RampUp! 2016 Key Data Takeaways: FB Takes the Cake

We attended the LiveRamp RampUp! 2016 conference in San Francisco. The conference had ~1,800 attendees including Facebook, Google, Adobe, Pubmatic, Turn, Yahoo, Tivo, Rakuten, Citigroup, Macy's, and others. Key themes were the ownership of customer data, driving more mobile ad spend and the power of native programmatic ads, and more. We highlight the key takeaways and our opinions.

1. Facebook is getting more aggressive in bridging offline to online attribution through P.O.S. systems. Facebook's Head of Measurement Product Marketing, Scott Shapiro, noted that Point of Sale data is a key focus for his team in 2016 - Facebook wants to help drive better attribution between ads on Facebook driving actual offline and online sales. We think Facebook is in a unique position to do this, given that Facebook dominates mobile time spent and enables rich targeting. With products such as Custom Audiences, Facebook can tie users to actual purchases. **More importantly, this indicates to us that Facebook is getting more aggressive on direct response advertising, which has traditionally been Google's moat.**

2. Marketers are seeing solid results with native advertising. Native ads are ad formats that follow the natural form/function of the media unit of the site – these ads often include promoted units such as promoted videos, promoted stories, promoted tweets, etc. Companies like Rakuten are seeing solid results with native ads, and 80% of Rakuten's native ad spend now goes to Facebook. YouTube seems to be the dominant native video ad medium, but advertisers are experiencing good traction with Facebook, Instagram, and Twitter video ads.

3. Focus on closing the mobile gap. Pubmatic noted that for the past four quarters, mobile CPMs have exceeded desktop CPMs. Mobile data is becoming increasingly important, and companies that can use their first party data with third party data (like LiveRamp) can create unique profiles of consumers outside of Google or Facebook activity. For example, Facebook is now "conversing" with users, asking them if they would like to check into a specific location. This "pulling" activity on mobile devices helps draw out important location data that can then use to triangulate online to offline attribution.

4. Amazon - the powerful marketer. Traditional retailers noted that they are investing in and building out their data / analytic teams to figure out how to best re-market to existing customers, and use third party data to try and find new customers that mimic existing ones. Retailers continue to feel threatened by Amazon's flywheels with Prime, customer data, and continued share gains as offline retail shifts to online retail.

Company	Symbol	Price (2/23)	Rating	PT
Alphabet, Inc.	GOOGL	$717.29	Buy	$1,070.00
Amazon.com, Inc.	AMZN	$552.94	Buy	$685.00
Facebook Inc.	FB	$105.46	Buy	$130.00

Source: Bloomberg and Mizuho Securities USA

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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.

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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(As of 2/23)	**% of coverage**	**IB service past 12 mo**
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Hold (Neutral)	46.93%	25.00%
Sell (Underperform)	1.12%	0.00%

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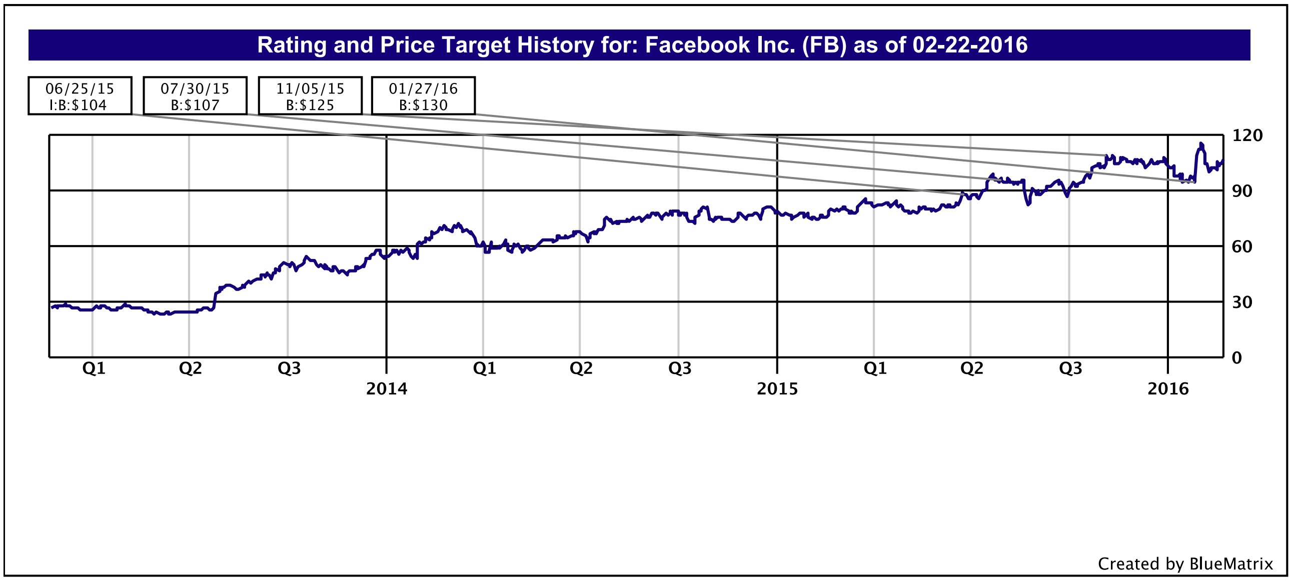

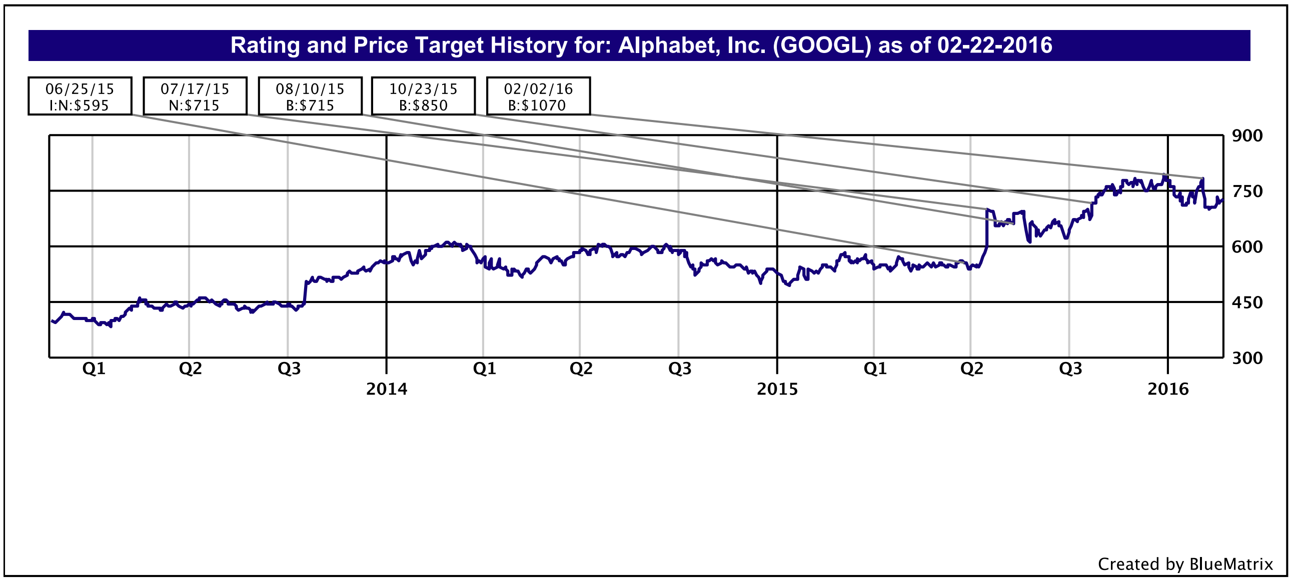

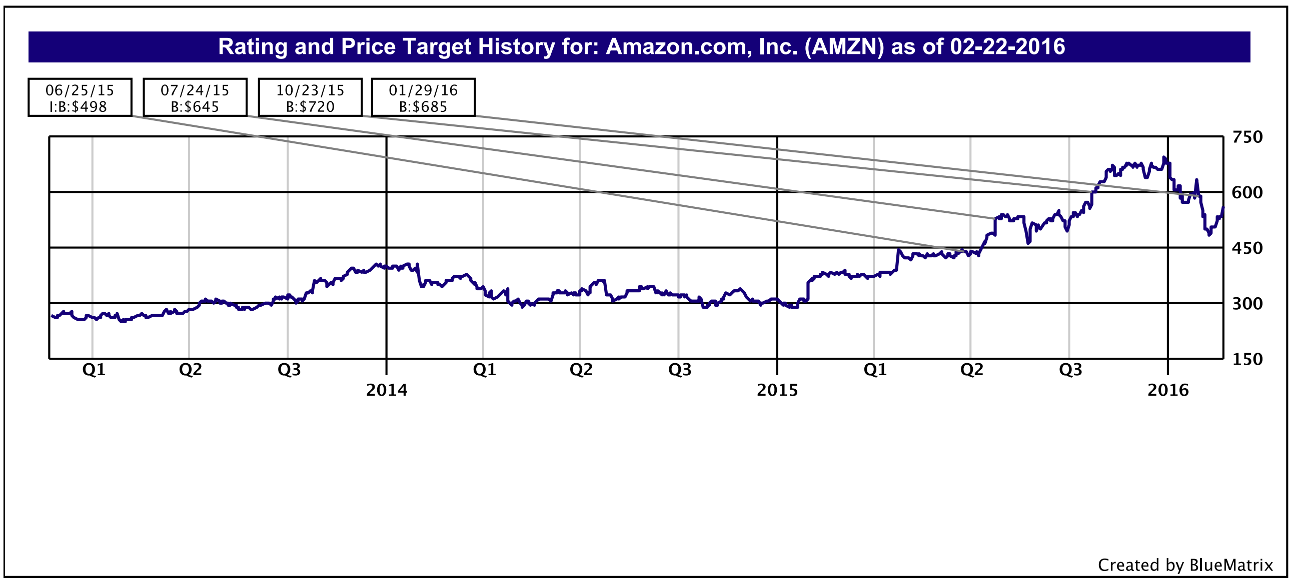

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