MIZUHO

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Technology Research

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Industry Commentary

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4Q15 EPS Post-Mortem For Internet / Interactive Media Sectors

Finding Quality Stocks After The Dust Settles

Summary

We've put together a quick post-mortem of how our coverage of companies performed in 4Q15, relative to expectations. Against a backdrop of macro concerns and weak market conditions, stocks that missed expectations were punished, and stocks that met or exceeded expectations were mixed. We try to make sense of what happened, and after all of the 4Q dust settles, we look to see which companies could be a good buying opportunity for investors.

Key Points

It was a tough 4Q15 EPS season. Of the 15 stocks we cover 6 reported 4Q revenue below Street expectations. For 1Q16 and/or 2016 guidance, 7 companies (AMZN, ATVI, EA, EBAY, LNKD, UBI and YHOO) guided below expectations, and 3 guided above expectations (GRUB, PYPL, TTWO). On average, stocks that guided below consensus are still down around ~(13%). Stocks that guided above consensus are now up ~8%.

Biggest losers were LNKD, FDC, and EBAY. LNKD's guidance caused significant concern among investors, and we saw a ~(44%) correction in the stock price the day after it reported. **FDC** traded off ~(16%) on a modest topline miss just two quarters after going public which spooked investors. Finally, **EBAY**'s guidance implied continued low growth and heightened macro risk as global economies start to slow.

Biggest winners were FB and PYPL. FB traded up ~16% the day after it reported, and is now up 11%. Fundamentals remain strong, and the limited operating expense guide was within Street expectations. **PYPL** also reported a beat and raise and the stock was up 8% the day after its 4Q EPS and up ~16% since. We continue to like these two stocks into 2016.

Biggest opportunities include GOOGL, GRUB, ATVI and AMZN. GOOGL remains one of our top picks as trends continue to impress. **GRUB** is gaining traction in orders and revenue from delivery. **ATVI** reported a very rare miss quarter, but core games remain generally strong. Finally, **AMZN** was hit hard and continues to trade down (16%) since it reported 4Q earnings. Concerns are multi-fold, but we continue to like AMZN's fundamentals, share gains, and the secular growth story.

Company	Symbol	Price (2/17)	Rating Prior	Rating Curr	PT
Activision Blizzard Inc	ATVI	$29.45	–	Buy	$35.00
Alphabet, Inc.	GOOGL	$731.97	–	Buy	$1,070.00
Amazon.com, Inc.	AMZN	$534.10	–	Buy	$685.00
eBay Inc.	EBAY	$23.22	–	Neutral	$26.00
Electronic Arts Inc.	EA	$59.84	–	Buy	$84.00
Facebook Inc.	FB	$105.20	–	Buy	$130.00
First Data Corporation	FDC	$10.67	–	Buy	$17.00
GrubHub, Inc	GRUB	$22.52	–	Buy	$26.00
LinkedIn Corporation	LNKD	$111.01	–	Neutral	$150.00
Netflix, Inc.	NFLX	$94.76	–	Neutral	$120.00
PayPal Holdings, Inc.	PYPL	$36.36	–	Buy	$40.00
Take-Two Interactive Software, Inc.	TTWO	$34.35	–	Buy	$41.00
Twitter, Inc.	TWTR	$17.46	–	Neutral	$15.00
Ubisoft Entertainment SA	UBI FP	€20.09	–	Neutral	€20.00
Yahoo! Inc.	YHOO	$29.37	–	Neutral	$29.00

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4Q15 Earnings Post-Mortem Winners & Losers

It was a tough 4Q15… This 4Q15 was filled with surprises, and most of them were not pleasant. Of the 15 stocks we cover in the Internet & Interactive Media sectors, 6 companies reported 4Q revenue below Street expectations, and two companies missed on EPS expectations. However, many tech firms benefitted by favorable tax rates due to the R&D tax credit which hit in 4Q. We highlight key stats and notes in Exhibit 1 on page 3 of this report.

…But guidance for 2016 was worse. For 1Q16 and/or 2016 guidance, 7 companies (AMZN, ATVI, EA, EBAY, LNKD, UBI and YHOO) guided below expectations, 3 companies guided mixed or in-line (FB, TWTR, NFLX), and three companies guided above expectations (GRUB, PYPL, TTWO). On average, stocks that guided below Consensus traded off ~(13%) three days after they reported, and are still down around ~(13%). Stocks that guided above Consensus traded up ~3% three days after they reported, and are now up ~8%.

Biggest losers were LNKD, FDC, and EBAY. **LNKD**'s guidance caused significant concern among investors, which implies that the company's growth will slow considerably over the next two years. We saw a ~(44%) correction in the stock price the day after it reported, which implies to us that the market no longer believes that LNKD deserves a high-growth/premium multiple. **FDC** traded off ~(16%) the day after the company reported earnings, but traded off ~(30%) a few days prior to reporting earnings. We believe that modest topline miss just two quarters after going public spooked investors, and the lack of guidance created greater uncertainty for the stock. **EBAY** also guided below Street expectations, as the guidance implied continued low growth and heightened macro risk as global economies start to slow. The stock traded off ~(13%) a day after reporting and is currently down ~(12%).

Biggest winners were FB and PYPL. **FB** traded up ~16% the day after it reported, and is now up 11%. Fundamentals remain strong, and the limited operating expense guide was within Street expectations. **PYPL** also reported a solid 4Q and bumped up the guidance for 2016. The stock was up 8% the day after its 4Q EPS and up ~16% since. We continue to like these two stocks into 2016.

Biggest opportunities include GOOGL, GRUB, ATVI and AMZN. Despite a solid beat and accelerating revenue trends, **GOOGL** traded up only 1% the day after reporting 4Q EPS and was has subsequently traded down 5% since. We see no compelling reason why GOOGL stock remains down, except that some investors are concerned about the back half of 2016 which will face tougher comps. **GRUB** positively pre-announced 4Q earnings and guided above Street expectations. More importantly, the company is seeing good traction in orders and revenue from delivery. **ATVI** reported a very rare miss quarter, its guidance fell below expectations, but core games remain generally strong. We believe the guidance was conservative and see a path for EPS upside. **AMZN** was hit hard, and continues to trade down (16%) since it reported 4Q earnings. Concerns are multi-fold, including increased investments in freight/logistics, greater fulfillment spending, costs associated with opening up 400 physical bookstores, and impact to margins from price cuts in AWS. While these are all credible concerns, we believe that most of will take time to develop over the course of years, not months. We continue to like AMZN's fundamentals, share gains, and the secular growth story.

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4Q15 Earnings Post-Mortem Analysis

Below we highlight how our 15 stocks under coverage performed relative to expectations.

Exhibit 1: Mizuho's Internet & Interactive Media 4Q15 Post Mortem Analysis

Company	Earnings Date	Closing Price on EPS	Price Δ 1 Day	Price Δ 3 Day	Price Δ Since 4Q EPS	Reported Rev ($m)	% vs. Street	Reported EPS ($m)	% vs. Street	Guide vs. Street	Notes
AMZN	01/28/2016	$635.35	(7.6%)	(13.1%)	(15.9%)	$35,747	(0.5%)	$1.00	(35.5%)	Below	Modest 4Q miss; Concerns around possible new investment cycle in freight and bookstores 1Q revenue guide in-line, while CSOI mid-point guide of $1.0b was behind Street's $1.3b
ATVI	02/11/2016	$30.52	(7.9%)	(3.6%)	(3.5%)	$2,118	(3.7%)	$0.83	(3.1%)	Below	Rare quarterly topline miss; weakness came from *Skylanders* and *Guitar Hero;* 2016 guide fell short of expectations; *Destiny* delayed to 2017
EA	01/28/2016	$69.79	(7.5%)	(13.1%)	(14.3%)	$1,803	(0.1%)	$1.83	1.2%	Below	In-line revenue and solid EPS beat for F3Q Light guidance with F4Q, primarily due to FX Hit FY target for *Battlefront* in F3Q, but heavier holiday discounting and lighter reorders in F4Q
EBAY	01/27/2016	$26.42	(12.5%)	(9.4%)	(12.1%)	$2,322	**0.3%**	$0.50	0.9%	Below	In-line 4Q, but disappointing guide for 1Q and 2016; Company continues to fix product pages; StubHub and Classifieds disclosure was positive, along with increased buyback.
FB	01/27/2016	$94.45	15.5%	21.9%	11.4%	$5,841	8.8%	$0.79	16.7%	In-Line	Solid 4Q beat; 3rd consecutive quarter of accelerating revenue growth; We see limited downside given that 2016 will have Olympics and political ad spend
FDC	02/09/2016	$11.10	(15.8%)	(15.0%)	(3.9%)	$2,964	(0.6%)	$0.32	23.1%	N/A	4Q revenue slightly missed, while EBITDA beat; Investor concerns over GBS and GFS missing expectations by 2%, along with no guidance given the complicated story
GOOGL	02/01/2016	$770.77	1.3%	(5.3%)	(5.0%)	$17,274	2.3%	$8.67	7.0%	N/A	3rd consecutive quarterly beat; revenues reaccelerated driven by mobile and YouTube Positive transparency with Other Bets, but operating expenses accelerated in 2H15
GRUB	02/04/2016	$21.53	(1.9%)	(10.6%)	4.6%	$100	**0.0%**	$0.19	0.0%	Above	Preannounced 4Q results that were ahead of expectations; positive commentary on delivery revenue and momentum 1Q and 2016 guide also beat expectations
LNKD	02/04/2016	$192.28	(43.6%)	(47.5%)	(42.2%)	$862	0.5%	$0.94	20.3%	Below	Solid 4Q beat, but 1Q and 2016 guidance significantly disappointed Phasing out Bizo, concerns about display advertising and high churn in Sales Navigator
NFLX	01/19/2016	$107.89	(0.1%)	(6.6%)	(12.2%)	$1,823	(0.2%)	$0.10	383.1%	Mixed	4Q revenue in-line, while EPS beat, with concerns about slowing U.S. subscriber base 1Q16 guide was mixed In both cases, U.S. net adds were below expectations, while Int'l was materially above.
PYPL	01/27/2016	$31.59	8.4%	17.4%	15.1%	$2,556	1.7%	$0.36	4.5%	Above	4Q beat and guindace ranges that bracketed consensus estimates; TPV accelerated 29% YoY and company is seeing solid traction with Venmo adoption
TTWO	02/03/2016	$32.83	6.9%	2.4%	4.6%	$487	7.3%	$0.89	78.5%	Above	Solid F3Q beat and F4Q raise despite no major title launches; company continues to make good on annual profitability.
TWTR	02/10/2016	$14.98	(4.5%)	9.2%	18.0%	$710	**0.0%**	$0.16	31.6%	Mixed	Strong 4Q EBITDA/EPS beat, but mixed guidance for 1Q 1Q revenue guide was lower than consensus, while EBITDA guide was higher
UBI	2/11/2016	€ 20.90	(9.1%)	(7.3%)	(3.9%)	€ 562	(14.6%)	-	-	Below	F3Q16 Miss & Lower 4Q15 guide on weaker-than-expected AC: Syndicate sales Initial F17 rev guide was above consensus, while EBIT was below No *Assassin's Creed* in 2016
YHOO	02/02/2016	$29.06	(4.7%)	(3.8%)	1.1%	$1,002	5.7%	$0.13	3.4%	Below	4Q beat, but disappointing guidnace for 1Q and 2016; strategic plan underwhelming - another year of restructuring; Selling non-core assets

Source: Company reports, Factset. Stock price as of February 17, 2016

Price Target Calculation and Key Risks

Activision Blizzard Inc

Valuation

Our $35 PT is based on 2017 EV/EBITDA valuation framework.

1) Using EV/EBITDA valuation, we value shares of ATVI at $34 based on 13x our 2017 EBITDA estimate of $2.5 billion. This yields an implied firm value of $29.2 billion. After adjusting for year-end 2016 net debt of $2.4 billion and shares of 779 million, we arrive at a target price of $34. For context, ATVI trades around 10x 2017 EV/EBITDA. Given the strong management team, solid title slate and transition to digital, we believe that the firm warrants multiple expansion from current levels.

2) Using Non-GAAP P/E valuation, we value ATVI shares at $36. We apply a 18x multiple to our 2017 Non-GAAP EPS of $1.98 to arrive at a valuation of $36. For context, ATVI shares trade at ~15x 2016 P/E, and for the reasons mentioned above, we'd expect multiple expansion.

The average of these two valuation methodologies gets us to a target price of $35.

Risks

1) Competition - ATVI faces heavy competition from other game publishers, including EA, TTWO, and UBI. Furthermore, ATVI faces competition from first party studios, online/mobile game companies like Zynga and King, as well as from thousands of smaller developers.

2) King acquisition could come with some integration risk as well as add lower visibility into future guidance due to the fleeting nature of mobile casual gamers.

3) Destiny's success is questionable. Investors were expecting Destiny to be ATVI's next billion dollar franchise, but the game fell well below expectations. We believe that recent DLC releases have been well received, and Destiny is on its way to becoming another $B franchise for ATVI, but it will take longer than investors expected.

4) Margin cap? ATVI has the best margin structure of any of the publishers, but at 32%, we are expecting modest margin improvement of the next three years. It is possible that margins move faster and higher than we are modeling, but it will depend on the success of new FTP and digital content that ATVI releases.

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.

Electronic Arts Inc.

Valuation:

Our price target of $84 is based on a combination of valuation methodologies, including F2017 EV/EBTIDA and F2017 Non-GAAP P/E.

Using EV/EBTIDA, we apply a target multiple of 15x to our F2017 EBITDA estimate of $1.6 billion to reach an enterprise value of $23.9 billion. Adjusting for F2016 end of year net cash of $3.2 billion (we are not assuming further share repurchases, and we are treating the convert as debt), we arrive at a market cap of $27.1 billion, or $83 per share.

Using P/E, we apply a target multiple of 24x our F2017 Non-GAAP EPS of $3.50 to reach a price target of $84. Adjusting for F2016 end of year net cash of $3.2 billion, results in a more reasonable P/E target multiple of approximately 21x excluding net cash of approximately $10 per share. Using the average of the three methodologies, we arrive at a target price of $84.

Risks:

1) Competition - EA competes heavily with other publishers like ATVI, TTWO, Nintendo, and first party platform studios from Sony and Microsoft. New game development can be very costly, and stakes are high if a game fails.

2) Online Woes - EA has had issues in the past regarding large scale multi-player, and this has resulted in weak sales of particular games, loud complaints from players, and selling pressure on the stock.

3) Possible margin expansion ceiling. Given EA's reliance on licensed IP vs. its own IP, EA has a structural disadvantage on margin expansion potential as it must pay 20-30% of its revenue to the IP owners.

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.

First Data Corporation

Valuation

Our $17 price target is based on EV/EBITDA and P/E comparable valuations. We apply a target multiple of 12x to our 2017E adjusted EBITDA estimate of $3.2 billion to reach an enterprise value of $31.8 billion. Adjusting for 2015 end-of-year net debt of $18 billion, we arrive at a market cap of $14 billion, or $14 per share.

On a P/E basis, we apply a target multiple of 12x our 2016 Non-GAAP EPS of $1.63 to reach a price target of $20. Using the average of the two methodologies, we arrive at a target price of $17.

Risks

First Data could be impacted by slowing economies in the U.S. or international markets, FDC could faces increased competition from Chase's new ChasePay solutions, and risks to the firm's technology investments not panning out as expected.

GrubHub, Inc

Valuation

Our $26 target price is based on EV/EBITDA and P/E methodologies.

For EV/EBTIDA, we apply a 12x multiple to our 2017 EBTIDA estimate of $157 million, and then adjust for YE16 cash of $$428 million and shares of 87 million to get to $27/share.

On P/E basis, we apply a 26x multiple to our 2017 Non-GAAP EPS estimate of $0.98 to get $25/share.

The average of these two methods gets us a PT of $26.

Risks

1) GrubHub faces significant competition, including larger, well funded companies that are moving into this space.

2) Certain metrics are slowing or declining like Daily Active Grubs and Orders per Diner per Month.

3) We are expecting pressure on EBITDA margins in 2015 and 2016 as the company invests in its own delivery service.

4) Growth appears to be slowing in GrubHub's older markets.

5) Weather could impact GrubHub's business. Warmer weather typically results in fewer people ordering in.

LinkedIn Corporation

Valuation:

Our $150 price target is based on an EV/EBITDA comparable valuation.

We apply a 15x multiple to our $1.2b ’17 EBITDA estimate to arrive at a $150 per share valuation, after adjusting for year-end ’16 cash of $2.1b and a FD share count of ~140m.

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.

Netflix, Inc.

Valuation:

Given the various growth trajectories and profitability outlooks of Netflix’s three business segments, we utilize a sum-of-the-parts analysis to capture the valuation of the company’s U.S. streaming, international streaming, and U.S. DVD businesses.

1. Domestic streaming – We apply a 26x multiple against 2017E non-GAAP EPS contribution of $2.03. Our revenue estimates for the domestic segment reflect a 3-year CAGR of 18%. We previously had a 32x multiple, but lowered our multiple given the slowing growth of U.S. subscribers.

2. International streaming – We apply a 6x multiple against 2017E sales (up from 5x previously) for the international segment given the segment will be generating a loss

for this year and next following the completion of the company's global expansion at the end of 2016. Our revenue estimates for the international segment reflect a 3-year CAGR of 57%.

3. Domestic DVD – We apply a 5x multiple against 2017E non-GAAP EPS contribution of $0.19 to reflect a business facing steady but slowing decline, but still generating a contribution margin of 50%+ with strong free cash flow.

Adjusting for 442 million shares at the end of 2016 and ~($2) per share in net cash, we arrive at our price target of $120.

Risks:

1) Competition - Netflix faces intensive competition from growing list of video service providers, various TV Everywhere offerings from broadcasters and networks, and online video services from ISPs.

2) Technology and platform risk - Netflix operates in a highly fragmented ecosystem of computing platforms (iOS, Android, Windows, etc.) and devices (PCs, smartphones, tablets, game consoles, digital media players, connected-TVs, and set-top boxes, etc.). Ensuring full compatibility across these platforms and devices not only increases technology expenses, but can hinder the roll-out of new product features and can create reputation risk when service is unavailable.

3) International contribution margin loss - Netflix recently launched service in 130 additional countries. Netflix international contribution losses are in the hundreds of millions of dollars, and we expect it to worsen in the next few quarters.

PayPal Holdings, Inc.

Valuation

Our $40 price target is based on EV/EBITDA and PE comparable valuations. We apply a target multiple of 12.5x to our 2017E adjusted EBITDA estimate of $3.4 billion to reach an enterprise value of $42.96 billion. Adjusting for 2016 end-of-year net cash of $7.4 billion, we arrive at a market cap of $50.3 billion, or $40 per share.

On a PE basis, we apply a target multiple of 22.0x our 2017 non-GAAP EPS estimate of $1.80 to reach $39 per share. Using the average of the two methodologies, we arrive at a price target of $40.

Risks

1) Increasing Competition - PayPal faces increasing competition from numerous companies in the payments space, including traditional payment incumbents (Visa, MasterCard, American Express, Chase, etc); large technology companies (Apple, Google, Amazon, Samsung, etc), emerging fintech companies (Square, Stripe, WePay, Dwolla, etc), retailer payment apps (Amazon Payments, Walmart Pay, Starbucks Mobile Order & Pay, MCX CurrentC, etc), and significant competitors abroad (Alibaba, PaySafe, etc). Any number of these competitors could have a negative impact on PayPay's domestic and/or international TPV growth, revenue growth, and profitability.

2) Venmo Monetization - PayPal's Venmo service is primarily a free peer-to-peer payment service. However, given its popularity to millennials ($2.1 billion were moved through Venmo in 3Q15), Venmo is a strategic asset for the company. The company's upcoming "Pay with Venmo" service will offer PayPal merchants the ability to accept payments directly from the Venmo app. We could see downside if Venmo monetization fails to live up to expectations.

3) Take-Rates - The company's take rates have steadily declined over the past several years owing to revenue mix toward larger merchants and free peer-to-peer transactions. Although we expect that downward trend to continue, take-rates flattening or improving pose upside risk to our investment thesis.

4) Regulatory Concerns - We believe the growing number of new FinTech companies could lead to increased scrutiny in the payments industry and possibly, more regulatory constraints that could hamper future growth for these companies and PayPal.

Take-Two Interactive Software, Inc.

Valuation:

Our price target of $41 is based on a combination of valuation methodologies – a four-year average of F2014-F2017E EV/EBTIDA and F2014-F2017E Non-GAAP P/E. We believe a 4-year average is sensible given the variance in revenues and earnings between years with GTA releases.

Using EV/EBTIDA, we apply a target multiple of 9x to our average F2014-F2017E EBITDA estimate of $372 million to reach an enterprise value of $3.4 billion. Adjusting for F2016 end of year net cash of $1.3 billion (we are assuming the company's convertible debt will be satisfied by equity), we arrive at an equity value of $4.6 billion, or $40 per share.

Using P/E, we apply a target multiple of 16x our average F2014-F2017E Non-GAAP EPS of $2.54 to reach a price target of $41.

Using the average of the two methodologies, we arrive at a target price of $41.

Risks:

1) Competition - Take-Two faces heavy competition from other publishers like Activision Blizzard, EA, Ubisoft, Nintendo, and first party platform studios from Sony and Microsoft.

2) Game delays - Making blockbuster AAA titles can be a herculean effort subject to numerous delays. Game delays are generally common in the industry, but Take-Two has had more than its share of delays in the past. Game delays result in higher development costs and defer earnings streams expected by investors.

3) We believe the company's success is highly dependent on its Rockstar Games subsidiary, particularly creative leads Sam and Dan Houser. Rockstar generally tends to spend more time, and correspondingly, more development dollars relative to peers in creating games.

Twitter, Inc.

Price Target:

Our $15 price target is based on EV/EBITDA and PE comparable valuations. We apply a target multiple of 8x to our 2017E adjusted EBITDA estimate of $1.2 billion to reach an enterprise value of $9.5 billion. Adjusting for 2016 end-of-year net cash of $2.0 billion, we arrive at a market cap of $11.5 billion, or $16 per share.

On a PE basis, we apply a target multiple of 16x our 2017 Non-GAAP EPS estimate of $0.90 to reach $14 per share.

Using the average of the two methodologies, we arrive at a price target of $15.

Key Risks:

1. Lack of MAU Growth - Twitter's user growth has decelerated considerably, and U.S. MAUs have been relatively flat for the past 3 quarters.

2. Competition - Twitter faces stiff competition among online advertising firms, including Alphabet, Facebook, Yahoo!, AOL, LinkedIn, among others. In addition, Twitter faces competition from several unicorn companies like Pinterest and SnapChat.

3. Jack Dorsey's Dual CEO-Role - Jack Dorsey is CEO of Twitter and Square. Square recently went public, and Mr. Dorsey has not been a CEO of a public company prior to him taking the interim CEO role at Twitter earlier in 2015. We believe that this is a daunting task, and there could be execution risk with Mr. Dorsey running both companies.

4. Extreme Stock-Based Compensation - SBC at Twitter is ~35% of revenue, the highest of the Internet companies that we cover. On one hand, employees are very well compensated in stock, which should align their incentives with shareholders. On the flip side, this creates an issue when the company's performance and stock lags – which could result in greater turnover if employees are overly compensated in stock.

Ubisoft Entertainment SA

Valuation:

Our price target of €20 is based on a combination of valuation methodologies - F2017E EV/EBTIDA and Non-IFRS P/E.

Using EV/EBTIDA, we apply a target multiple of 8x our F2017E EBITDA estimate of €256 million to reach an enterprise value of €2.0 billion. Adjusting for F2016 end of year net cash of €200 million, we arrive at a market cap of €2.2 billion, or €20 per share

Using P/E, we apply a target multiple of 15x our F2017E Non-IFRS EPS of €1.33 to reach a price target of €20.

Using the average of these methodologies, we arrive at a price target of €20.

Risks:

1) Competition - Ubisoft faces heavy competition from other publishers like Activision Blizzard, EA, Take-Two, Nintendo, and first party platform studios from Sony and Microsoft.

2) Game delays - Making blockbuster AAA titles can be a herculean effort subject to numerous delays. Game delays result in higher development costs and defer earnings streams expected by investors.

3) Ubisoft is unique in the industry for operating an integrated mini-studio. We are skeptical when video game companies try to move beyond their core competencies and start investing in movies, television, etc.

4) Vivendi has taken a 10% stake in Ubisoft, and it is unclear what their intentions are. This could disrupt the board and decision making process at Ubisoft.

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; 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: $14 per YHOO share in value. We apply a 45% tax rate + illiquidity discount to Yahoo!'s BABA stake. **This results in a total valuation of $13.7 billion, or $14 per share.**

2) Yahoo! Japan: $5 per YHOO share. We use a USD-JPY exchange rate of ~120 Yen to $1 USD to yield a market value estimate of approximately $22.5 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 $4.3 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 $5.8 billion, or roughly $6 per share.

4) Core Yahoo! Value: low multiple on mixed trends yields $4 per YHOO share. We apply a 5x EV/EBITDA multiple to our 2016E EBITDA forecast of $789 million, yielding a valuation of Yahoo!'s core operations of $3.9 billion, or roughly $4 per share.

In total, we estimate the 12-month prospective market value of Yahoo! at $27.8 billion, or roughly $29 per share.

Risk 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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