

Mizuho Mobile Market Survey 2.0

Revisiting Our 1,000+ Person Mobile Survey On Search, Social, and Commerce

Summary

In June 2015, we conducted our first mobile survey of U.S. smartphone users, and came away with some interesting takeaways - Google dominates mobile search, Facebook is the dominant social network, and Amazon is the de facto place for mobile shopping. After nearly six months, we wanted to see how things have progressed. Amazon and eBay appear to have gained greater mind share, while Google & Facebook remain dominant on search and social. We remain bullish on FB, AMZN and GOOGL based on our second survey results.

Key Points

- **Overall smartphone usage** – In general, we found that the vast majority of people still use **Google** to find information – whether it is through a Google search app or directly in a browser (Chrome or Safari). **Facebook** Messenger is the third most popular way people communicate on their phones (after texting and calling), and 25% of people believe they are watching more videos on Facebook than YouTube.
- **Social Media** – In general, it appears that people overall found that social media sites are increasingly useful, with **Facebook** and **Instagram** continuing to be the leading social sites. What was most interesting was that Snapchat jumped from seventh place to third place within the six months, and Twitter fell from third place to seventh place.
- **mCommerce** – 61% of people said they primarily use **Amazon** when they shop on their mobile devices. **eBay** came in as the second most popular place to shop on mobile, with 29%. Finally, **Google** came in third at 25%. We believe that Amazon's Prime flywheels are in full effect - as more users join Prime, Amazon becomes the primary place where those users will shop.
- **We Remain Buyers of FB, AMZN and GOOGL shares.** Our top picks into the 4Q holiday season include FB, AMZN and GOOGL, given our early checks with marketers and agencies. And with our recent survey results, which highlight the commanding dominance of these three companies on people's smartphone usage, we have greater conviction that these stocks could generate solid returns into 2016.

Company	Symbol	Price (12/16)	Rating		
			Prior	Curr	PT
Alphabet, Inc.	GOOGL	\$776.59	–	Buy	\$850.00
Amazon.com, Inc.	AMZN	\$675.77	–	Buy	\$720.00
eBay Inc.	EBAY	\$28.57	–	Neutral	\$29.00
Facebook Inc.	FB	\$106.79	–	Buy	\$125.00
LinkedIn Corporation	LNKD	\$234.51	–	Buy	\$285.00
Yahoo! Inc.	YHOO	\$33.78	–	Neutral	\$37.00

Source: Bloomberg and Mizuho Securities USA

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Mizuho Mobile Market Survey 2.0

We revisited our mobile market survey, which we first conducted in June 2015, to measure mobile usage progression in the U.S. During the last week of November, we surveyed over 1,000 people in the U.S. who are smartphone owners to gauge how people's mobile usage and tendencies have changed. As we've noted before, we believe that the trend in mobile is one of the most disruptive forces to the Internet, and we want to measure and test how people are using their mobile devices, and more importantly, how usage will change over time. Our latest survey is broken into three key components.

- 1) **Overall smartphone usage** – How are people searching for information? Are people increasingly going to specialized apps to find general info? In general, we found that the vast majority of people still use **Google** to find information – whether it is through a Google search app, or directly in a browser (Chrome or Safari). Also, most people still use Google to find local information, as opposed to going directly to a Yelp or other local apps. Aside from calling and texting, Facebook Messenger seems to be the third most dominant way that people are communicating with one another on their smartphones.
- 2) **Social Media** – What social media apps do people use? How are people's attitudes towards specialized social apps changing? We saw some of the biggest changes in the survey here. In general, it appears that more people are increasingly finding social media sites useful, with **Facebook** and **Instagram** holding their leading positions. What was most interesting was that Snapchat jumped from seventh place to third place within the six months, and Twitter fell from third place to seventh place. Many users still find Pinterest, LinkedIn, and Google+ useful, which makes us believe that social networking does not have to be a zero sum game, and that there is value in smaller, niche-type social networks.
- 3) **mCommerce** – Where do people go first when they shop on their mobile phones? How much do they spend on various eCommerce sites? Our results may have been slightly skewed since our survey was done during the week of Thanksgiving (thus Thanksgiving holiday sales). Amazon remains the #1 place for mobile shopping, followed by eBay and Google. We also asked people how much they spend on various sites per month. People spend around \$130 per month on Amazon, or about \$1,550 per year, which is nearly 3x more than they spend on eBay (~\$50 per month).

Our Survey results reaffirmed our top picks in Facebook, Amazon, and Google. With solid checks around the holiday season for these three stocks, we remain bullish on their near-term prospects, as well as longer-term prospects.

And now, on to the Mizuho Mobile Survey 2.0 results:

1. Overall Smartphone Usage

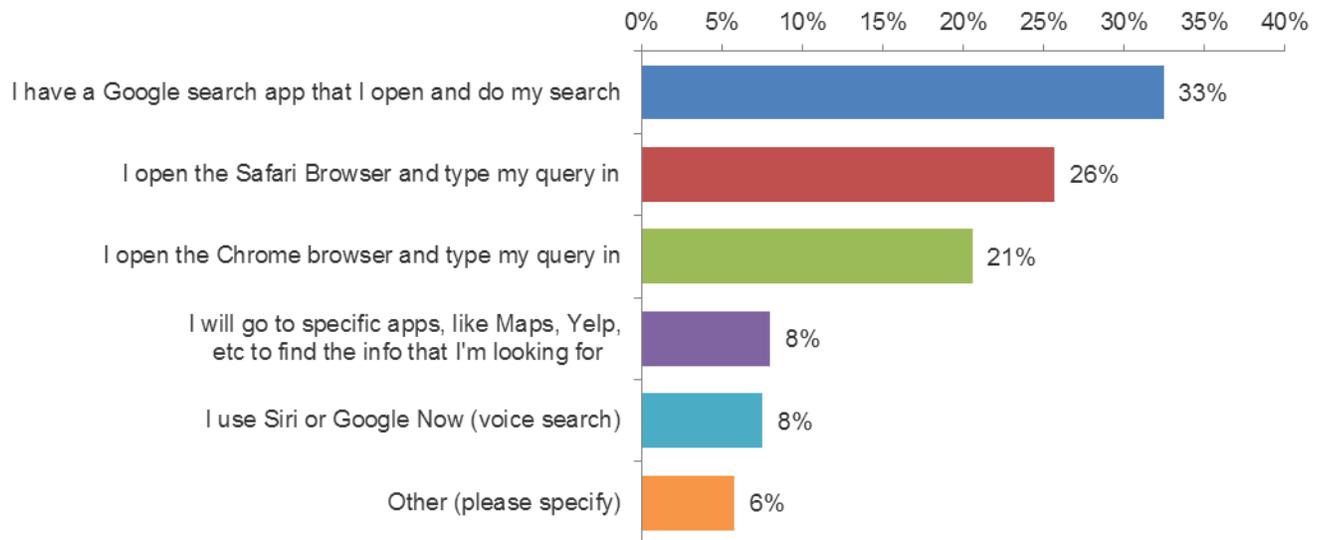
Search & Discovery

Nearly six months after our initial survey, it appears that the vast majority of mobile users in the U.S. are still completing traditional search queries in mobile browsers or the Google search app versus doing searches within specific apps. **The combined share for these Google-powered search engines in our latest survey was 80% - the same level from our survey in June.** Google remains the clear winner in this scenario given the Google search app, Apple's Safari browser, and Google's Chrome browser all use the Google search engine. We would like to note that there have been reports that Apple might stop using Google as the default search engine for Safari when the deal is up later this year. That would be bad for volume, but potentially accretive for Google since it would not have to pay TAC to Apple.

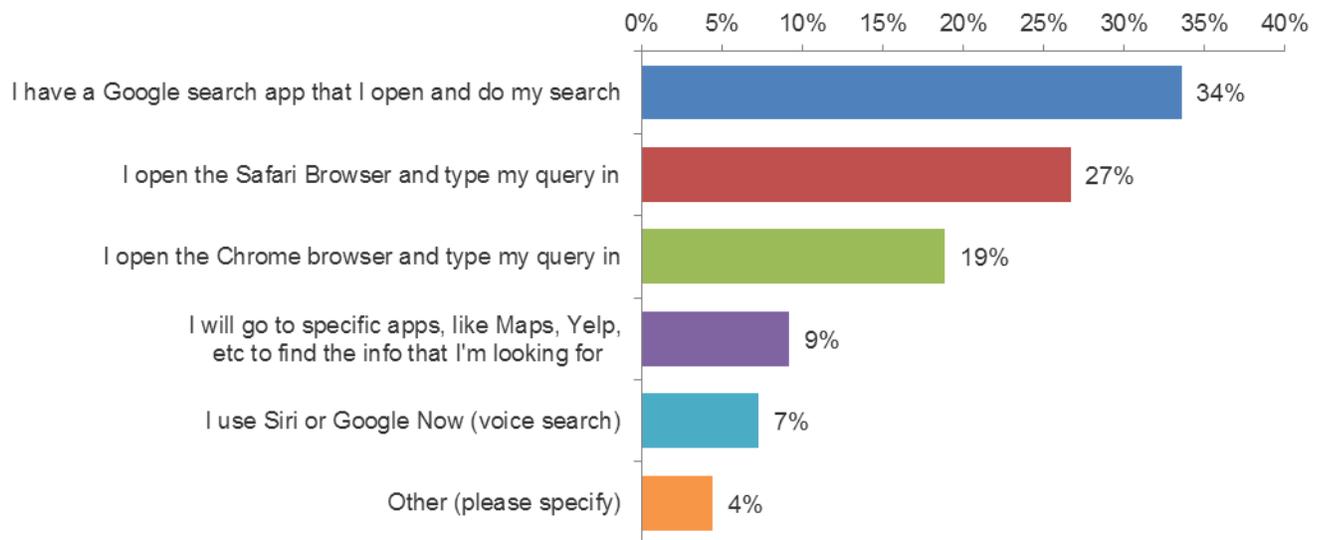
On the margin (and a very small margin at that), people going directly to specific apps increased about a point (from 8% to 9%) between our surveys. But this change is not material enough to make us concerned that people are searching outside of traditional search engines.

Exhibit 1: When you need go online with your Smartphone, where do you go most often to find information?

November 2015



June 2015



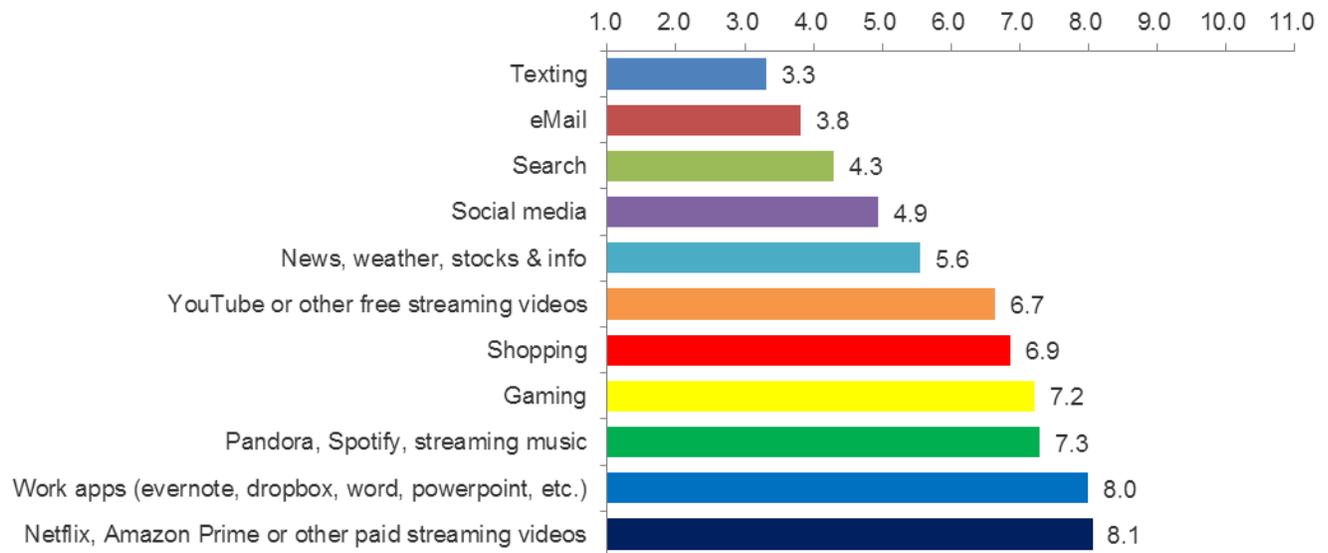
Source: MSUSA, SurveyMonkey, N=1,004 (November 2015), N= 1,028 (June 2015)

Time Spent

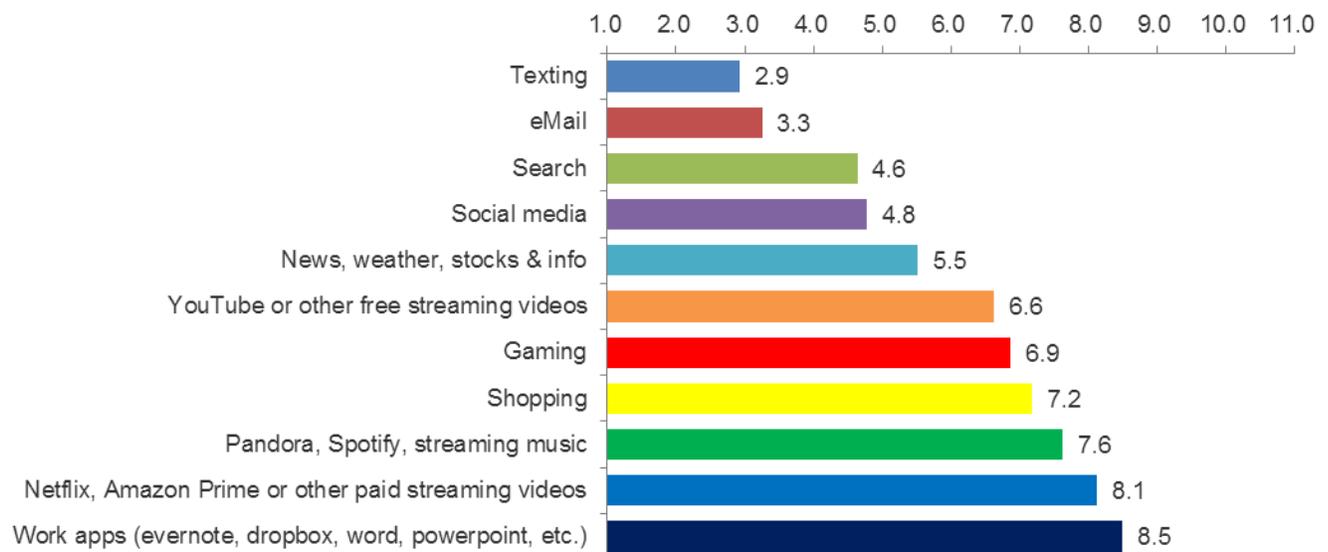
The next exhibits highlight that it is still early days in mobile – the vast majority of time spent on mobile devices is still centered on traditional communications (texting and email). However, there has been a shift in time from those two activities to others since our last survey in June. On a scale of 1-11 with 1=most time spent, texting went from 2.9 to 3.3, while eMail went from 3.3 to 3.8. **What is most interesting is that whereas search and social media were neck and neck in terms of popularity back in our June survey (4.6 and 4.8, respectively), search has pulled ahead to 4.3, while social media is now 4.9.** As we expected, mCommerce has also gained in popularity (from 7.2 to 6.9) owing to what we believe is a more pleasant shopping experience on increasing smartphone screen sizes and improving app user interfaces.

Exhibit 2: When you are on your mobile device, how do you spend your time? (1=most time spent, 11 = least time/no time spent)

November 2015



June 2015

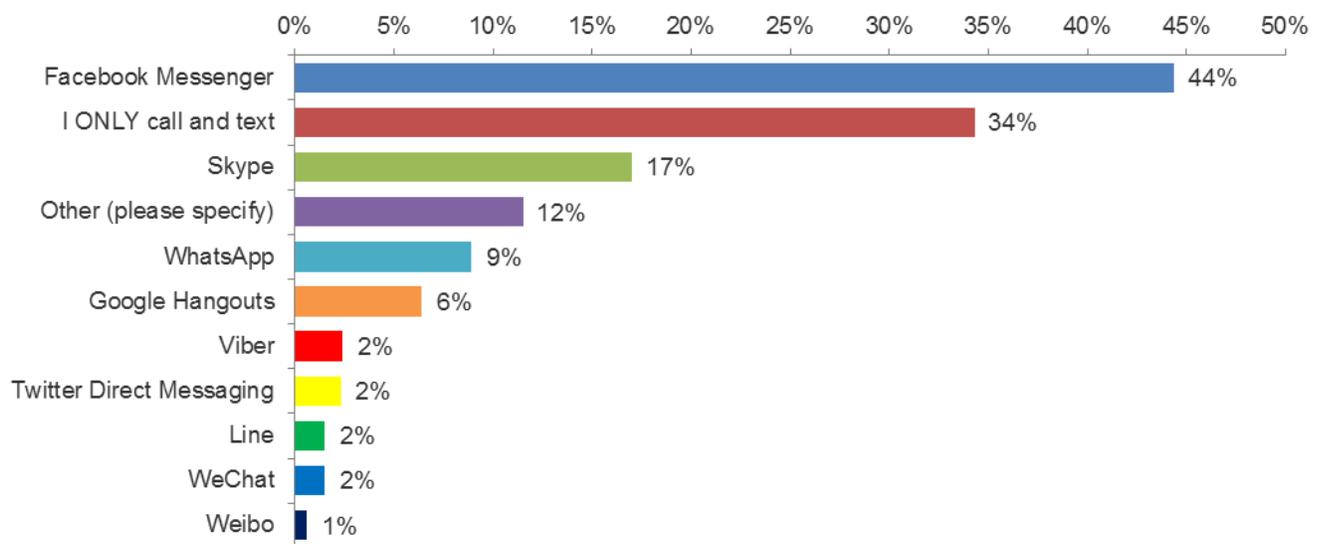


Source: MSUSA, SurveyMonkey, N=1,004 (November 2015), N= 1,028 (June 2015)

Communicating on Smartphones

A new question we asked was how are people communicating on their smartphones outside of calling and texting? **The biggest surprise to us was that 44% of people are using Facebook Messenger to communicate with each other.** A while back, Facebook forced Facebook users to download the Facebook Messenger app to use the direct messaging service, and it now appears that a large percentage of people are using FBM as a key tool for communicating. This has big implications, as FBM could be the next new leg of revenue growth for the company. Facebook is already making in-roads with retailers to use FBM as a means of communicating with customers, and with more people using FBM, this could be a natural way to monetize these users.

Exhibit 3: Outside of call and text, what is your most frequent means of communication?



Source: MSUSA, SurveyMonkey, N=1,004 (November 2015), N= 1,028 (June 2015)

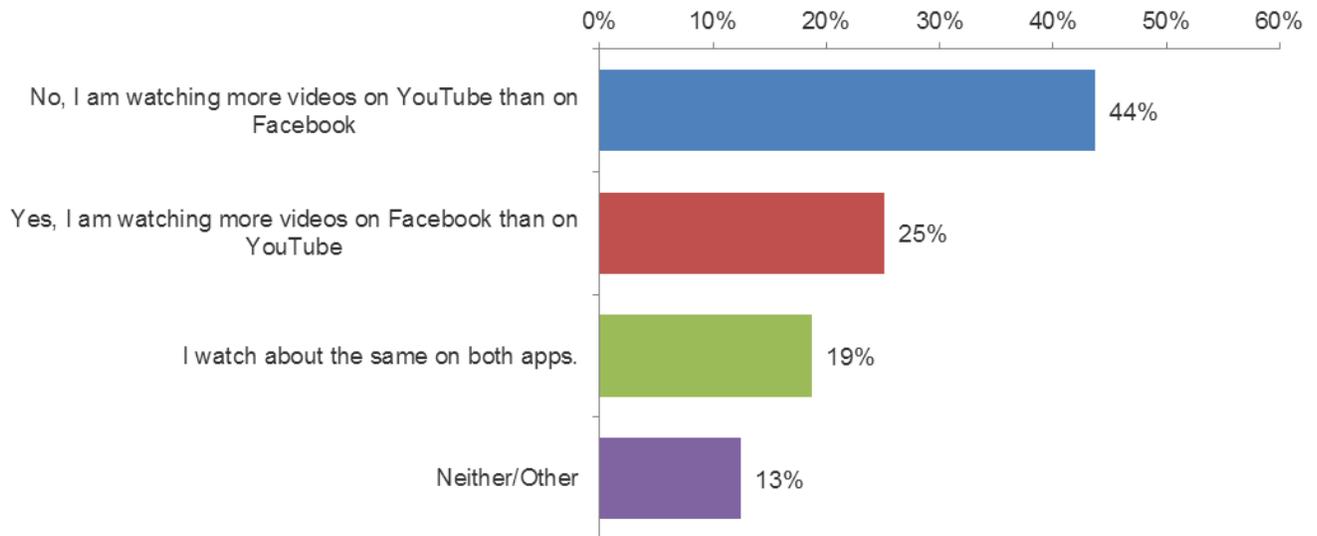
Mobile Video

25% of respondents watch more mobile videos on Facebook than on YouTube (down slightly from 27% in June), but perhaps more telling is that the number of respondents who watch more videos on YouTube than Facebook declined from 50% in June to 44% in November.

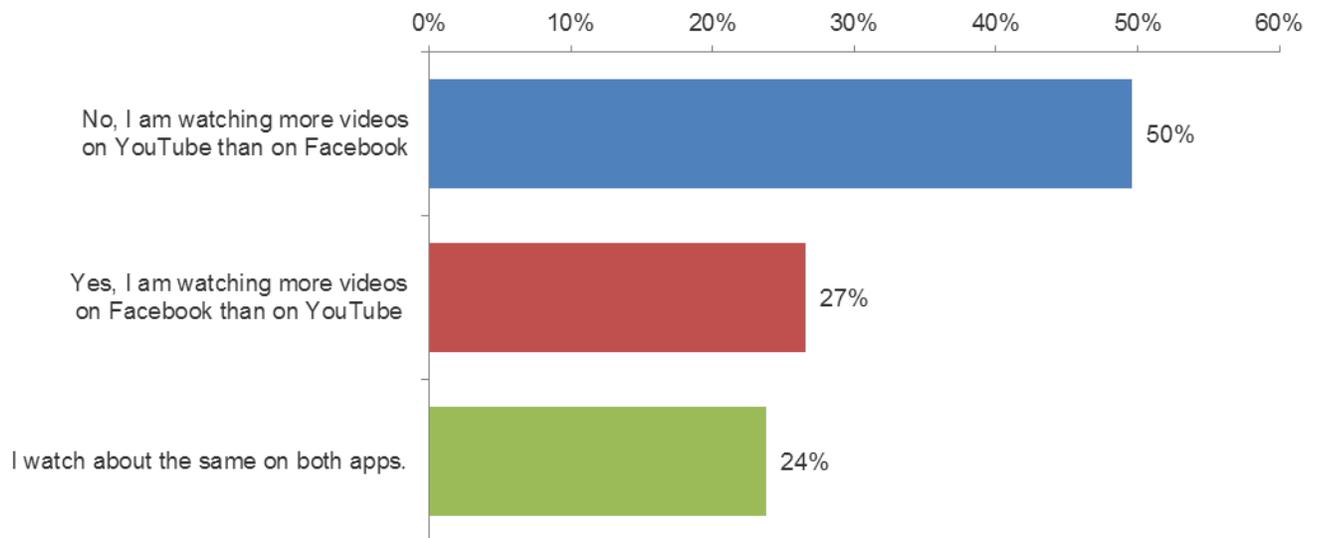
While YouTube is still the dominant mobile video source (excluding streaming video subscription services), we believe that more people are watching videos on both sites comparably, and there are other competing apps that are making headway into video viewing, including SnapChat, Vimeo, Twitter, Twitch, and others.

Exhibit 4: Over the last 3 months, do you find yourself watching more online videos via Facebook than YouTube?

November 2015



June 2015



Source: MSUSA, SurveyMonkey, N=1,004 (November 2015), N= 1,028 (June 2015)

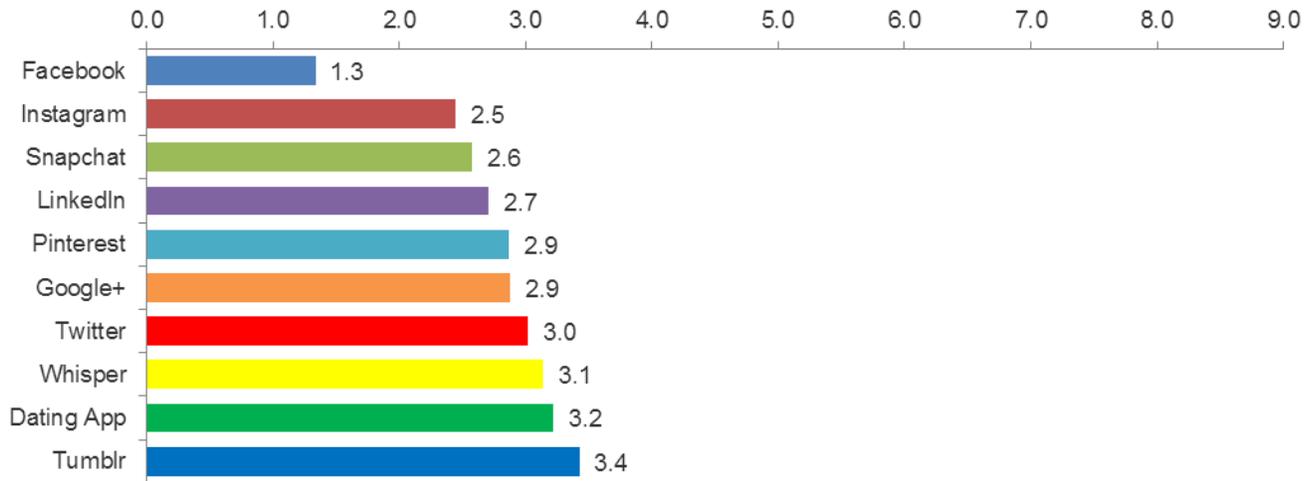
2. Social Media on Mobile

Facebook continues to dominate social media on mobile device with its core Facebook and Instagram apps – 7 out of every 10 people use Facebook. We found a few interesting takeaways here:

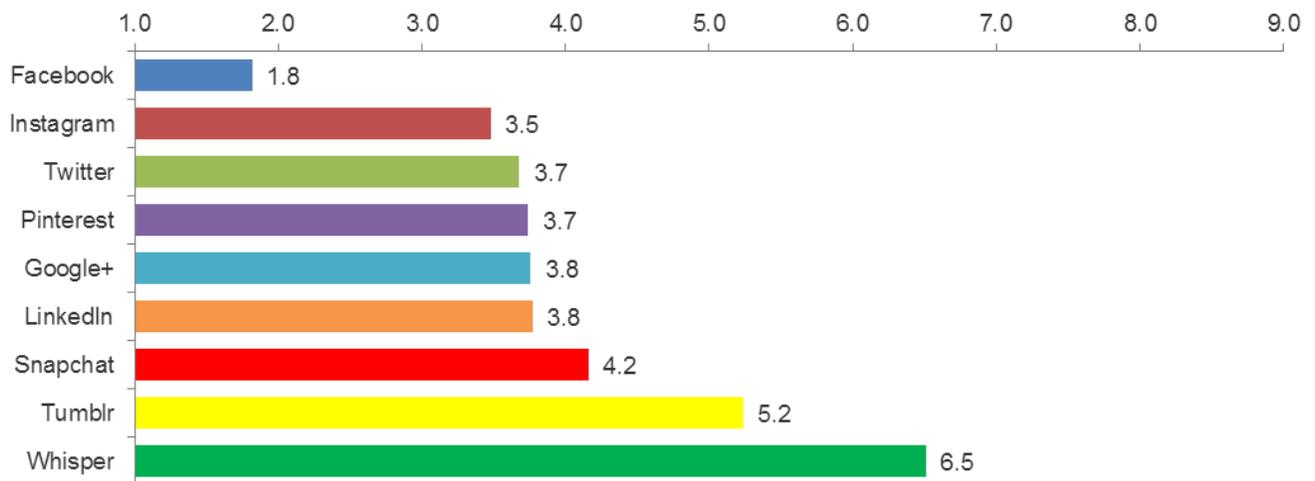
- 1) With the scores moving closer to 1 in our most recent Survey (1 = most favorite), there was a general improvement across the board for social media apps which indicates to us that more people are using social media apps, and finding value in those apps.
- 2) There is a large market for specialized social media apps, as evidenced by the cluster of apps after Facebook, and it is not a zero sum game with Facebook, in our opinion. After Facebook, the other key social media apps are in a tight ranking range spanning 2.5-3.0 versus a previous range of 3.5-3.8 points in June.
- 3) Snapchat has improved the most, leaping from the seventh most used social network in June to the third most used social network in our most recent survey. Snapchat narrowly displaced LinkedIn, and Twitter had the biggest fall, tumbling to seventh place. Snapchat is very close to Instagram in terms of favorite social media apps.

Exhibit 5: Rank your favorite social media apps (1 is most favorite, 9 is least favorite)

November 2015



June 2015



Source: MSUSA, SurveyMonkey, N=1,004 (November 2015), N= 1,028 (June 2015)

Next, we wanted to dive a bit deeper into some of the sites. We wanted to know if people have accounts, if they plan on coming back to those social sites, or if they never plan on visiting those sites.

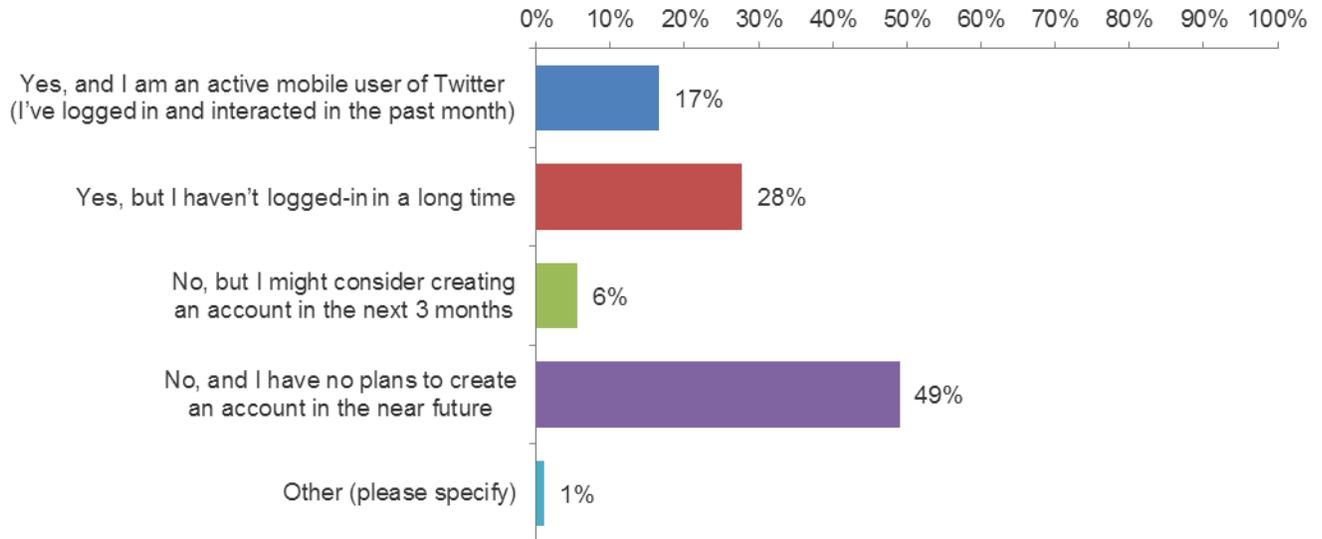
Twitter (TWTR, Not Rated)

Results were generally mixed to slightly negative. In June, about 19% of respondents said they have an account and are active users, but in November, that fell to about 17%. Former Twitter users who haven't logged in for a long time was relatively constant, at 29% in June and 28% in November.

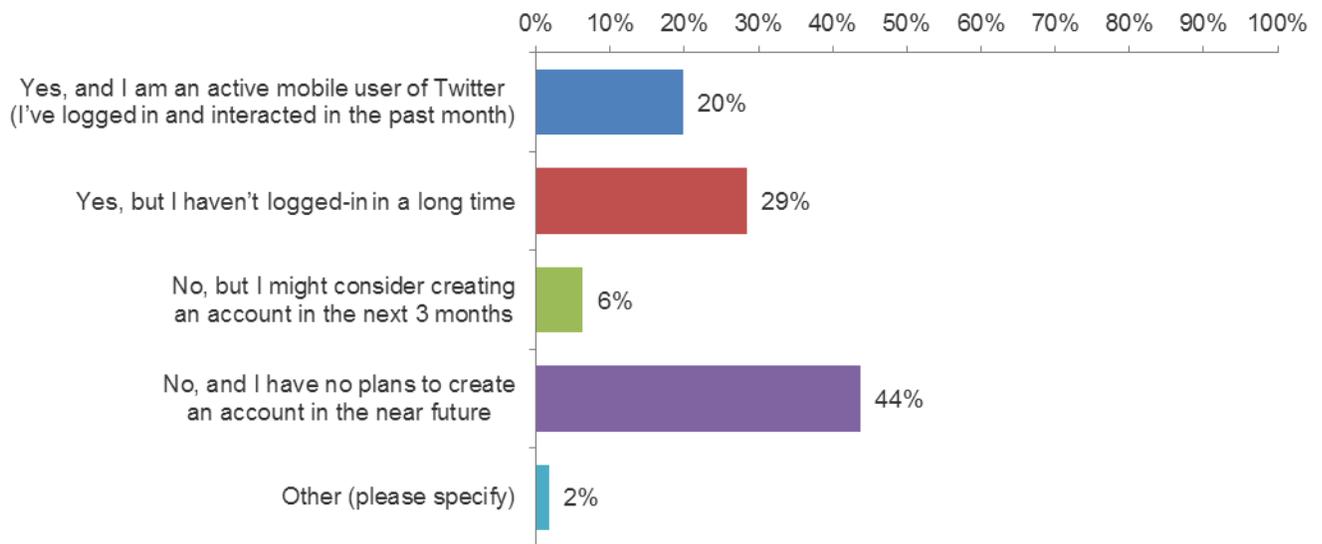
But the people who said they have no intention of creating a Twitter account went from 44% in June to 49% in November. While these changes are within a reasonable margin of error, we have not seen significant improvement in user sentiment around Twitter, despite the new Moments product having been rolled out for almost six weeks since our November survey launched.

Exhibit 6: Do you have a Twitter Account?

November 2015



June 2015



Source: MSUSA, SurveyMonkey, N=1,004 (November 2015), N= 1,028 (June 2015)

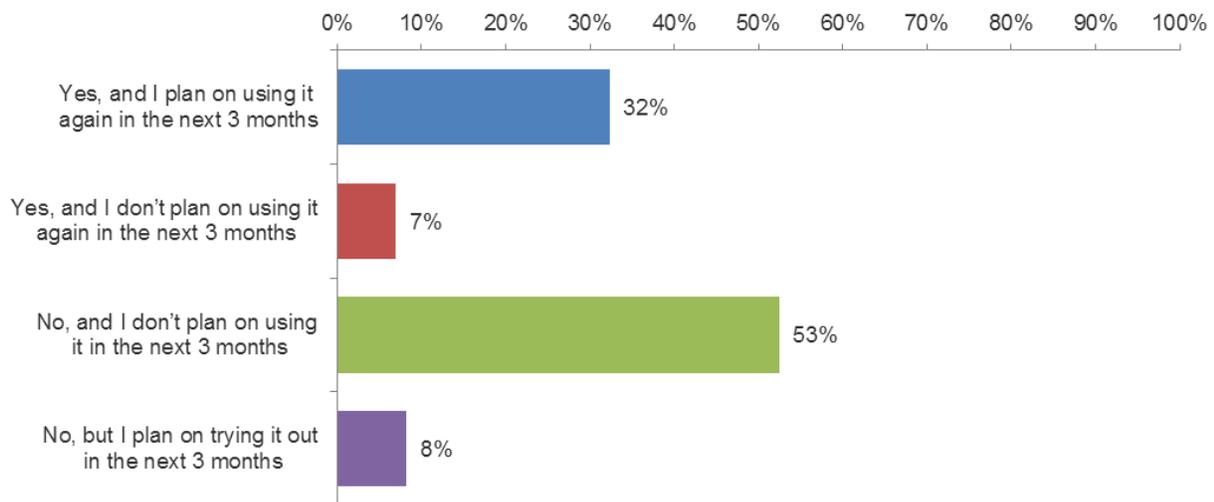
Pinterest

Results were slightly better than Twitter, but percentages moved in the negative direction for Pinterest as well. In June, about 34% of respondents said they have used Pinterest in the past 3 months, and plan to use it again in the next 3 months. In November, this came down to 32%.

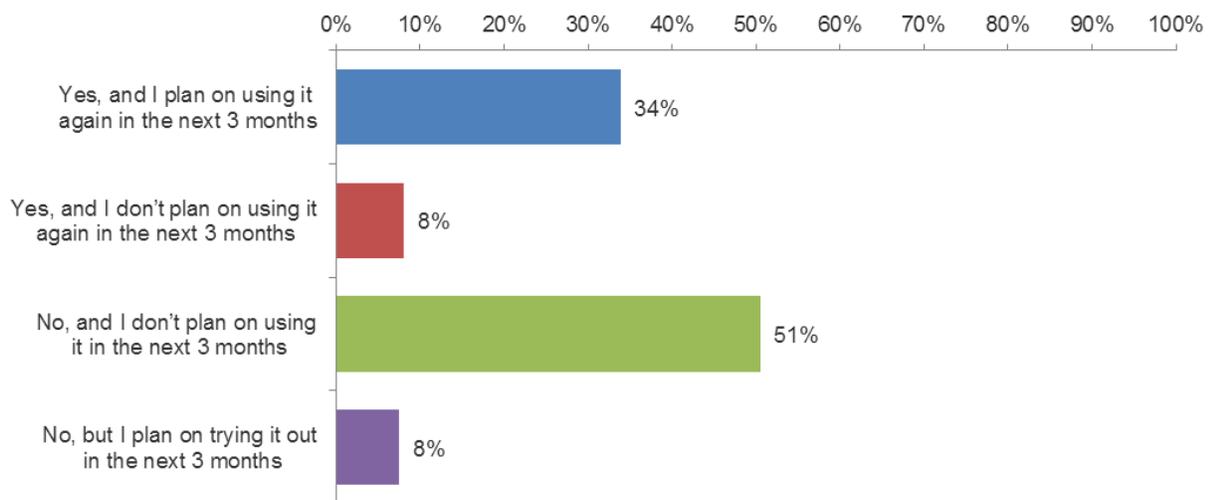
In June, 51% said they haven't used Pinterest in the past 3 months and don't plan on using Pinterest in the next 3 months. This increased to 53% in November.

Exhibit 7: Have you used Pinterest in the past 3 months?

November 2015



June 2015



Source: MSUSA, SurveyMonkey, N=1,004 (November 2015), N= 1,028 (June 2015)

3. mCommerce

Mobile commerce has really accelerated over the past year. During Black Friday, the NRF noted that 50% of online traffic came from mobile, and other retailers like Walmart noted that ~70% of online traffic on Cyber Monday came from mobile devices. We still believe that conversion on mobile under-indexes desktop, but with more traffic coming through mobile, conversions should improve over time.

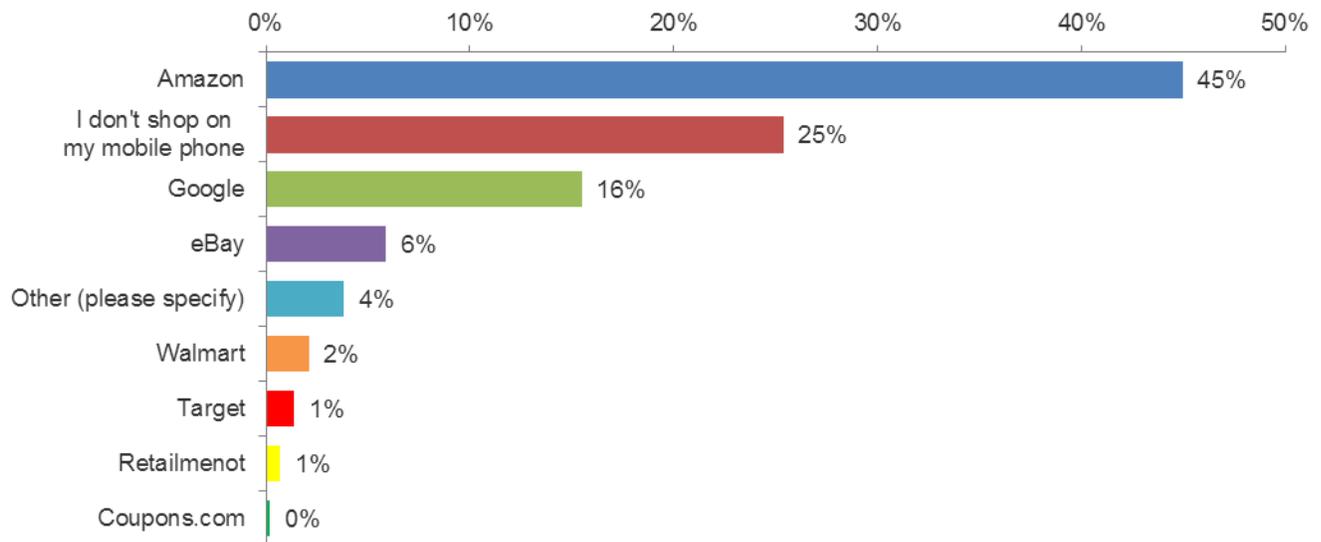
Back in June when we asked where people go first to start their mobile shopping experience, **Amazon** was the clear leader by a wide margin – 45% of people said they started their mobile shopping experience on Amazon, followed by Google at 16% and eBay at 6%.

This time around, we asked people where they generally shop on their phones. To no one’s surprise, Amazon was number one – 61% of smartphone users make mobile purchases on Amazon. **eBay** was the next at 29% which was higher than we would have thought. We think holiday promotions and marketing could have been a big factor. Finally, Google came in third, as 25% of people said they shop on Google.

Our survey was done post the Thanksgiving holiday season, so this could have partially skewed results.

Exhibit 8: When you are shopping on your mobile phone, where do you primarily begin your shopping experience?

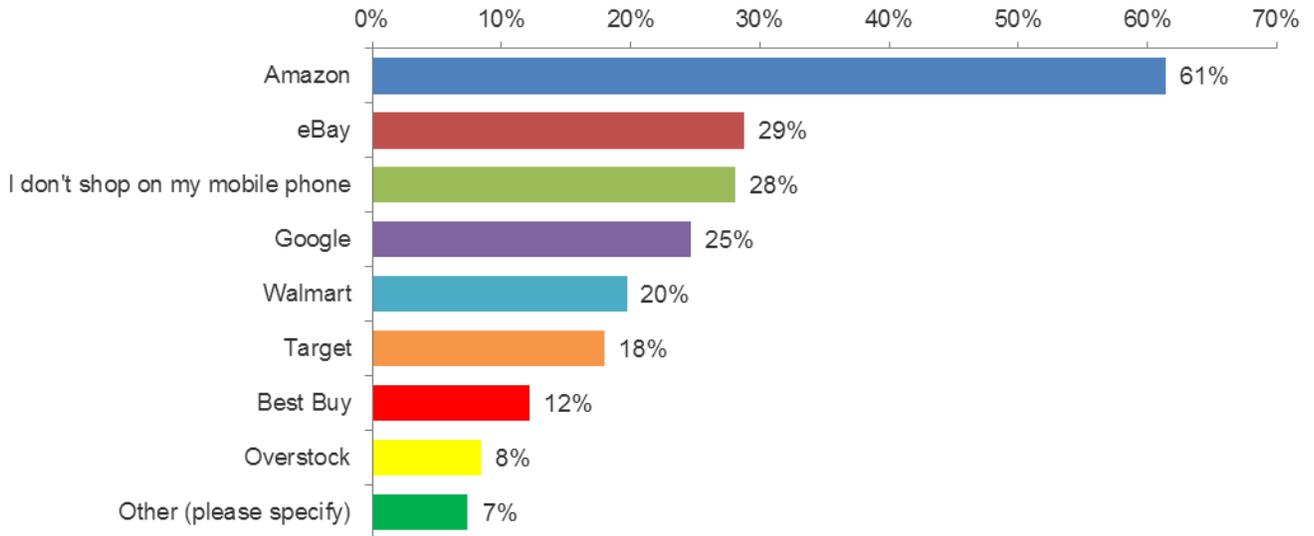
June 2015



Source: MSUSA, SurveyMonkey, N= 1,028 (June 2015)

Exhibit 9: Which mobile sites do you use on your phone for shopping? (Select all that apply)

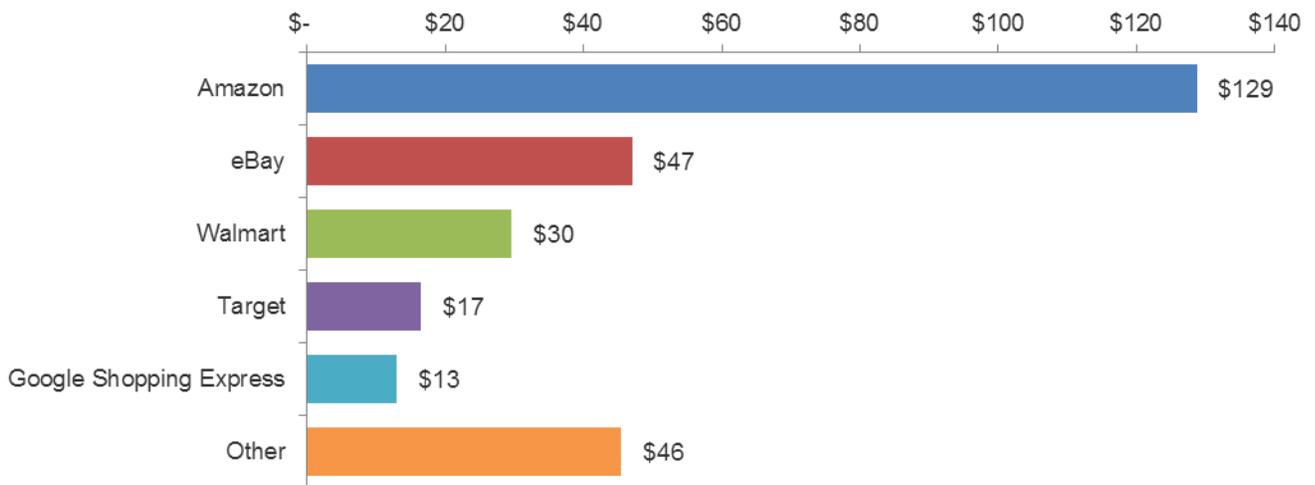
November 2015



Source: MSUSA, SurveyMonkey, N=1,004 (November 2015)

Finally, we wanted to get a sense as to how much people are spending on different sites. We found that our respondents are spending about \$130/month on Amazon, and ~\$50/month on eBay, and \$30/month on Walmart. What was surprising to us is that Target and Google Shopping Express are very similar in terms of monthly spend.

Exhibit 10: About how much money have you spent on online shopping from the following sites or apps in the past 30 days?



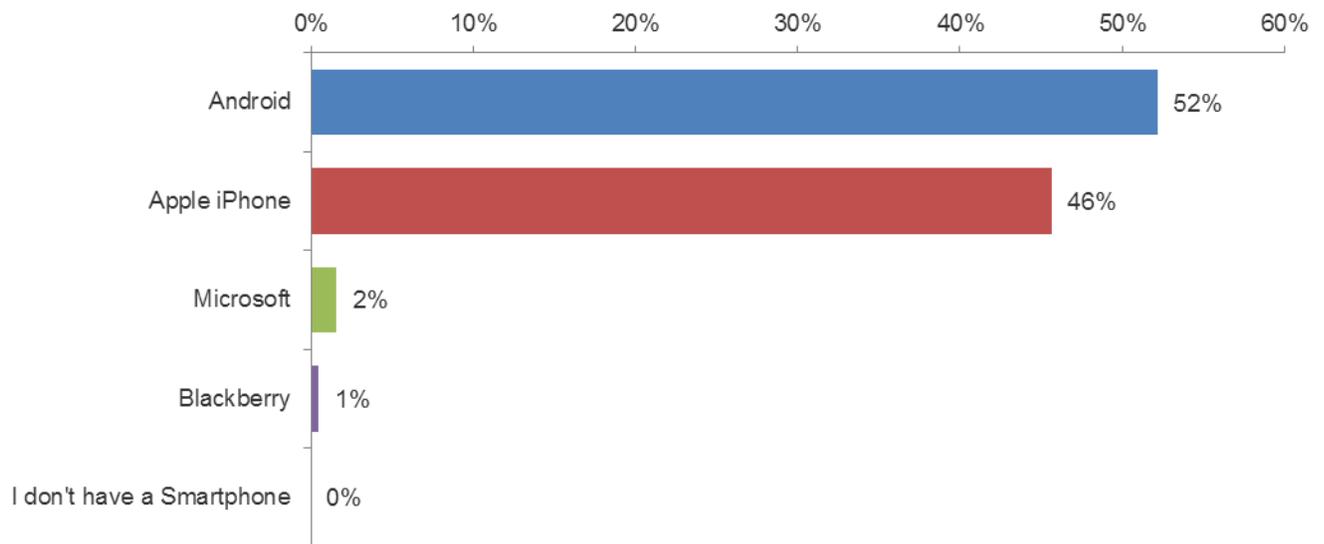
Source: MSUSA, SurveyMonkey, N=1,004 (November 2015)

Appendix: Mizuho Mobile Market Survey 2.0

Below is the full survey from our late-November 2015 Mobile State Affairs. Please contact us to discuss any of the additional findings, or for copies of the raw data or charts.

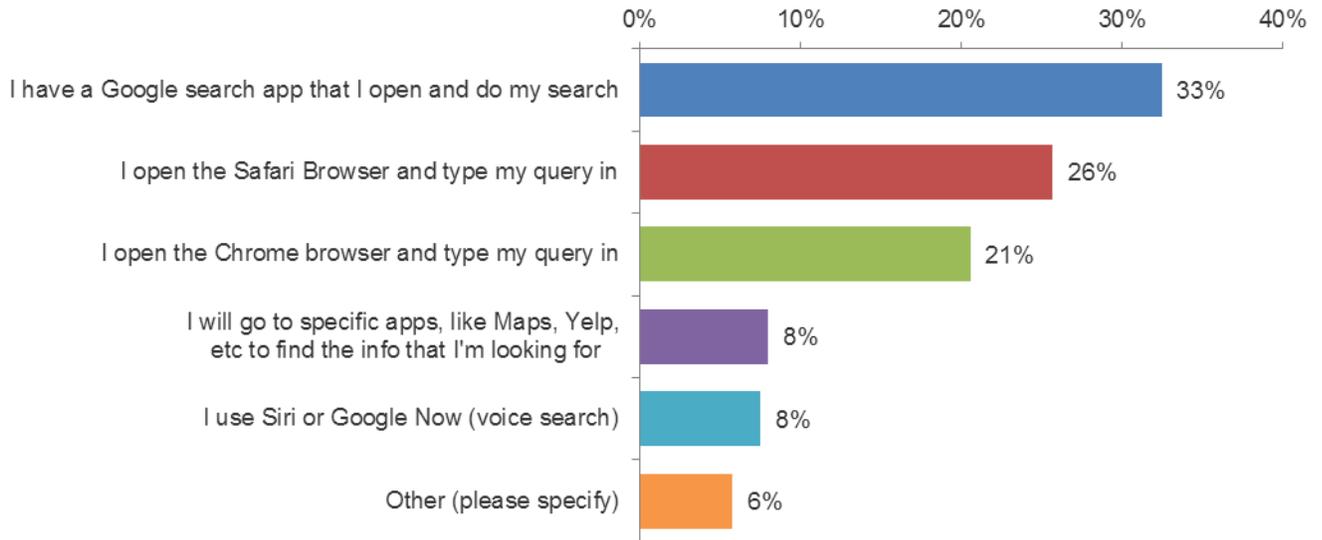
1. Mobile Overview

Exhibit 11: What type of Smartphone do you regularly use?



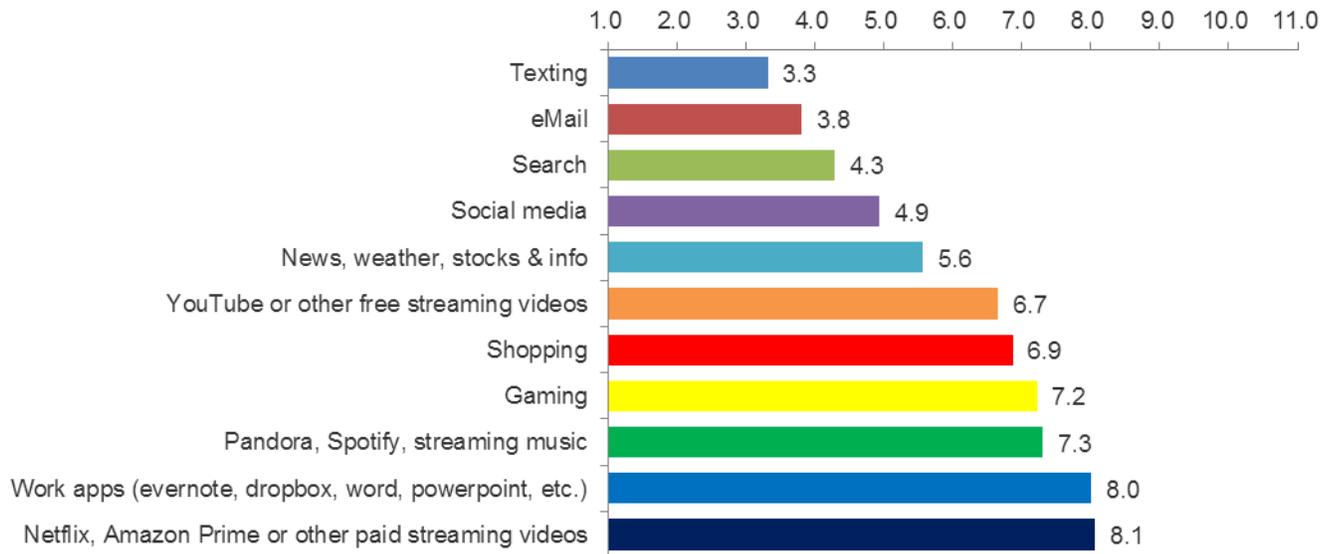
Source: MSUSA, SurveyMonkey, N=1,004

Exhibit 12: When you need to go online with your Smartphone, where do you go most often to find information?



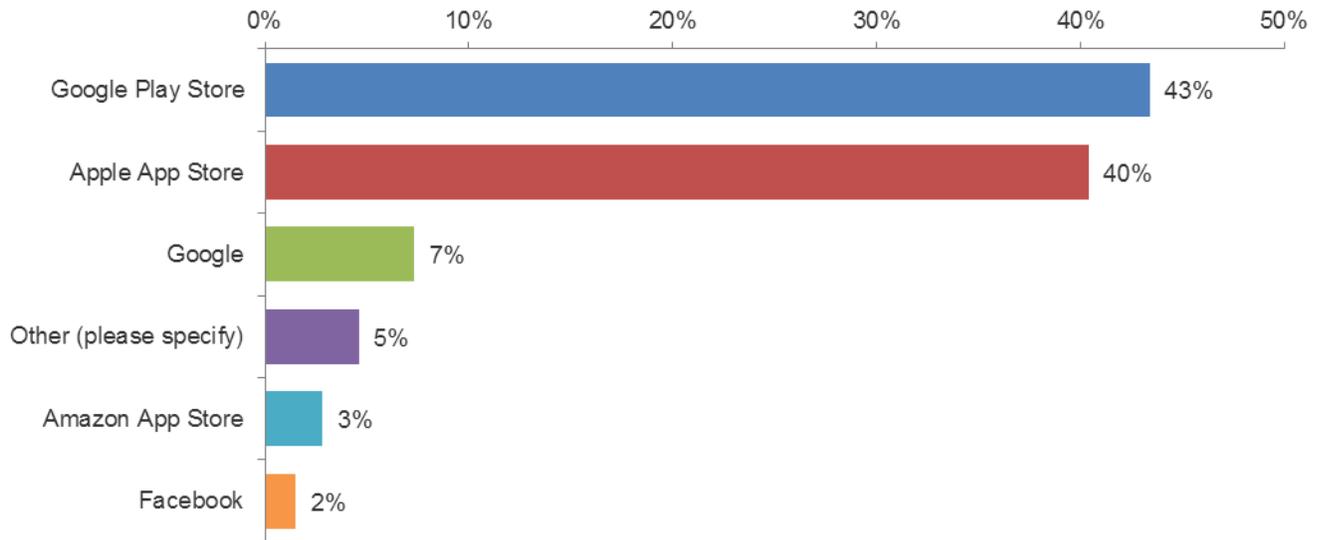
Source: MSUSA, SurveyMonkey, N=1,004

Exhibit 13: When you are on your mobile device, how do you spend your time? (1=most time spent, 11 = least time/no time spent)



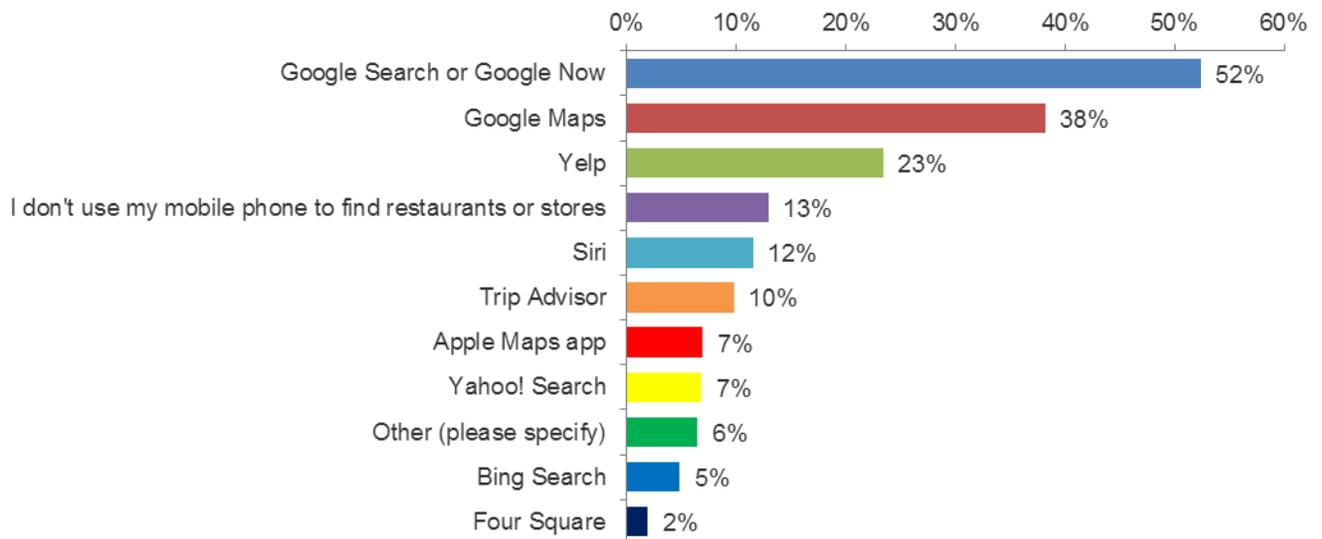
Source: MSUSA, SurveyMonkey, N=1,004

Exhibit 14: When you are looking to download a new app to your phone, where are you most likely to first go to look for that app?



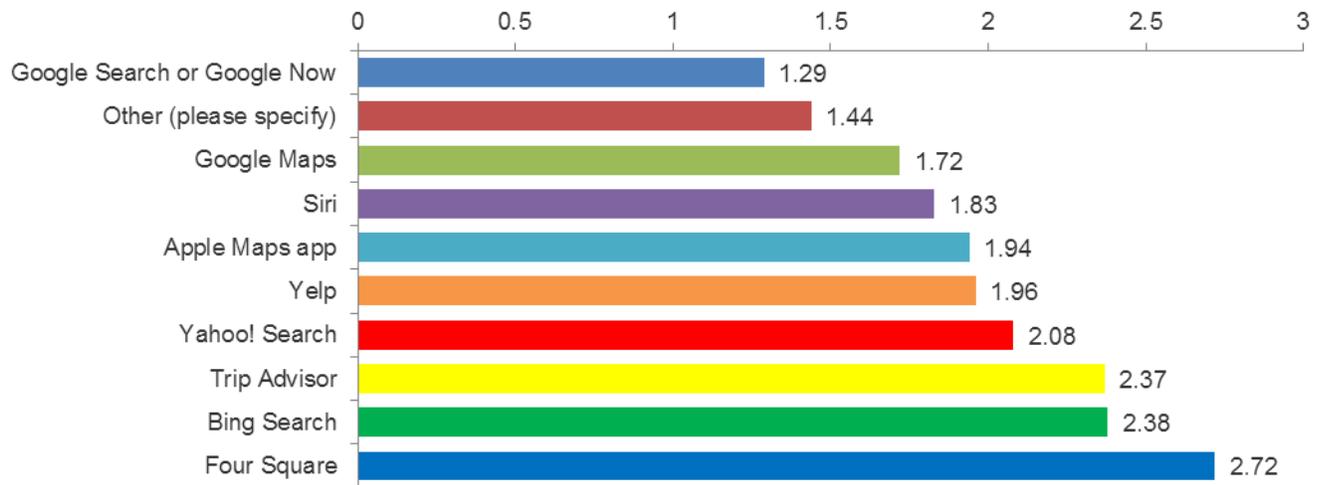
Source: MSUSA, SurveyMonkey, N=1,004

Exhibit 15: When you are using your mobile phone to find a local restaurant or store, what app or mobile site do you most often use?



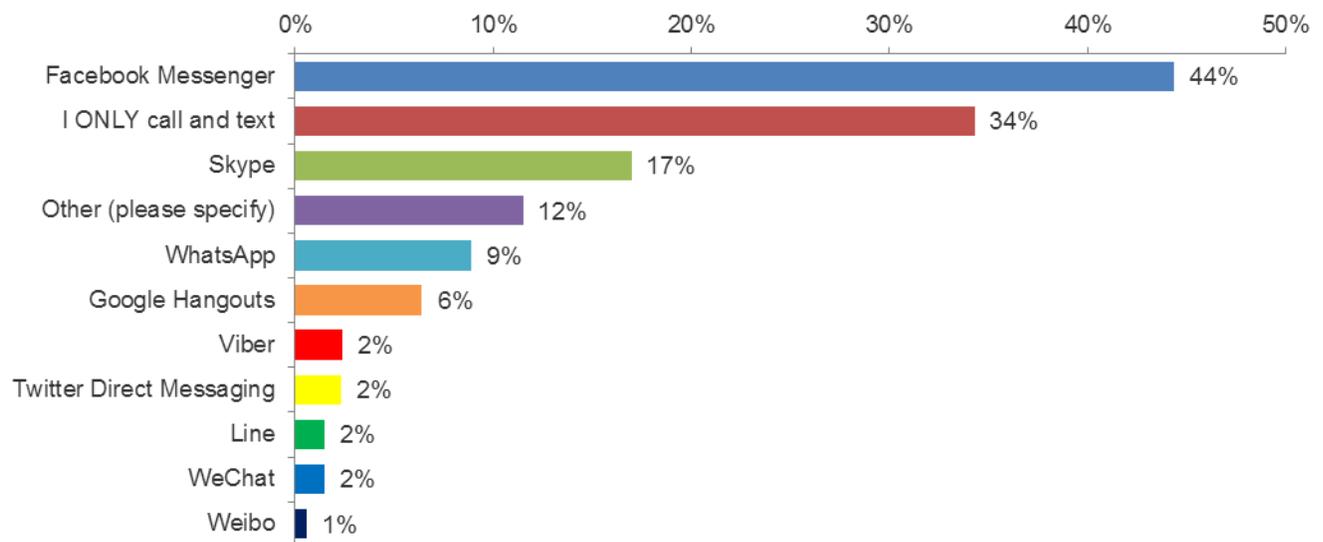
Source: MSUSA, SurveyMonkey, N=1,004

Exhibit 16: Please rank how often you use the following mobile sites to find a local restaurant or store. A rank of 1 being the most often.



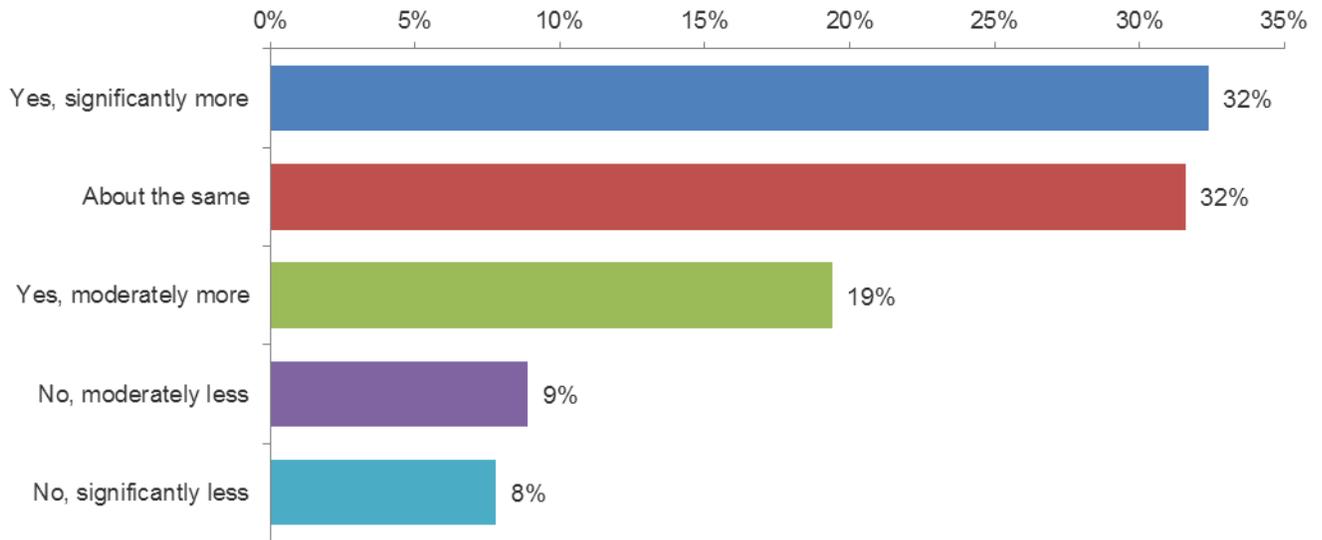
Source: MSUSA, SurveyMonkey, N=1,004

Exhibit 17: Outside of call and text, what is your most frequent means of communication?



Source: MSUSA, SurveyMonkey, N=1,004

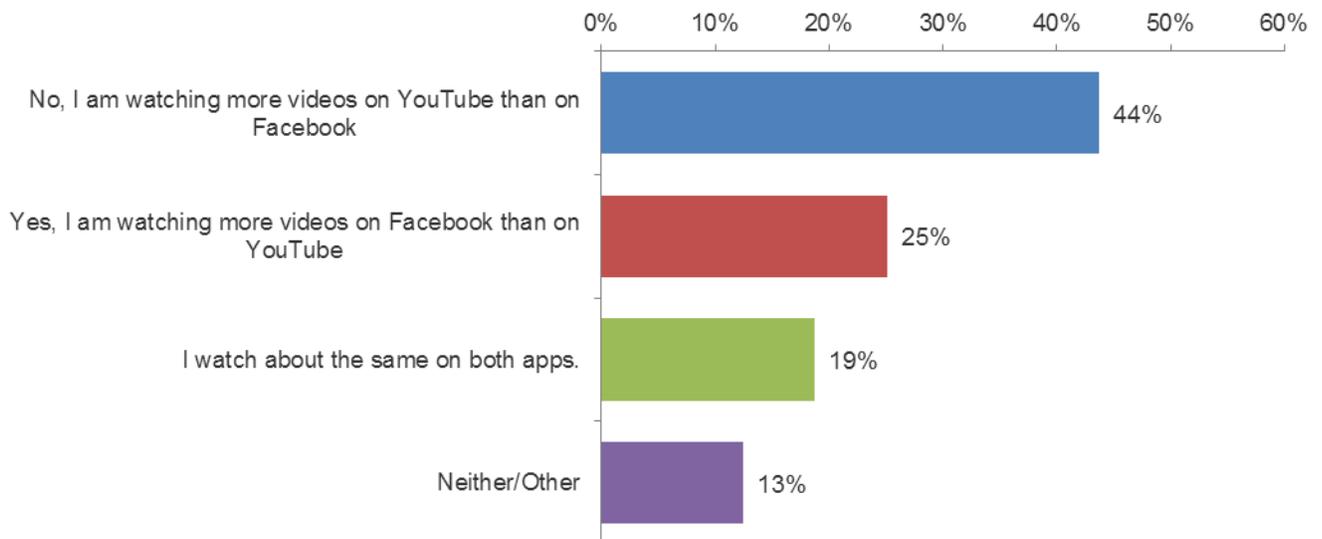
Exhibit 18: When comparing today versus a year ago, are you accessing the Internet from your phone more than your computer?



Source: MSUSA, SurveyMonkey, N=1,004

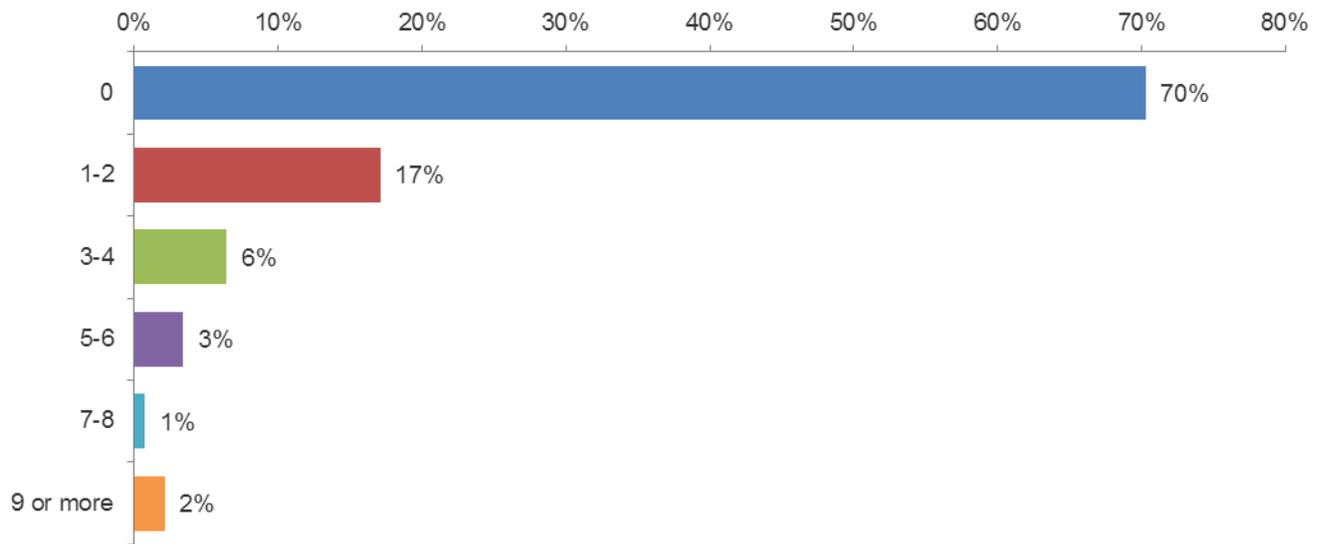
2. Facebook vs. Google

Exhibit 19: Over the last 3 months, do you find yourself watching more online videos via Facebook than YouTube?



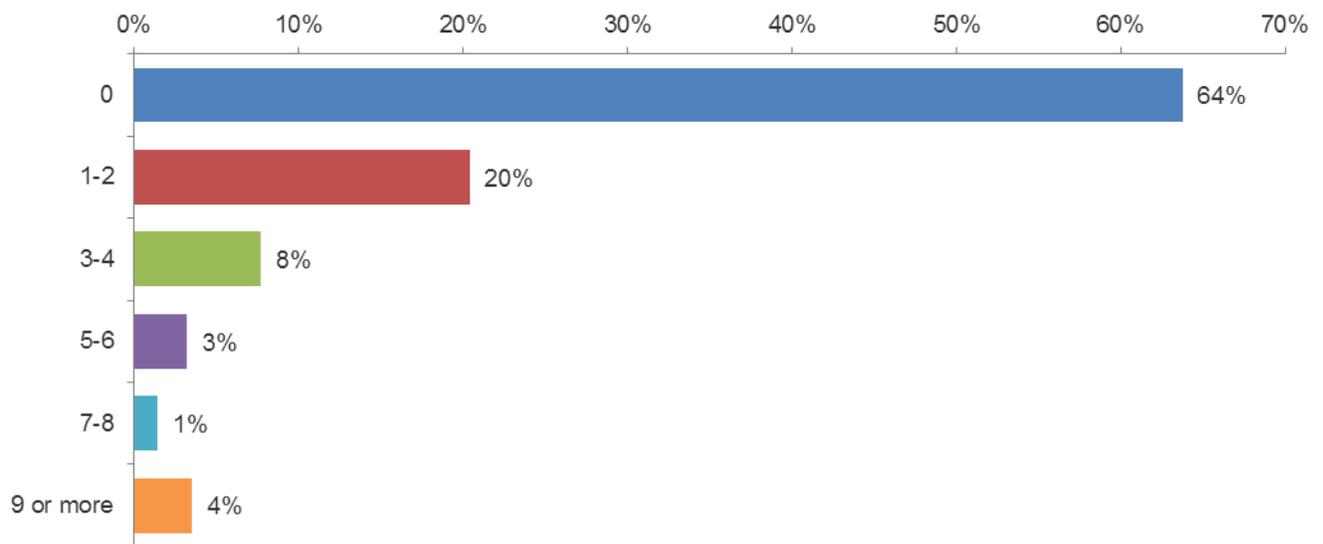
Source: MSUSA, SurveyMonkey, N=1,004

Exhibit 20: How many apps have you downloaded from Facebook in the past year?



Source: MSUSA, SurveyMonkey, N=1,004

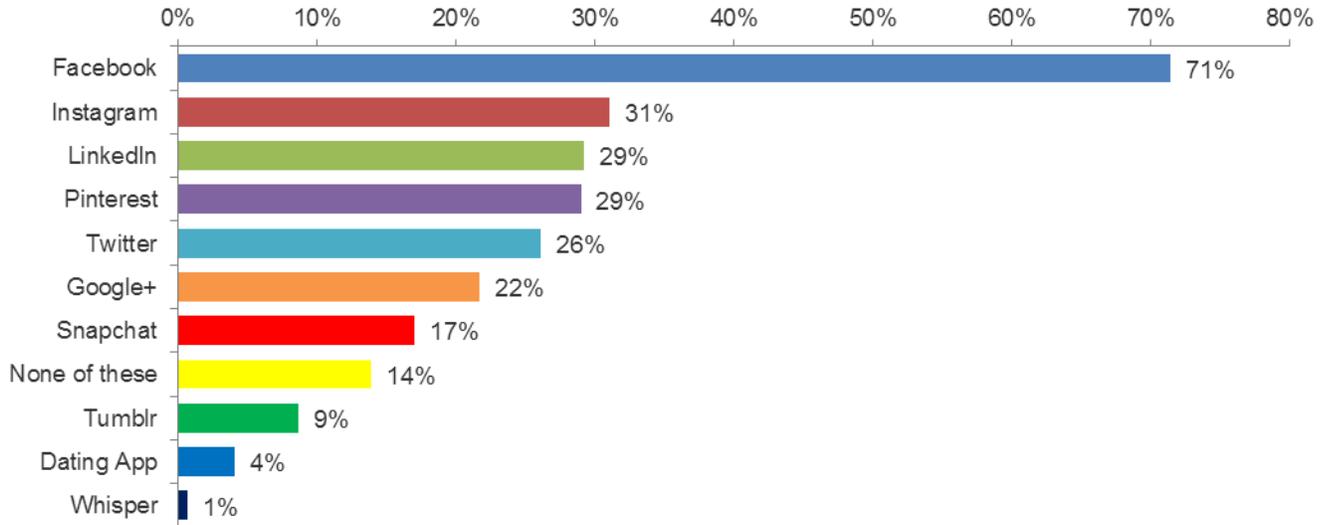
Exhibit 21: How many apps have you downloaded from Google Search in the past year? (Not Google Play app store)



Source: MSUSA, SurveyMonkey, N=1,004

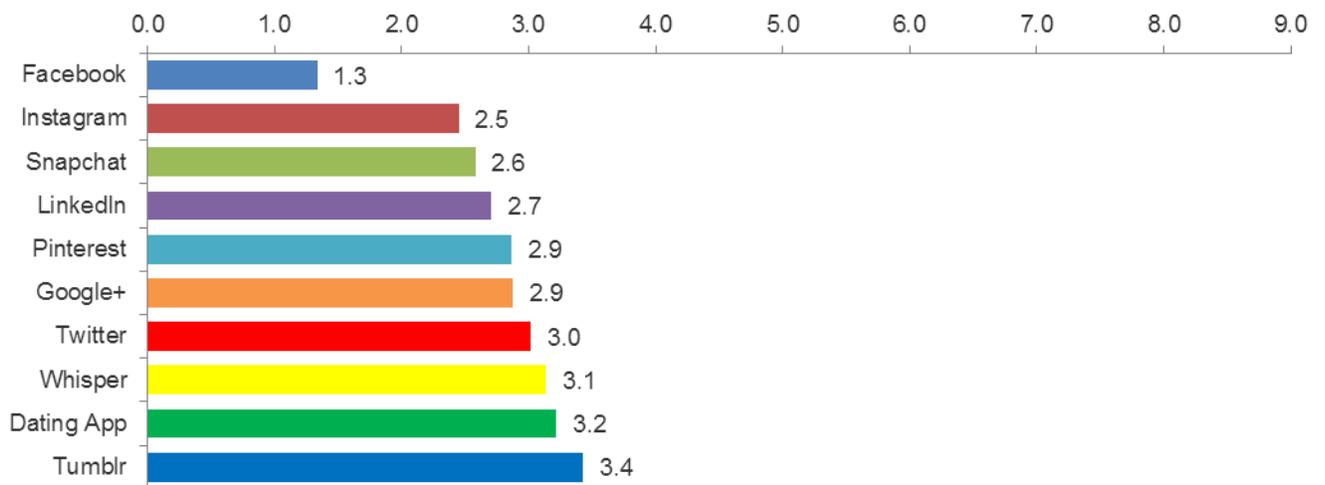
3. Social Media Trends on Mobile

Exhibit 22: Which social media apps do you use?



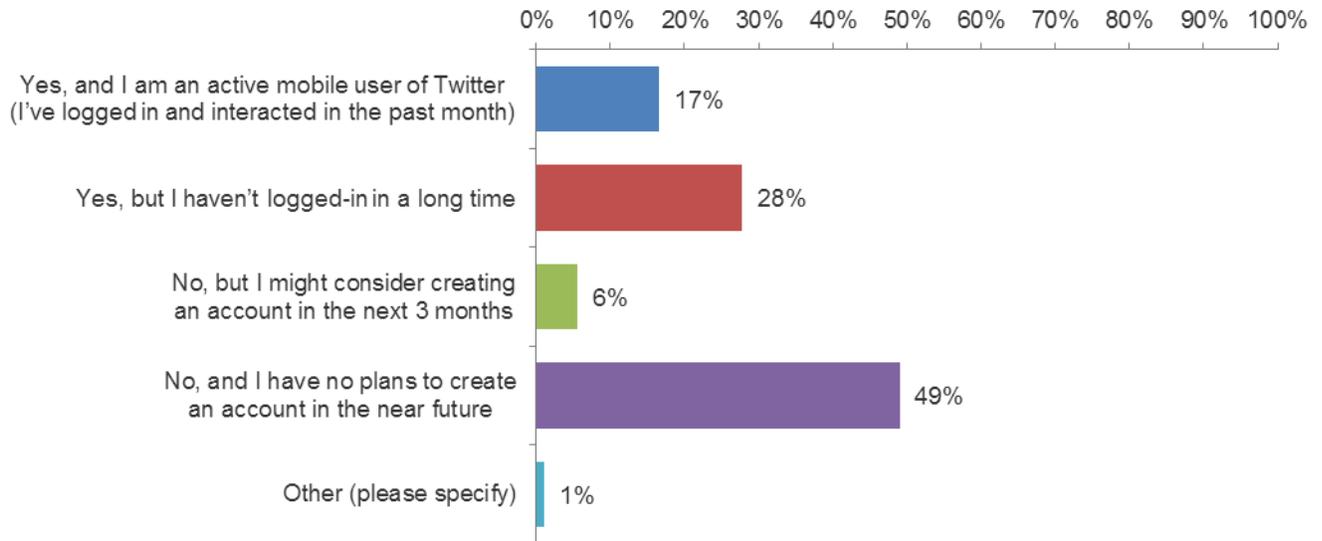
Source: MSUSA, SurveyMonkey, N=1,004

Exhibit 23: Please rank how often you use the following social media apps. A rank of 1 being the most often.



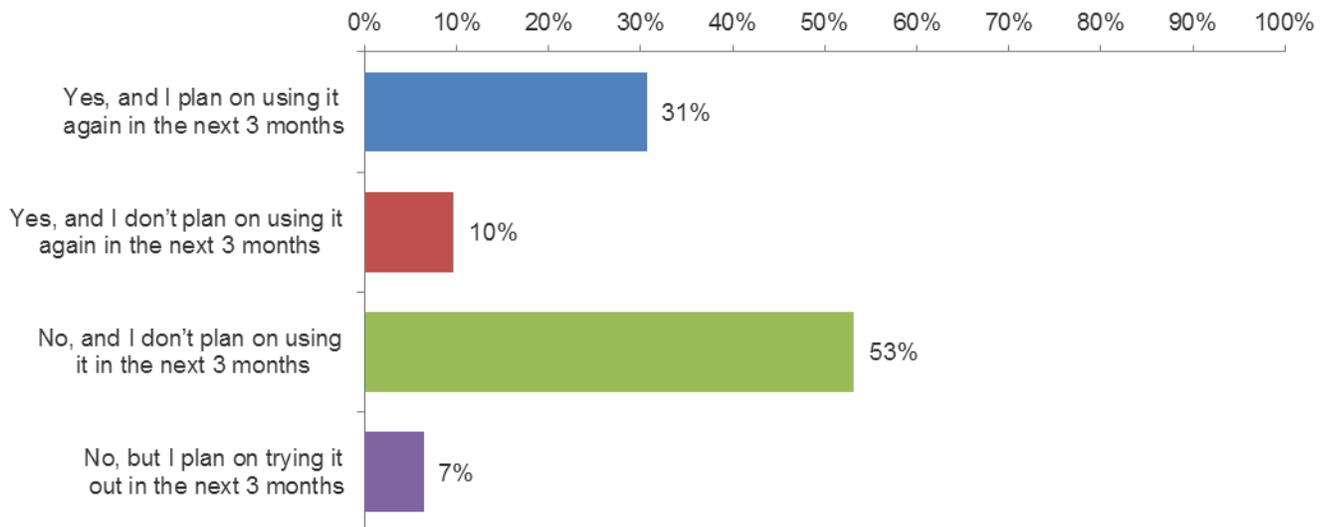
Source: MSUSA, SurveyMonkey, N=1,004

Exhibit 24: Do you have a Twitter account?



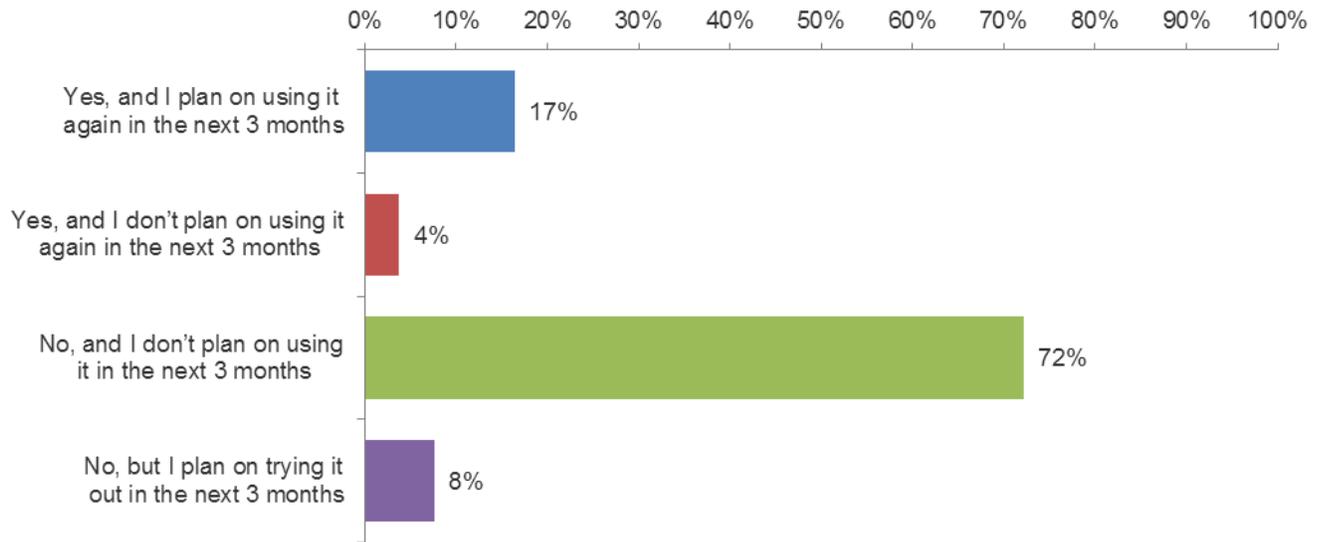
Source: MSUSA, SurveyMonkey, N=1,004

Exhibit 25: Have you used LinkedIn in the past 3 months?



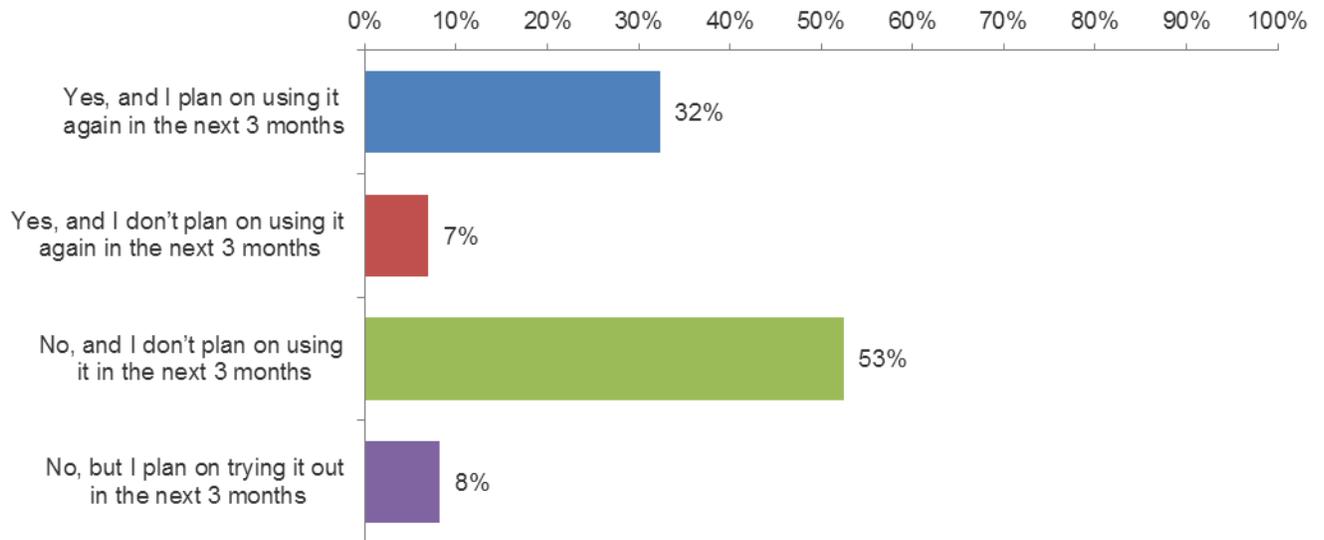
Source: MSUSA, SurveyMonkey, N=1,004

Exhibit 26: Have you used Snapchat in the past 3 months?



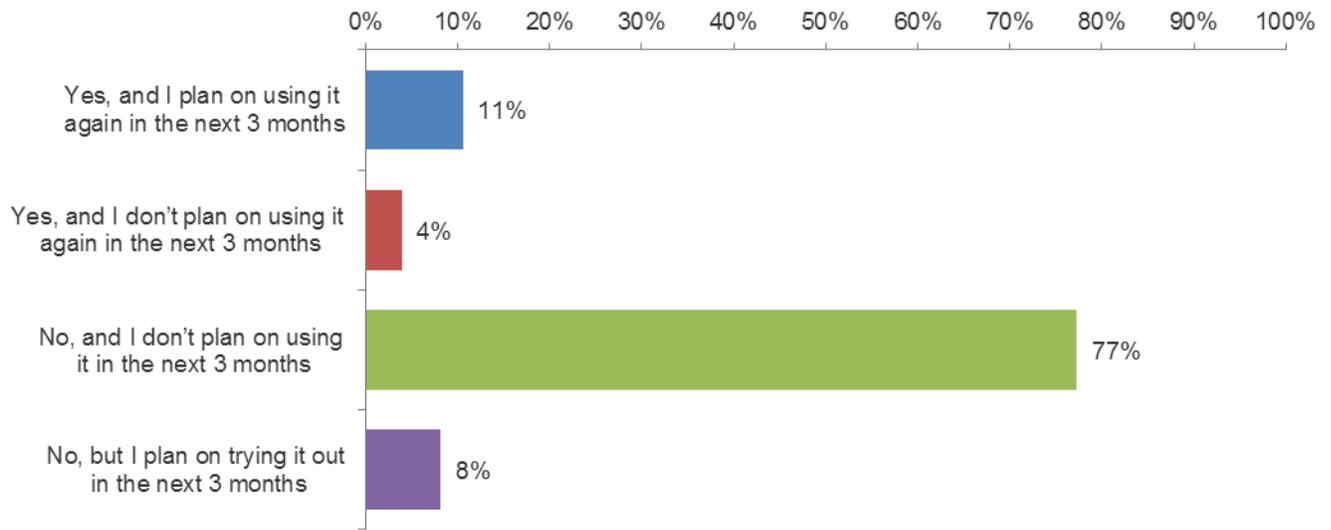
Source: MSUSA, SurveyMonkey, N=1,004

Exhibit 27: Have you used Pinterest in the past 3 months?



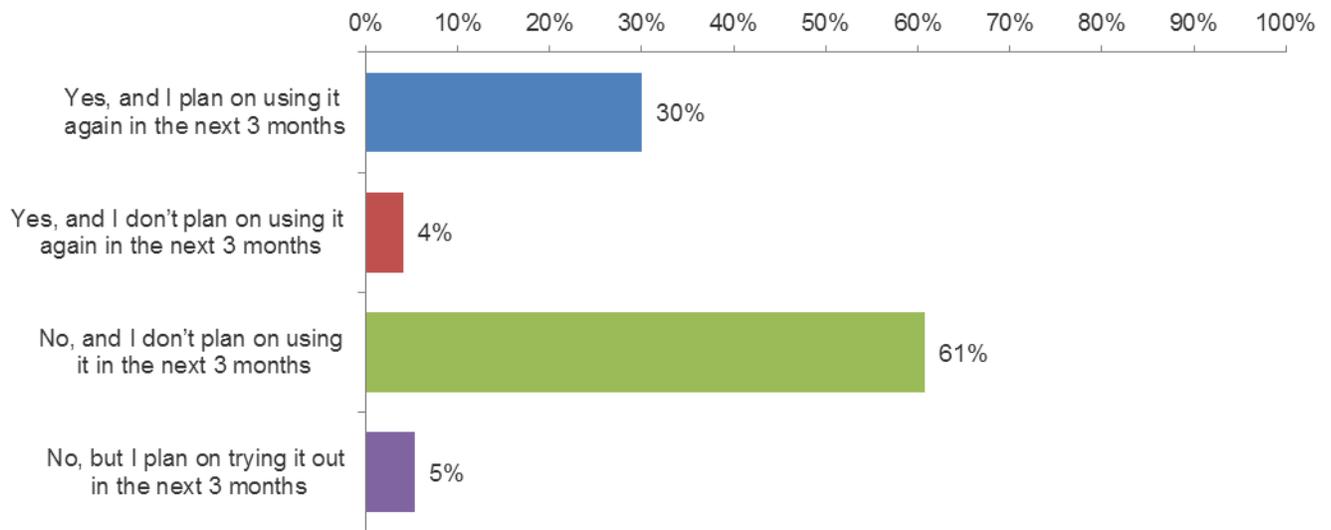
Source: MSUSA, SurveyMonkey, N=1,004

Exhibit 28: Have you used Tumblr in the past 3 months?



Source: MSUSA, SurveyMonkey, N=1,004

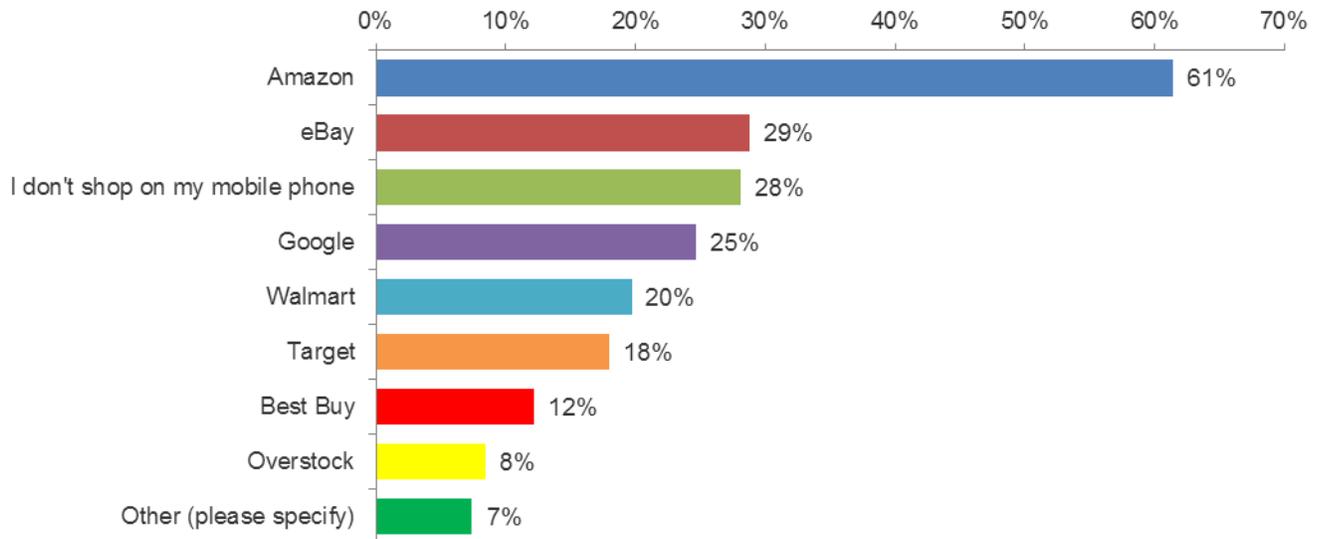
Exhibit 29: Have you used Instagram in the past 3 months?



Source: MSUSA, SurveyMonkey, N=1,004

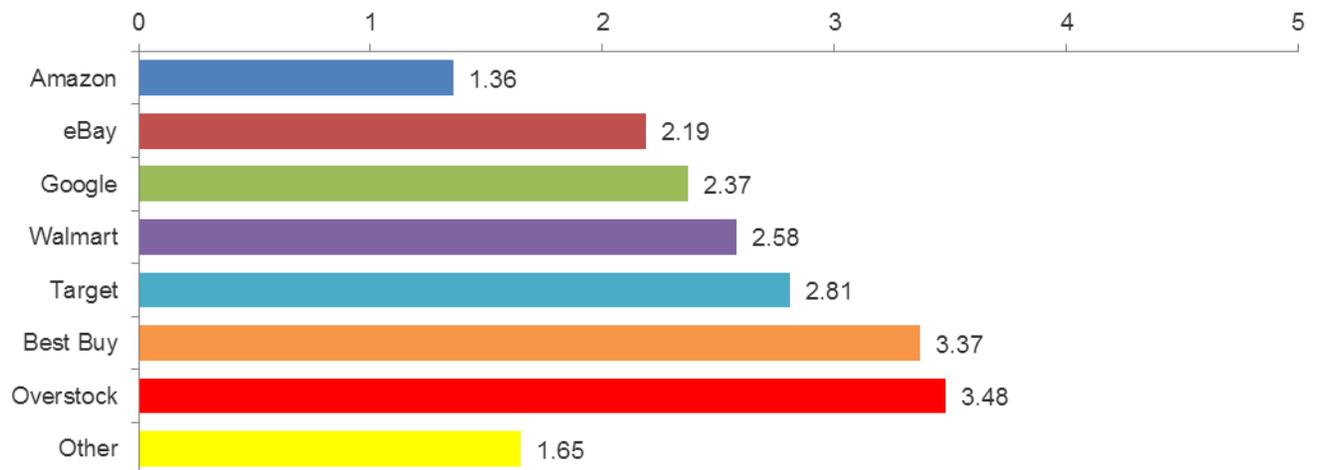
4. mCommerce

Exhibit 30: Which mobile sites do you use on your phone for shopping?



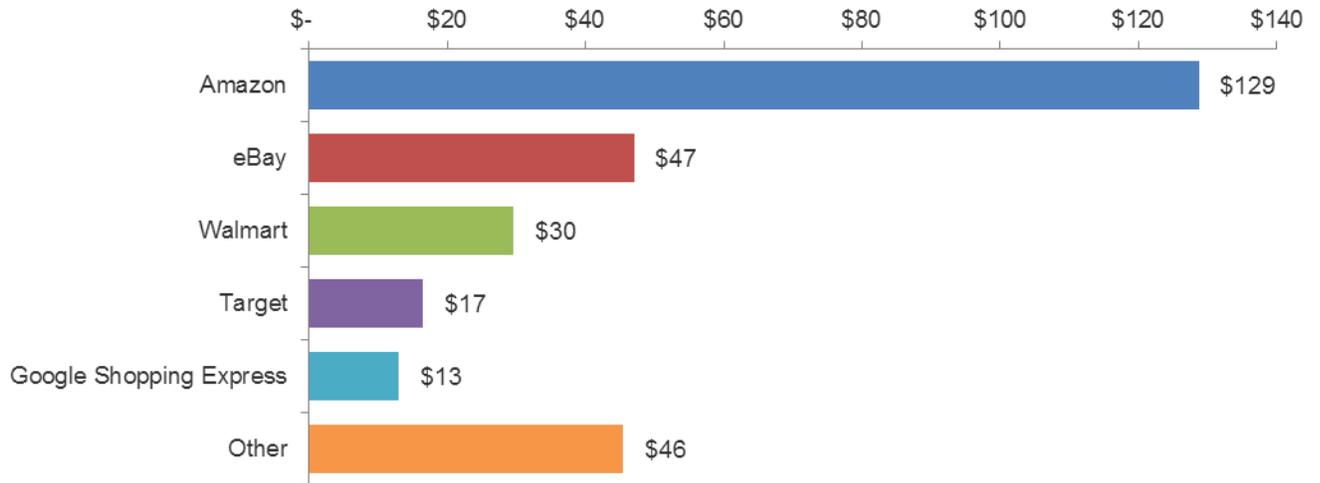
Source: Company reports and MSUSA.

Exhibit 31: Please rank how often you use the following mobile sites for shopping. A rank of 1 being the most often.



Source: MSUSA, SurveyMonkey, N=1,004

Exhibit 32: About how much money have you spent on online shopping from the following sites or apps in the past 30 days?



Source: Company reports and MSUSA estimates.

Price Target Calculation and Key Risks

Alphabet, Inc.

Valuation:

We use multiple valuation methodologies to arrive at our price target of \$850 for Google.

Using EV/EBITDA, we apply a target multiple of 12x multiple to our 2017 EBITDA of \$40.2 billion. Adjusting for 2016 year end net cash of \$90.5 billion and fully diluted shares outstanding of 699 million, we arrive at a target price of \$820.

On P/E basis, we apply a 22x multiple to our 2017 Non-GAAP EPS of \$39.95 to derive a target price of \$879. The average of these two methods yields a target price of \$849, which we round to \$850 (for convenience).

Key Risks:

Key risks to owning GOOGL stock include: 1) Intense competition from other online media properties like Facebook, Twitter, Yahoo!, and Microsoft Bing; 2) Intense competition from eCommerce companies like Amazon, eBay, and potentially Alibaba; 3) A multi-year, heavy investment cycle where pro forma operating margins have gone from the mid-50% range to the low 40% range; and 4) Regulatory concerns.

Amazon.com, Inc.

Valuation

Our \$720 target price is based on a blend of our P/FCF and P/S valuation methodologies, and supported by our DCF analysis.

Applying a 26.5x multiple to our 2017 free cash flow estimate of \$12.2 billion, we arrive at a target price of \$660. We believe AMZN could see multiple expansion as high margin businesses like 3P/FBA and AWS become more material. Our target multiple is largely driven off growth assumptions, but we also considered other factors such as new business opportunities, comparable company multiples, historical multiple ranges, and management's ability to execute. For context, Amazon currently trades at 32x our P/FCF estimate.

Using a P/S valuation, we apply a 2.5x multiple to our 2017 sales estimate of \$152.8 billion, while adjusting for 2015 year end shares to arrive at a target price of \$780. We acknowledge that this is a high multiple, but AMZN currently trades at 2.3x 2016 sales, and given the multiple levers of growth, we believe that such a high multiple is warranted.

The average of the P/S and FCF valuation methodologies results in a blended target price of \$720.

Risks

Risks to our target price include:

1) Competition - Amazon is no longer just a retailer. While it faces stiff competition on the retailing side from traditional and online retailers, it is also facing competition from eBay, Google, Apple, Alibaba, FlipKart, and others.

2) Potential for increased investments - While we do believe that Amazon is coming out of a multi-year investment phase, there are plenty of pans in the investment fire - Grocery, same day delivery, investments in China and India, and more. We believe that these investments could each cost several billion dollars if Amazon wants to be a leading player, and the ROI is hard to calculate. This would put pressure on CSOI and could result in the stock to fall.

3) European Corporate Taxes - Amazon may have to start paying taxes in Europe on a country-by-country basis, as the EU is cracking down on U.S. companies that have created tax-favorable reporting structures.

eBay Inc.

Valuation

We value EBAY on Non-GAAP P/E for 2017. We apply a 2017 P/E multiple of 12.5x to our '17 Non-GAAP EPS of \$2.32 which gets us to a target price of \$28.85, which we round to \$29 for convenience.

Risks

1. Competition - eBay faces stiff competition from other Internet and Platform companies like Amazon, Google, Apple, as well as from traditional retail firms like Target, Best Buy, and WalMart.

2. Execution issues. eBay faced a major security breach last year that impacted users coming back to eBay. Furthermore, Google made major changes to its algorithm to penalize low quality search results, and eBay was once of the sites that was hit the hardest.

3. Risks around the eBay and PayPal operating agreement. If eBay's payment contribution to PayPal falls below 80%, eBay will have to pay PayPal. These payments could impact financials for each of the companies.

4. Execution risk. Management for eBay have little experience running public companies. There is inherent risk in running businesses for quarterly results and meeting investor and business expectations.

Facebook Inc.

Valuation:

We use multiple valuation methodologies to arrive at our price objective of \$125, including Non-GAAP P/E and EV/EBITDA, supported by a DCF valuation. We are also rolling our valuation methodology to 2017 from 2016.

We are expecting multiple expansion, given new vectors of growth, new billion-dollar revenue opportunities, and the highest margin profile of any online media company.

We apply a 34x multiple to our 2017 Non-GAAP EPS of \$3.75 to derive a target price of \$128. For context, FB currently trades at 38x 2016 Non-GAAP P/E.

Using EV/EBITDA, we apply a 18x multiple to our 2017 EBITDA estimate of \$18.38 billion. Adjusting for 2016 year end net cash of \$22.4 billion and fully diluted shares outstanding of 2.88 billion, we arrive at a target price of \$122. For context, we note that Facebook currently trades at 21x 2016 EV/EBITDA.

The average of the P/E and EV/EBTIDA valuation methodologies yields a blended target price of \$125.

Risks:

Competition

Facebook faces intense competition from Internet platform providers, such as Google, Amazon, Microsoft, and Apple. Facebook is heavily dependent on the Apple iOS mobile platform, as well as Google’s Android mobile OS platform for growth. Facebook also faces stiff competition from other social networks, such as LinkedIn, Twitter, as well as private ones like Pinterest, Whisper, SnapChat, etc. Finally, Facebook does not have a hardware strategy that could potentially tie users to a “Facebook ecosystem”.

Margin Pressure

Facebook is investing heavily in its business, and rightly so. But this can (and has) put pressure on margins. We’ve seen EBITDA margins come down from a record high of 68% in 2Q14 to 60% in 3Q15, and Facebook’s guidance implies further margin erosion for the balance of 2015.

Regulatory Concerns

While Facebook has been relatively unscathed by regulatory issues thus far, Facebook has pushed the boundaries of sharing and pushing personal data. If Facebook continues to gain scale and market share, we believe that various government regulatory bodies could try to take action sooner. And if various governments force Facebook to limit or delete personal information of its members out of concern for people’s right to privacy, this could impact Facebook’s ability to use personal information to deliver more targeted ads.

LinkedIn Corporation

Valuation:

Our \$285 price target is based on an EV/EBITDA comparable valuation, and supported by our DCF analysis.

Using EV/EBTIDA, we apply a target multiple of 26x to our 2017E adjusted EBITDA estimate of \$1,397 million to reach an enterprise value of \$36.3 billion. Adjusting for 2016 end-of-year net cash of \$2.39 billion, we arrive at a market cap of \$38.7 billion, or \$284 per share. As one would expect given its position of competitive strength and growth opportunities, LNKD trades at a premium to various peer groups, including companies in the Internet, online career service, and online marketplace sectors. LNKD only trails smaller and faster SaaS companies in terms of its stock multiple. LNKD

currently trades at 22x our 2017 EBITDA estimate, but we believe the stock deserves a higher target multiple with several compelling levers to drive long-term profitable growth.

Risks:

1. Competition - The space for online professional networks continues to evolve and other major companies such as Facebook, Google, Microsoft and Twitter are developing or could develop solutions that compete with those offered by LinkedIn. Further, some of these companies are partnering with third parties to offer competing products. Outside of the U.S., other online professional social networks may better cater to local customs that may hamper the company's international growth plans into those territories (international revenues represent roughly 40% of the company's total revenue). The company also competes against smaller companies that may provide more focused solutions to groups of professionals within a specific industry or vertical.

2. Regulatory and corporate limitations - Changes in privacy laws could negatively impact the company's products and services, as well as its monetization efforts. Additionally, we have seen a growing number of companies limiting what their employees can post on LinkedIn – and therefore limiting the value of the professional network to those professionals and their connections.

3. A Possible Tool for Crime - There have been reports of criminals utilizing LinkedIn profiles to identify potential targets. For instance, cyber criminals could identify people in sensitive government or corporate positions on LinkedIn to be bribed, blackmailed, or victims of hacking activities. There is a treasure trove of personal and professional data and any major security breach could have significant financial and political consequences for the company.

Yahoo! Inc.

We use a sum-of-the-parts valuation analysis to value Yahoo! shares. In our analysis, we include our valuation estimates for: 1) Yahoo!'s ownership share in Alibaba Group, with a probability scenario for taxation; 2) Yahoo!'s ownership share in Yahoo Japan; 3) our estimate of Yahoo!'s net cash position at the end of 2015; and 4) our estimate of the value of the core Yahoo! franchise.

1) Alibaba Group: probability-weighted for IRS tax outcome yields \$22 per YHOO share in value. We use Mizuho Securities Analyst, Jin Yoon's \$86 price target for Alibaba as the base of our valuation. Given that there is uncertainty as to whether the SpinCo will be taxed (the IRS is considering changing its rule that spin-offs are exempt from corporate taxation), we use a 70% probability that the IRS will force Yahoo! to pay taxes and a 30% probability that the IRS won't. We modified our probabilities given the spotlight on the issue. We apply a 45% tax rate + illiquidity discount to both Yahoo! **This results in a total valuation of \$21.6 billion, or \$22 per share.**

2) Yahoo! Japan: combined Mizuho analysts' valuation work yields \$5 per YHOO share. We use the price target of 500 Yen, based on Mizuho Securities' Analyst Iwasa Shinsuke's valuation for Yahoo! Japan. We also use a share count of 57 million, and a USD-JPY exchange rate of ~122.5 Yen to \$1 USD to yield a market value estimate of approximately \$23.2 billion. We assume Yahoo!'s ownership share at 35%, apply

a 45% tax rate and liquidity discount. **This yields a valuation of the Yahoo! Japan holdings of \$4.5 billion, or roughly \$5 per share.**

3) Cash Position adds another \$6 per share. We estimate Yahoo!'s 2015 year-end cash position to be \$5.9 billion, or roughly \$6 per share. The company did no buybacks in 3Q, and while management is committed to doing buybacks, we believe they may pause on this front until the SpinCo transaction is complete.

4) Core Yahoo! Value: low multiple on mixed trends yields \$3 per YHOO share. We apply a 3.0x EV/EBITDA multiple to our 2016E EBITDA forecast of \$936 million, yielding a valuation of Yahoo!'s core operations of \$2.8 billion, or roughly \$3 per share.

In total, we estimate the 12-month prospective market value of Yahoo! at \$34.7 billion, or roughly \$37 per share.

Risks

Risks to our target price include: 1) Competition - as Yahoo! competes with larger platform companies like Google, Facebook, LinkedIn, Twitter, and others that are growing faster, and some of which have stronger balance sheets. 2) Sales management disruption - Yahoo! has experienced issues in sales leadership, and it is unclear if recent changes will hold up; 3) Potential taxes on Alibaba stake spin-off - The IRS and U.S. authorities are considering reversing a rule that allows for spin-offs in the form of share distributions to be tax free. If this ruling takes place ahead of the proposed 4Q spin-off, this would have a negative impact on the share price; 4) Declining display ad revenue - Yahoo! needs to show growth in its display ad revenue to regain credibility with the Street and investors.; and 5) Low margins - Yahoo!'s cost structure doesn't match its low-to-no growth revenue, which leads to continued pressure on margins.

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