

Thankful Thanksgiving + Black Friday eCommerce Sales

Adobe and comScore data points provide positive read-throughs for AMZN & GOOGL

Summary

We believe that AMZN, EBAY, GOOGL should benefit from the strong start in eCommerce sales from Thanksgiving. Third party sources indicate that eCommerce revenue was flat YoY or even accelerated, which we view as a positive. Furthermore, we believe that mobile conversion could be nearing a tipping point which would benefit the online players as well.

Key Points

Thanksgiving and Black Friday eCommerce sales appear flat-to-up YoY, better than our expectation. Per Adobe, eCommerce sales from the two days grew ~18%, flat with last year. We were expecting some deceleration so this was a positive surprise to us. And comScore data showed a material acceleration, with Black Friday sales up 19% YoY vs. up 12% in 2015. For comScore, we were expecting flat to a modest deceleration in eCommerce sales, so this acceleration was a positive surprise, especially with sales starting well before Thanksgiving.

Mobile conversions could be at a tipping point, which could accelerate growth in eCommerce. Both comScore and ChannelAdvisor noted that approximately 78% of total online traffic came from mobile devices, up a couple points from last year. ChannelAdvisor noted that mobile purchases hit 53% - a first time ever where mobile has exceeded desktop conversions.

Although early, we could see modest upside to Amazon's North America Revenue. With expect Amazon's North America 4Q16 revenue (excluding AWS) to grow to \$26.8B, up 24% YoY, a modest decel to 3Q's revenue growth of 26%. If this Thanksgiving holiday momentum carries into Cyber Monday and beyond, we believe there could be modest upside to our revenue growth estimate. We note that eBay also revamped its mobile site, and launched an ad campaign ahead of the holiday season, so we could see strength in eBay as well.

mCommerce tide should benefit Alphabet and Facebook. We are starting to see more conversions take place from mobile visits to mobile buying. In fact, we believe Alphabet should be the biggest benefactor of this trend as people continue to do more mobile commerce searches on Google as they get close to the bottom of that purchase funnel. And Facebook should benefit through new ad formats and product ads in the mobile newsfeed.

Company	Price Symbol(11/25)	Rating		PT
		Prior	Curr	
Alphabet, Inc.	GOOGL\$780.23	-	Buy	\$1,025.00
Amazon.com, Inc.	AMZN \$780.37	-	Buy	\$920.00
eBay Inc.	EBAY \$28.95	-	Neutral	\$32.00

Source: Bloomberg and Mizuho Securities USA

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Solid Start to 2016 Holiday eCommerce Sales

While the big Cyber Monday is still forthcoming, we believe that initial data points on Thanksgiving and Black Friday were generally positive for the eCommerce landscape. While we are still waiting for releases from Amazon and ChannelAdvisor, we are seeing solid growth from other third-party data sources.

More importantly, key eCommerce players continue to see a shift in buying behavior where more people are looking at their Smartphones and other mobile devices before completing the transaction. This should benefit Amazon, eBay and other eCommerce players, as well as the large marketers like Google, Facebook, etc.

- Adobe noted that Thanksgiving + Black Friday sales grew 18%, flat YoY, which is better than we expected; we would expect to see some deceleration.
- comScore eCommerce data showed material re-acceleration for Thanksgiving and Black Friday, which we believe bodes well for Amazon, Google, and eBay.
- NRF noted that 74% of shoppers went online on Black Friday, up from 73% a year ago.
- ChannelAdvisor noted that 70% of online Thanksgiving day traffic came from mobile devices, and that 53% of orders made came from mobile devices – the first time mobile orders has surpassed desktop orders.

Overall, we view these initial results as positive for Amazon, Alphabet, and eBay, as well as incrementally positive for Facebook.

Adobe E-Commerce Sales Flat YoY

According to Adobe, 75% of every dollar spent online with the top 500 U.S. retailers goes through Adobe Marketing Cloud so we believe this high volume offers compelling sales data. For 2016, \$5.27b was spent online across Thanksgiving Day and Black Friday, up 18% YoY. Taking a closer look at the two individual days, Thanksgiving Day sales were up 12% to \$1.93b, while Black Friday sales were up 22% to \$3.34b. A few things stood out to us from the Adobe press release:

- 1) Combined online sales across Thanksgiving Day and Black Friday showed strong sustained momentum of 18%, comparable to a year ago.
- 2) It appears consumers are shifting more of their shopping from Thanksgiving Day to Black Friday as sales growth for the latter was higher by 10 percentage points (22% vs. 12%).
- 3) More than half of visits to online retail websites were from mobile devices. Mobile represented 36% of Black Friday sales, up from 34% last year, but represented 55% of retail website visits.

- 4) In regards to video games, the Xbox was mentioned as the 5th top selling electronics product on Black Friday, while the PS VR and PS4 *Call of Duty: Black Ops III* bundle were mentioned among those products most likely to run out-of-stock.

Exhibit 1: Adobe Thanksgiving Day and Black Friday Sales

Shopping Period	2014	2015	2016
Thanksgiving Day	\$1.38	\$1.73	\$1.93
Growth, YoY		25%	12%
Black Friday	\$2.40	\$2.75	\$3.34
Growth, YoY		14%	22%
Combined	\$3.78	\$4.48	\$5.27
Growth, YoY		18%	18%
Mobile share of Black Friday sales	-	34%	36%

Source: Adobe data, MSUSA

comScore – eCommerce Sales Reaccelerate

comScore reported that 116m people visited online retail sites on Black Friday (22%/52m desktop and 78%90m mobile). According to the company, this year there were already ten billion-dollar spending days on desktop through Black Friday, vs last year where at this point only Thanksgiving and Black Friday had reached that threshold. Spend was not only up going into Thanksgiving, desktop spend on Thanksgiving Day was up 17% YoY to \$1.3b and on Black Friday was up 19% YoY to \$2.0b. E-commerce spend for the holiday season this year till Black Friday totalled at \$24.5b up 12% for the same period last year.

Exhibit 2: comScore Thanksgiving Day and Black Friday E-Commerce Spend

	2014	2015	2016
Thanksgiving Day (\$m)	\$1,009	\$1,096	\$1,287
Growth, YoY	32%	9%	17%
Black Friday (\$m)	\$1,505	\$1,656	\$1,970
Growth, YoY	26%	10%	19%

Source: comScore, MSUSA

ChannelAdvisor – Mobile Conversions Inflect

According to ChannelAdvisor, 70% of the traffic on Thanksgiving Day was from Smartphones with 78% of the traffic coming from mobile devices overall. ChannelAdvisor also reported that mobile devices accounted for 53% of the orders made and surpassed desktop for the first time. Mobile conversion rate continue to be low even on Thanksgiving with 2.1% from smartphones and 3.9% from tablets.

Same Store Sales for Walmart.com were up 40% YoY as of Thanksgiving Day. We are still waiting for YoY numbers for Alphabet, Amazon, and eBay. **Given the strength in mobile, we believe that Google PLA and Amazon should be the winners here.**

National Retail Federation

Per the NRF survey of 4,330 consumers, 154m consumers are expected to have shopped over Thanksgiving weekend this year, up from 151m in 2015. The average consumer is expected to spend \$289 vs \$300 in 2015.

Throughout the weekend an average of 44% of the shopper went online. The biggest day for online was Black Friday when 74% shopped online up from 73% in 2015. Thursday, Saturday, and Sunday were expected to have 36%, 49%, 34% consumers shopping online.

The survey also found that 28% of the consumers were interested in purchasing books, CDs, DVDs, videos, or video games as gifts. For context the survey expects 74% of the dollar spent by consumers to be spent on gifts.

Heavy Discounting of Video Games

Adobe noted that the Xbox was one of its top five items, and there was strong demand for Call of Duty Black Ops bundle. We also saw heavy discounting from virtually all of the major publishers, with key AAA games being offered at ~\$28. And of course, GameStop ran the \$1 trade-in promotion for Call of Duty Infinite Warfare.

Price Target Calculation and Key Risks

Alphabet, Inc.

Valuation:

We use a Sum-of-Parts valuation methodology to arrive at our price target of \$1,025 for Google. Core Google - This includes Google's Advertising business, Google Play, Hardware sales, Apps, and Google Cloud, among other things.

We estimate that Core Google will generate \$45.8 billion in 2018 Non-GAAP Operating Income. Adjusting for \$4500 million in Other Income, and factoring in a 18% tax rate, we arrive at a 2018 Non-GAAP EPS of \$53.9. We apply a 16x multiple to get to a valuation per share of \$863. Given Google's dominant share in online advertising, solid margin profile and top-notch management team, we'd expect to see multiple expansion from current levels.

Other Bets - This includes Calico, Autonomous Vehicles, Nest/Dropcam, Fiber and other businesses. We conservatively estimate that Alphabet's Other Bets will generate revenue of \$800 million in 2018. We assign a Price to Sales multiple of 6x (a discount to Unicorn valuations), and arrive at \$7 per share. .

The sum of Core Google (\$863) + Other Bets (\$7), as well as adjusting for \$155 per share in YE 2017 net cash, we arrive at our target valuation of \$1,025.

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

We are changing our valuation methodology from P/FC and P/S to a sum-of-parts methodology. For this, we look at Amazon's North America Retail Business, International Retail Business, and AWS.

- **North America Retail** – Taking our \$114.5b 2018 North American revenue estimate, we apply a 7% operating income margin and 35% tax rate to arrive at \$10.59 per share. Applying a 28x P/E multiple, we get \$297 per share, and applying a 1.4x P/S multiple, we get to \$326 per share. This averages to \$311 per share price.
- **International Retail** – We expect this business to lose money for the foreseeable future, hence we use P/S valuation. Applying a 1.5x multiple to our 2018 International revenue estimate of \$64.7b, we get \$197 per share.
- **AWS** – For 2018, we assume \$23.4b in revenue, and apply a 32% operating margin and 35% tax rate to get to \$9.96 in EPS. Applying a 40x P/E multiple, we get \$396

per share, and applying a 428x P/S multiple, we get to \$428 per share. This averages to \$412 per share price.

- **The sum of North America Retail (average valuation) + International Retail + AWS (average valuation) gets us to a \$920 target price.**

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 2018. We apply a 2018 P/E multiple of 14x to our '18 Non-GAAP EPS of \$2.31 which gets us to a target price of \$32.

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.

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