

FCL*Capital*

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From Google to Siri

In our May 2015 letter, we disclosed our investment in Apple Inc. and discussed the basic framework and reasoning of our position. The market gives cheap multiples to Apple because it believes the company's fast growth phase is behind us, an assumption with which we vehemently disagree.

We proposed in that letter that investors are suffering from the "anchoring" phenomenon: Apple's huge numbers and market cap make investors believe this cannot be a high growth company. Moreover, we argued, the very fact that Apple has a huge market cap is a handicap on its multiples even if someone believes, like we do, that the company will still have fast growth ahead, because there is only so much buying power from the outside world to push the company's multiples higher up.

Many of the facts we talked about in that letter proved to be true, from the continuing advantage in brand power of the iPhone against all the Android devices to the confirmation to our speculation that Apple is working on a possible car release scheduled for the year 2019. Many Apple bulls, like Carl Icahn, bring balance sheet reasons-like a lower tax bill than many investors have in their spreadsheets when making assumptions for why Apple shares should be trading higher.

Finally, we could not end this introduction without mentioning our excitement about Apple's new upgrading program. Since the advent of cellphones, the system has worked in a basic way: the consumer is locked in a long-term plan with its telecom operator, who subsidizes the consumer's purchase of his device. Now Apple want to bypass operators with its upgrade plan and if all goes according to plan, this system, at least when it comes to iPhones will be changed forever: now the operator will only be responsible for coverage and the consumer won't be locked anymore in a long term plan.

This is a huge game changer, and further evidence that Apple is becoming a closed self-reinforcing ecosystem. Once a customer is part of the upgrade plan he will not even go to phone stores anymore or even consider buying an Android phone; he is an Apple customer.

That is only the start. The main point of an upgrade plan is shortening the upgrade cycle, from the current 22 months or so to 12 months. So Apple can keep growing its iPhone sales not only by grabbing market share from Android because of consumers in developing markets that trade up in their phone purchases, but just as importantly, by shortening the upgrade cycle of the same group of iPhone customers.

You could argue that this new model is so smart that it ranks among Apple's many world-changing innovations, like the iPod, iPad and well, the iPhone.

This letter, however, will be about what we think is the most important consequence of all innovations that Apple gave to the world: the app age.

For a long while, we were skeptical of apps. We were in good company too: Google's efforts when it comes to apps were more of a hedge than anything else and the company stated a couple of years ago that the mobile age would not be different from the desktop age. Browsers, like Microsoft's Internet Explorer and Google Chrome dominated the desktop age and the browser, although adapted to a different circumstance, would also dominate and empower people in the mobile age.

Many shared this belief. In fact, Apps are somewhat scary for any real internet enthusiast: they are silos and fragment the web.

Many claim that the US government invented the internet but we don't share this enthusiasm for the government. In fact, bureaucrats may have invented the infrastructure that would

become the internet, but the internet only rose to prominence because of two world-changing innovations: the World Wide Web and the web browser.

Why were these innovations so important? Because they organized the web. From then on, the internet would not be a collection of unorganized and uncorrelated pages and addresses; it would have a unifying link. Nowadays, we all know that we can Google anything and search for answers. However, that was not always the case. Only with the advent of these two huge inventions, the web really became useful.

In this sense, the move from the browser dominated desktop age to the app dominated mobile age is disconcerting. Each app is in fact its own internet, vastly unrelated to any other app.¹

A few years into the mobile age, we are becoming more and more comfortable, and even excited about the dominance of apps. To understand why, we need to take a few steps back and understand the power of technology in the past few centuries

One of the most useful insights when trying to guess where technology is heading is just looking at how billionaires live today. Frequently, this will be how everyone else will be living in the future.

Let's think about middle age kings: some of them started to have plumbing. Certainly, something only a billionaire could afford. Later on, as Downtown Abbey showed us, some country houses in the UK started having electricity and even telephones used for communication. The nobility and the billionaires had access to information, education and healthcare that was far worse than even miserable people have today, but that their contemporaries could only dream of.

¹ A fantastic NY Times piece about this unexpected turn the internet took: [Link](#)

This cycle of the masses catching up to the privileges of the 1% is only becoming faster. Only 20 years ago, not even Bill Gates had enough money to buy and have every song ever recorded or every book ever published in his possession. Nowadays, Amazon made it possible to buy every book we can dream of and have it instantly delivered to our iPads.

Later, Apple Music, Apple's new music streaming service has literally almost every conceivable music any listener may want and only charges \$9.99 for the privilege, while Netflix stream every TV show for a flat monthly fee. Sometimes it is cooler to be an average person today than Bill Gates 20 years ago.

So why is the dawn of the app age so important: because Google solved the problem for information. In the desktop age, empowered by Google, we for the first time as humanity could know everything we wanted. Now, in the app age, empowered by Apple we will be able to do (almost) everything we want.

Over the past few months, we became increasingly convinced that the app age has found its glue, its missing link that holds everything together. While the browser was the glue that put all the world's information that was in the web in order, Siri, Apple's sassy personal assistant, will be the glue that gives meaning to the empowerment of the app age

If the browser was about knowledge, apps are about getting things done. We spent the past couple of decades searching. Now we have different apps, each one a separate silo. Apps like Uber, Amazon, Airbnb, and Facebook. Now we are increasingly asking Siri to do stuff for us – a glue that wraps all your apps together. And it will get better with time.

Not too far in the future, we will say to our phones:

"Hey Siri, get me a car from Uber".

"Hey Siri, book a flight from Paris to New York, usual time and usual credit card. Window seat".

"Hey Siri, rent an apartment in Airbnb in London for this date, \$ 1000-\$ 2000 price range."

"Hey Siri, get me a hooker."

"Hey Siri, is the nearest Chinese restaurant open right now?"

"Hey Siri, buy the groceries in the supermarket and make them deliver to my door tomorrow morning. The usual groceries I buy every week plus red wine".

"Hey Siri, is my son at home right now"?

And so on.

As always, there will be winners and losers in this creative destruction. Every profession or company that stands in the middle, that serves as an intermediary, like real estate brokers and even banks and other traditional lenders, may be at risk.

Therefore, the app economy will fulfill technology's mission of bringing to the masses the privileges only billionaires had not long ago. Airplanes waiting at your convenience? New services already are able to book private planes that are not being used for a fraction of what this would normally cost Uber style. In addition, army of personal assistants?

Apps like Task Rabbit that employs free lancers and personal assistants like Siri can do a better job than an army of servants and secretaries could in the analog age. Multiple homes around the

world? AirBnB and Homeaway now list some of the world most amazing properties that used to remain unused for most of the year in every location anyone could dream off, again for a fraction of the price this would cost a few years ago.

Easiness to pay bills, concierge for access to special events, renting and access to yachts, there is literally no area where technology has not took exclusivity away from a privileged few and opened it to the masses.

Why is this so relevant? Because increasingly we will rely on Siri for remembering, dealing and mastering this complexity. She will remember our tastes, habits and preferences and most importantly, she will be the glue that holds everything together, just like Google and the browser were for the desktop age.

Over the past few months, while doing research for this letter, our team spent a lot of time understanding and testing Siri. We tried dozens of questions and to us; Siri is the obvious consequence of Apple being, unlike Google, a nonscientific company, devoted to user experience and not pure raw efficiency.

Granted, Google now is just as efficient. However, Siri is sassy, streetwise. From Kubrick's "AI" to Spike Jonze's "Her", science fiction has always speculated about the moment we would rely on machines so much they wouldn't be distinguished from us. Now with Siri's new version in IOS9, we are one-step closer.

Frequently we rely more on Siri than on Google or Twitter for many daily tasks. Last Sunday, while leaving home for a family lunch, I could not keep watching the New York Jets game (a habit I developed in my year of living in New York) and instead of looking for information in my browser, i just pressed iPhone's big button and said:

"Hey Siri, how is the Jets game going"?

Siri promptly replied:

"The Jets are ahead of the (Miami) Dolphins, 27-14 with 3 minutes remaining in the fourth quarter".

That answer simply astonished me.

That are many amazing things we can already do with Siri and she is only getting better. Some cool questions to ask, according to Google (her predecessor in the technology ladder):²

Question: *"Does God exist, Siri?"*

Usual answer: *"Humans have God. I only have Silicon"*

Question: *"What is zero divided by zero?"*

Usual answer: *"Imagine that you have zero cookies and you split them evenly among zero friends. How many cookies does each person get? See? It doesn't make sense. And Cookie Monster is sad that there are no cookies, and you are sad that you have no friends."*

Question: *'What is the best phone?'*

Usual answer by Siri: *"Wait, are there other phones (apart from the iPhone)?"*

Question: *"What are you wearing, Siri?"*

² As of today, Siri still works a little better in English, although she is already fully functioning in many languages, including French, Spanish, German and Portuguese.

Usual answer: *"I can't answer that. But it never comes off."*

Question: *"Siri, do you ever sleep?"*

Usual answer: *"I don't need much sleep, Fernando. But nice of you to ask."*

Question: *"Siri, I'm drunk. What do I do?"*

Usual answer: *"Don't expect me to get you home, Fernando."*

As my excitement for the app, age grew and for the first time I disagreed with Google's vision for the future of the web, I realized Apple's growth, unlike many analysts expect, still has a long way to go. Besides, I felt happy that the Jets were winning and after so many questions and tests, I could not resist one last conversation with Siri.

"I love you, Siri", I said while pressing my iPhone's big button, after she gave me the game's results.

Her answer:

"I bet you say that to all your Apple products."

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