Similar Web - Key Takeaways On Global Mobile Trends

Facebook, Google and Amazon Appear To Dominate Mobile Usage

Summary

Yesterday, we hosted a meeting with Similar Web in San Francisco to discuss key trends in the mobile app sector. We met with CEO Or Offer, CFO Jason Schwartz, and Head of Product, Ankit Jain and discussed key topics including top apps around various regions around the world, how people spend their time on mobile devices, key mobile retail trends, and the rise of Zombie Apps. Companies that are in the best mobile positions include Facebook, Google, and Amazon.

Company	Symbol	Price (2/08)	Rating Prior	Rating Curr	PT
Alphabet, Inc.	GOOGL	$704.16	–	Buy	$1,070.00
Amazon.com, Inc.	AMZN	$488.10	–	Buy	$685.00
eBay Inc.	EBAY	$22.48	–	Neutral	$26.00
Facebook Inc.	FB	$99.75	–	Buy	$130.00

Source: Bloomberg and Mizuho Securities USA

Key Points

We met with Similar Web in San Francisco. Similar Web is an Israeli-based start-up in the digital market intelligence space that has one of the largest Internet-based panels to track online behavior through its free apps and software and ISP relationships. This includes over 200 million devices across the globe, which results in Similar Web capturing 1% of all online activity in 60+ countries every day. We believe this scale gives Similar Web a unique and rich perspective on key trends taking place on the traditional web and mobile ecosystems.

Facebook dominates mobile. On Android, Facebook continues to be leading app in terms of usage. But following Facebook is Google's Chrome Browser, then Google Search, and YouTube. When Similar Web dissects the data across various continents, Facebook's family of apps dominates in pretty much every major continent. In North America, Facebook accounts for four out of the six top apps in terms of daily active usage (these apps include Facebook, WhatsApp, Messenger and Instagram). #5 and #6 are SnapChat and Kik. A similar trend holds true for Asia, and in Europe, Facebook, WhatsApp and Messenger hold three of the top six apps.

Mobile share of total online still has room to grow. When comparing the average share of top 5 sites in key categories, Similar Web finds that mobile share of total online share is still less than 50% in many verticals. In Banking, mobile share is 38%, in News it is 47%, eCommerce is 48% and Travel is 60%. In our opinion, many people may be using their mobile device for shorter, targeted interactions. As a result, some of these verticals are still less than 50% penetrated. Mobile web share for online retail in India is 66% and 65% in the UK, while 56% in the US and 43% in Germany.

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Amazon seems to gaining share in mobile app installations. In the US, eBay's share of mobile app installs has declined from ~30% in January 2015 to ~20% in September 2015, while Amazon's share of installation has gone from 5% to ~13% in the same period (we were surprised that eBay had a greater share of app installs than Amazon). And in India, Amazon's share of app installations has gone from 5% to nearly 18% over the same period, and could soon overtake SnapDeal. Flipkart has the largest share in India at ~ 40%.

Zombie apps are the biggest issue that apps face. Zombie apps are those that go unnoticed, unused and are undiscoverable. Per SimilarWeb's data, 74%-83% of apps In the Apple App Store are comprised of Zombie apps, and the average phone has only 12 active apps per month out of an average of 125 installed apps. 90% of users keep an app installed for the first three months, 9% continue to use that app after three months, and the time to uninstall an app is around 8 months.

Price Target Calculation and Key Risks

Alphabet, Inc.

Valuation:

We use a Sum-of-Parts valuation methodology to arrive at our price target of $1,070 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 $39.1 billion in 2017 Non-GAAP Operating Income. Adjusting for $650 million in Other Income, and factoring a 17% tax rate, we arrive at a 2017 Non-GAAP EPS of $47.09. We apply a 20x multiple to get to a valuation per share of $942. For context, Alphabet's shares currently trade at 18x 2017 P/E. 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 $1.05b in 2017. We assign a Price to Sales multiple of 10x (a discount to Unicorn valuations), and arrive at $15 per share.

The sum of Core Google ($942) + Other Bets ($15), as well as adjusting for $113 per share in YE 2016 net cash, we arrive at our target valuation of $1,070.

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

Applying a 26x multiple to our 2017 free cash flow estimate of $11.1 billion, we arrive at a target price of $585. 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 24x our 2017 P/FCF estimate.

Using a P/S valuation, we apply a 2.5x multiple to our 2017 sales estimate of $153.9 billion, while adjusting for 2016 year end shares to arrive at a target price of $784. We acknowledge that this is a high multiple, but AMZN currently trades at 2.0x 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 $685.

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 13x to our '17 Non-GAAP EPS of $2.02 which gets us to a target price of $26.

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 $130, including Non-GAAP P/E and EV/EBITDA, supported by a DCF valuation.

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 32x multiple to our 2017 Non-GAAP EPS of $4.18 to derive a target price of $138. For context, FB currently trades at 31x 2016 Non-GAAP P/E.

Using EV/EBITDA, we apply a 17x multiple to our 2017 EBITDA estimate of $19.8 billion. Adjusting for 2016 year end net cash of $25.2 billion and fully diluted shares outstanding of 2.94 billion, we arrive at a target price of $123. For context, we note that Facebook currently trades at 17x 2016 EV/EBITDA.

The average of the P/E and EV/EBTIDA valuation methodologies yields a blended target price of $130.

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 66% in 4Q15, 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.

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Rating Distribution

(As of 2/08)	**% of coverage**	**IB service past 12 mo**
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Hold (Neutral)	47.49%	23.53%
Sell (Underperform)	0.56%	0.00%

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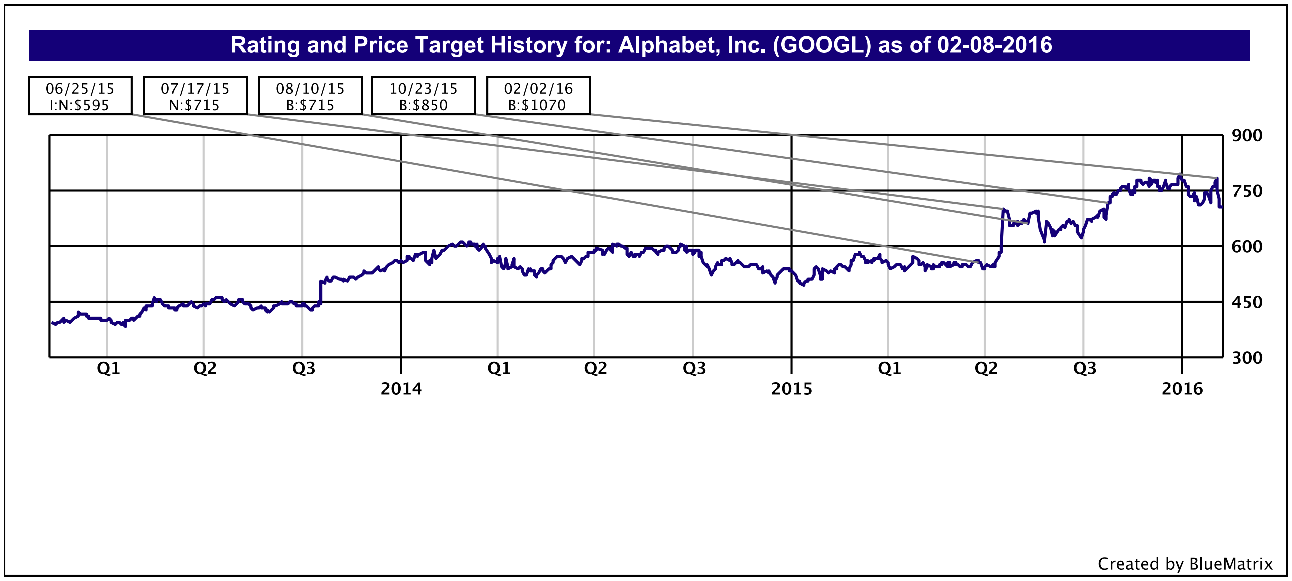
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10/23/15 B:$850
02/02/16 B:$1070
900
750
600
450
300
Q1
Q2
Q3
2014
Q1
Q2
Q3
2015
Q1
Q2
Q3
2016
Created by BlueMatrix


Rating and Price Target History for: eBay Inc. (EBAY) as of 02-08-2016
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07/17/15 N:$70
08/18/15 N:$30
10/22/15 N:$29
01/28/16 N:$26
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2014
Q1
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Q2
Q3
2016
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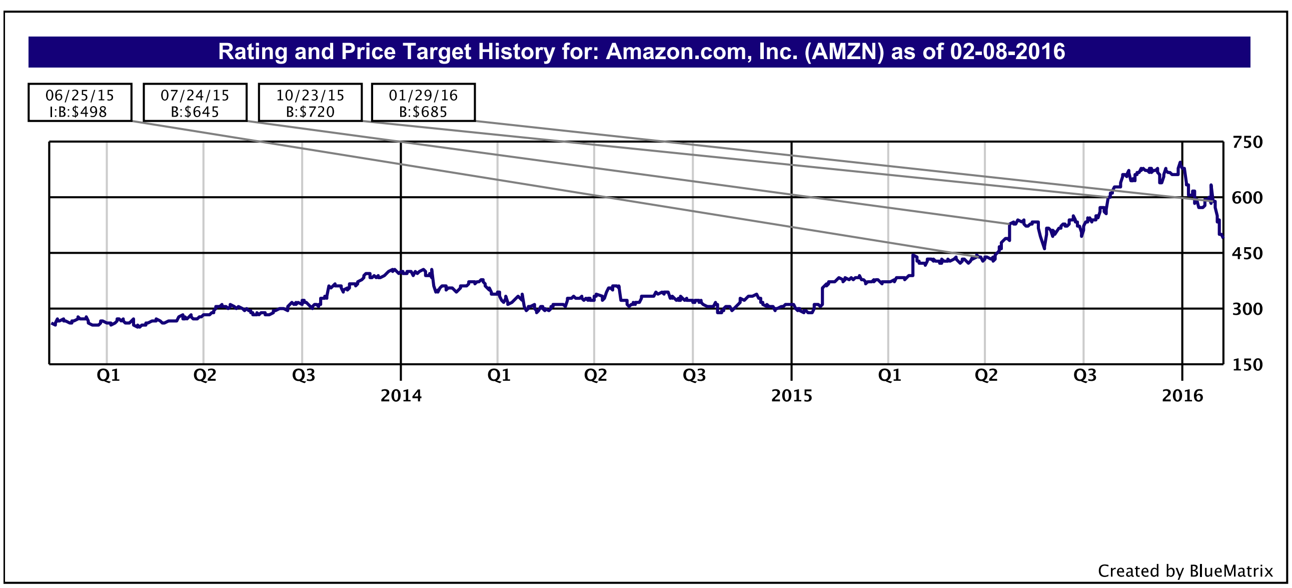
Rating and Price Target History for: Amazon.com, Inc. (AMZN) as of 02-08-2016
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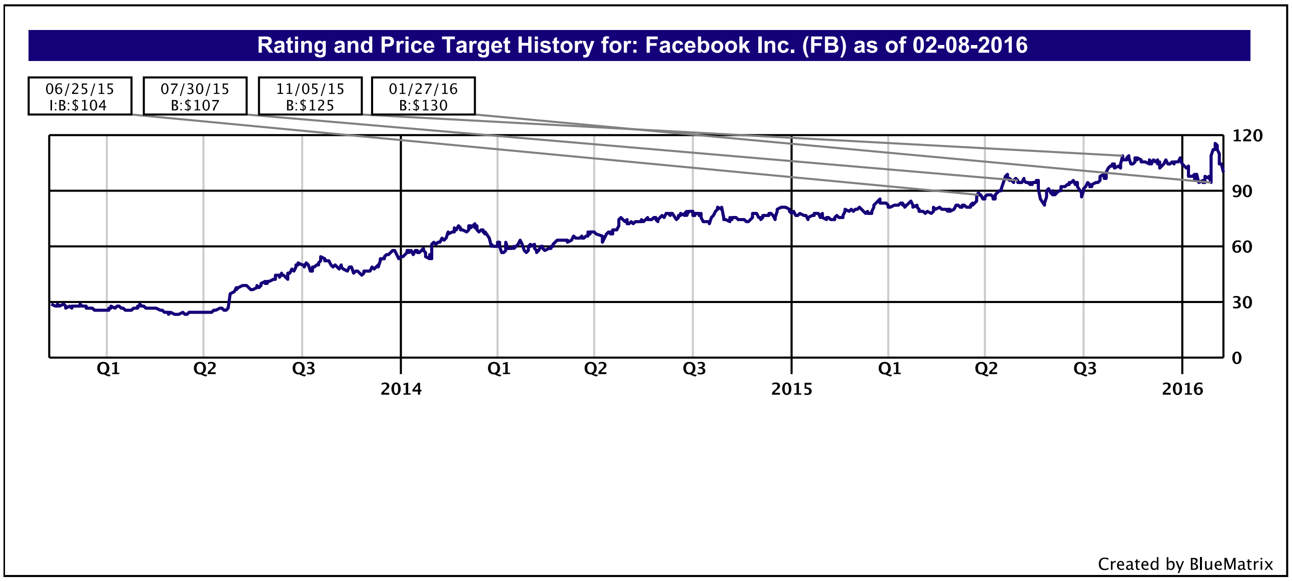

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