech supplements speech recognition & key component of man-machine communications using voice

Baidu Speech Recognition Daily Usage by API Calls, Global, 2014 – 2016¹



Baidu Text to Speech (TTS) Daily Usage by API Calls, Global, 2014 – 2016²



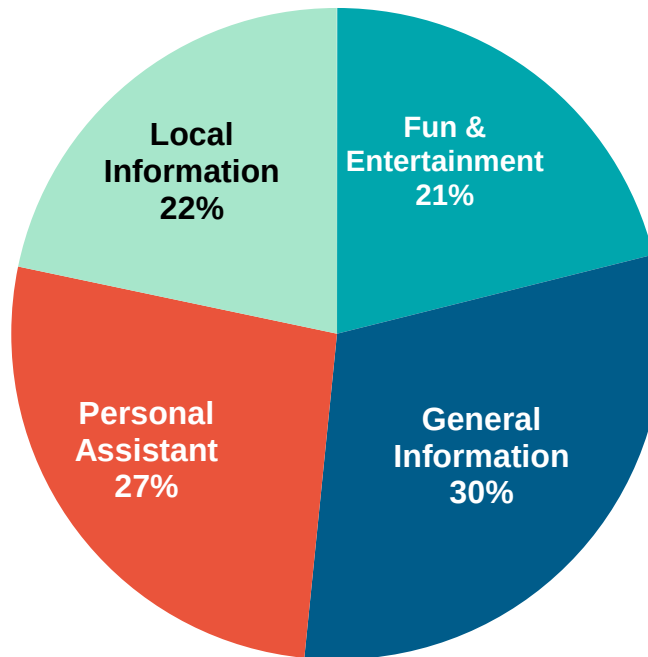
Source: Baidu

Note: (1) Data shown is growth of speech recognition at Baidu, as measured by the number of API calls to Baidu's speech recognition system across time, from multiple products. Most of these API calls were for Mandarin speech recognition. (2) Data shown is growth of TTS (text to speech) at Baidu, in terms of the total number of API calls to Baidu's TTS system across time, from multiple products. Most of these API calls were for Mandarin TTS.

Hound Voice Search & Assistant App = 6-8 Queries Across 4 Categories per User per Day

*Seeing 6-8 queries per active user per day among 100+ domains across 4 categories...
Users most care about speed / accuracy / ability to follow up / ability to understand complex queries...*

Voice Query Breakdown – Observed Data on Hound App, USA, 2016



Source: SoundHound

Note: Based on most recent 30-days of user activity. Local information refers to queries about weather, restaurants, hotels, maps and navigation. Fun & entertainment refers to queries about music, movies, games, etc. General information refers to queries about facts, dictionary, sports, stocks, mortgages, nutrition, etc. Personal assistant refers to queries and commands about phone / communications, Uber and transportation, flight status, calendars, timers, alarms, etc.

Voice = Gaining Search Share...

USA Android @ 20%...Baidu @ 10%...Bing Taskbar @ 25%

September 2014

Baidu – 1 in 10 queries come through speech.

May 2016

Bing – 25% of searches performed on Windows 10 taskbar are voice searches per Microsoft reps.

2020

In five years time at least 50% of all searches are going to be either through images or speech.

Andrew Ng
Chief Scientist, Baidu (9/14)

June 2015

Siri – handles more than 1 billion requests per week through speech.

2015

Amazon Echo – fastest-selling speaker in 2015, @ for ~25% of USA speaker market, per 1010data.

May 2016

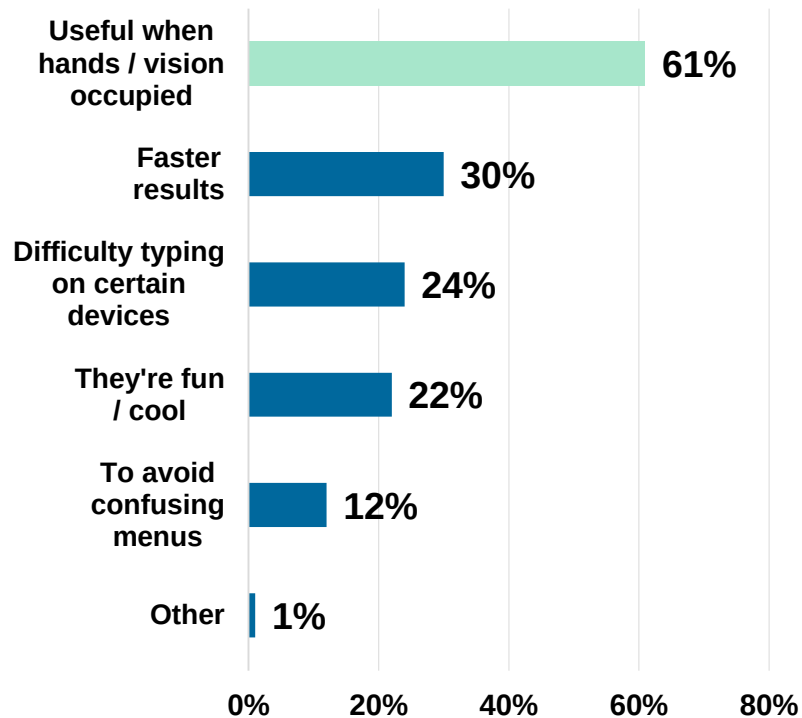
Android – 1 in 5 searches on mobile app in USA are voice searches & share is growing.

*Voice as
Computing Interface...*

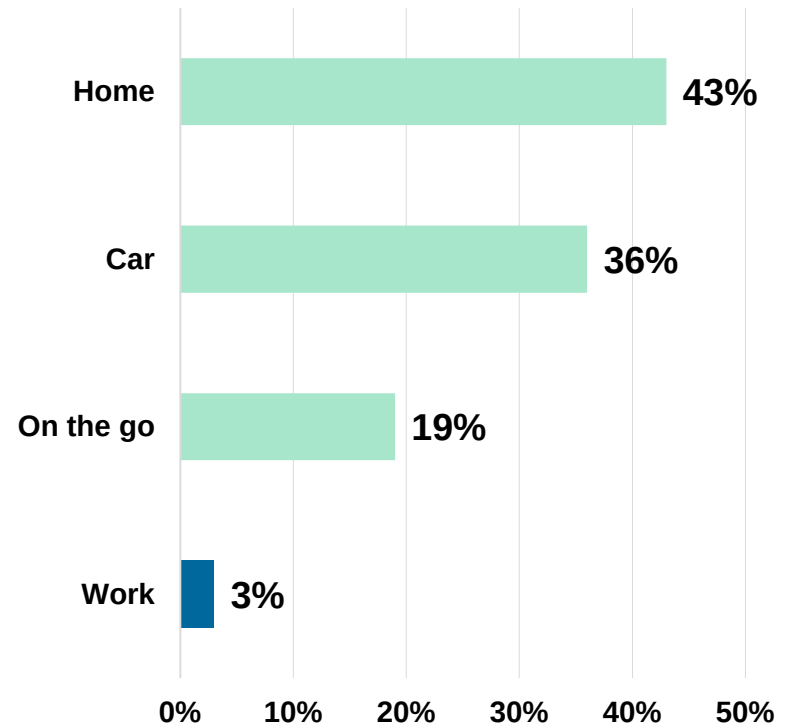
*Hands & Vision-Free =
Expands Concept of 'Always On'*

Hands & Vision-Free Interaction = Top Reason to Use Voice...@ Home / In Car / On Go

**Primary Reasons for Using Voice,
USA, 2016¹**



**Primary Setting for Voice Usage,
USA, 2016²**



*Voice as
Computing Interface...*

*Platforms Being Built...
Third Party Developers
Moving Quickly*

Amazon Alexa Voice Platform Goal = Voice-Enable Devices = Mics for Home / Car / Mobiles...

Alexa Voice Service – OEM / Developer Integrations (10+ integrations...)

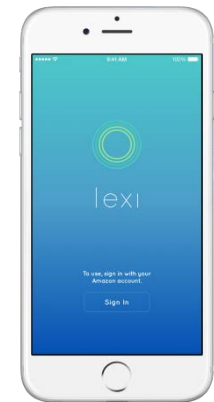
Home (Various OEMs)



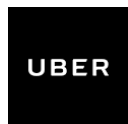
Car (Ford Sync)



On Go (Lexi app)



Alexa 'Skills' Kit Developers = ~950 Skills (5/16) vs. 14 Skills (9/15)



...Amazon Alexa Voice Platform Goal = Faster / Easier Shopping on Amazon

*Leveraging proliferation of microphones throughout house to reduce friction for making purchases...
3x faster to shop using microphone than to navigate menus in mobile apps*...*

Amazon Echo



Amazon Echo Dot



Amazon Echo Tap



Amazon Prime (~44MM USA Subscribers)



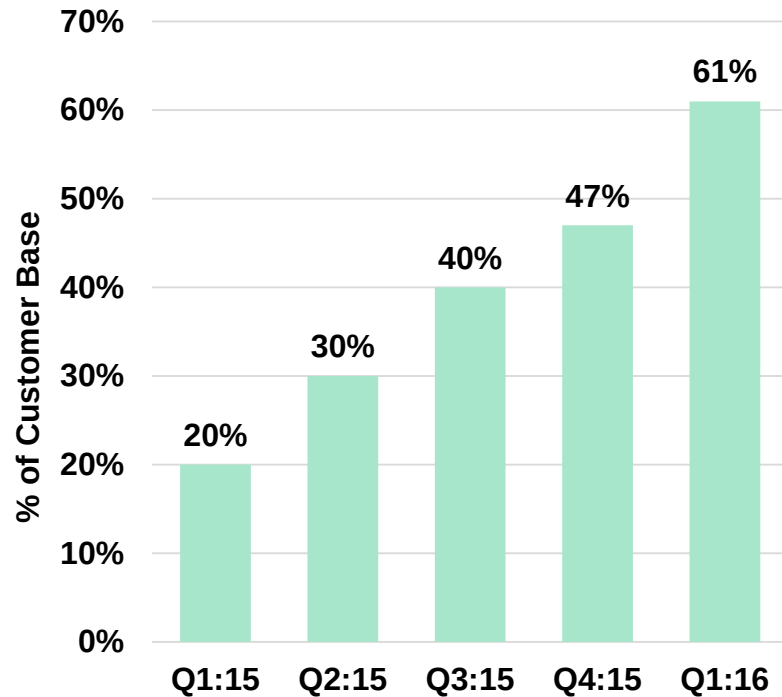
Evolution of Shopping with Echo

1. Shopping Lists **(2014)**
2. Reorder past purchases by voice **(2015)**
3. Order new items – assuming you are fine with Amazon selecting exact item **(2015)**

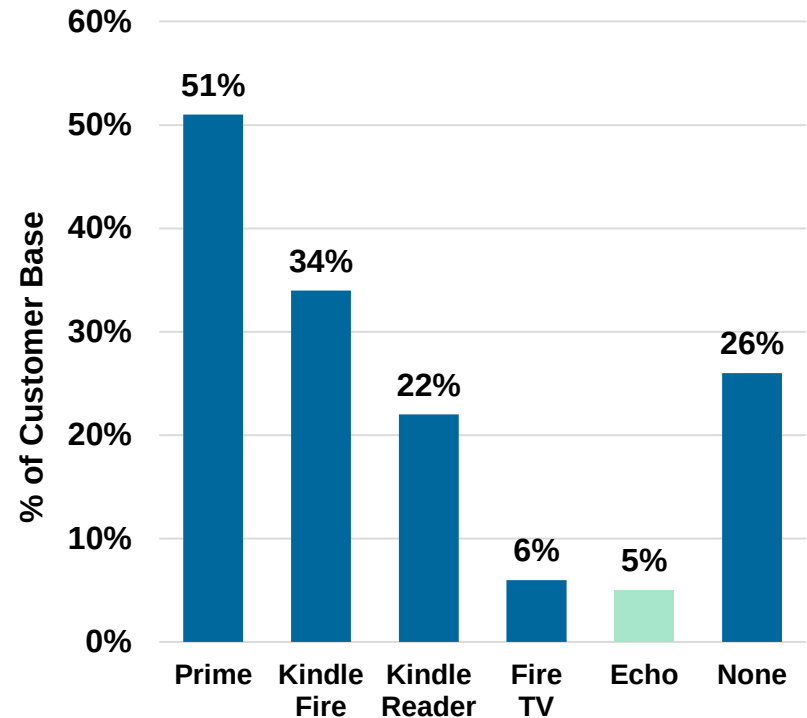
~5% of Amazon USA Customers Own an Echo vs. 2% Y/Y...
~4MM Units Sold Since Launch (11/14), per CIRP

~4MM Amazon Echo devices have been sold in USA as of 3/16, with ~1MM sold in Q1:16, per CIRP estimates

Amazon Customer Awareness of Amazon Echo, USA, Q1:15 – Q1:16



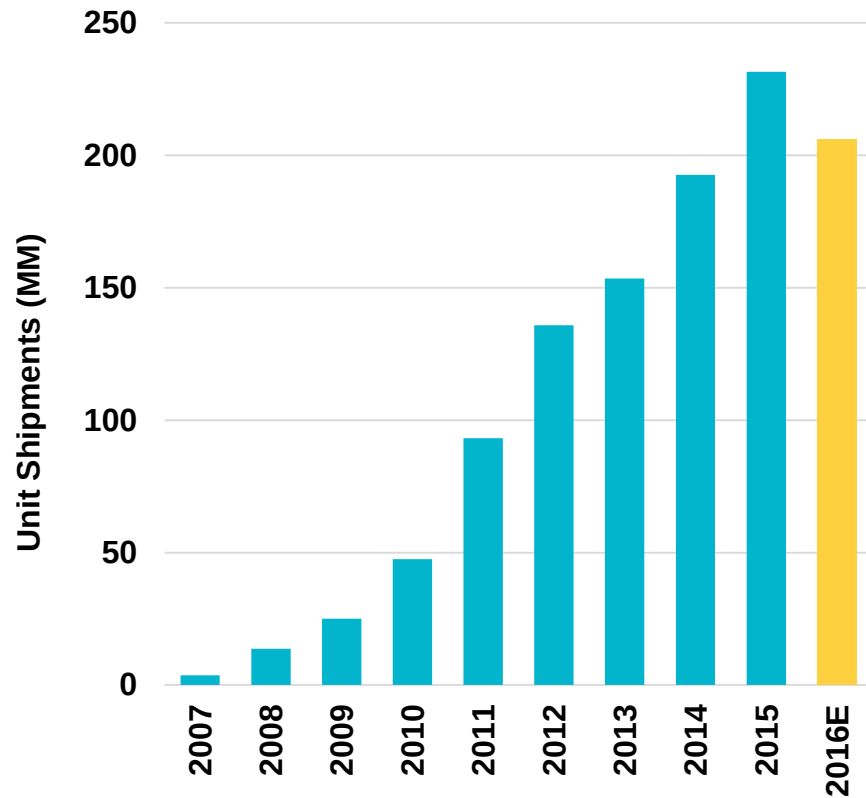
Amazon Customer Ownership of Amazon Devices, USA, Q1:16



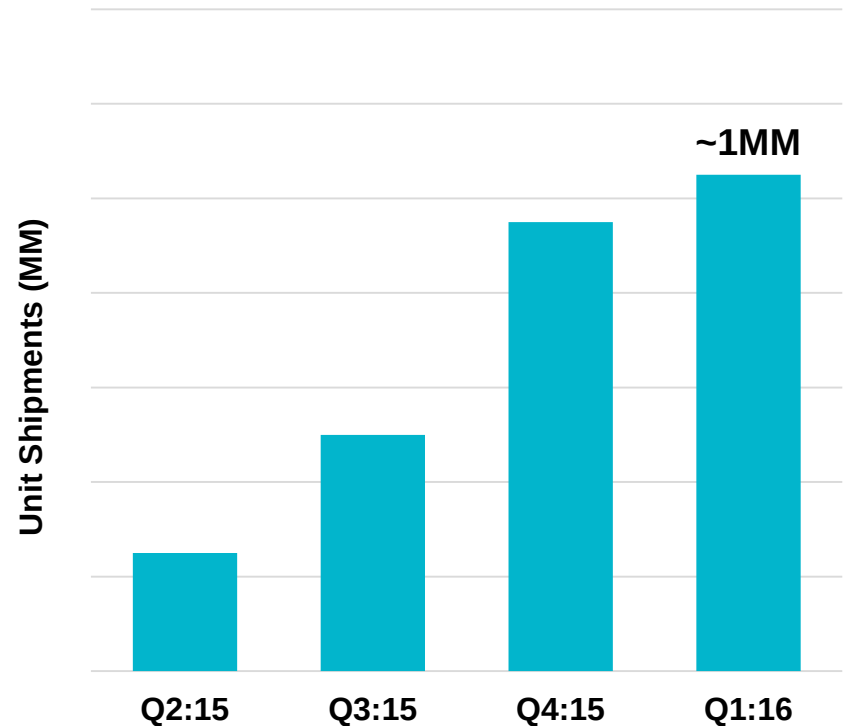
*Computing Industry
Inflection Points =
Typically Only Obvious
With Hindsight*

iPhone Sales May Have Peaked in 2015... While Amazon Echo Device Sales Beginning to Take Off?

**iOS Smartphone Unit Shipments,
Global, 2007 – 2016E**



**Estimated Amazon Echo Unit Shipments,
USA, Q2:15 – Q1:16**



***Re-Imagining
Transportation =
Another New Paradigm in
Human-Computer Interaction...
Cars***

Is it a Car...Is it a Computer?...

Is it a Phone...Is it a Camera?



Is it a Car...Is it a Computer?



...One Can...

Lock / Monitor / Summon One's Tesla from One's Wrist



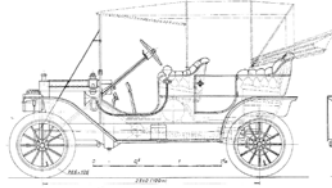
*Car Industry Evolution =
Computerization Accelerating*

Car Computing Evolution Since Pre-1980s = Mechanical / Electrical → Simple Processors → Computers

Pre-1980s

Analog / Mechanical

Used switches / wiring to route feature controls to driver



1980s (to Present)

CAN Bus

(Integrated Network)

New regulatory standards drove need to monitor emissions in real time, hence central computer



1990s (to Present)

OBD (On-Board Diagnostics) II

Monitor / report engine performance; Required in all USA cars post-1996



1990s-2010s

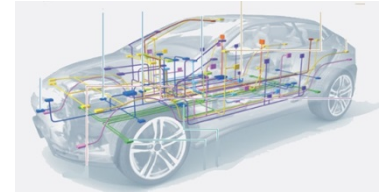
Feature-Built Computing + Early Connectivity

Automatic cruise control... Infotainment... Telematics... GPS / Mapping...



Today = Complex Computing

Up to 100 Electronic Control Units / car... Multiple bus networks per car (CAN / LIN / FlexRay / MOST)... Drive by Wire...



Today = Smart / Connected Cars

Embedded / tethered connectivity...

Big Tech = New Tier 1 auto supplier (CarPlay / Android Auto)...



Tomorrow = Computers Go Mobile?...

Central hub / decentralized systems?

LIDAR...

Vehicle-to-Vehicle (V2V) / Vehicle-to-Infrastructure (V2I) / 5G...

Security software...

"The Box" (Brooks & Bone)



Car Automation Accuracy / Safety Improvements = Accelerating... Early Innings of Level 2 / Level 3

NHTSA – Automated Driving System Classifications

	L0	L1	L2	L3	L4
	No Automation	Function-Specific Automation	Combined Function Automation	Limited Self-Driving Automation	Full Self-Driving Automation
Description	Driver in complete and sole control of primary vehicle controls (brake, steering, throttle, motive power) at all times. Systems with warning technology (e.g. forward collision warning) do not imply automation	Automation of one or more primary vehicle control functions, but no combination of systems working in unison	Automation of at least two primary vehicle control systems working in unison	Driver able to cede full control of all safety-critical functions under certain conditions. Driver is expected to be available for occasional control, but with sufficiently comfortable transition time	Vehicle can perform all safety-critical driving and monitoring functions during an entire trip
Example	N/A	- ABS - Cruise Control - Electronic Stability Control - Park Assist	- Tesla Autopilot - GM Super Cruise (2017)	Google Car (manned prototype)	Google Car
Time Frame	Since cars invented (1760s)	1990s – Today	2010s	2010s	?

Early Autonomous / ADAS Features Continue to Improve = Miles Driven Continue to Rise

Google (Level 3 / 4 Autonomy)



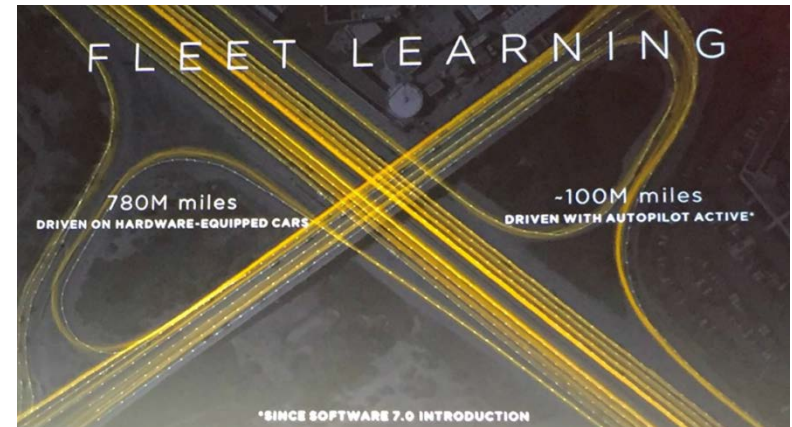
Google Self-Driving Car Project

Where we are

We've self-driven more than 1.5 million miles

and are currently out on the streets of Mountain View, CA, Austin, TX, Kirkland, WA and Metro Phoenix, AZ.

Tesla (Level 2 Autonomy)



Tesla customers have driven 100 million miles with Autopilot active

Primary Approaches to Autonomous Vehicle Rollouts = All New or Assimilation...Traditional OEMs Taking Combined Approach

All New = Top-Down, Fully Autonomous Vehicles

- Design & build vehicles from day one with goal of full autonomy
- Craft architectures / systems for end product needs and with full fleet in mind
- Adapt testing environments to needs (individual city testing)
- Solves potentially dangerous middle layer of semi-autonomy
- Need very specific environments and regulation to guide integration with current system
- Potentially difficult to scale
- Key Example:



Assimilation = Gradual Rollout / Mixed-Fleet Environments

- Roll out / upgrade autonomous features in current automotive context
- Solves issue of integrating autonomy into existing asset base
- Real-time, in-field updates & improvements (Tesla over-the-air software updates)...real-world learnings
- Semi-autonomous stages require potentially dangerous resumption of driver control
- OEM production cycles sometimes long, which could cause innovation to remain slow
- Key Example:



*Car Industry Evolution =
Driven by Innovation...
USA Led...USA Fell*

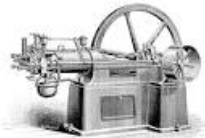
Car Industry Evolution, 1760s – Today = Driven by Innovation + Globalization

Early Innovation (1760s-1900s) = European Inventions

1768 = First Self-Propelled Road Vehicle (Cugnot, France)



1876 = First 4-stroke cycle engine (Otto, Germany)



1886 = First gas-powered, 'production' vehicle (Benz, Germany)



1888 = First four-wheeled electric car (Flocken, Germany)



Streamlining (1910s-1970s) = American Leadership

1910s = Model T / Assembly Line (Ford)



1920s-1930s = Car as Status Symbol... Roaring '20s / First Motels

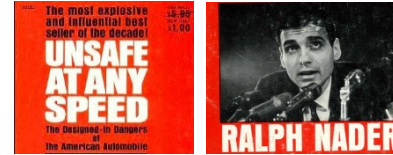


1950s = Golden Age... Interstate Highway Act (1956)... 8 of Top 10 in Fortune 500 in Cars or Oil (1960)



Modernization (1970s-2010s) = Going Global / Mass Market

1960s = Ralph Nader / Auto Safety



1970s = Oil Crisis / Emissions Focus



1980s = Japanese Auto Takeover Begins...



1990s – 2000s = Industry Consolidation; Asia Rising; USA Hybrid Fail (Prius Rise)

DAIMLERCHRYSLER



Late 2000s = Recession / Bankruptcies / Auto Bailouts

Re-Imagining Cars (Today) = USA Rising Again?

DARPA Challenge (2004, 2005, 2007, 2012, 2013) = Autonomy Inflection Point?



Today =



+



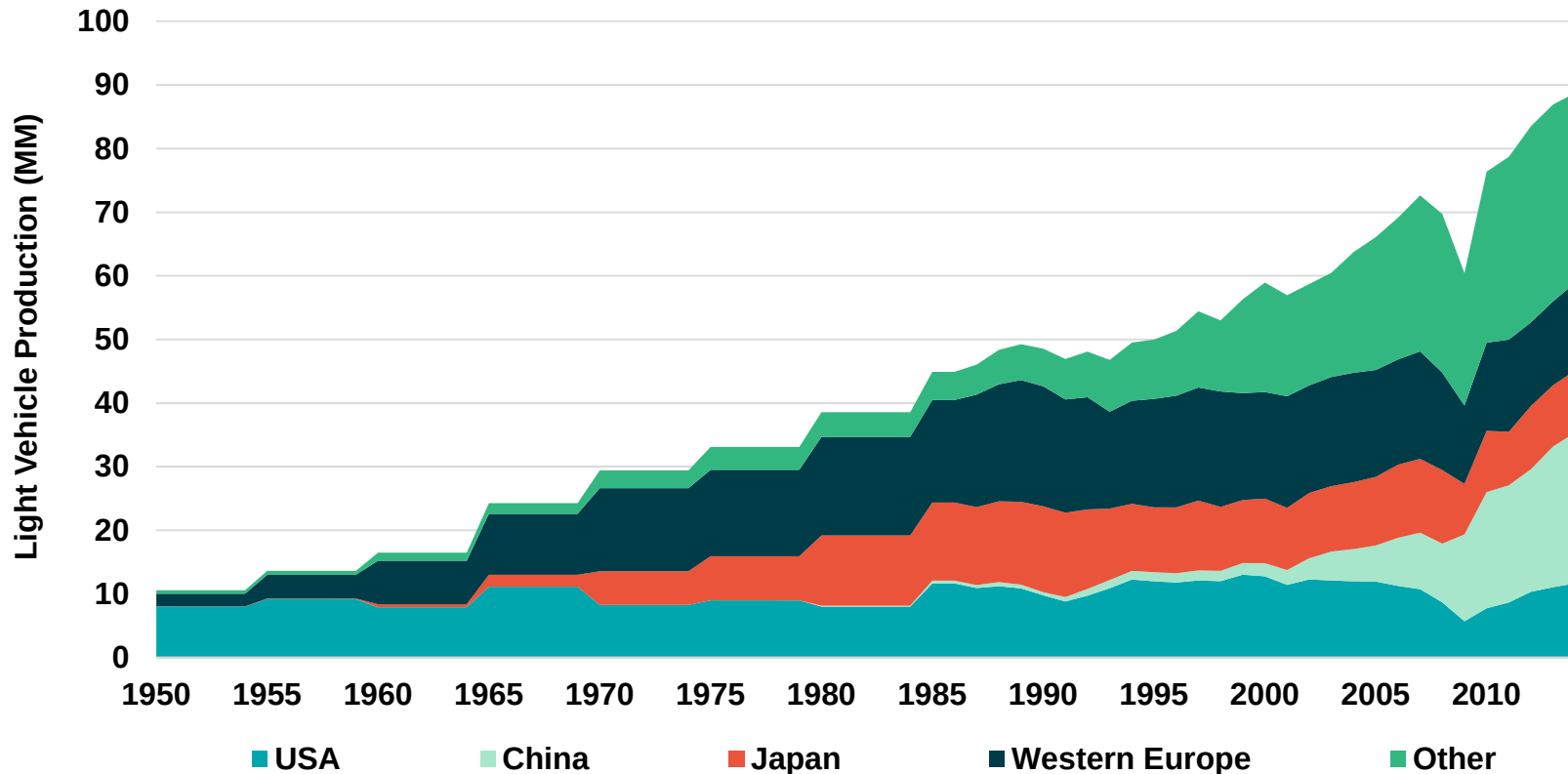
+



Global Car Production Share = Rise & Decline of USA...

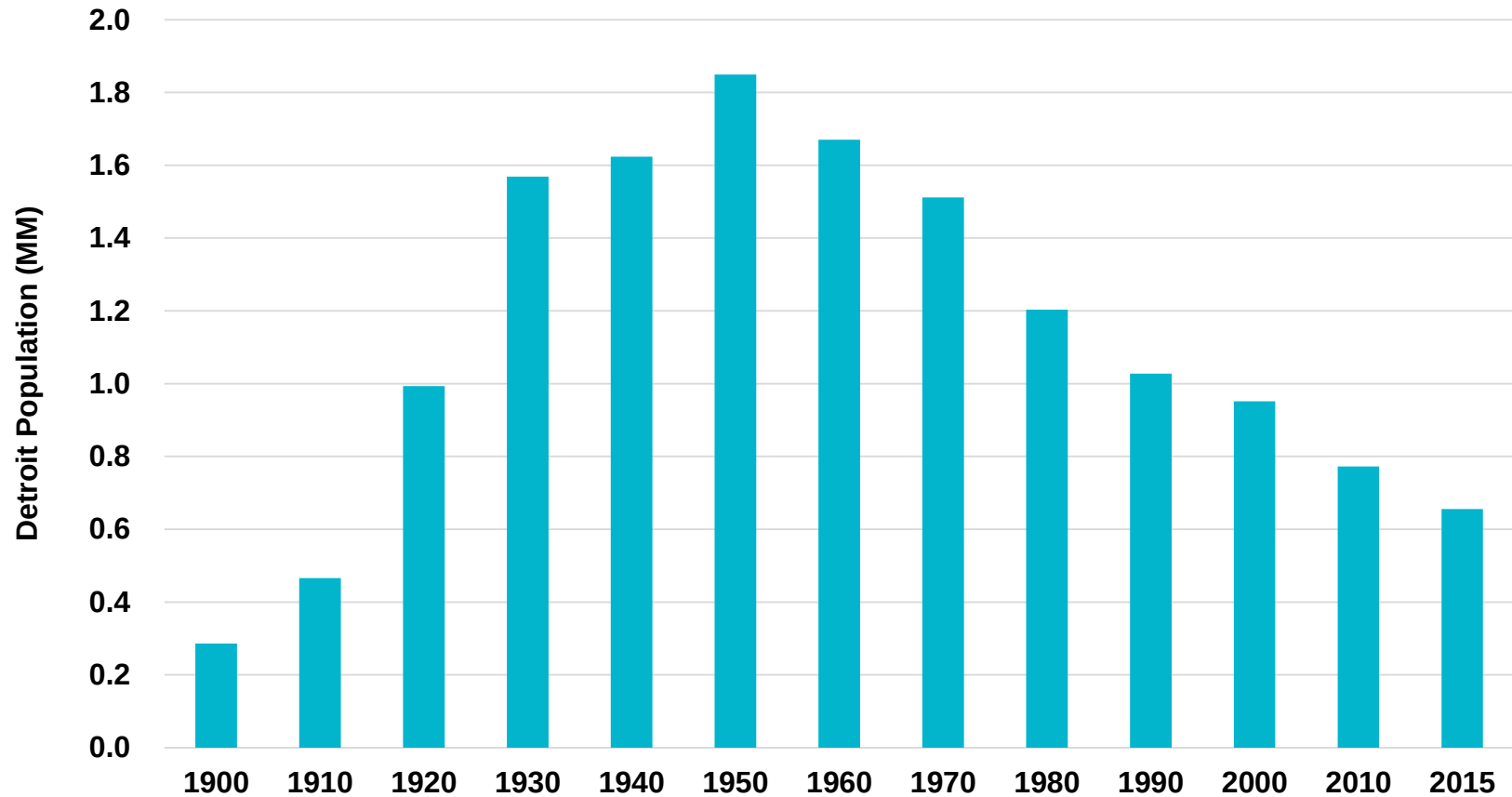
Cars Produced in USA = 13% vs. 76% (1950)...

Annual Light Vehicle Production, By Region, 1950 – 2014



Detroit Population Tells Tale of USA Car Production = Down 65% from 1950 Peak @ 1.8MM

Detroit Population, 1900 – 2015



*Car Industry =
Innovation Accelerating in
USA*

USA Has Many Key Components of Ecosystem

- 1) **Incumbents** – GM / Ford...Leading (2 of Top 10 Global) Auto Manufacturers
- 2) **Attackers** – Tesla... #1 Electric Vehicle Manufacturer
- 3) **Systems / Components** – *Processors / GPUs* (Nvidia...)...*Sensors / LIDAR / Radar* (Velodyne / Quanergy / Google...)...*Connectivity* (AT&T / Telogis / INRIX...)...*Mapping* (Google / Waze / Uber...)...*Operating Systems* (Google / Apple)...*Other* (Drivetrain / Power Electronics / Aerodynamics / Lightweighting / Etc...)
- 4) **Autonomous Vehicles** – Google / Tesla / Uber...Leadership in Development of Autonomous Vehicle Solutions
- 5) **Mobility & Fleet Innovation** – Uber / Lyft / Zendrive...Leadership in Ride Sharing Solutions / Infrastructure / Fleet Knowledge (Distribution via Mobile Devices / Recommended Traffic Flows)
- 6) **Education / University Innovation** – Stanford / Carnegie Mellon / Michigan / MIT / UC Berkeley...Leadership in STEM & Computer Science Education / Computer Vision / Robotics / Deep Learning / Automotive Engineering

...USA =

Potential to be Global Hub of Auto Industry Again?

USA Could Benefit from Creating Space in the Automotive Regulatory Framework to Foster Innovation

- 1) **Federally Provided Guidance to States to Embrace Autonomy** – Multiple legislative frameworks from individual states could impede autonomous innovation...
- 2) **Flexibility of Regulation** – Numerous approaches to solving autonomy challenge are likely to evolve simultaneously... regulation should not impede any single innovation approach...
- 3) **Individual Cities / States Championing Autonomy** – More testing locations / forward-leaning cities like Mountain View, CA / Austin, TX / Kirkland, WA / Metro Phoenix, AZ...
- 4) **Comprehensive Safety Frameworks** – Gov't should have power to allow autonomous systems that demonstrate quantifiable safety improvements over current driver-vehicle combination...
- 5) **Leaning Forward on Sharing (Car & Ride)** – Regulators should work with rather than against sharing companies to craft policy as consumer demand illustrates need / interest in sharing...
- 6) **Auto Cybersecurity** – Connected cars face increased risk of cyber attacks...manufacturers & suppliers should keep consumer security / privacy as a key priority...
- 7) **Next-Generation Franchise Laws** – Semi-autonomous & autonomous cars are likely to change process of buying / servicing given 'over the air' nature of software downloads...USA could consider the EU 'Block Exemption' as model & allow consumers to service vehicles at either manufacturer-affiliated or independent locations

Regulators = Typically Slow to Adapt to New Technologies

Back in the Day When Horseless Carriage (Car) Came Along...



**Locomotive Act of 1865 –
Red Flag Act**
*Law Enacted in UK...
Horseless Carriages (Cars) Had to be
Preceded By Someone with Red Flag For
Safety Purposes*



Jitneys (1914)
*Ride-Sharing, ~100 Years Ago...
150K Jitney Rides / Day (1915) in LA, yet
Regulated Out of Existence by 1919...

157K Uber Rides / Day (2016) in LA...*

Global Perspective on Auto Industry Future – By Region, per Morgan Stanley Auto & Shared Mobility Research

N. America – Some home field advantage on tech innovation & early application of shared mobility, but culture of private ownership and litigious USA judicial system may slow progress.

China – Government focus on technology / environment, as well as quality of ride-sharing companies (esp. Didi), have driven strong early sharing adoption. Competing investment in public transit and impact of car ownership on social standing may impede full-scale adoption.

India – Offers all key ingredients (rapid urbanization, limited public infrastructure, large millennial population, internet inflection point) for shared mobility leadership. Current market structure is likely to change as shared mobility gains dominance, so future remains unclear.

Europe – Lack of homegrown tech champions coupled with power of OEMs (particularly Germans) and quality of European public transit may make adoption more difficult. High fuel costs and strong emissions standards may drive movement forward.

Japan – Social implications of an aging population and policy support (given importance of a strong automotive industry) represent key advantages, but OEM buy-in to new paradigm is crucial, and R&D investment in tech arena lags somewhat behind other geographies.

Korea – Strong technological culture, early political support and sharing-focused younger demographic leaves Korea relatively well positioned for move to shared mobility, though adoption remains in its infancy.

***Re-Imagining
Transportation –
Mobility also Being
Re-Imagined***

Re-Imagining Automotive Industry = From Cars Produced to Miles Driven?

*We do believe the traditional ownership model is being disrupted...**We're going to see more change in the next five to ten years than we've seen in the last 50.***

● MARY BARRA, GM CEO, 10/25/15

*You could say there would be less vehicles sold, **but we're changing our business model to look at this as vehicle miles traveled...**I could argue that with autonomous vehicles, **the actual mileage on those vehicles will accumulate a lot more than a personally owned vehicle.***

● MARK FIELDS, FORD CEO, 4/12/16

Car Ownership Costs (Money + Time) = High

Car Ownership Costs = High

\$8,558 / Year, USA = Depreciation @ 44% / Fuel @ 15% / Finance + Fees @ 14% / Insurance @ 14% / Maintenance + Repair @ 9%

Commuting Time = Significant

4.3 Hours per Week per Worker, Average (13% of Work Week, USA)

Urban Auto Commuting Delays = Rising

42 Hours / Year / Urban Worker, USA (+2x in 30 Years), Equivalent to ~1.2 Extra Work Weeks / Year

Millennials = Driving Differently

Drivers License Usage Declining (Age 16-44) = @ 77% vs. 92% (1982, USA)

Millennial Willingness to Car Share = @ ~50% (Asia-Pacific) / @ ~20% (North America)

46% of Millennials Expect Vehicle Technology to do Everything a Smartphone Can...

Efficiency Gain Potential from Ride & Car Sharing = High

Cars = Underutilized Assets

USA = 2.2 Cars / Household, ~20% of Households Have 3+ Cars,

Cars Used ~4% of Time

Vehicle Miles Traveled (VMT) = High Per Capita

USA VMT Per Capita = 9K / +11x China (~850) / +48x India (~200)

Parking Infrastructure = Lots of It

~19MM Parking Spaces in Los Angeles County (2010), +12MM since 1950

14% of Incorporated Land in Los Angeles County Allocated to Parking

~4 Estimated Parking Spots / Person in USA

Energy Consumption by Light Vehicles = Significant

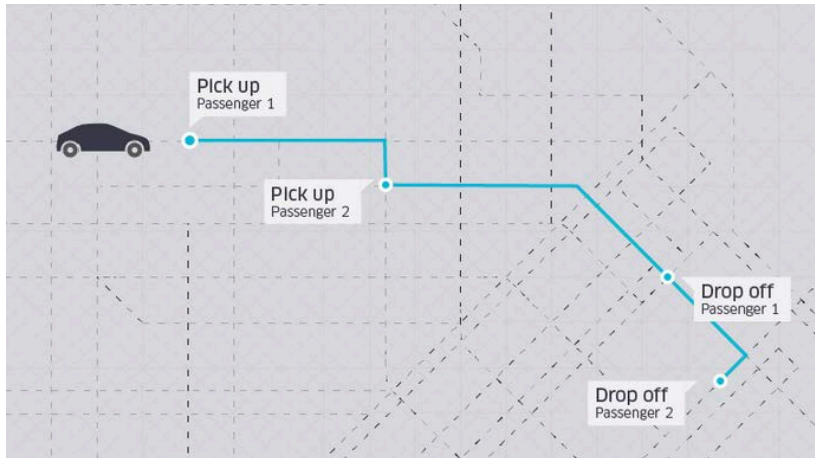
~500B Gallons of Fuel, Global (2014)...

Uber Platform / Network = Why Millions of Riders Have Taken >1B Rides Since 2009

Top Reasons Riders Choose Uber

- 93% = Get to Destination Quickly
- 87% = Safety
- 84% = Too Much Alcohol to Drive
- 83% = Save Money
- 77% = Avoid Dealing with a Car
- 65% = Option During Public Transit 'Off' Hours

Shared Private Rides Becoming Urban Mainstream = uberPOOL @ 20% of Global Uber Rides in <2 Years



- **36** = Global UberPool Cities, +7x Y/Y
- **100MM** = UberPool Trips Since Launch (8/14)
- **40%** = UberPool as % of Total SF Rides
- **30MM** = China Rides / Month (in <1 Year)
- **>100K** = Riders / Week in 11 Global Cities
- **90MM** = Vehicle Miles Traveled saved vs. UberX*
- **1.8MM** = Gallons of Gas Saved vs. UberX*

Re-Imagining Most Important Seat in Car = Back Seat, Again?

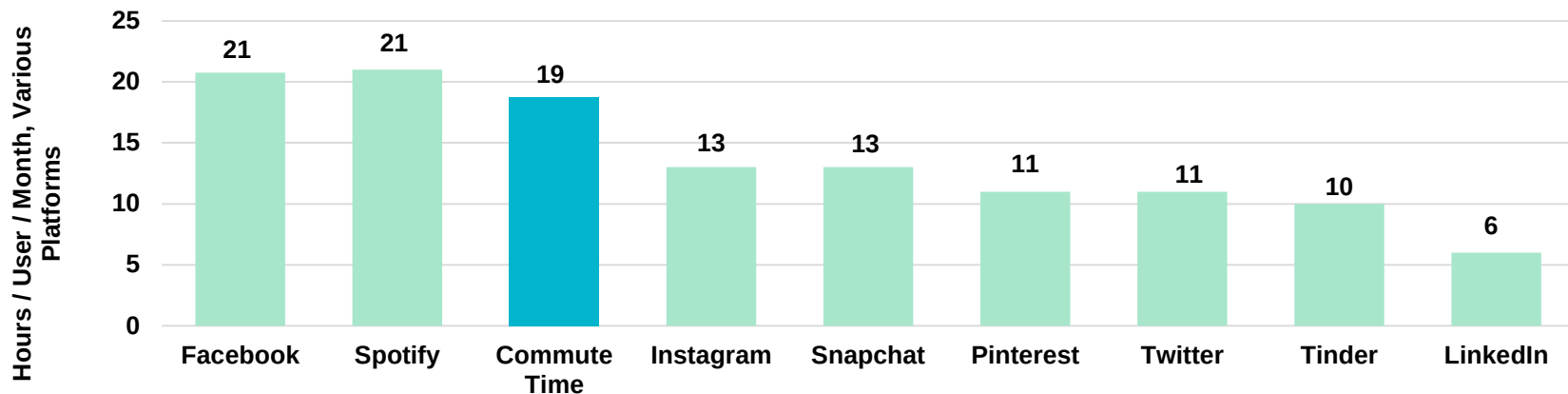
Rolls Royce 10hp (1904) =
Designed for Rider



Mercedes-Benz F 015
'Luxury in Motion' Concept (2015) =
Déjà Vu?



Commute Time = Significant Engagement / Entertainment Opportunity?



Source: Time Spent data per Cowen & Co. Research + SurveyMonkey (n = 2,059, 6/15, minutes / day spent across all cohorts and extrapolated to hours / month), except for Spotify (per Company). Commute data per US Census Bureau as of 2013; includes all modes of transportation apart from walking / biking. Assumes 25.9 minute one-way commute, assumed to be 5 days per week in both commute directions and 4.35 average weeks / month. Images per RREC / SWNS.com, Mercedes-Benz, carbodydesign.com

*Transportation Industry =
Strap In for Next Few Decades*

Automotive Industry Golden Age, Take Two?

What if a Car:

- Is part of a network that provides a commuting service that comes to you?
- Is the most advanced computing device you use?
- In effect, is an on-demand cash generator, boosted by car / ride sharing?
- Gives you safe driving pay-backs from your insurer?
- Is safer, due to automation / reduced human error?
- Drives itself? Parks itself?
- Makes you want to commute?
- Makes you more productive?

CHINA = INTERNET LEADER ON MANY METRICS

*Hillhouse Capital**
Provided China Section of Internet Trends, 2016



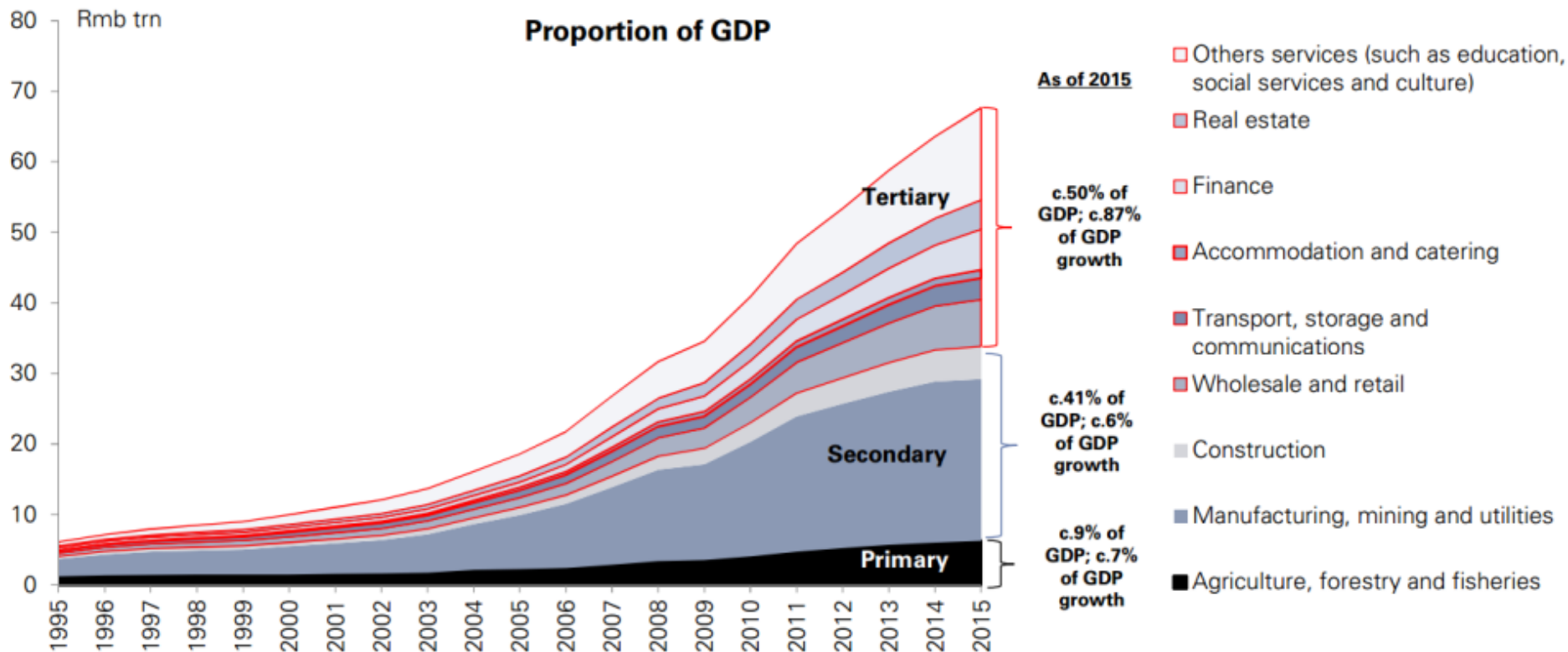
*Disclaimer – The information provided in the following slides is for informational and illustrative purposes only. No representation or warranty, express or implied, is given and no responsibility or liability is accepted by any person with respect to the accuracy, reliability, correctness or completeness of this information or its contents or any oral or written communication in connection with it. A business relationship, arrangement, or contract by or among any of the businesses described herein may not exist at all and should not be implied or assumed from the information provided. The information provided herein by Hillhouse Capital does not constitute an offer to sell or a solicitation of an offer to buy, and may not be relied upon in connection with the purchase or sale of, any security or interest offered, sponsored, or managed by Hillhouse Capital or its affiliates.

China Macro =

*Robust Service-Driven Job &
Income Growth...
Despite Investment Slowdown*

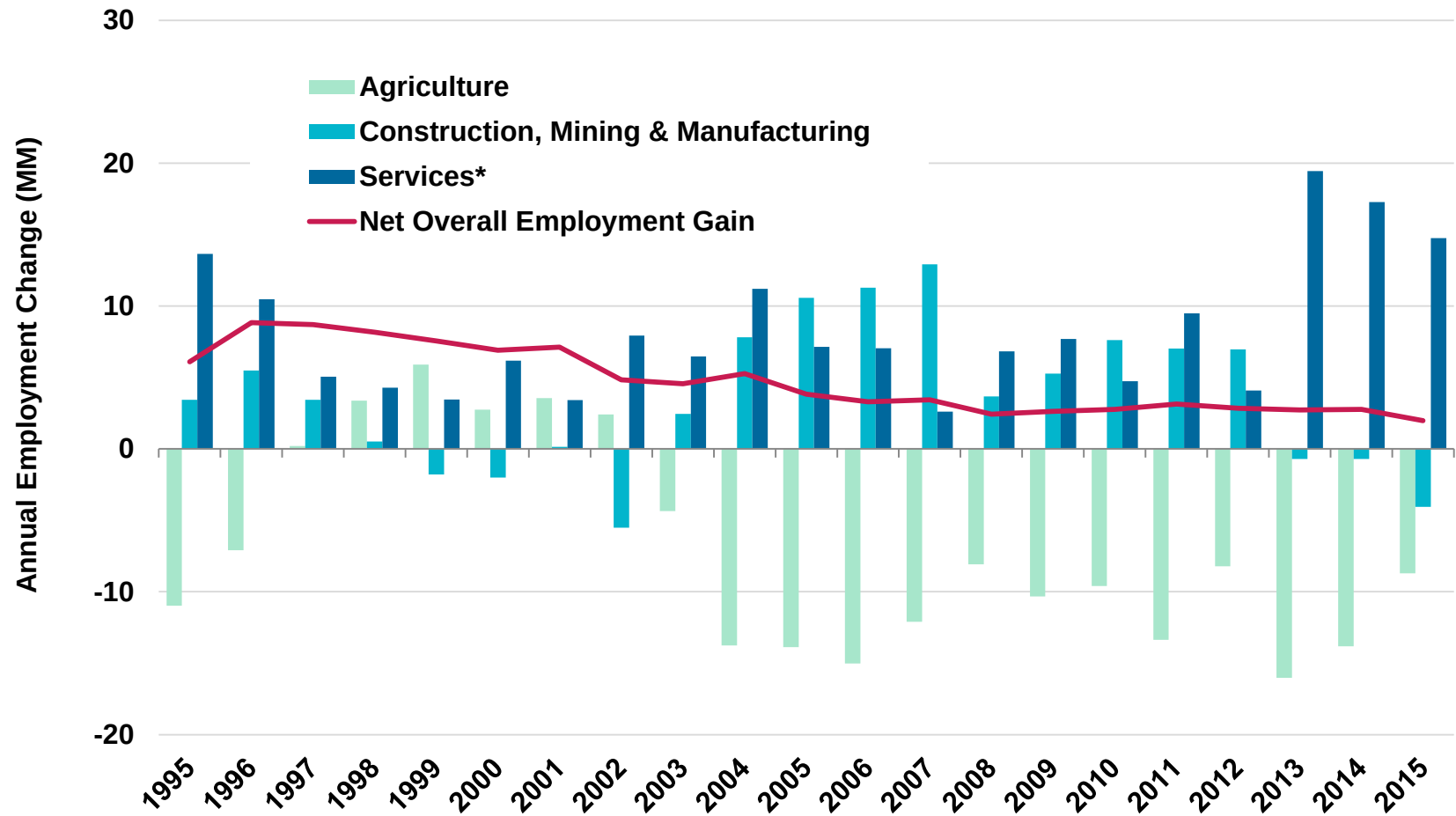
China Services Industries = 50%+ (& Rising) of China's GDP & ~87% of GDP Growth

China's GDP by Sector, 1995 – 2015



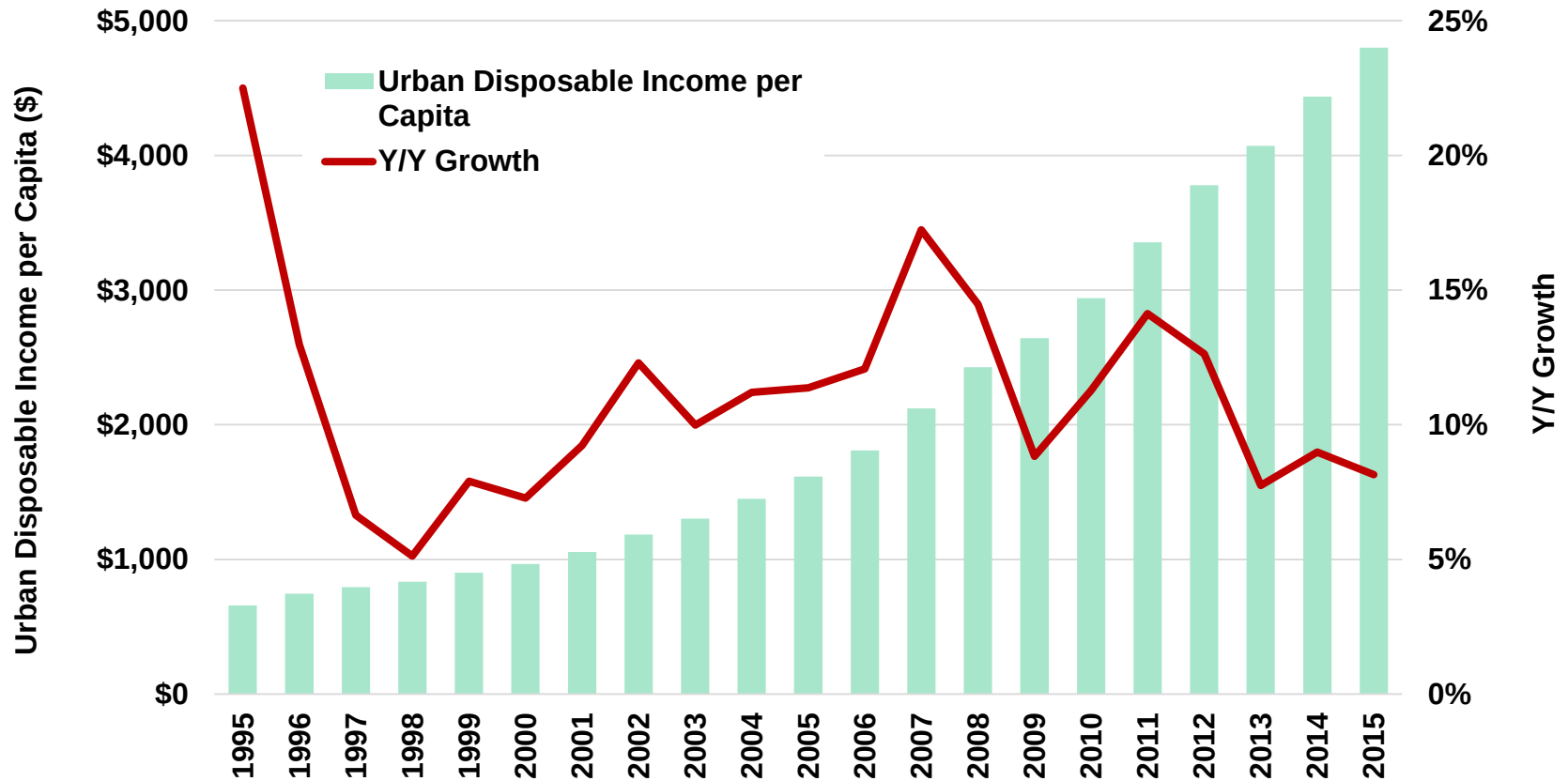
China Services* Industries Job Growth = Accelerating... Offsetting Job Losses from Construction / Manufacturing / Agriculture

China Annual Employment Change by Sector, 1995 – 2015



China Urban Disposable Income Per Capita = Continues to Grow @ Solid Rates

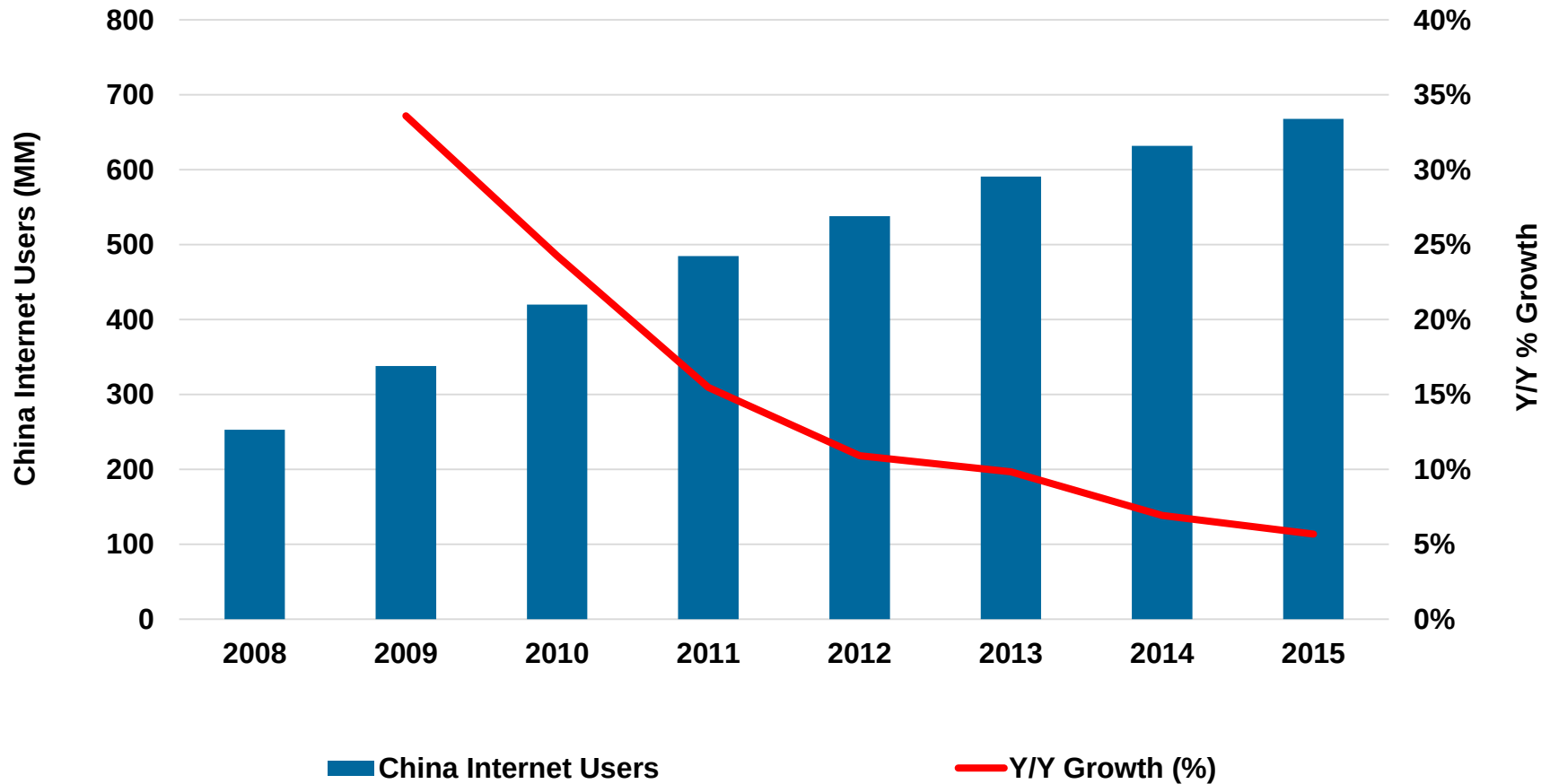
China Urban Disposable Income per Capita & Y/Y % Growth, 1995 – 2015



*China Internet @
668MM Users =
+6% vs. +7% Y/Y*

China Internet Users = 668MM, +6% vs. 7% Y/Y...@ 49% Penetration

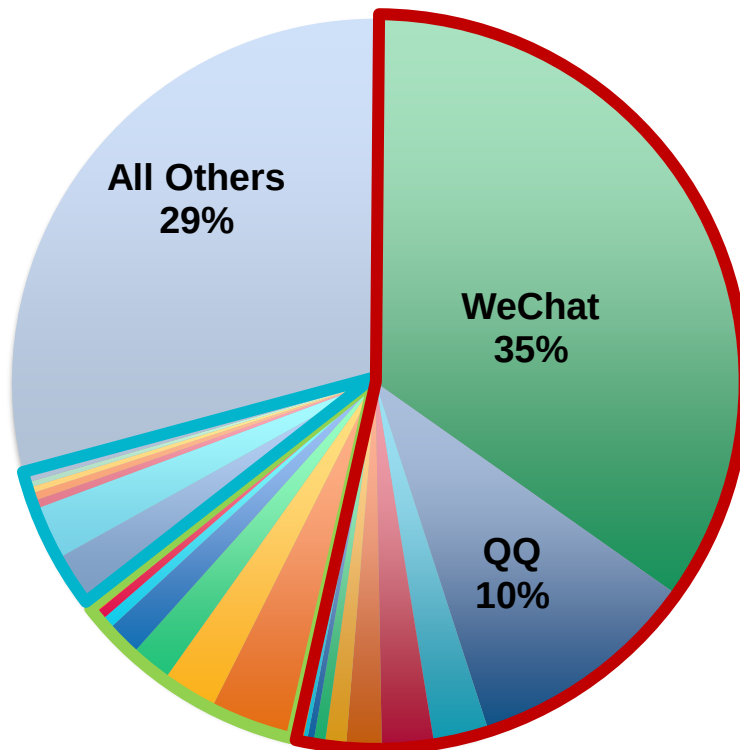
China Internet Users, 2008 – 2015



China Mobile Internet Usage Leaders...

Tencent + Alibaba + Baidu = 71% of Mobile Time Spent

Share of Mobile Time Spent, April 2016
Daily Mobile Time Spent = ~200 Minutes per User, Average



Tencent

- WeChat
- QQ
- QQ Browser
- Tencent Video
- Tencent News
- Tencent Games
- QQ Music
- JD.com
- QQ Reading

Alibaba

- UCWeb Browser
- Taobao
- Weibo
- YouKu Video
- Momo
- Shuqi Novel
- AliPay
- AutoNavi

Baidu

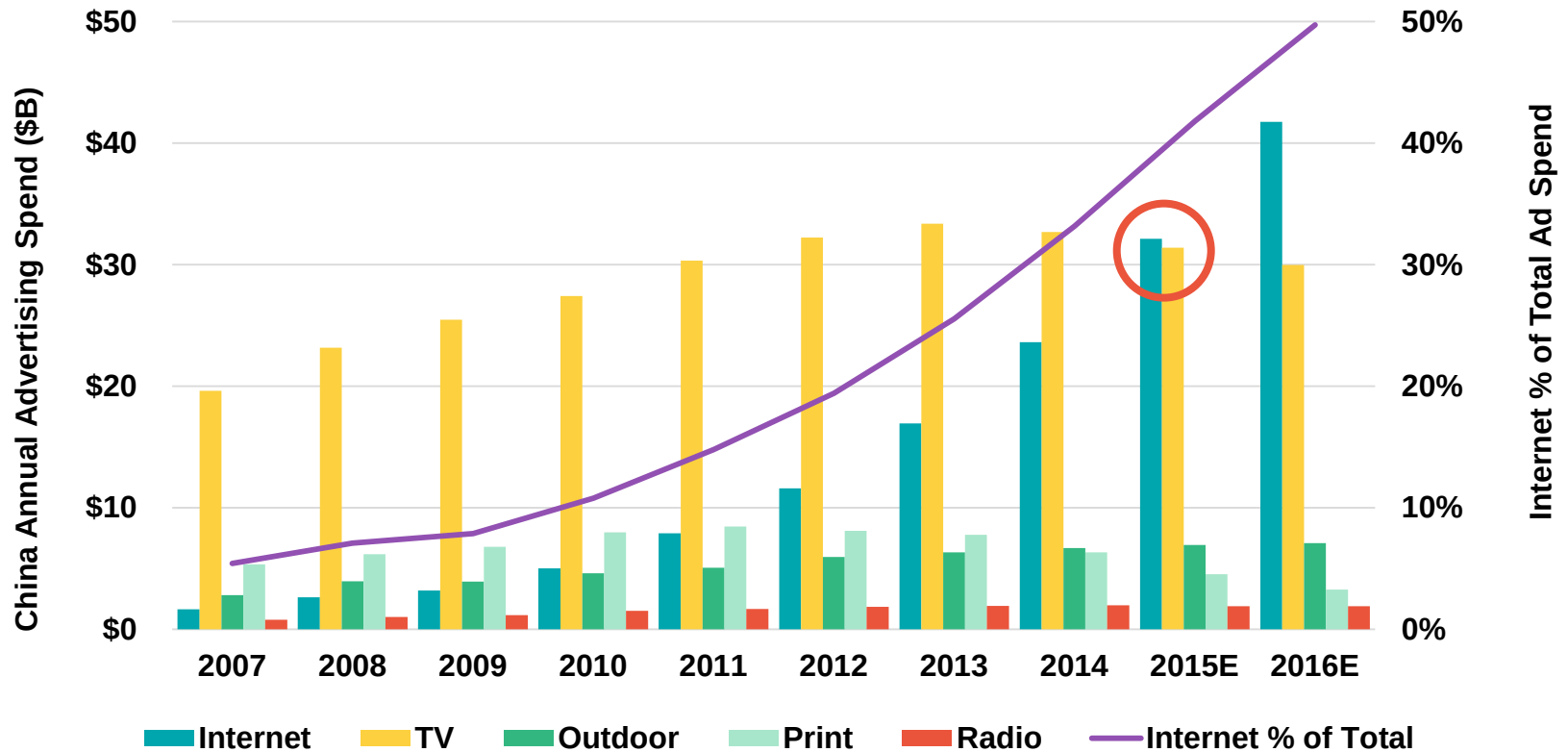
- Mobile Baidu
- iQiyi / PPS Video
- Baidu Browser
- Baidu Tieba
- 91 Desktop
- Baidu Maps
- All Other

*China Internet Traction =
Advertising / Commerce /
Travel / Financial Services
Trends Often Compare
Favorably to USA*

China Online Advertising > TV (2015)...

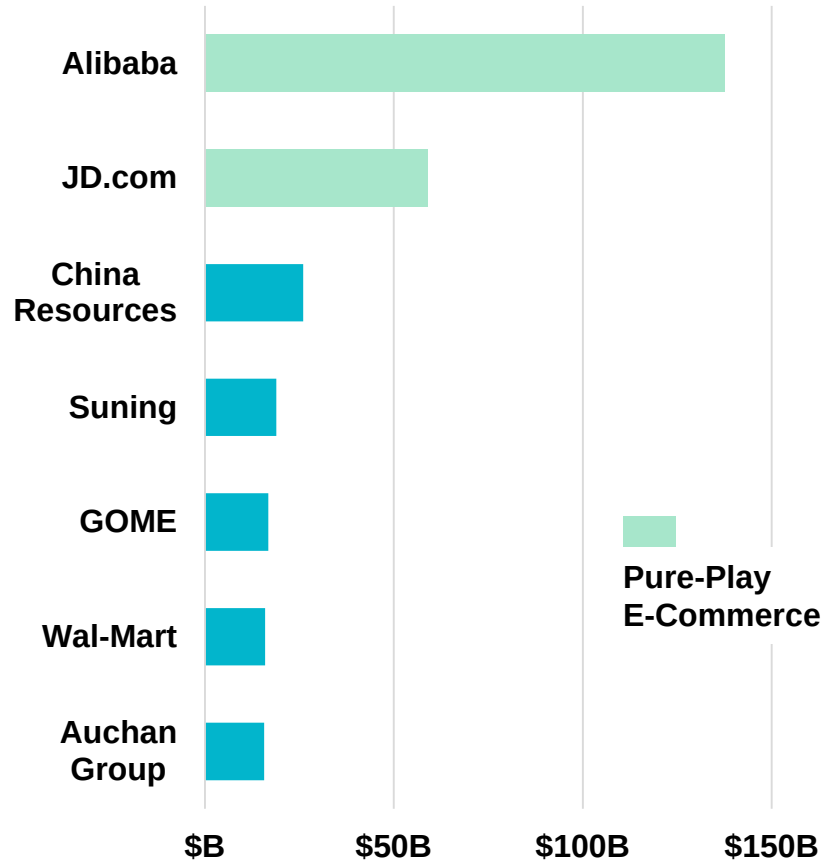
Online > 42% Total Ad Spend vs. 39% in USA

China Annual Advertising Spend by Medium, 2007 – 2016E

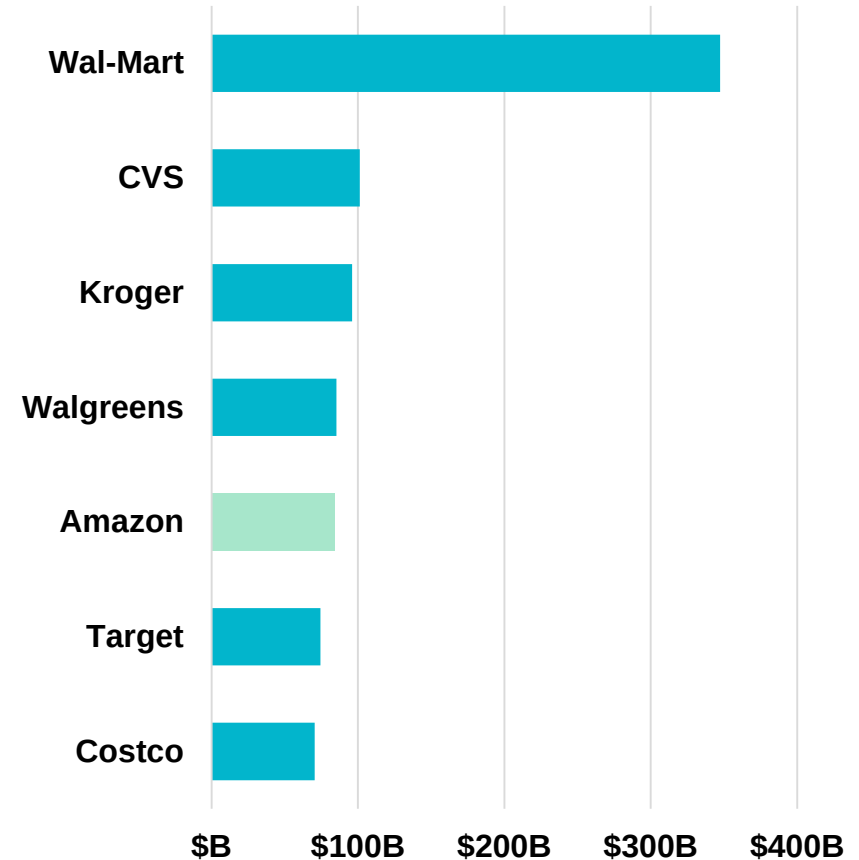


China E-Commerce Companies = Dominate Top Retailer Rankings vs. USA Peers...

**China Top 7 Retailers
by Revenue*, 2015**

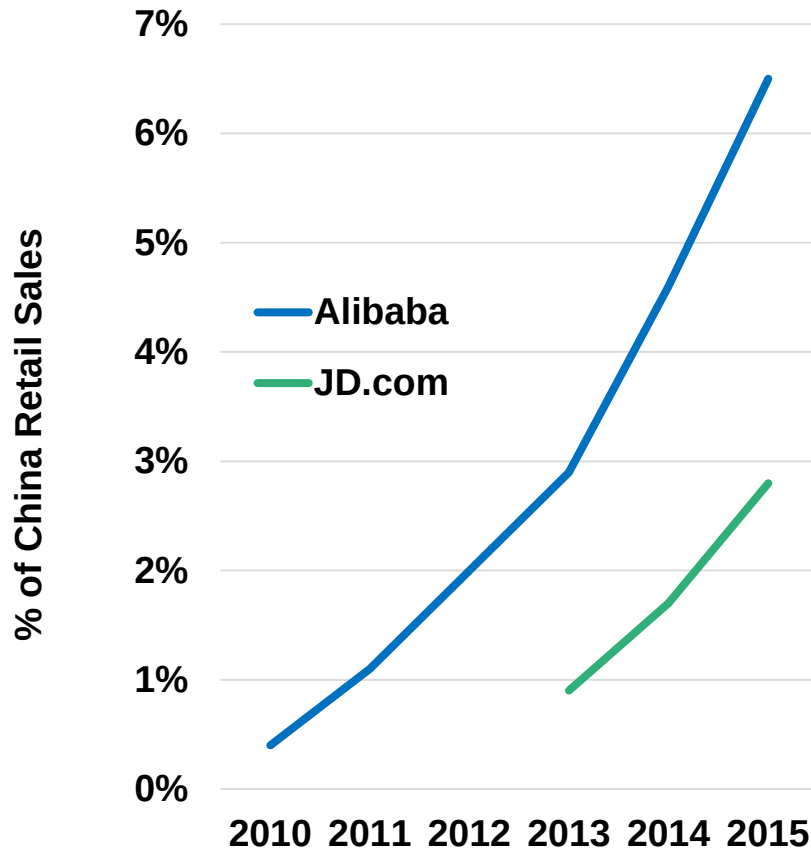


**USA Top 7 Retailers
by Revenue*, 2015**

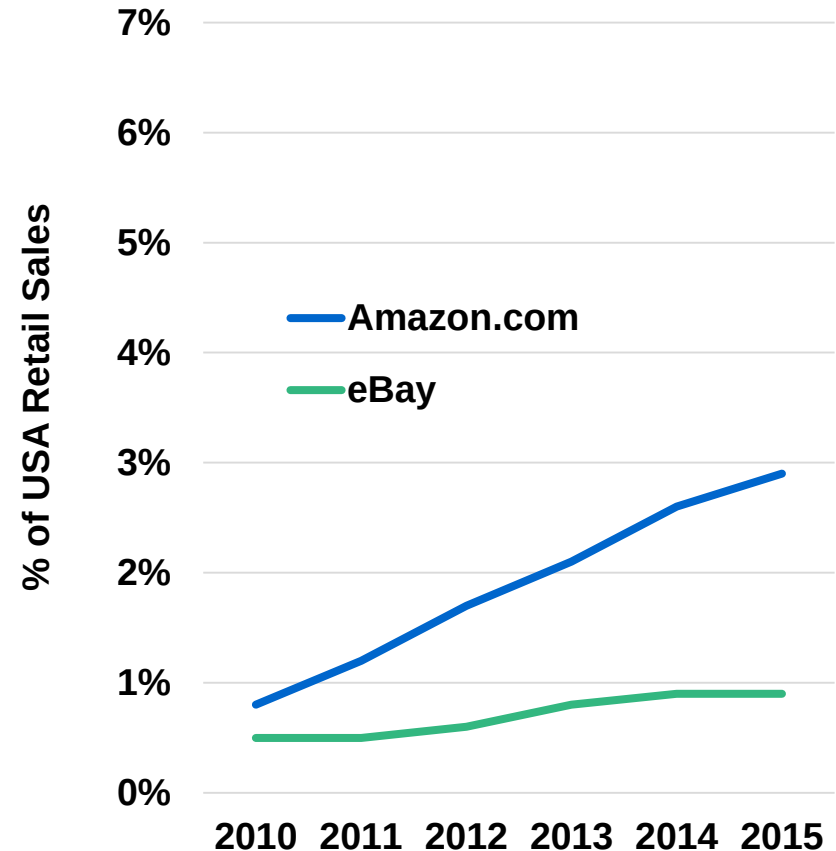


...China E-Commerce Companies = Gaining Retail Share Faster than USA Peers...

Share of China Total Retail Revenue*, 2010 – 2015



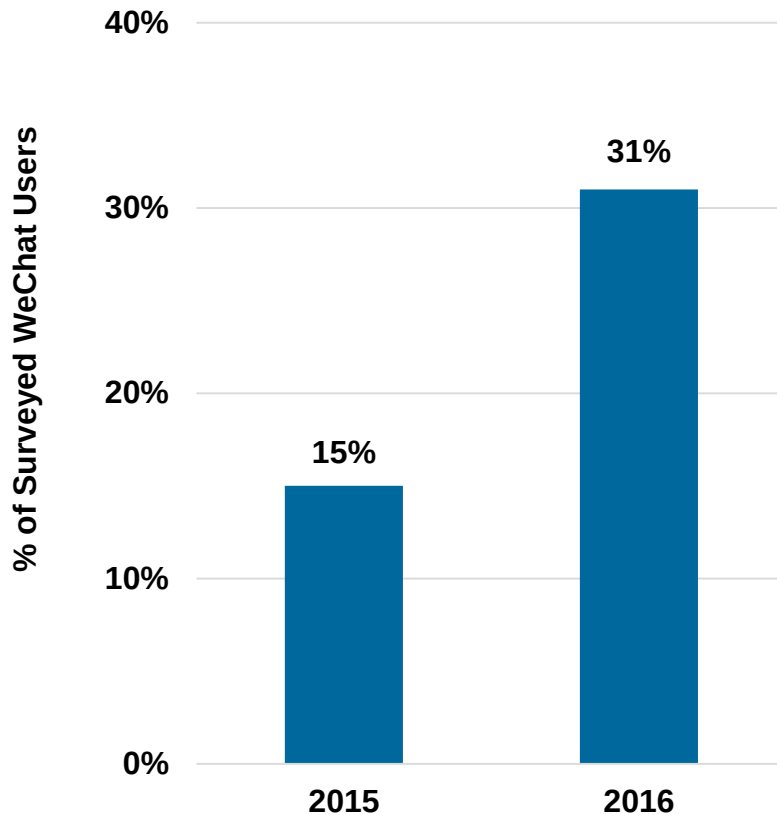
Share of USA Total Retail Revenue*, 2010 – 2015



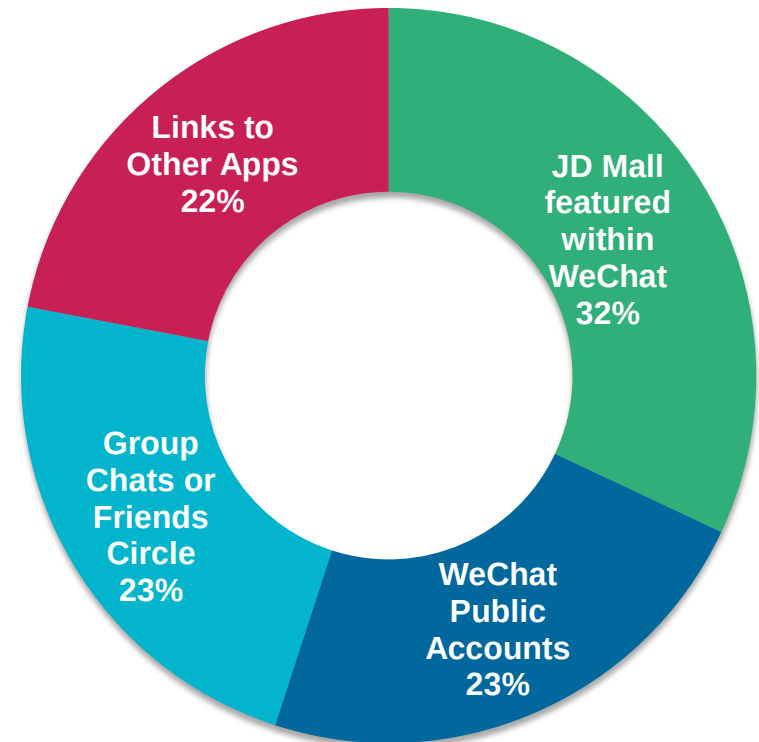
...China E-Commerce = Becoming More Social...

31% of WeChat Users Purchase via WeChat, +2x Y/Y

% of WeChat Users Making E-Commerce Purchase Through WeChat

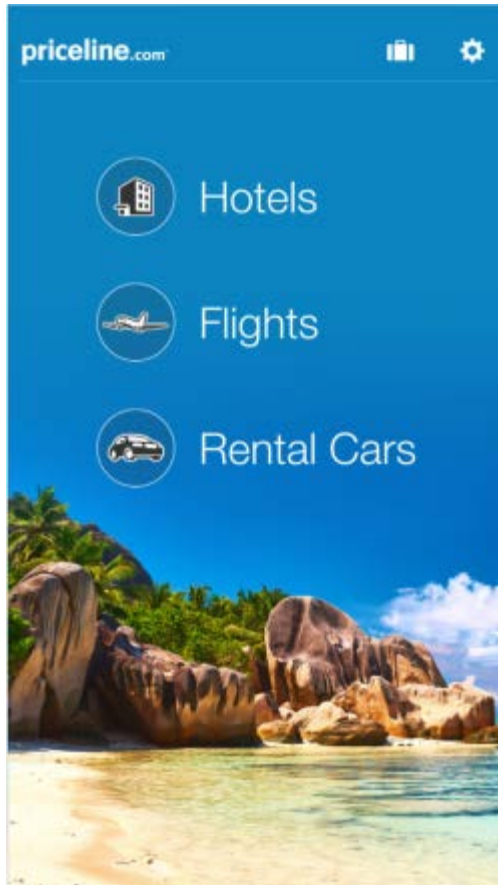


Channels Through Which Users Made E-Commerce Purchase

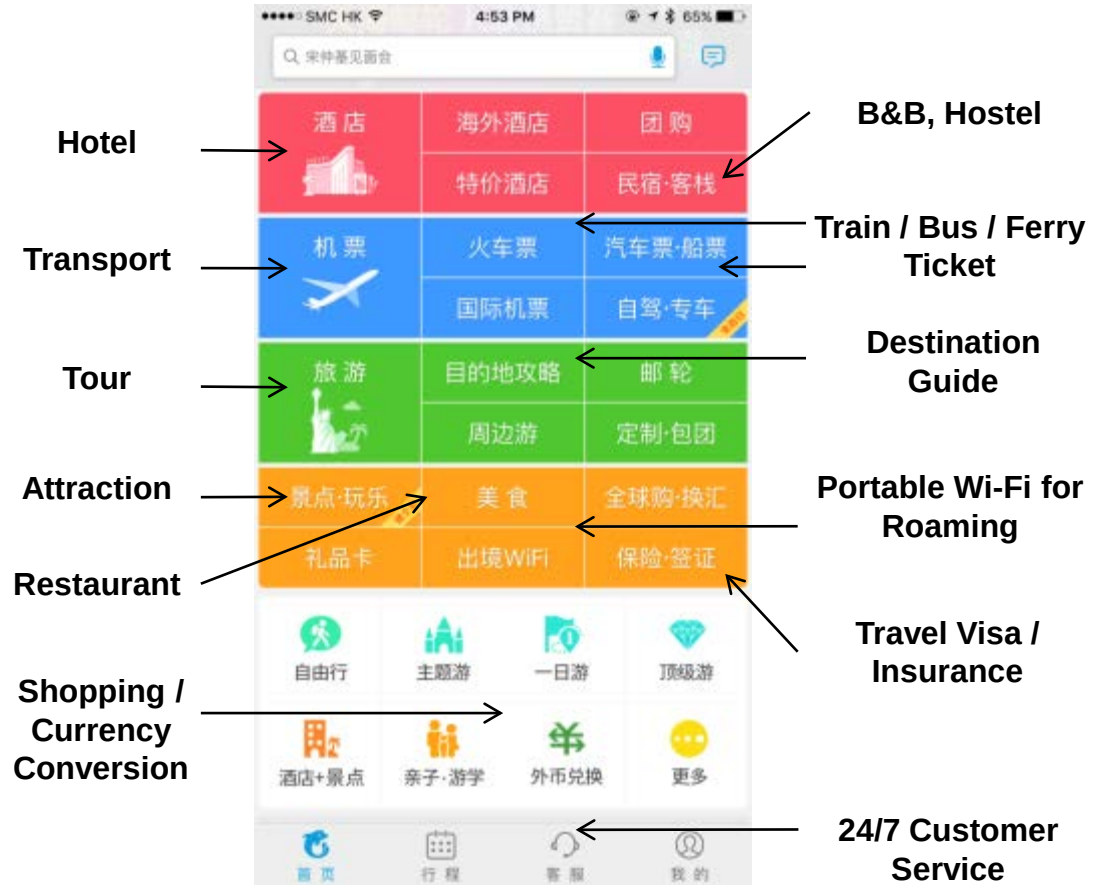


China Travel...Ctrip = Expansive One-Stop-Shop for Travelers...

Priceline App (USA)

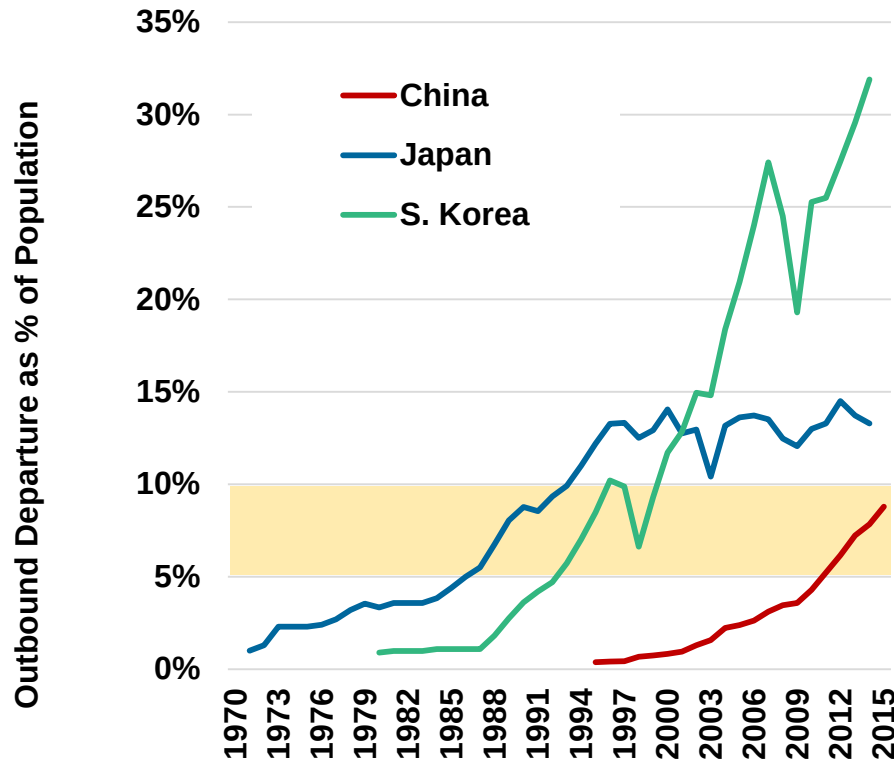


Ctrip App (China)

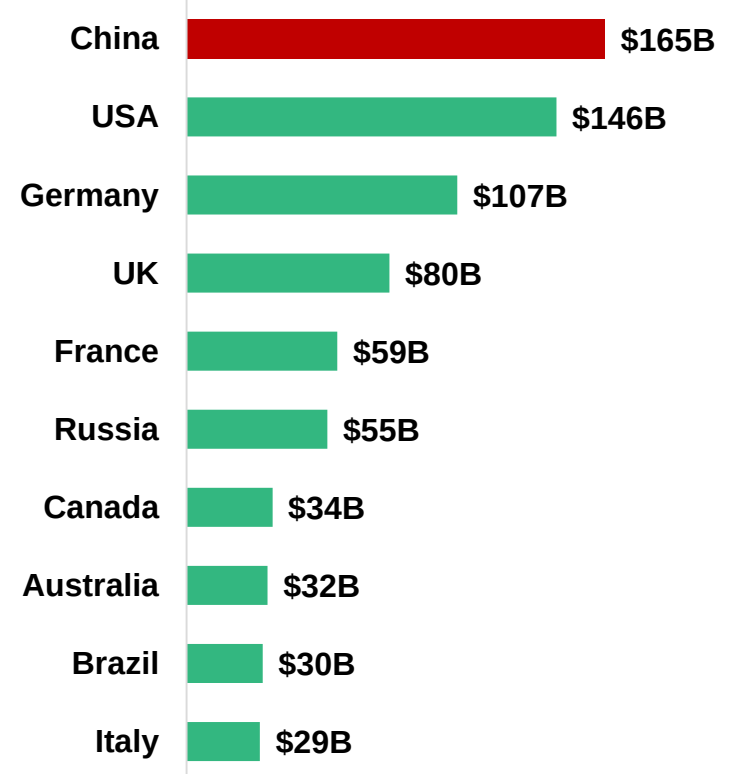


...China Outbound Travel Penetration @ Inflection Point = Already World's Biggest Outbound Tourism Spender

Outbound Departures as % of Population, 1970 – 2015

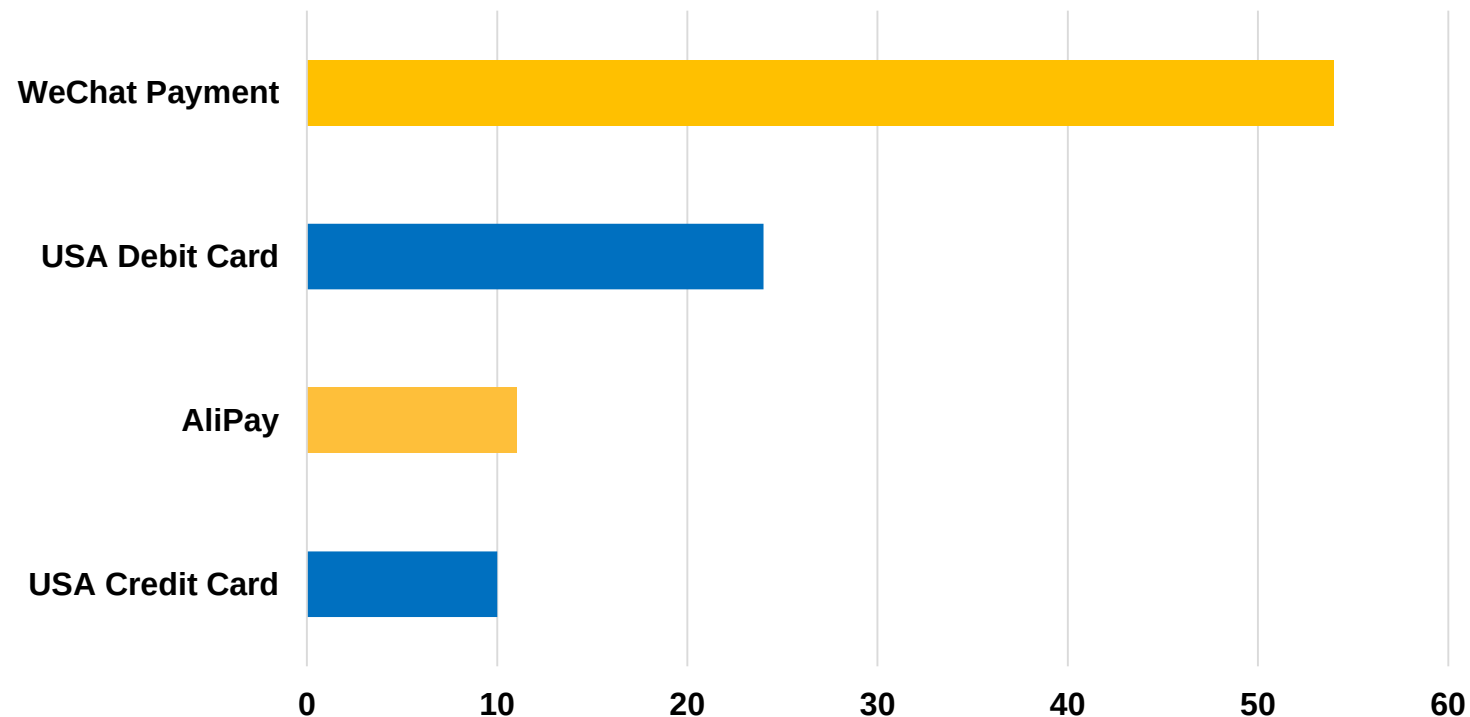


Top 10 Outbound Tourism Spending Country, 2014



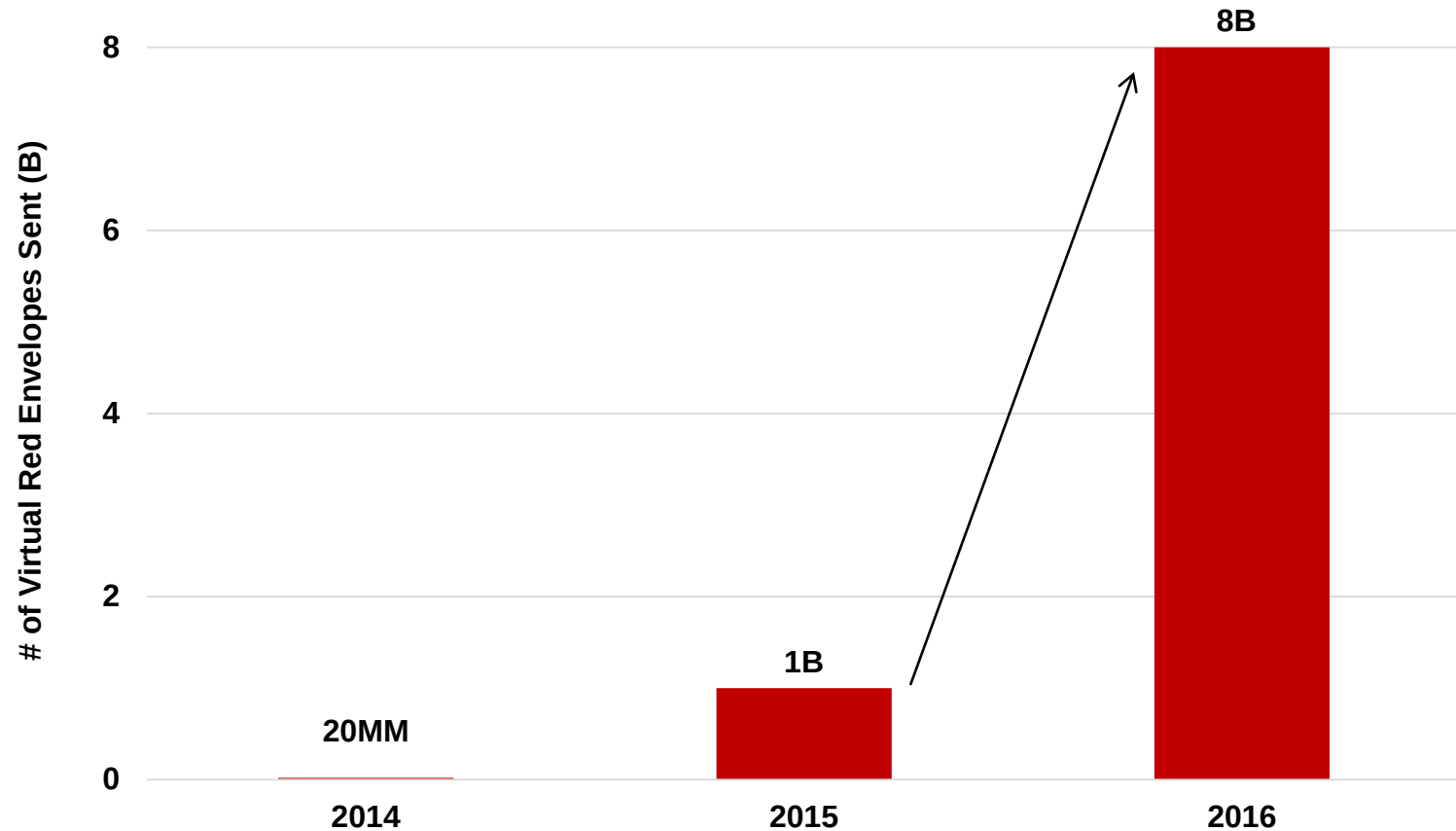
China Smartphone-Based Payment Solutions = High Engagement

Estimated Monthly Payment Transactions per User



WeChat Chinese New Year Payments = 8B Virtual Red Envelopes Sent, + 8x Y/Y...

WeChat Virtual Red Envelopes Sent – Chinese New Years Eve, 2014 – 2016



...WeChat Payments = Can Drive Merchant Loyalty & CRM

An Example of Paying the Bill at McDonald's
via Weixin Pay
"Weixin Pay + Public Accounts" is powerful

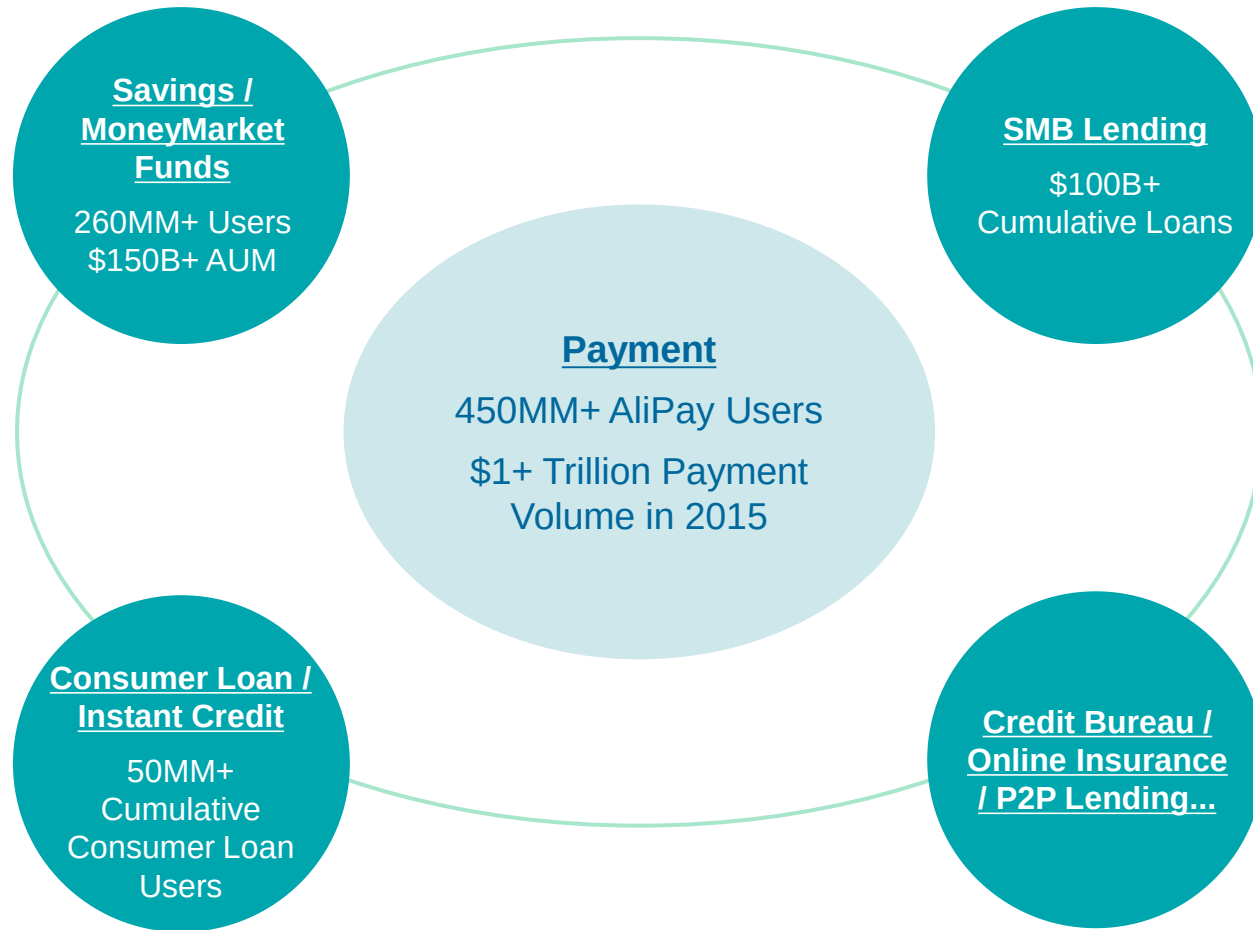


- After successful payment, consumers will follow McDonald's public account on Weixin by default.
- **Public Account** enables merchants to reach existing customers for future marketing and CRM.



- After successful payment, an e-receipt will also pop up automatically via the public account of Weixin Pay.
- **The public account** allows consumers to review all historical transactions.

Ant Financial (~\$60B Valuation*) = Leveraging Alibaba AliPay Scale... Building China Financial Services One-Stop-Shop



*China Internet Emerging
Momentum =
On-Demand*

China On-Demand Transportation = Global Leader... 4B+ Annualized Trips (+4x Y/Y...~70% Global Share)

Annualized Global On-Demand Transportation Trip Volume by Region, Q1:13 – Q1:16

~25MM
Annualized
Trip Volume

~750MM
30x Y/Y

~1.7B
2.3x Y/Y

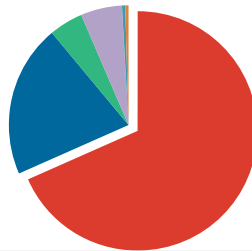
~6.3B
3.7x Y/Y



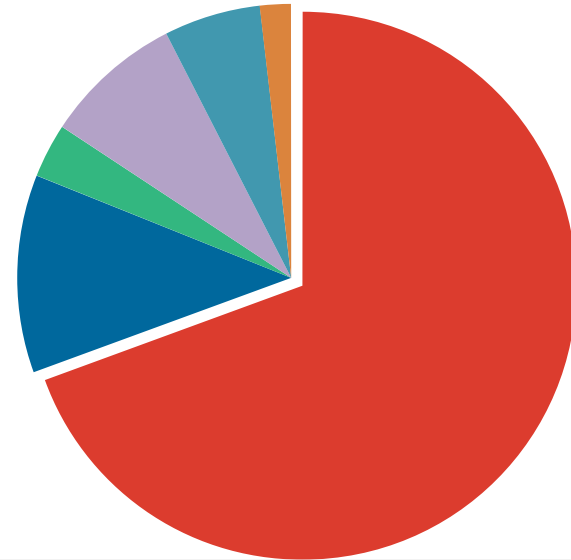
Q1:13



Q1:14



Q1:15



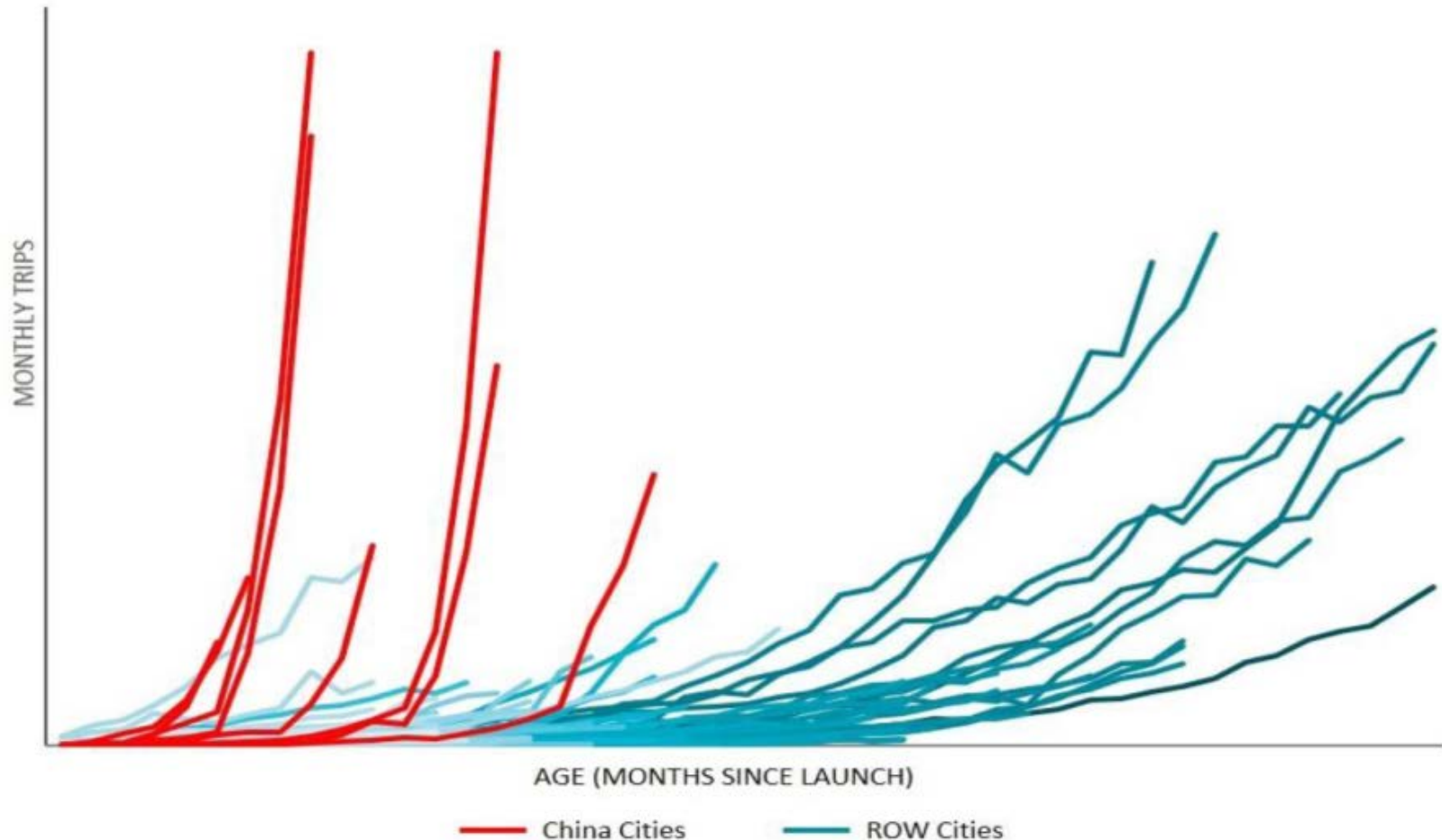
Q1:16

■ China
■ N. America
■ EMEA
■ India
■ SE Asia
■ ROW

China On-Demand Transportation...

China Cities = Fastest Global Growers

Monthly Trips Since Inception, Uber China vs. Rest of World



PUBLIC / PRIVATE COMPANY DATA

*Impact of Internet =
Extraordinary & Broad
But, in Many Ways...
It's Just Beginning*

Internet-Related Dislocations = Long-Time in Making...Still Early Stage

*Cord-Cutting Impacts Earnings for Traditional Media Companies...
E-Commerce Impacts Revenue Growth for Traditional Retailers*

Media

Market Cap	2006	2016*
Viacom	\$33B	\$18B
Netflix	\$1.4B	\$44B

Revenue	2006	2015*
Viacom	\$11B (+19% Y/Y)	\$13B (-6% Y/Y)
Netflix	\$1B (+46% Y/Y)	\$7B (+23% Y/Y)

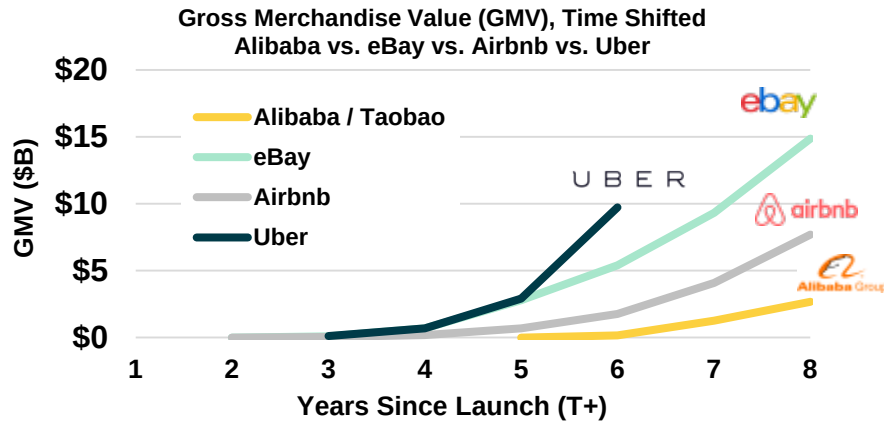
Retail

Market Cap	1997	2016*
Wal-Mart	\$69B	\$222B
Amazon.com	\$400MM	\$341B

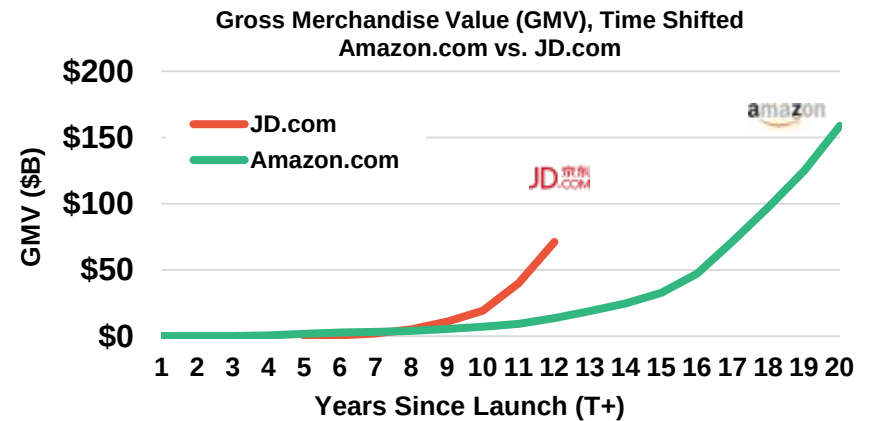
Revenue	1997	2015*
Wal-Mart	\$118B (+12% Y/Y)	\$482B (-1% Y/Y)
Amazon.com	\$148MM (+9.4x Y/Y)	\$107B (+20% Y/Y)

Current Generation of Internet Leaders = Growing Faster than Previous Generation

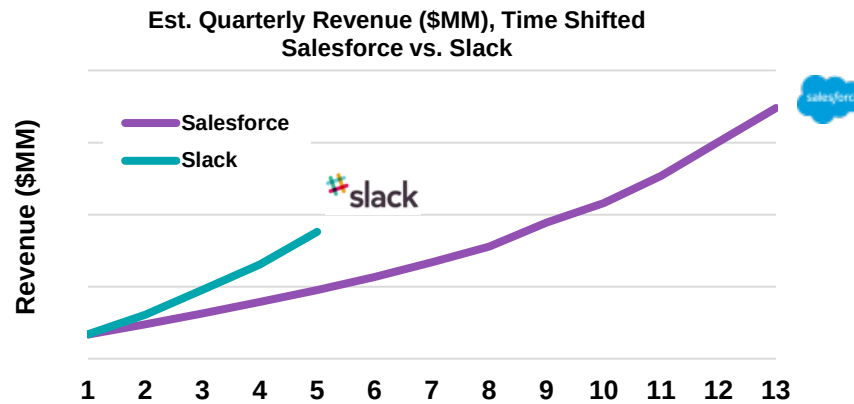
Marketplaces



Commerce



Enterprise



*Internet Leaders =
Getting Bigger...Staying Aggressive*

Global Internet Market Leaders = Apple / Google / Amazon / Facebook / Tencent / Alibaba...Flush with Cash...Private Companies Well Represented

Rank	Company	Region	Current Market Value (\$B)	Q1:16 Cash (\$B)	2015 Revenue (\$B)
1	Apple	USA	\$547	\$233	\$235
2	Google / Alphabet	USA	510	79	75
3	Amazon	USA	341	16	107
4	Facebook	USA	340	21	18
5	Tencent	China	206	14	16
6	Alibaba	China	205	18	15
7	Priceline	USA	63	11	9
8	Uber	USA	63	--	--
9	Baidu	China	62	11	10
10	Ant Financial	China	60	--	--
11	Salesforce.com	USA	57	4	7
12	Xiaomi	China	46	--	--
13	Paypal	USA	46	6	9
14	Netflix	USA	44	2	7
15	Yahoo!	USA	36	10	5
16	JD.com	China	34	5	28
17	eBay	USA	28	11	9
18	Airbnb	USA	26	--	--
19	Yahoo! Japan	Japan	26	5	5
20	Didi Kuaidi	China	25	--	--
Total			\$2,752	\$447*	\$554*

Source: CapIQ, CB Insights, Wall Street Journal, media reports. Market value data as of 5/31/16. * Includes only public companies.

Note: For public companies, colors denote current market value relative to Y/Y market value. Green = higher, Red = lower, Purple = newly public within last 12 months (applied here to both eBay and Paypal given Paypal spinoff on 7/20/15). Yellow = private companies, where market value represents latest publicly announced valuation. Ant Financial and Didi Kuaidi valuation per latest media reports as of 5/2016. Ant Financial treated separately from Alibaba as Alibaba retains no control of Ant and will receive a capped lump sum payment in the event of an Ant liquidity event. Cash includes cash and equivalents and short-term marketable securities plus long-term marketable securities where deemed liquid.

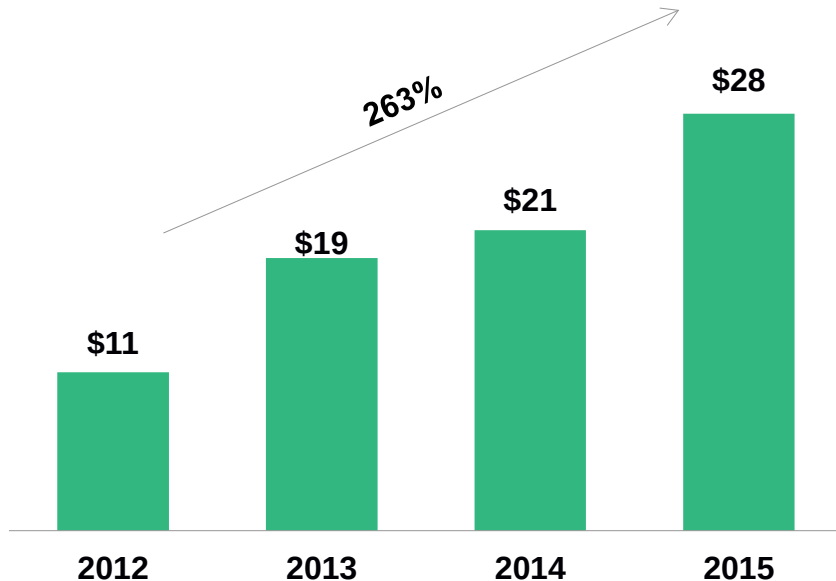
*Traditional Industry Incumbents =
Active in Acquisitions / Investments*

Incumbents = Increasingly Betting on Technology Companies to Fuel Growth...

Non-Tech Acquisitions of Tech Companies +2.6x Since 2012

Tech Acquisitions by Non-Tech Corporate Buyers

Volume (\$B)



Select Acquisitions by Non-Tech Incumbents

- **Auto Consortia** / Nokia Here
- **Avis** / Zipcar
- **AxelSpringer** / Business Insider
- **Disney** / Maker Studios, Playdom
- **Disney + Fox + NBCUniversal** / Hulu
- **First Data** / Perka, Clover
- **Ford** / Livio
- **General Motors** / Cruise Automation
- **Hudson Bay** / Gilt Groupe
- **Liberty Interactive** / Zulily
- **Monsanto** / Climate Corporation
- **Neiman Marcus** / Mytheresa.com
- **Nordstrom** / HauteLook
- **Northwestern Mutual** / Learnvest
- **Staples** / Runa
- **Target** / DermStore.com
- **Under Armour** / MapMyFitness, MyFitnessPal
- **Walmart** / Kosmix

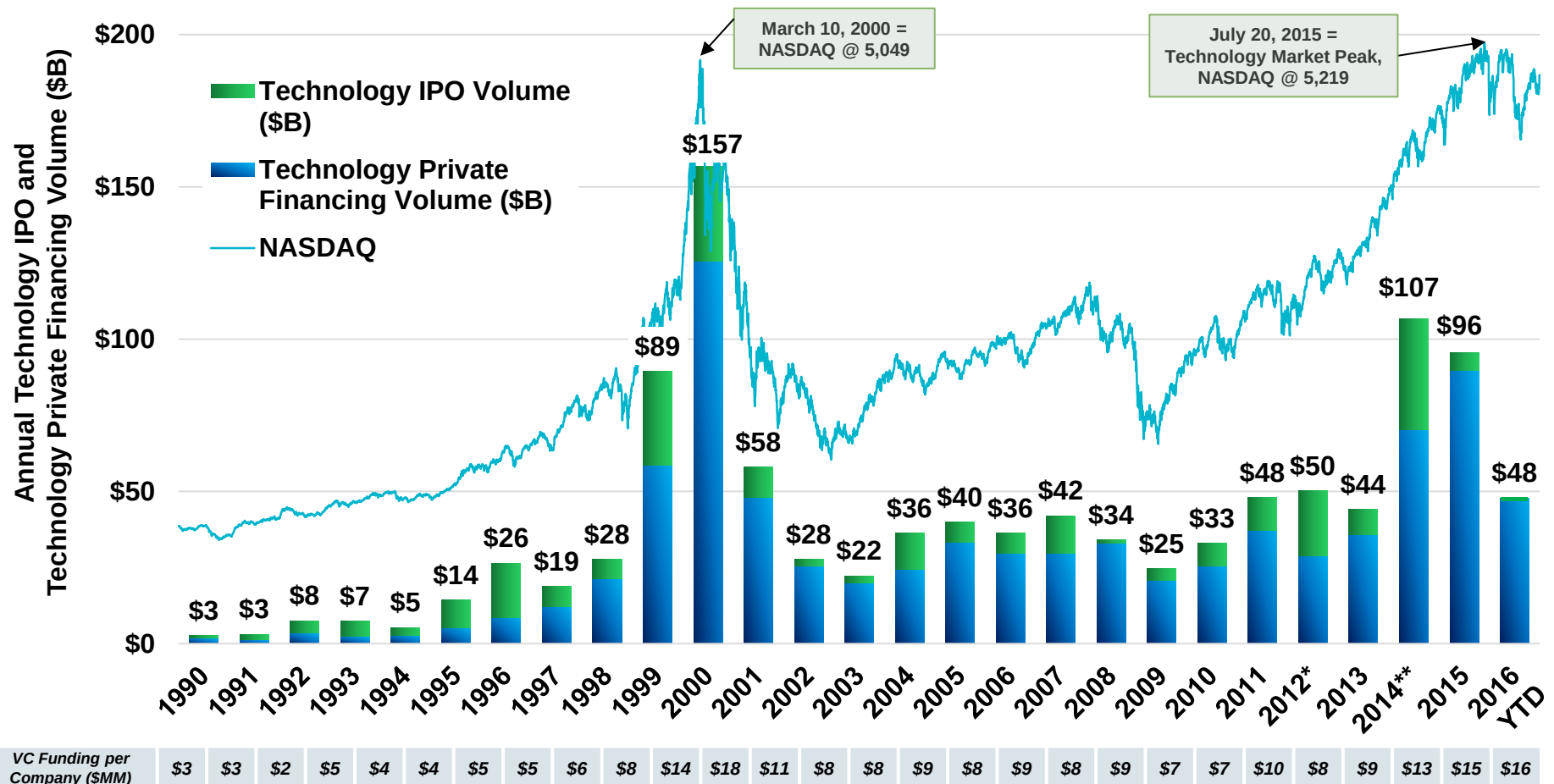
Select Investments by Non-Tech Incumbents

- **American Express** / Concur
- **Citi** / Ayasdi, Betterment
- **Coca-Cola** / OneWeb
- **Ford** / Pivotal
- **Fox Sports** / DraftKings
- **General Motors** / Lyft
- **Goldman Sachs** / Dataminr, Kensho, Symphony
- **J.P. Morgan** / Prosper Marketplace
- **Lowes** / Porch
- **NBCUniversal** / BuzzFeed, Vox Media
- **Nikkei** / Evernote
- **Turner Sports** / FanDuel
- **USAA** / TRUECar
- **Visa** / Square
- **Whole Foods** / Instacart

*Global Technology Financings =
Solid Trends in
Private Financings...
Only 2 Tech IPOs 2016YTD*

Global Technology Public + Private Financing Volume = Solid Relative to History

Global US-Listed Technology IPO Issuance and Global Technology Venture Capital Financing, 1990 – 2016YTD



There are pockets of Internet company overvaluation but there are also pockets of undervaluation...

*Very few companies will win
– those that do – can win big...*

Over time, best rule of thumb for valuing companies = value is present value of future cash flows.

DATA AS A PLATFORM / DATA PRIVACY

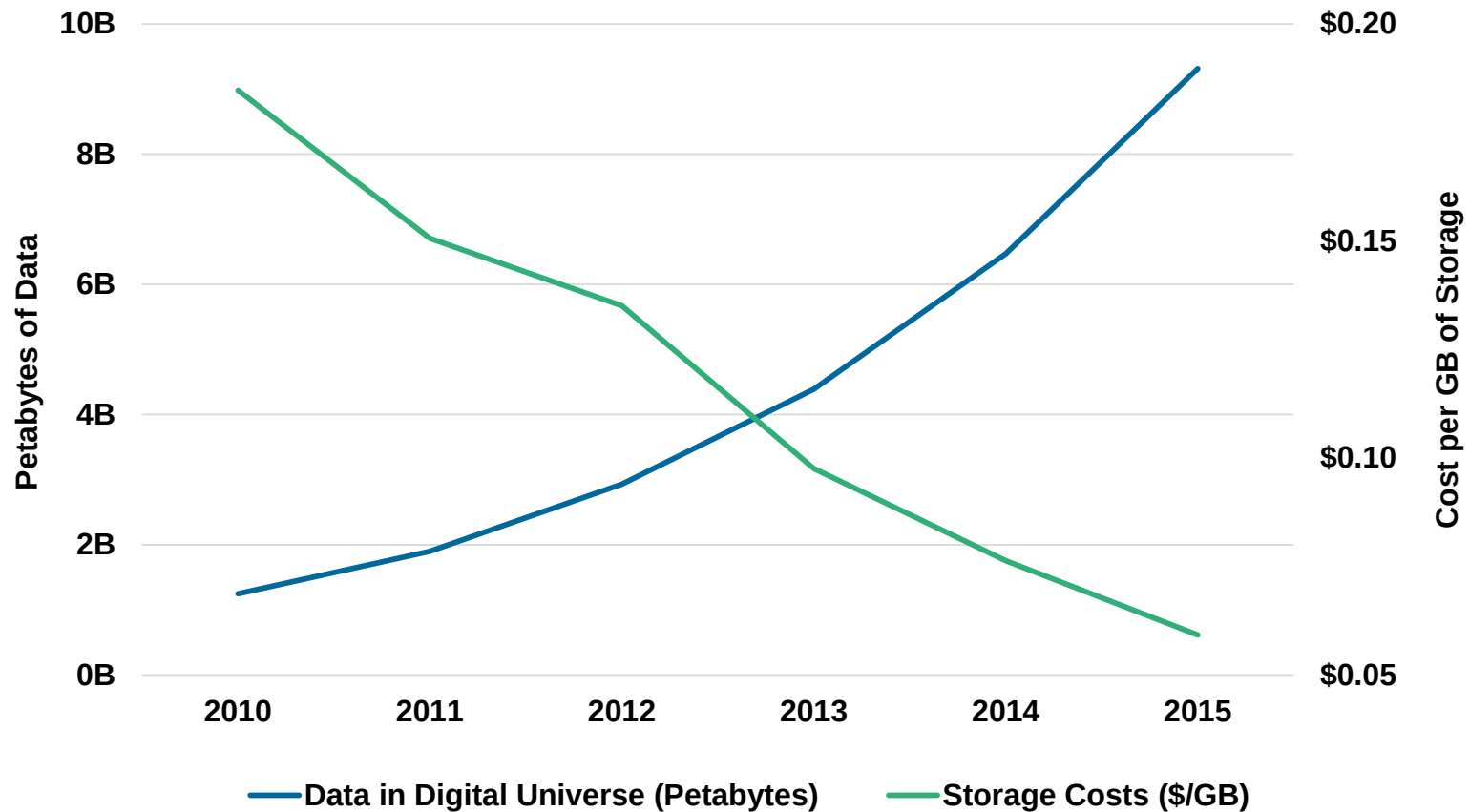
CREATED BY KPCB PARTNERS TED SCHLEIN / ALEX KURLAND

Data as a Platform

Global Data Growth Rising Fast = +50% CAGR since 2010...

Data Infrastructure Costs Falling Fast = -20% CAGR

Data in Digital Universe vs. Data Storage Costs, 2010 – 2015



Data Generators = Increasing Rapidly



Data = A New Growth Platform...

Powering New Services / Systems / Apps

Sources of Leverage for Global Internet Growth

The Network

Large investments in fiber optic & last-mile cables created connectivity that facilitated the early Internet growth

The Software

Optimizing the network with software became far more capital efficient than additional capex buildouts...ultimately resulting in the creation of *pervasive networks* (siloeed data centers → AWS)...& then *pervasive software* (Siebel → Salesforce)

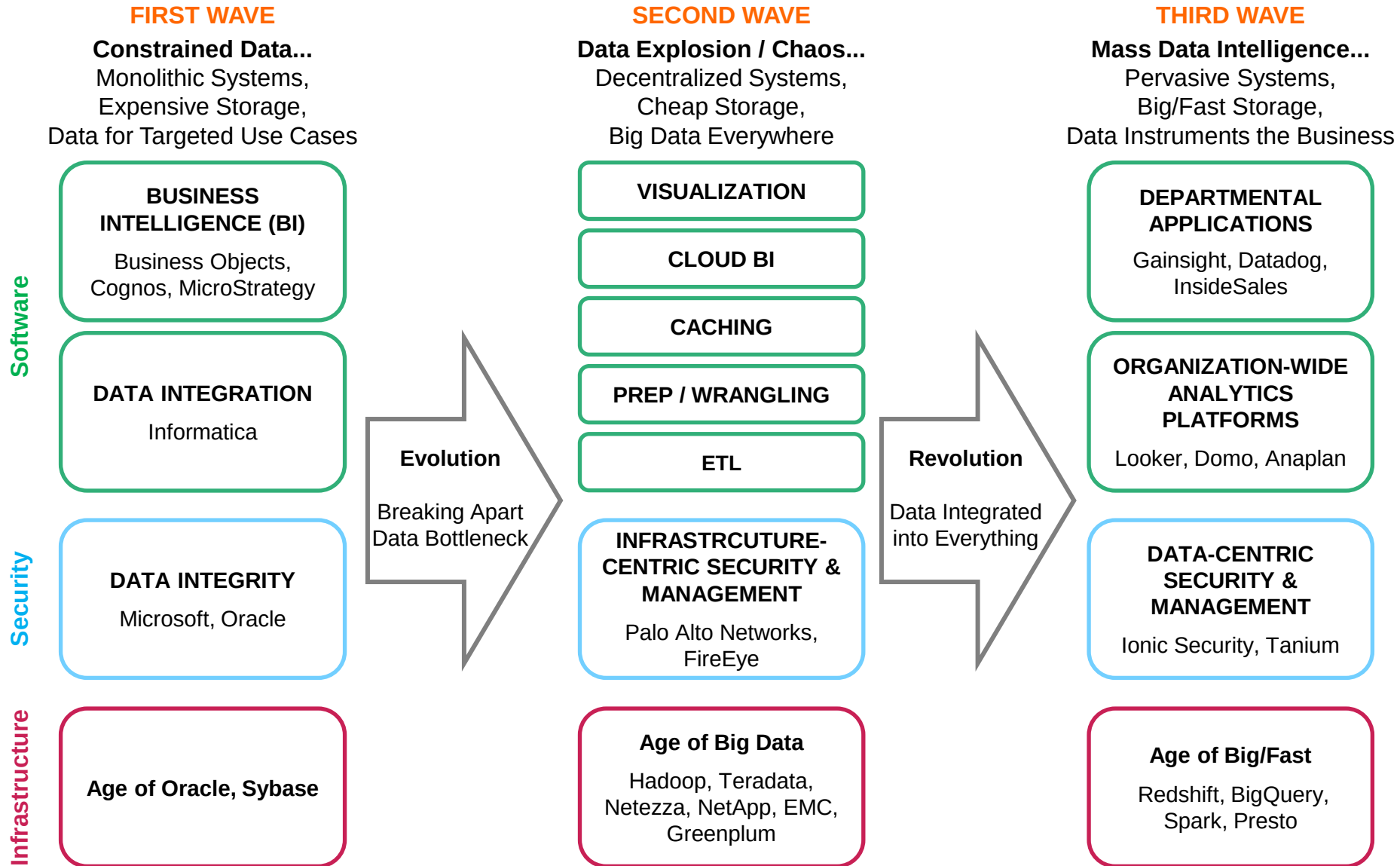
The Infrastructure

Emergence of pervasive software created the need to optimize the performance of the network & store extraordinary amounts of data at extremely low prices

The Data

Next Big Wave = Leveraging this unlimited connectivity & storage to collect / aggregate / correlate / interpret all of this data to improve people's lives & enable enterprises to operate more efficiently

Evolution of the Data Platform, 1990 – 2016



Source: Looker, Ionic Security, KPCB.

Data is moving from something you use outside the workstream to becoming a part of the business app itself.

It's how the new knowledge worker is actually performing their job.

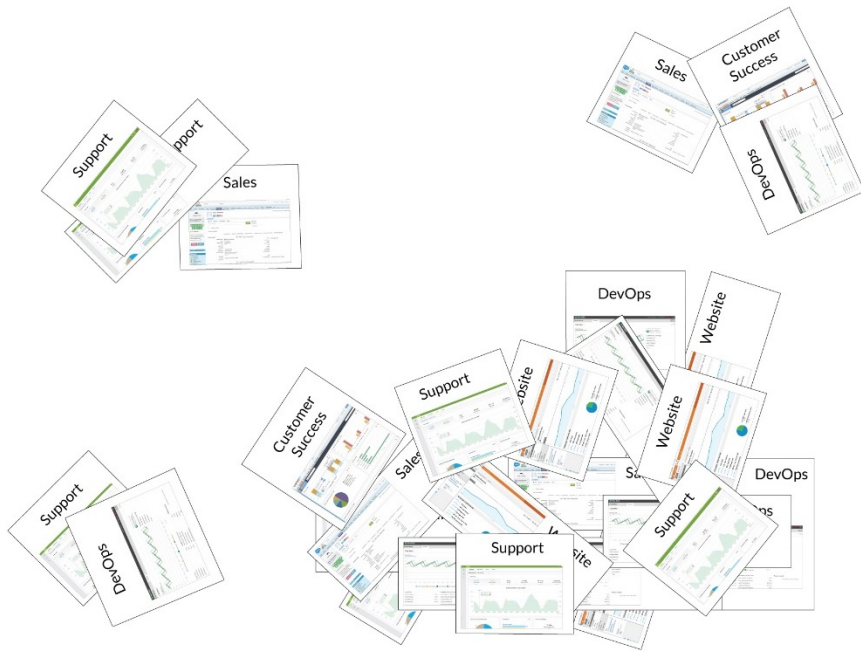
- FRANK BIEN, CEO OF LOOKER, 2016

*Data as a Platform –
A Few Companies
Utilizing Analytics to Improve
Business Efficiency...*

Data Analytics as a Platform = Looker

THEN

Complex Tools Operated by Data Analysts,
Chaos of Data Silos Across the Company



NOW

Looker

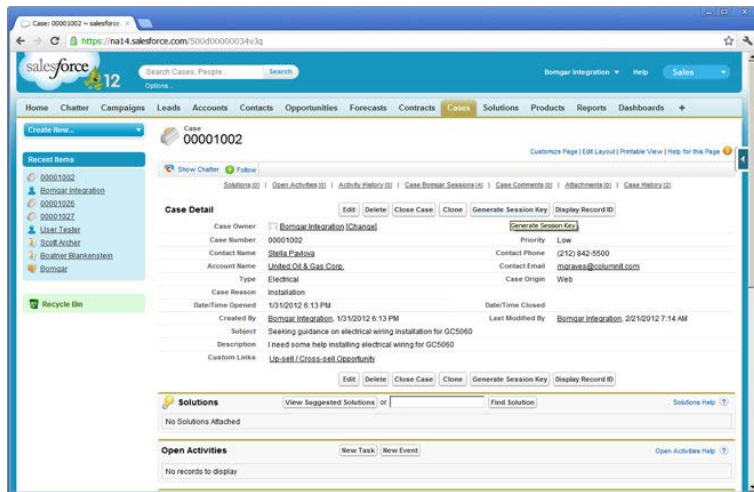


Data analytics platform built for both data analysts &
non-technical business users that can scale throughout organizations

Customer Data & Relationship Intelligence as a Platform = SalesforceIQ

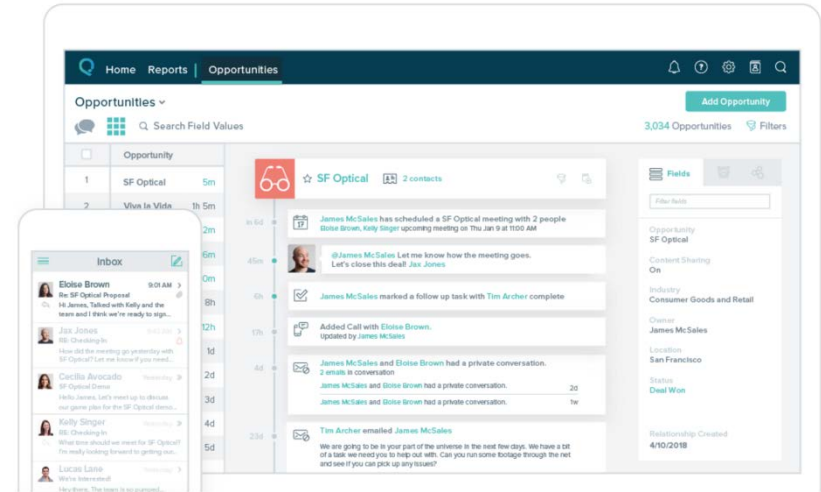
THEN

Difficult to Customize, Lack of Automated Customer Insights



NOW

SalesforceIQ



CRM solution that helps businesses build stronger customer relationships by analyzing data & patterns to identify opportunities.

Data Mapping as a Platform = Mapbox

THEN

Difficult & Expensive to Collect Data...
Limited In-App Digital Map Usage



NOW

Mapbox

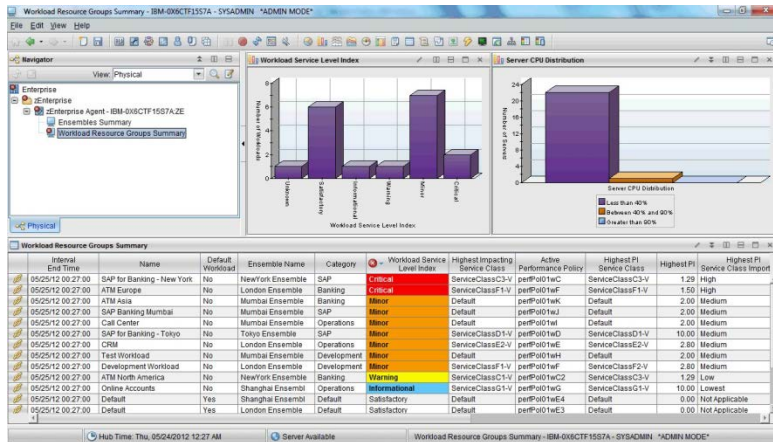


Worldwide maps crowdsourced by a community of smartphone users
whose mobile navigation data facilitates real-time updates to the platform

Cloud Data Monitoring as a Platform = Datadog

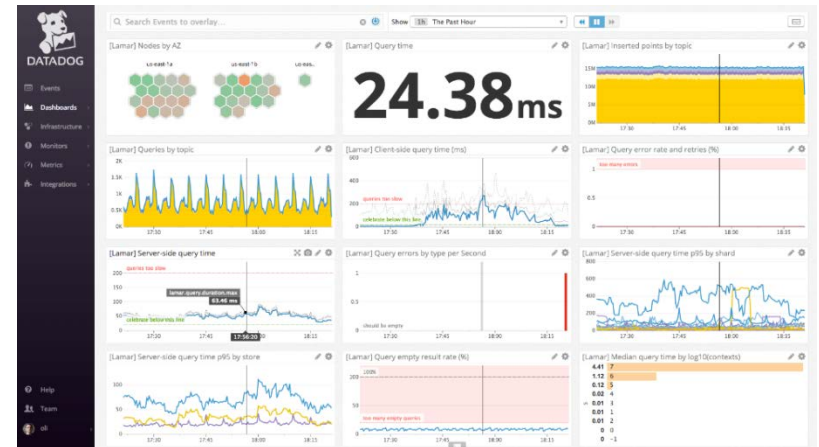
THEN

Expensive & Clunky Point Solutions,
Lengthy Implementation Cycles, Only
Used by System Administrators



NOW

Datadog



Cloud monitoring platform for both System Administrators & Developers that automatically integrates 100+ sources in real-time to represent hundreds of thousands of cloud instances

Data Security & Management as a Platform = Ionic Security

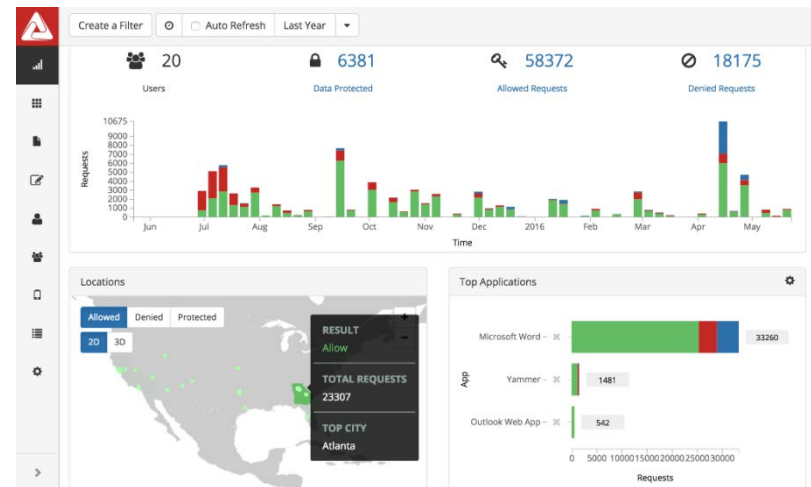
THEN

Securing Infrastructure to
Keep Data Safe



NOW

Ionic Security



Distributed data protection & management platform that has processed tens of billions of API requests to enable customers to secure & control their data

As Data Explodes... Data Security Concerns Explode

Data Privacy Debate – Major Events, 2013 – 2016

Edward Snowden (Jun-13)

Former CIA contractor leaked classified information to media about internet & phone surveillance by USA intelligence.

Burr-Feinstein Anti-Encryption Bill (Apr-16)

Proposed law that would require technology companies & phone manufacturers to decrypt customer data at a court's request.

Apple vs. FBI (Feb-16)

FBI claimed it needed Apple to provide access to an iPhone owned by a man who committed a mass shooting in San Bernardino, CA, so that the agency could recover information for its investigation. Request was denied by a federal judge in New York.

Microsoft Lawsuit (Apr 16)

Files lawsuit for right to be able to tell customers when law enforcement officials request their emails & other data.

WhatsApp's Default End-to-End Encryption

(Apr-16)

WhatsApp implements end-to-end encryption as default setting to protect communications of their 1B monthly active users worldwide.

Apple Hires Data Security Expert

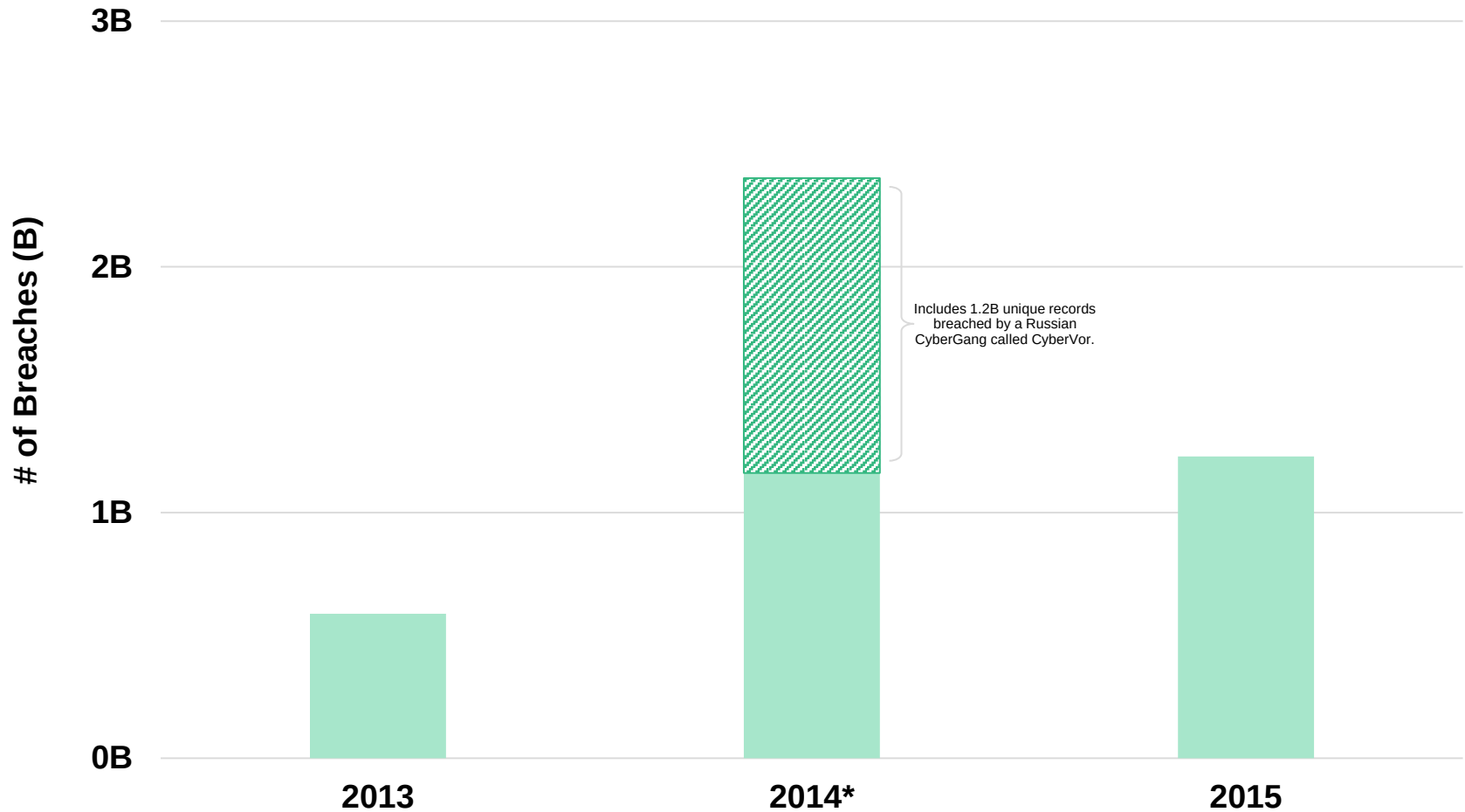
(May-16)

Jon Callas, who co-founded several well-respected secure communications companies including PGP Corp, Silent Circle and Blackphone, rejoins Apple (he was also an employee in the 1990s and again between 2009 and 2011, when he designed an encryption system to protect data stored on a Macintosh computer).

Cybercrime = Widespread Borderless Threat...

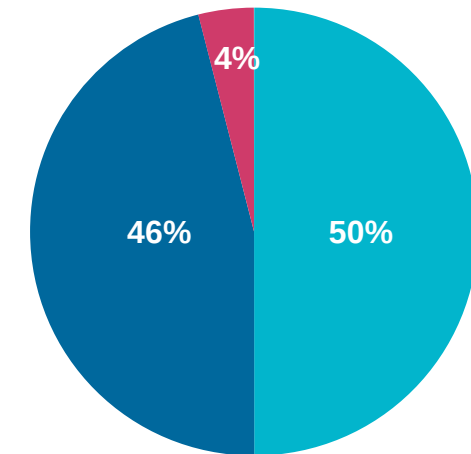
~4 Billion Data Records Breached Globally Since 2013

Records Breached, Billions of Individual Records, Global, 2013 – 2015



Consumer Data Privacy Concerns Rising Rapidly

How Concerned are You About Data Privacy & How Companies Use Customer Data?



- Very Concerned
- Somewhat Concerned
- Not Concerned

45%

Are more worried about their
Online privacy than one year ago

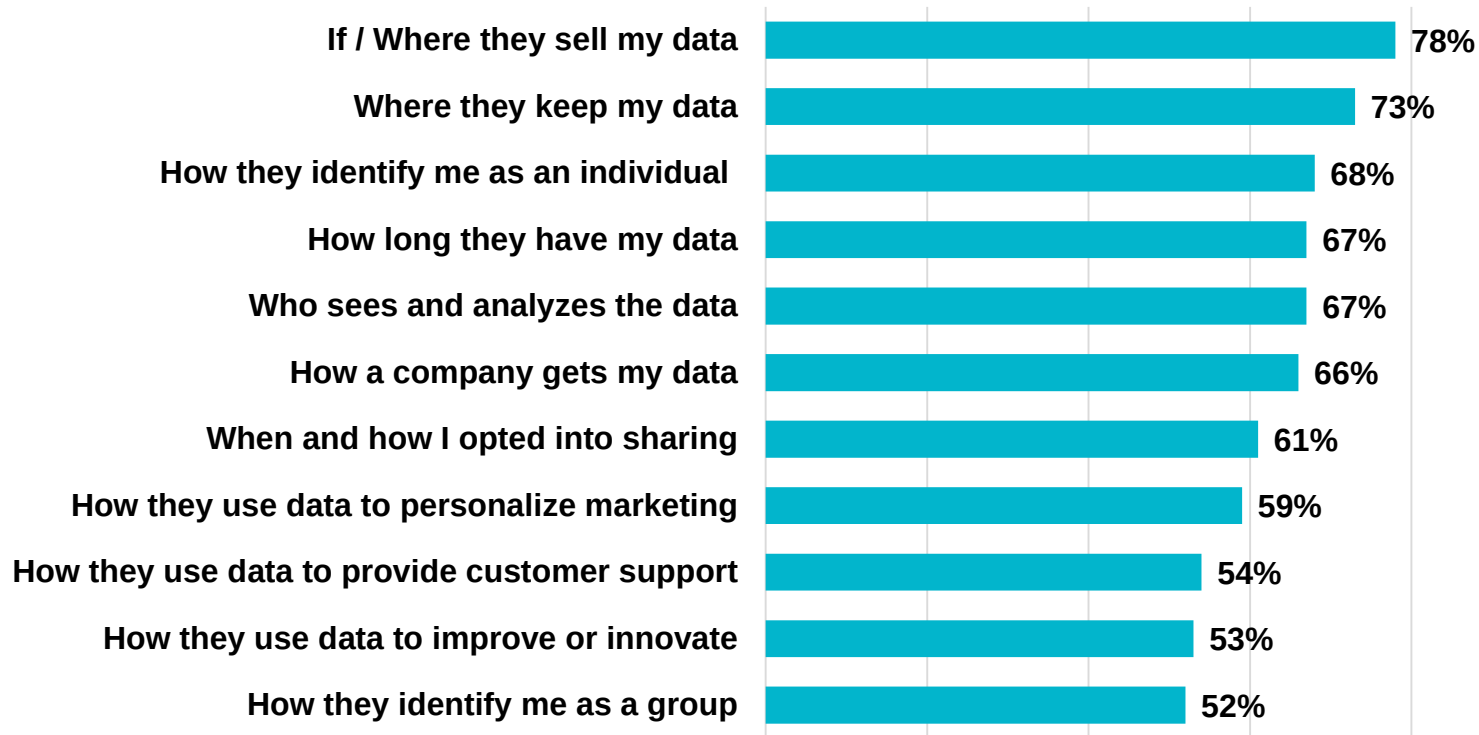
74%

Have limited their online activity
in the last year due to privacy
concerns

Consumers' Top Privacy Concerns = Data Selling / Storage / Access / Being Identified Individually...

Rate Level of Privacy Concerns Across Each of the Following Ways Companies Interact with Personal Data, n = 2,062

*(These percentages reflect all respondents who rated their privacy concerns on a 1-5 scale,
with 5 = Extremely Concerned, 4 = Very Concerned, etc.)*



...Do People Care About Privacy... Or Do They Care About *Who* Has Their Data?

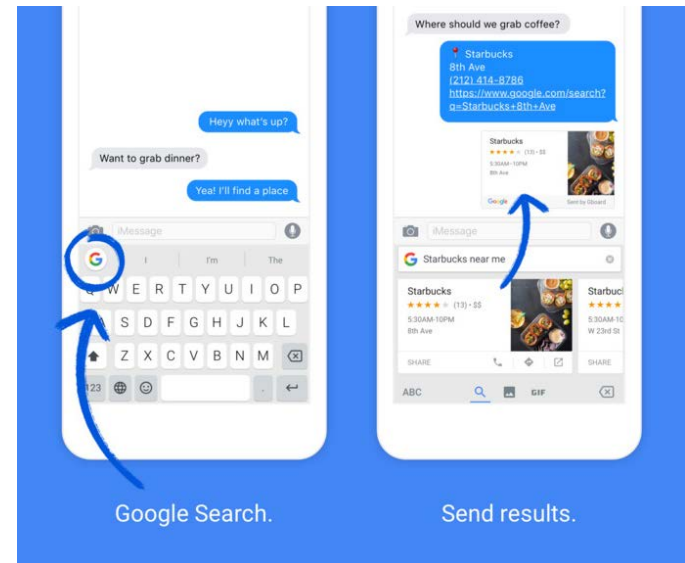
Amazon Echo

The Echo's Alexa Voice Service listens to all speech in default mode



Google Gboard

Integrated keyboard for iOS devices that had an estimated 500K+ downloads within the first week of launch



In the tangible world, physical limitations prevent the broad abuse of the law...

Should the same laws automatically apply to the digital world where a few lines of code can unlock someone's entire life?

- ADAM GHETTI, FOUNDER & CEO OF IONIC SECURITY, 2016

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