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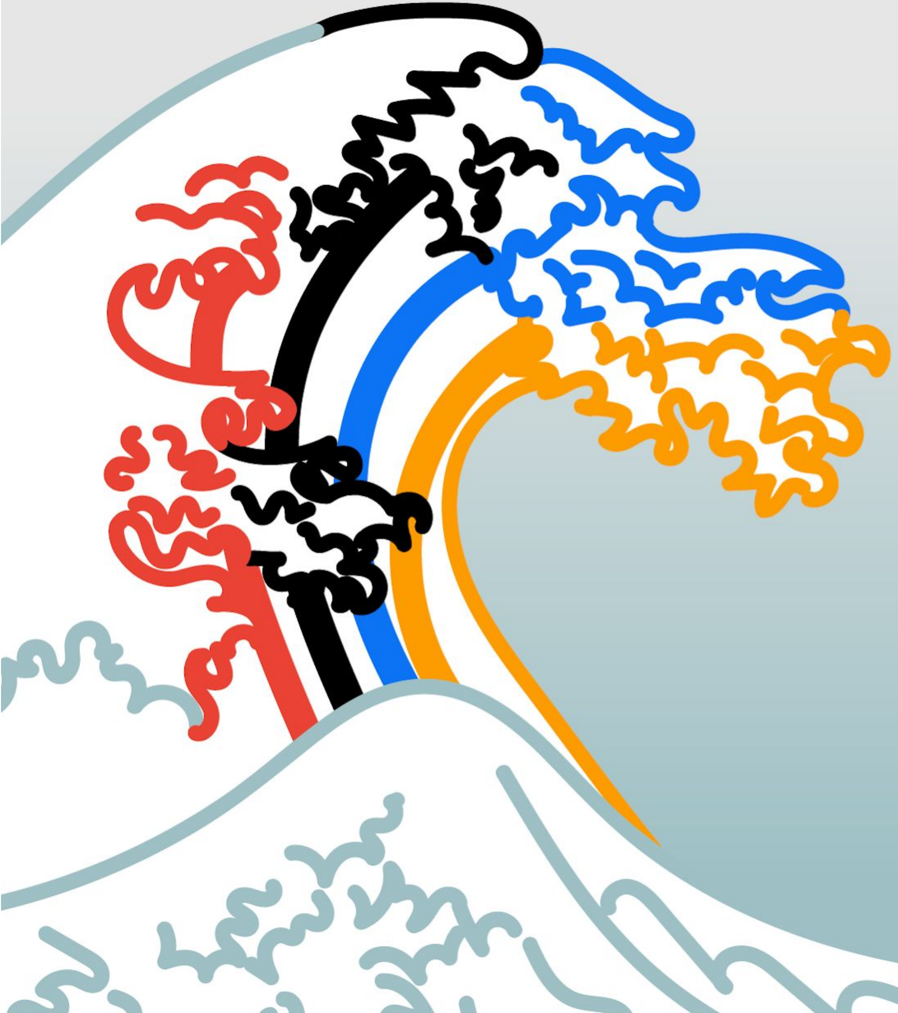


GAFAnomics Quarterly ®

Q4 2020

Foreword

Axelle Ricour-Dumas
Managing Director
Corporate Strategy
at Fabernovel

Fabernovel is pleased to release this new edition of "Gafanomics Quarterly", our publication which offers you every quarter a transversal review of the earnings releases and strategic announcements of the disruptive Tech giants.

Looking at this Q4 earnings season, one key trend needs to be underlined: the Tesla strong performance and an increasing interest and valuation for the electrical vehicles sector. Tesla share doubled over 3 months on the back of production figures confirming its capacity to scale up. And the sector was also boosted by the decision of Baidu and Tencent to invest in electrical & connected vehicles. Increasing performance leading to higher valuation attracting new investors … a virtuous circle …

Tech companies have gone through the Covid crisis much more easily than traditional companies and have ended the 2020 year with an increased valuation premium and an upgraded 2021 consensus :

- **Software is eating the world**. Over the year as a whole, the Tech models have again passed a milestone in terms of both absolute and relative valuation. In terms of absolute valuation, 8 out of the 10 market capitalizations are Tech and in Q4 alone, the market capitalization of the giants has increased by $1668bn, that of the gafa by $735bn. This reflects a clear economic and operational super performance.

- **ESG is eating the world**. We previously talked about this topic but it has become more and more clear this quarter as ESG matters are now a factor of performance. Its was the case as Tesla and other players involved in the EV sector are benefitting from important premiums, but also with the discount of Facebook compared to other GAFA due to data privacy and with the governance as Jeff Bezos' departure have not impacted that much Amazon's valuation.

- **We have come to a turning point for Tech models.** They kept increasing their positions in an almost exponential way using the key assets of their model: data control, value loop, ecosystem of products and services. We should now recreate the conditions of a healthy competition and adapt regulations to this new digital paradigm. The answer cannot just be regulatory but must also come from new European alternatives.

Gafanomics - The Quarterly.

What is this document?

A document published each quarter, two weeks after the financial quarterly publications of some of the largest tech companies in the world.

Who should read it?

Despite being based on some complex financial analysis, this document is designed to be understood by anyone with some sort of interest for business in general. Moreover, we think that it should be of particular interest for anyone having a managerial role (CEO, CFO, CDO, Project manager…) or being connected to the financial markets (investors, analysts, IR,…).

What can you expect to learn from it?

Our goal is to help people understand how today's **Disruptive Tech Giants** (more than $10bn of market Capitalization and disruptive according to Fabernovel) are performing quarter after quarter and what lies behind this performance. Based on this analysis, we hope to give you the keys to follow their successful path - from the small quick-win communication best practice to the large business model revolution.

Who is writing it?

Financial analysts, strategists, technologists and designers from Fabernovel are combining their expertises to make this document as smart and thought-provoking as possible, so as to offer you the best reading experience and inspire you for your own future.

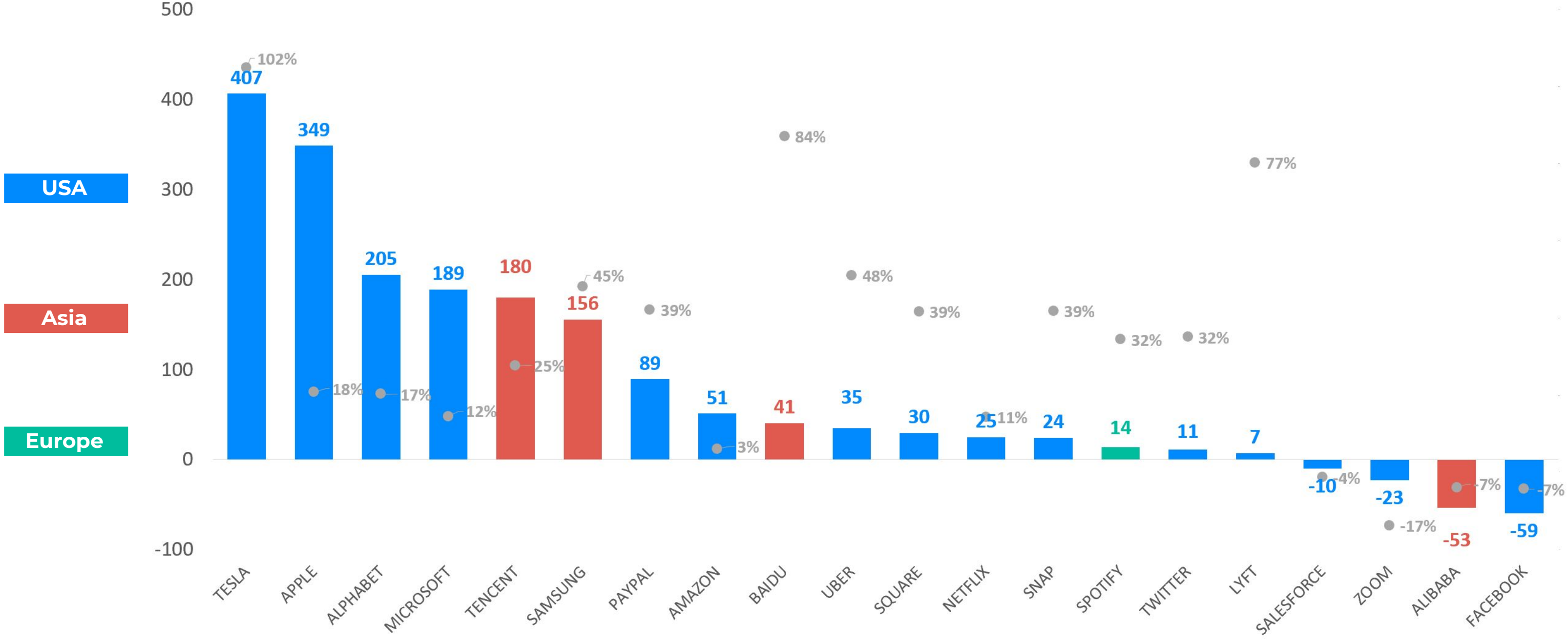
1

The last 3 months through our glasses.

How 20 Tech Giants created a new Amazon in 3 months.

Increase/decrease of Tech Giants (Fabernovel Index) market cap over 3 months.

In $Bn (on the left) and in % relative (on the right) to their own market cap.



Tech Giants

+$1668bn Market cap Change

+29% Avg share price change

US Tech Giants

+1330$bn Market cap Change

+27% Avg share price change

GAFA

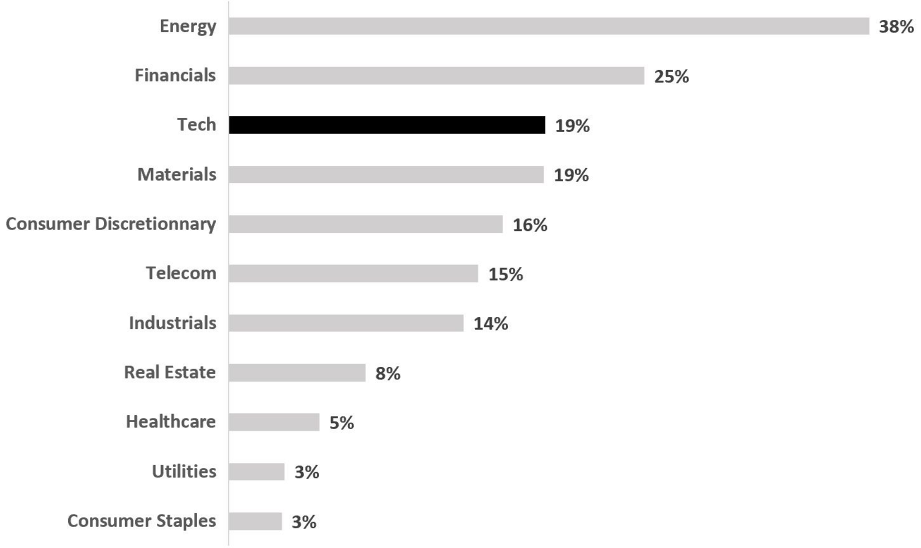
+$735bn Market cap Change

+9% Avg share price change

Analysis period: 05/11/2020 - 05/02/2021

Still, Tech isn't overperforming this quarter, but Energy is.

3 months performance of all sectors*



How to explain this performance?
We see 2 reasons explaining this trend.

1. After the collapse of the **Energy** sector in 2020, the return to normal of oil prices is helping some players to return to a level similar to pre-Covid.

2. Tech was up this quarter, just like the previous ones but still below Financials and Energy progressively recovering from Covid (while Tech was less impacted)

Source: S&P 1200 Global, as of 5/02/2020

Tech Giants' operational performance is at its best.

Sales	+25%
EBIT	+44%
FCF	+18%

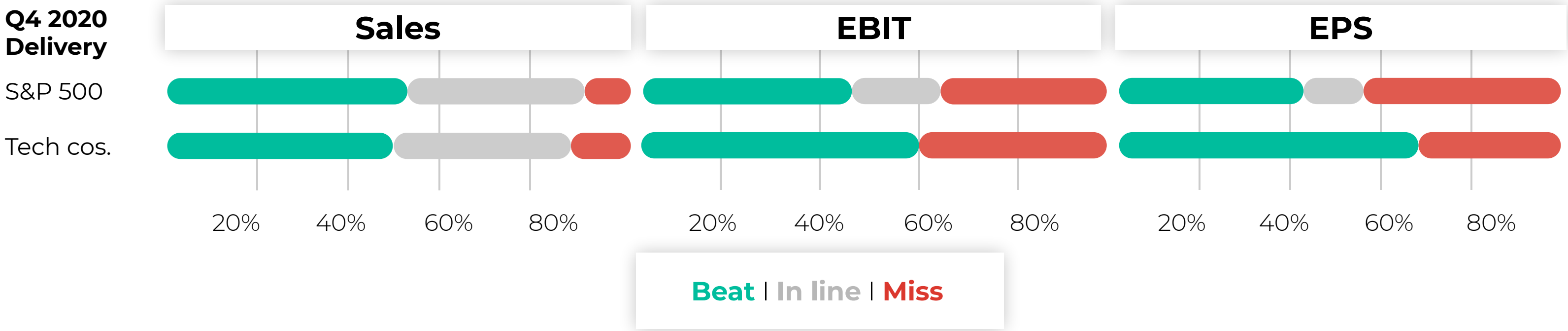
Q4 2020 Median operational growth YoY.

Despite a difficult year, Tech companies generated more Sales, more cash flows and were more profitable contrary to most traditional companies.
Every company in our sample was indeed more profitable this year than they were a year ago, showing an impressive **+44%** EBIT growth in average.

Sales	+3.4%
EBIT	+6.4%

Median 2021e financial revisions.

Analysts have revised upwards their consensus for Sales and EBIT 2021 for our sample of companies this quarter. While upward revision is quite common, it is particularly high this quarter (**6 times higher than usual**).



Analysis period: 5/11/2020 - 5/02/2021

Tech Giants financial valuation analysis.

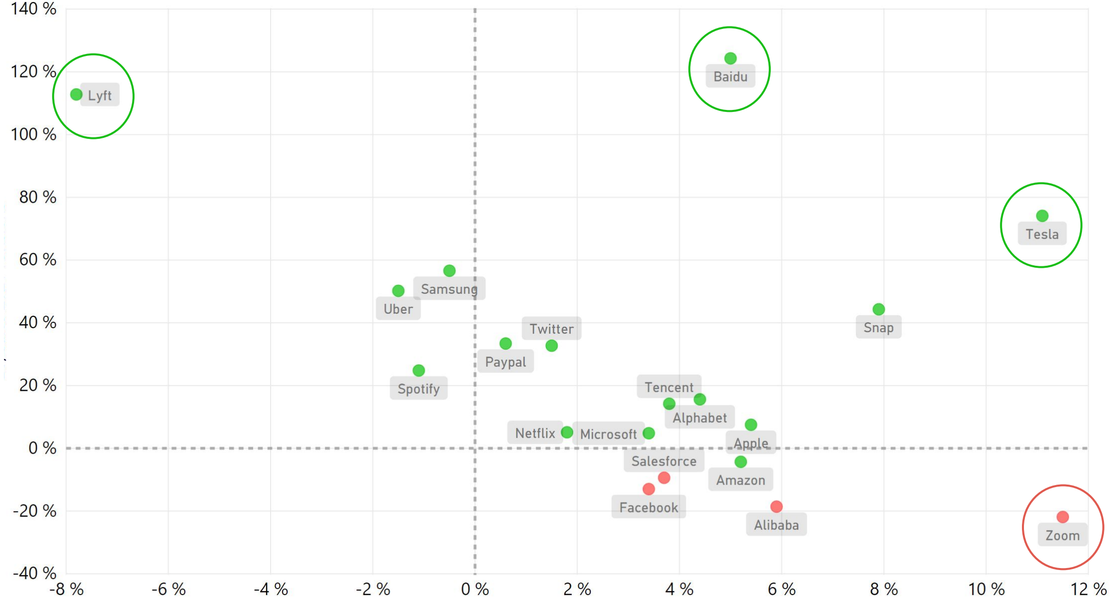
To assess the stock performance of a company, we usually refer to the evolution of its valuation.
The valuation of a company during the quarter and after the publication of its results is driven by two distinct factors:
1. The **evolution of its sales or earnings** expectations;
2. The **expansion of its multiples**.

The equation below uses Sales as a breakdown of valuation and details the meaning of each item.

Valuation		Sales		EV/Sales
Valuation represents the total value of the assets of a company, or the sum of its market capitalization and its net debt.	=	Sales expectations are anticipated by financial analysts according to market outlook and growth perspectives.	×	The EV/Sales multiple reflects the level of confidence investors have in a company's ability to create future value.

Financials and stock performance are more and more decorrelated.

EV/Sales 2021e expansion *(05/11/2020 - 05/02/2021)*



Sales 2021e revision
(05/11/2020 - 05/02/2021)

- Share price increase
- Share price decrease

Examples

Good valuation

Lyft

There are 3 reasons why Lyft's share price is up, while Sales revisions are down over the last 3 months:

1. Prop 22 had a majority "yes" in November
2. The company announced its intention to launch a competitor to Uber Eats.
3. The company's share price is just back to normal after Uber

Good Sales

Zoom

Despite analysts anticipating better-than-expected results for **Zoom** in 2021, investors lowered their enthusiasm regarding Zoom as the company's phenomenal growth is slowing down. The company's share price remains stable nonetheless.

Striking facts among Tech leaders.

Alibaba

Alibaba's figurehead — CEO Jack Ma — reappeared after several weeks out of the public eye, following his strong criticism of the Chinese government for their banking policies. The ecommerce company's shares jumped by more than 8% on the Hong Kong stock exchange on the back of Ma's first sighting in almost three months.

Google

Google and Facebook set up a pact "Jedi Blue" to completely dominate the online advertising industry. This contract is at the heart of antitrust proceedings conducted by the State of Texas, which accuses the two companies of anti-competitive behavior.

Tencent

Tencent 腾讯

Tencent Holdings Ltd has signed an agreement with Geely Holding Group, which owns Volvo Cars and holds 9.7% of Daimler, to further develop its digital capabilities and smart car technologies, including intelligent cockpits, and autonomous driving capabilities and low carbon emission technologies.

Amazon

Jeff Bezos announced that he would step down as CEO of **Amazon** during the summer of 2021. He will transition to an executive chair role instead.. He will be replaced by Andy Jassy, the director of the cloud-computing branch which makes sense regarding the current development of the company. The stock price remained stable following the announcement.

Apple

Apple will introduce privacy features due to arrive with the next update of iOS 14. That change will require app developers to request permission before they track users. Facebook, which relies heavily on personalized advertising, is fighting this decision with an aggressive ad campaign to show users how personalized ads "support small businesses and keep apps free"

Most impactful quarterly quotes.

Uber

Uber, *"A driver may be human or may be software. I think there will be a long period of time in which it will be a hybrid."* **Dara Khosrowshahi**, Uber's C.E.O said on the newest episode of Kara Swisher's Times Opinion podcast, Sway.

Tesla

Tesla, *"We delivered almost as many cars last year as we produced in our entire history. So really an incredible growth rate and despite a very challenging 2020."*
- CEO Musk said during the Q42020 earnings call, talking about the historical performances of its company during 2020.

Facebook

Facebook on its strategy, *"I try [...] to discuss aspects of business strategy that I think are important for investors to understand, I do want to highlight that we increasingly see Apple as one of our biggest competitors. iMessage is a key linchpin of their ecosystem."*
- Mark Zuckerberg said during Q42020 earning call, concerning Facebook and Whatsapp strategy.

Microsoft

Microsoft *"This year has made clear that businesses fortified by digital technology are more resilient and more capable of transforming when faced with sweeping changes like those we are experiencing,"* said **Satya Nadella**, CEO of Microsoft. *"Together with C3.ai and Adobe, we are bringing to market a new class of industry-specific AI solutions,"* he added.

Zoom

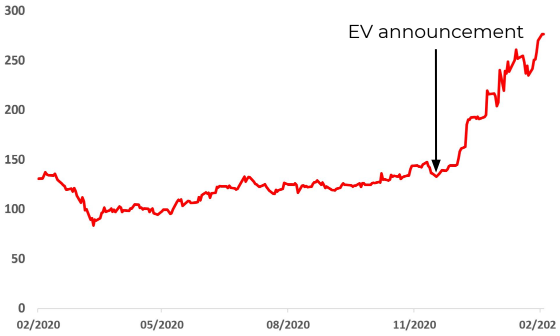
Zoom, *"I believe the way we work, and live, and learn, and play is very different now. Let's say the pandemic is over tomorrow [...] I don't think every employee will go back to the office. It's very likely we'll end up with a hybrid. Because it's good for climate change and it's good for productivity. That's why I think a tool like Zoom will stay."*
- CEO of Zoom, **Eric Yuan** at 100,000-attendee online conference Web Summit.

Our TOP - Baidu wants to start selling EVs.

Baidu

Performance Q3 2020	Vs. Analysts expectation	Growth YoY
Revenue **$4.3Bn**	Revenue **+3%**	Revenue **+1%**
EBIT **$939M**	EBITDA **+108%**	EBITDA **+165%**
EPS **$3.1**	EPS **+56%**	EPS **-**

Baidu's share price evolution



What happened this quarter?

1

Baidu enters the EV market.

Baidu announced in January that the company will launch an EV-making Venture with the help of chinese automaker Geely.
Ever since, the stock kept growing in order to meet the financial multiples of electric vehicles.

2

Is Chinese internet undervalued?

Over the past few weeks, analysts revised their estimates for Baidu, judging that the Chinese advertising industry will grow in Q1 2021 and was currently undervalued.
Investors seemed to follow the analysts recommendations.

3

Baidu follows Google's tracks.

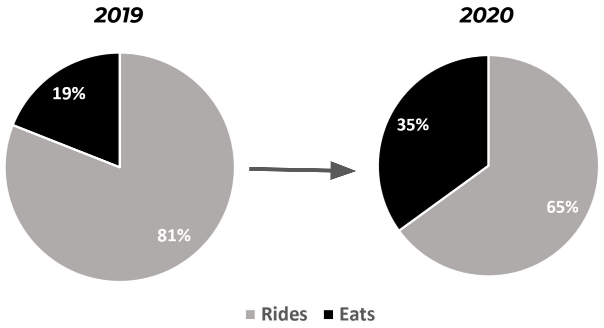
Baidu's move into EVs is coherent as the sector is benefitting from a huge upside as the valuation of Nio and Tesla keeps growing.
It also follows the tracks of Google with its implication in autonomous vehicles.
Baidu is now trading at a 5x EV/Sales 2021 multiple while Alphabet stands at 7x

Our SURPRISE - Uber is still attractive.

Uber

Performance Q4 2019	Vs. Analysts expectation	Growth YoY
Revenue **$3.2Bn**	Revenue **-8%**	Revenue **-16%**
Loss per share **$0.54**	Loss per share **-2%**	Loss per share **-16%**
MAPCs **93M**	MAPCs **+0%**	MAPCs **-16%**

Uber Sales split evolution



What happened this quarter?

1

Huge miss on Sales.

Heavily impacted by the Covid crisis (much more than what the analysts expected), Uber saw its number of trips decrease by 24% YoY.
The number of MAUs also decreased by 16% YoY, showing the importance of the Trips business for Uber.
Obviously, Uber's sales were strongly impacted, but Uber Eats' business was boosted during the pandemic, helping to reduce the shock.

2

Uber is still losing money, for now.

Initially expected for 2020, Uber is still losing money. Still, the company reported better-than-expected profits and keeps heading towards profitability, decreasing its net loss from $8.51bn in 2019 to $6.77Bn in 2020 (-20%).
Uber is now planning to be profitable in 2021.

3

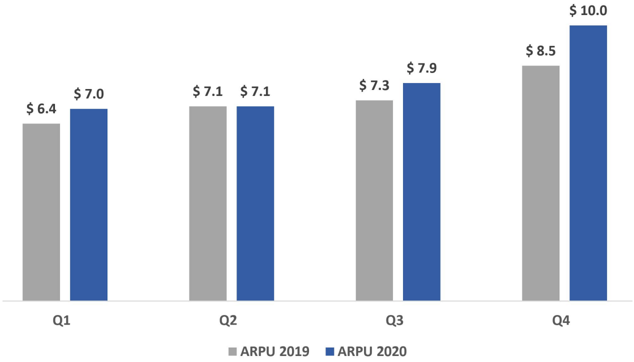
Uber share price keeps growing.

Uber saw its share price grow by almost 50% over the last 3 months, showing that the company is still attractive for investors.
What helped the company was the adoption of proposition 22, stating that ride-hailing companies won't have to pay health insurance for their drivers whom will remain independent workers.

Our FLOP - Facebook against the world.

Performance Q4 2020	Vs. Analysts expectation	Growth YoY
Revenue **$28Bn**	Revenue **+6%**	Revenue **+33%**
Net Income **$11Bn**	Net Income **+21%**	Net Income **+52%**
Number of MAUs **2 797M**	Number of MAUs **+1%**	Number of MAUs **+12%**

Facebook Number of MAUs



What happened this quarter?

1

Apple vs Facebook.

Apple's future update (iOs 14 that would improve data privacy) could threaten, according to Facebook, the advertising revenues on which the company heavily depends.
This opposition of mentalities has intensified in recent days. However, Facebook remains dependent on Apple for a certain amount of data.

2

Trump vs Facebook.

The decision to ban Trump from Facebook was considered highly political for a number of social network users who decided to boycott the platform. As a result, Facebook's stock price decreased by 3.3% the night after the suspension of the outgoing president's account.

3

Still, encouraging results for now.

Despite the challenges the company faced this quarter, the financial results of the company are still growing,
One of the most closely monitored metrics, the number of MAUs, is growing steadily despite the controversy, and ARPU has continued to grow for several years.

2

The Tech Giants’ 2020 tsunami.

Tech Giants seem more irreplaceable than ever...

Although most European countries have urged their citizens to support local businesses, health measures have benefited players such as **Amazon**, which has been able to play to its diversity of products, delivery and speed of adaptation. Indeed, sales of the latter exploded during the crisis, marking its indispensability in our current life.

On the 14th of December 2020, **Google** and its affiliated services have suffered a 45-minute bug, the biggest in many years.
While 45 minutes is not that long, this event highlighted our dependance to the GAFAs - as many of us remained paralyzed - and makes us ask the question: can we depend on a single fallible actor for everything?

… meaning that they are no longer threatened by major authorities.

> **Elon Musk** @elonmusk
>
> Tesla stock price is too high imo
>
> 8:11 AM · May 1, 2020 · Twitter for iPhone

> ## Amazon joins Apple, Google in blocking Parler social app
>
> People banned or censored by other social media use the app. Some took to the platform to coordinate the storming of the Capitol buildings in Washington, DC, last week.

Even if Tech Giants are committed to serving their users as well as possible, they are aware of their power. Knowing that "with great power comes great responsibility" some of them feel the need to take radical actions when they feel they should..

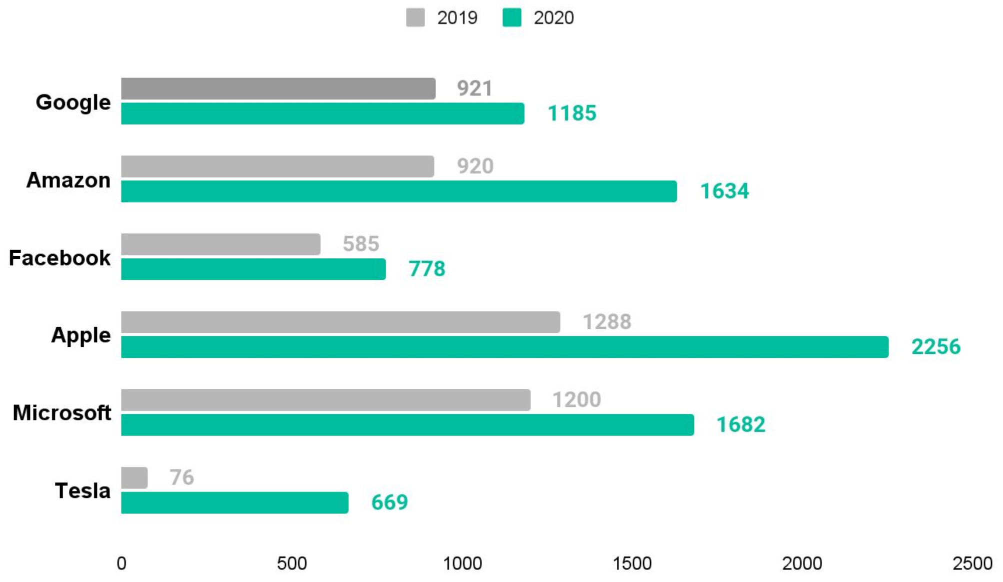
If Elon Musk has already made a name for himself with his incendiary Tweets against the Fed, this last quarter marks the opposition of **Google**, **Apple** and **Amazon** against the conservative network "Parler" and especially the banning of Trump from **Twitter** and **Facebook**.

Note*: At the beginning of 2021, potential investors in GameStop were also banned from Facebook following the Robinhood scandal.*

In terms of Stock Price, Tech Giants reached new heights ...

Market capitalization evolution by company.

Evolution of the top 10 market caps (2019-2020, in $bn)



- **Apple is now worth more than the whole CAC40 combined.**
- **GAFA combined market cap is almost worth 3 times the CAC40.**

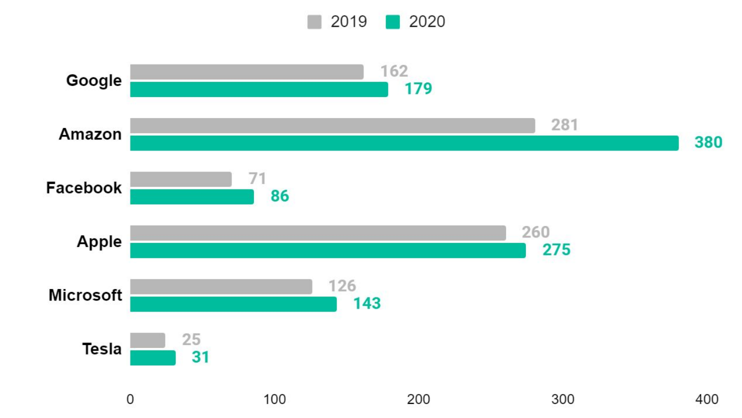
Our selection of 20 companies showed a median increase in terms of Market Cap of about **71%** *(2020 vs 2019)* while in the previous year the median evolution was around **31%**.

Tech Giants outperformed during the entire 2020, **they showed their anti-fragility to the Covid crisis, and their ability to evolve in a digital world.**

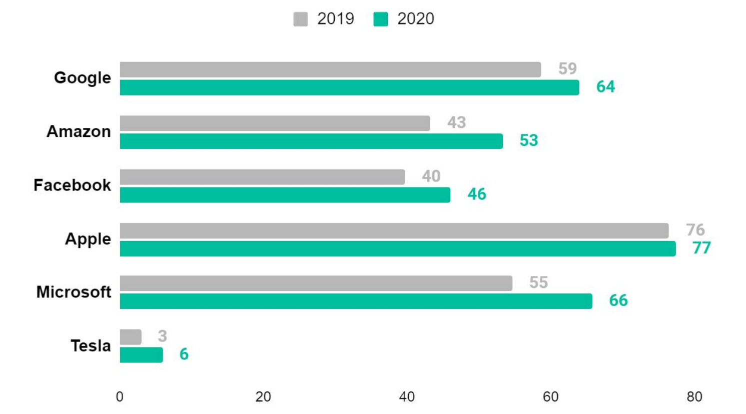
*Source: Factset, as of 01/01/2021

… followed by growing financial results.

SALES



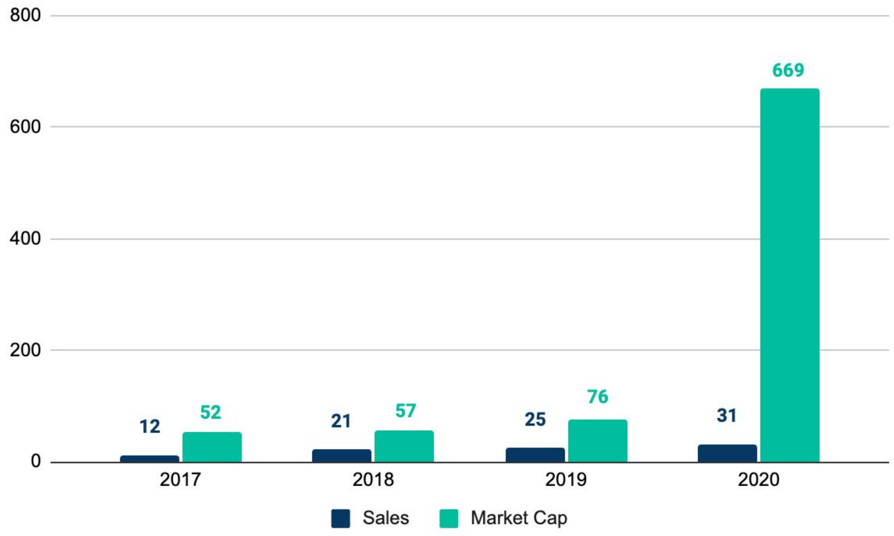
EBITDA



Another year marks another record in terms of Top and Bottom Line results for the Tech Giants.
While traditional industry slowed down due to Covid-19 (0% Sales growth in 2019-2020 for companies in the NYSE and the French SBF 120 in average), Tech giants managed to keep growing at a very high pace:
+23% increase in sales (vs +18% in 2019), and a **+27% evolution in EBITDA** (vs 16% in 2019).
This steady (not to say increasing) growth of Tech Giants show their anti-fragility regarding the current Covid crisis.

[Focus] Tesla enters the top 10 market cap, before Facebook.

Tesla's Market capitalization and sales evolution - In $Bn



Tesla

2019 vs 2020

+780%
Market Cap

+27%
Sales

Tesla's Market capitalization increased by more than **8x** in 2020 while sales were following their normal evolution YoY. This means that Tesla's multiples are now incredibly high (>**18x** its 2021 Sales estimates) meaning that investors are expecting irreproachable results and growth for the next few years. *As a comparison, Amazon is now trading at 3.8x its 2021 Sales.*

GAFA's secret sauce when facing Covid: anti-fragility.

Something **fragile** deteriorates in the face of shocks and time.

Fragility fears the unexpected!

Something **robust** resists shocks and then returns to its original shape.

The robust doesn't care about the unexpected.

An "**anti-fragile**" element is not always completely resistant to shocks, but can improve afterwards, to better protect against the next ones.

The antifragile likes the unexpected!

In 2020, even if Tech Giants had different challenges from other players, they managed to **adapt** quickly to exploit every opportunity they had.
A few examples of the improvement of GAFA's services due to Covid-19 are:

- The improvement of videoconferencing solutions (Hangout and Teams which has been made free for a few months for example)
- The launch of initiatives to fight against coronavirus

Europe is also able to show anti-fragility during Covid.

Schneider Electric, in addition to positioning itself in sectors that have accelerated with the crisis (i.e. digital and energy efficiency), aims to enable everyone to make the most of their energy and resources in order to reconcile progress and sustainable development for all. Its ambitions is deeply correlated with the current needs of its customers.

Doctolib has seen its use accelerate with the health crisis. The company had to adapt in record time to cope with the influx of requests for consultations, whether physical or online thanks to their new teleconsultation service. Doctolib's platform model allows the company to be reactive and develop new services relevant to healthcare professionals.

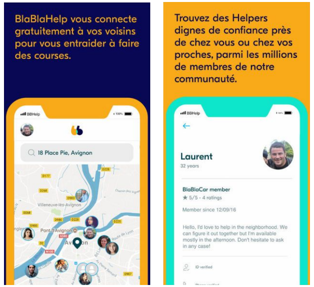
Europe is also able to show anti-fragility during Covid.

Lydia

+

luko

The partnership now allows **Luko** policyholders to take out home insurance directly via **Lydia**, providing a **seamless and completely mobile experience for customers**.



While mobility services were greatly affected during Covid, **BlaBlaCar** launched **BlaBlaHelp**, an application to promote mutual aid between neighbours. Members of the community can, for example, volunteer to run errands for the most vulnerable.

3 Rebalancing Big Tech models.

Tech Giants' power today rivals those of nation states.

Tech companies are among 8 of the 10 most powerful companies.

	2000		2020	
1	General Electric	466	**Apple Inc.**	2,232
2	Exxon Mobil	296	Saudi Aramco	1,865
3	Pfizer	288	**Microsoft**	1,678
4	**Microsoft**	281	**Amazon**	1,635
5	**Cisco Systems**	273	**Alphabet**	1,188
6	Citigroup	270	**Facebook**	778
7	**Intel Corp.**	227	**Tencent**	691
8	Shell	220	**Tesla**	669
9	American int.Group	213	**Alibaba Group Holding**	649
10	Vodafone	199	Berkshire Hathaway Inc.	546

Top 10 Market Cap evolution (In $Bn)

Tech companies have reached States size.

$929 Bn

GAFA cumulative revenue in 2020.

Equivalent to Netherland GDP #17

Revenue

X2.2

Between 2015 & 2020.

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A rising awareness of Big Tech abuse has created a momentum, reflected in the will to rethink regulation framework.

Awareness of consumers, companies and regulators on the unstoppable growth and abuses of big tech has led to the imposition of sanctions in the past decade.

A combined **$9.2 billion** in fines for **Google** over the past four years imposed by **European Commission** for violating the EU's competition laws due to its dominant position in the market.

A record-setting **$5 billion** in fines for **Facebook** imposed by the **the Federal Trade Commission** In July 2019 over Cambridge Analytica scandal and other privacy breaches.

But this desire to regulate GAFA abuses has been characterized by measures taken on a case-by-case basis, with a mitigated impact...

Google combined fines represent only **1.5%** of its cumulative revenue in the past 4 years.

...highlighting today's crucial need to rethink the regulatory framework of tech platforms in a more global way.

Beijing launches antitrust investigation into Alibaba
Financial Times

US tech giants targeted as EU bares its teeth with new digital competition laws
RFI

Antitrust Showdown In Congress: Big Tech, Meet Big Government
Forbes

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Europe has been at the forefront of this momentum to tackle platform models.

2000 — **E-commerce directive**

The 'E-Commerce directive' establishes an internal market framework for online services, to remove barriers to cross-border online services in the EU and provide legal certainty for businesses and consumers. This defines the status of online platforms as "passive hosts", exempted from liability.

2016 — **GDPR**

The General Data Protection Regulation requires businesses to protect the personal data and privacy of EU citizens for transactions that occur within EU. GDPR significantly strengthened a number of rights and brought in new definitions of personal data, consent types, accountability standards, and the roles involved in decision making, interpreting, and processing the data.

2018 — **The "GAFA Tax"**

In 2018, the European Commission proposed a temporary Digital Services Tax to be imposed a rate of 3% on revenues derived from digital activities. It is based on the observation that the average effective tax rate for digital companies in the EU is 9.5%, compared to 23.2% "for traditional business models".

2019-... — **The DSA package**

The DSA package includes the **Digital Markets Act ("DMA")**, that aims at fighting abusive and anti-competitive behaviors to enable fair competition, and the **Digital Services Act ("DSA")** focusing on enabling transparency, user safety, and platform accountability.

Regulators need to get to the heart of the matter: the GAFA model and its value loops.

More than taking down GAFA, which brought a lot of innovation to consumers and created new value streams, regulation must aim at recreating a **healthy competition field** for all players, and encourage, the emergence of **European challengers.**

In order to regulate in an impactful way, it is thus necessary to fully understand where these complex models and strategies of tech giants have led to **abuses and unfair competition.**

GAFA have based their powerful models on their **value loops,** enabling them to **build strong interconnections between their activities, and increase their velocity & size effect.**

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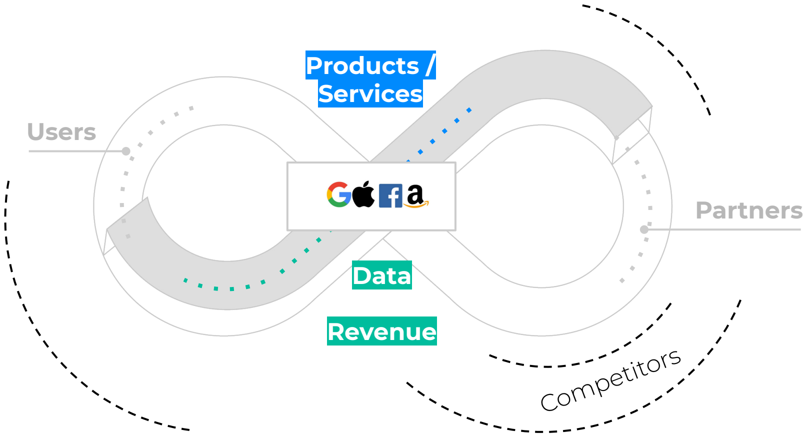
GAFA have built on their value loop models to reinforce their competitive advantage.

Value loops are at the heart of GAFA models' strategies:

Creating interconnections and bridges between the different products and services, and between flows of Users and Partners.

Allowing value streams (Data, Revenue) to circulate. Relying on networks rather than on linear value chains.



These strategies have demonstrated the strength of the models and their powerful innovation capacities, increasing their **size effects and their velocity.**

However, some aspects of this model have been pushed to the extreme, paving the way for different types of **uncompetitive behaviours and abuses.**

Increasingly tight interconnections between activities leveraged to eat away competition.

Amazon relies on bundling of its independent services to increase usage and customer retention.

The Example of Amazon Prime Video

A powerful interconnected ecosystem leading to an imbalance of power

Amazon financial power and massive customer base leads to an **imbalance of power in negotiations with partners.**

Amazon represents between **10** and **20%** of its supplier revenue while **3% of the most important suppliers of Amazon represent individually 0.003%** of Amazon's revenue in 2020.

Unfair competition of "loss leader" service *Amazon Prime video,* benefitting from marketplace revenue.

Prime Video service acts as a loss leader to attract and redirect new customers to the marketplace. While this service invests heavily in content, it is partly **subsidized** by the marketplace and **diluted** in the Prime subscription.

This creates unfair competitive advantage vs. streaming services that must reach profitability and thus cannot compete against Amazon investments in content ($7billion in 2020).

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From exclusive access to data to data retention, leveraged to kill competition.

Google relied on its massive client centric database to build its position of gatekeeper.

Google **search engine** relies on its wide user data collected through user history as well as free services such as youtube or maps to monetises keyword searches.

The company turned this major amount of data collected into a strong competitive advantage, creating **high entry barriers** and strengthening its position of **compulsory passage.**

Leveraging its powerful infrastructure to control the market

Google's control over data has led to a position of **gatekeeper** as its has become a compulsory passage for its partners. Data is **retained and weaponized** to kill competition rather than shared with business partners, through practices such as **contractual restrictions on third-party websites or private data tracking.**

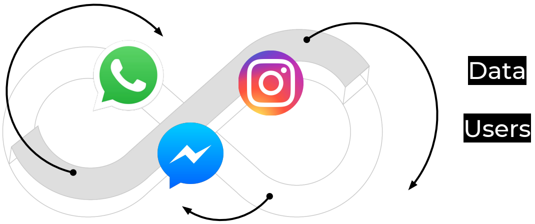
Google fragmented the market, resulting in unbalanced relationships with its partners.

One gatekeeper negotiating with fragmented markets (e.g in French media sector: **+285 press titles)**
Benefitting from **major size discrepancies** (Lagardère, biggest French media company, total revenue is equal to only **1%** of Google revenue).

From the construction of a whole ecosystem to a phenomenon of concentration.

Facebook has built an enclosed and increasingly integrated ecosystem.

Facebook has built a powerful platform "free" of access. It now leverages its attractive ecosystem of services to create a **super-app** and launch a cross-platform messaging service.



Relying on its position of leader to impose its conditions to users.

Facebook has been using its position of leader to **unilaterally update its privacy policies** in order to force users of Whatsapp to share data with core app Facebook.

Towards a monopoly on social media advertising

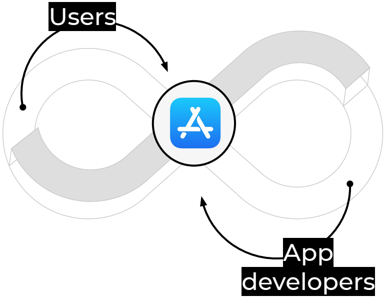
Through its differents acquisitions (Instagram, Whatsapp) Facebook has strengthened its position of market leader, becoming an obligatory passage with its **2.7 bn MAU.**

Buying out competition means preempting innovation capacities, and creates important barriers for challengers which leads to potential antitrust questions.

With its strong cash capacities **($62bn cash as of Q4 2020)**, **Facebook** could buy **all of the 19** mobile and telecommunications unicorns.

92 acquisitions by **Facebook** in the past 10 years, **vs. 24** in average for **S&P 500's acquisitions**.

Leveraging a position of gatekeeper to dictate its own rules on app distribution.



Apple built a distribution giant with its Apple Store.

The more apps available, the more attractive the iPhone gets. With its iOS Developer Program, Apple has been able to offer its apps to users through its ecosystem of partners, while enabling them to “reach customers around the world on the App Store”.

A status of gatekeeper leading to abuse of dominance and partners margins erosion.

A situation of “Distribution despotism”?

Apple relies on its gatekeeper position to **unilaterally define its own price policies and terms & conditions.** For instance, Apple has a total power of decision over the suppression of an app on the platform or over the percentage of commission.

This position of strength relies on an asymmetry in business relations.

4 main app stores
(Google, Apple, Microsoft, Amazon)
to distribute applications.

VS

+1.9M apps
in Apple Store

Enabling practices such as abusive commissions 30% in video game industry, leading to sector margin erosion (almost halved within 10 years)

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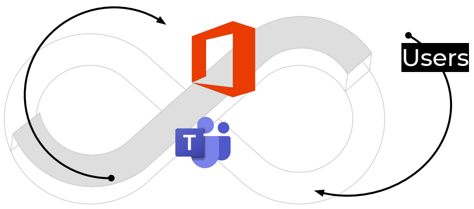
Leveraging a strong ecosystem of services to stifle competition.



Microsoft relied velocity provided by its strong ecosystem of products and services to accelerate Teams.

Launched in 2017, Teams has benefited from the surge in remote working due to the COVID-19 crisis. While it took **Slack** nearly 6 years to reach 12 million daily active users, **Teams** attracted nearly 115 million daily active users in just under 3 years.

Unfair competition of rundles (recurring revenue bundles).

While Slack is broadly available as a standalone service for $6.67/user, Microsoft Teams comes as part of an Office 365 subscription offering for as less as $5/user the whole Office productivity suite package.

Without this bundle, it is unlikely that Teams could have **grown at double the rate of Slack**. For Teams challengers, it is almost impossible to compete with a pre-installed base of **200 Million monthly active users** despite the features and strengths of an individual application, leading to some players buyout (such as Slack acquisition by Salesforce).

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2 main challenges to recreate a healthy competitive ecosystem.

Velocity

GAFA have the power to develop and grow new services rapidly thanks to their massive user base and interconnections between services.

VS

Slown regulating machine struggling to adapt to GAFA's pace.

Size effect

GAFA build integrated ecosystems relying on large nodes.

VS

Fragmented markets and challengers facing players the size of a network.

Regulation goes hand in hand with innovation policies.

FABERNOVEL

Regulating to limit platform models' unstoppable growth.

Regulation must aim at drawing limits for GAFA, while preserving their innovative power and value creation capacity for both companies and users.

Today, GAFA concentration leads to **monopolistic** effect endangering historical peers.

This implies to correct current excesses, but also offer **ex ante** regulation to anticipate future evolutions of gatekeepers models.

While encouraging the growth of European challengers.

Regulation alone will not succeed in reversing today's trend and enable European champions to emerge.

It is necessary to be proactive and implement **European industrial plans** to stimulate and foster innovation, through supply chain interoperability, or upgrading of local value loops and infrastructures.

Companies must **join forces and build alliances** in order to collaborate in a more equal way with GAFA, but also challenge them and offer alternatives.

Glossary

Market cap: Total dollar market value of a company's outstanding shares of stock. It is calculated by multiplying the total number of a company's outstanding shares by the current market price of one share.

EBIT: Earnings before interest and taxes (EBIT) is a measure of a firm's profit that includes all incomes and expenses (operating and non-operating) except interest expenses and income tax expenses.

EBITDA: Earnings before interest, taxes, depreciation, and amortization is an accounting measure calculated using a company's earnings, before interest expenses, taxes, depreciation, and amortization are subtracted.

FCF: Free cash flow (FCF) is a measure of how much cash a business generates after accounting for capital expenditures such as buildings or equipment.

EPS: Earnings per share are the amount of net income from shares divided by the total number of shares outstanding.

Net income: Net income (NI) is calculated as revenues minus expenses, interest, and taxes. It is an indicator of a company's profitability.

IPO: Initial public offering, the first sale of a company's shares to the public.

MAU: Mensuel actif user

Thank you

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