Global Internet

Collins Stewart
Independent thinking

September 24, 2008

Key Takeaways from IAB/MIXX '08

- **IAB's MIXX Conference and Expo**

On September 22nd and 23rd, we attended the 2008 IAB's MIXX Conference and Expo in New York City. This conference is one of the largest Internet industry conferences and attracts thousands of attendees. The conference was very well attended and featured representatives from leading Internet companies, leading advertisers, and other intermediaries. Overall, though Internet advertising continues to be beneficiary of secular growth, the weak economic impact was visible.

- **Overall secular growth trends but weak economy impact visible**

During our conversation with several advertisers and media buyers/agencies, we gathered multiple examples of on one-hand secular growth trends in Internet advertising on the other-hand, negative impact due to weak economy. In addition to weakness in display advertising, we heard that even lead generation is seeing moderately healthy trends. *(Negative for the Internet sector)*

- **Online video ad gaining adoption from big brand advertisers**

We attended a panel discussion focused on online video ads. In our 1-on-1 discussion with Sam Chadha, brand manager for Deodorant products at Unilver said that the online video budgets are incremental vs. cannibalization of other online/offline campaigns and the CPMs are comparable to cable TV's. Larry Gelfand of NHL.com echoed similar message that the big advertisers such as Dodge, Bridgestone (BGT.BE, €13.23, NR), Cisco (CSCO, $22.73, NR) etc are running online video ads at NHL.com and CPMs are about $50 for the prime spots and $10 to $15 for other major spots. *(Positive for Google)*

- **Vertical ad networks gaining traction**

In a panel on vertical ad networks, we heard from Russ Fradin - President, Adify, Cree Lawson - Founder & CEO of Travel Ad Network, and Scott Schiller - Executive Vice President of Glam Media that the vertical engines continue to gain traction as they address inefficiencies of highly fragment verticals with sizeable unique visitors. *(Negative for VCLK)*

- **Use of search for branding**

Deborah Meyer, CMO of Chrysler Motors mentioned that she now taps into search engines for branding campaigns because the first search for a car purchase usually begins with a search engine. *(Positive for Google)*

- **TV like measurements on Internet no emerged yet**

In a panel Magid Abraham – CEO of comScore said that brand advertisers are not getting TV type metrics for the Internet because there are multiple players in the web measurement with varied scope, approaches and definitions. As a big picture, he also said that ad measurements do not account for more than 2% of ad budgets. *(Largely positive for SCOR)*

Please look for valuation and investments risks on page 2.

Spotlight

Company	Ticker	Price	Rating
Digital River[5,8]	DRIV	$39.82	Hold
Google[5,8]	GOOG	$430.14	Buy
GSIC Commerce[5,8]	GSIC	$15.75	Buy
Microsoft[5,8]	MSFT	$25.40	Buy
Bankrate[5,8]	RATE	$35.26	Sell
comScore[5,8]	SCOR	$19.26	Buy
TechTarget[5,8]	TTGT	$7.20	Hold
ValueClick[5,8]	VCLK	$10.45	Hold
Yahoo![5,8]	YHOO	$18.68	Hold

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Valuation

GOOG: We arrive at our $615 PT by using a combination of EV/EBITDA & P/E on our ’09 estimates. We assign 16x our ‘09E EBITDA of $12.15bn (EBITDA per share of $37.52) to reach $648, adjusting for 2008E year-end net cash of $15.2bn or $47.74 per share. This implies EV/EBITDA to Growth of 0.6x. We assign 23x our 2009E PF EPS of $25.22 to reach a $580 price using P/E. This implies a PEG of 0.9x.

GSIC: We are rating GSIC a Buy and assigning a $21 price target. We derive $21 by applying an 11x multiple to our 2009E EBITDA of $103.3mm (EBITDA per share of $2.04), adjusted for 2008E year-end net debt of $150mm, or $3 a share (EV/EBITDA/Growth 0.6x) and $1.64/share in NOLs.

MSFT: We assign a 14x P/E multiple to our CY2009 GAAP EPS of $2.29 to reach $32. We assign a multiple of 16x to our CY2009 FCF/share of $2.05 to reach $33 (rounding-up).

RATE: We arrive at our $27 PT by using a combination of EV/EBITDA and PF P/E multiples on our 2009 estimates. We assign a 9x multiple on our 2009E EBITDA of $67.9mm (EBITDA per share of $3.41) to reach $35, adjusting for 2008 year-end net cash of $84.4mm or $4.39 per share. The implied EV/EBITDA to Growth is 0.4x based on our 23% LT growth estimate for EBITDA/share. We assign a 15x multiple on our 2009E PF EPS of $1.71 to reach $26. This implies a PEG of 1.1x based on our 14% LT growth estimate for EPS.

SCOR: Our $27 price target is based on EV/EBITDA. We derive $27 by applying a 18x multiple (17x prior) to our 2009E EBITDA of $42.8mm (EBITDA per share of $1.37), adjusted for 2008E year-end net cash of $65.7mm, or $2.16 a share (EV/EBITDA/Growth 0.6x) and $0.50 in NOLs. We are willing to give SCOR back the higher multiple that we assigned before Google launched Ad Planner because over time it has become clear that Google Ad Planner is less likely to dent SCOR’s market share and SCOR has shown arguably strong resistance against economic headwinds.

Investment Risks

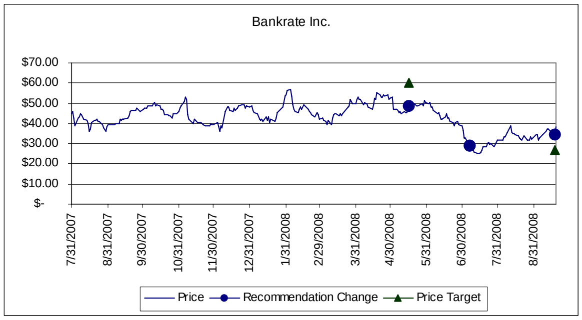
GOOG: 1) Google’s competition is getting more intense; 2) Google is still a one-trick pony with nearly 94% revenue coming from search; 3) Execution risk with recent M&A; 4) Google is vulnerable to threats from computing platforms, browsing technologies, and ad blocking technologies; 5) CapEx spending continues to be very high; 6) Rising cost of revenue; 7) Privacy issues and click frauds continue to be a nagging problem; 8) Google is penetrating other media platforms such as radio and print, albeit with limited success; 9) Conflict of interest with Checkout, Google Analytics and DoubleClick’s Performics; 10) More experienced search marketers are diverting part of search ad dollars to search engine optimization.

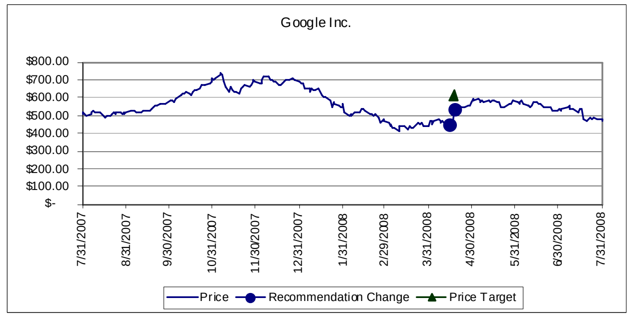
GSIC: 1) Multi-dimensional competition; 2) High seasonality of the business; 3) Revenue concentration; 4) Investment mode inhibits margin expansion; 5) M&A integration risk; 6) Revenue growth highly dependent on new customer acquisitions; 7) Exposed to macro-economic slowdown; 8) Limited disclosure of business metrics.

MSFT: 1) Competition; 2) Product cycles/lack of near term catalysts; 3) Slowing PC market growth; 4) Disappointing ramp-up of the online business so far; 5) Piracy. 6) Investment mode; 7) Cloud Computing/SaaS; 8) Virtualization; 9) Exposed to macro-economic headwinds.

RATE: 1) Competition from portals, search engines, and other finance focused Websites; 2) Relatively high exposure to the mortgage market; 3) High exposure to economic headwinds and monetary policy; 4) Execution risk with the recent acquisitions; 5) Limited international exposure; and 6) Low margins for print publishing and new acquisitions.

SCOR: 1) Diverse and strong competition; 2) Ongoing concern with the accuracy of data/measurements; 3) Revenue concentration; 4) Lack of cross-platform measurements; 5) Newest technologies making Web measurement challenging and less relevant; 6) Evolving industry standards; 7) Exposed to macro-economic slowdown; and 8) Potential downward pressure on the stock from insiders' selling.





Recommendation Change (Bankrate Inc.)

Date	Closing Price	Recommendation
18-Sep-08	$ 34.21	Sell
7-Jul-08	$ 28.89	Hold
16-May-08	$ 48.57	Buy

Price Target (Bankrate Inc.)

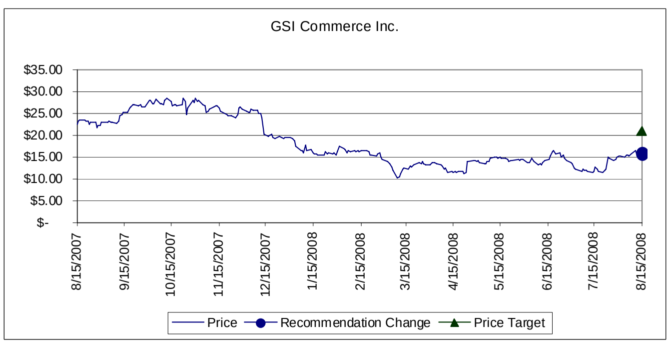
Date	Closing Price	Price Target
18-Sep-08	$ 34.21	$ 27.00
16-May-08	$ 48.57	$ 60.00

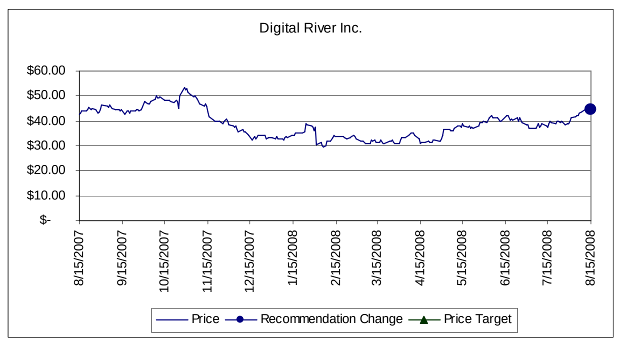
Recommendation Change (Google Inc.)

Date	Closing Price	Recommendation
18-Apr-08	$ 539.41	Buy
15-Apr-08	$ 446.84	Hold

Price Target (Google Inc.)

Date	Closing Price	Price Target
18-Apr-08	$ 539.41	$ 615.00





Recommendation Change (GSI Commerce Inc.)

Date	Closing Price	Recommendation
15-Aug-08	$ 15.89	Buy

Price Target (GSI Commerce Inc.)

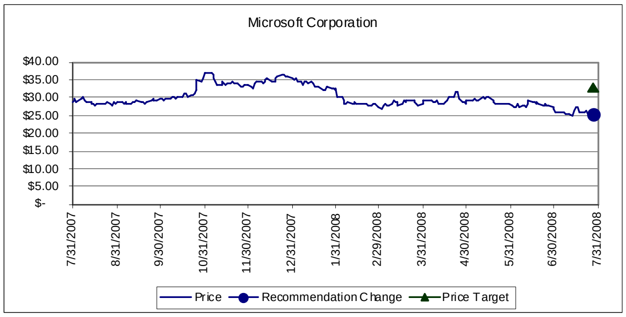
Date	Closing Price	Price Target
15-Aug-08	$ 15.89	$ 21.00

Recommendation Change (Digital River Inc.)

Date	Closing Price	Recommendation
15-Aug-08	$ 44.71	Hold

Price Target Changes (Digital River Inc.)

Date	Closing Price	Price Target

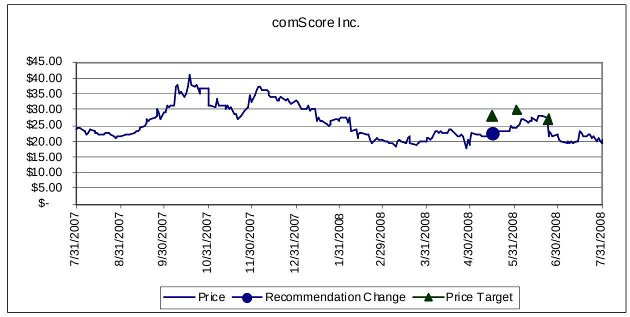


Recommendation Change

Date	Closing Price	Recommendation
28-Jul-08	$ 25.50	Buy

Price Target

Date	Closing Price	Price Target
28-Jul-08	$ 25.50	$ 33.00

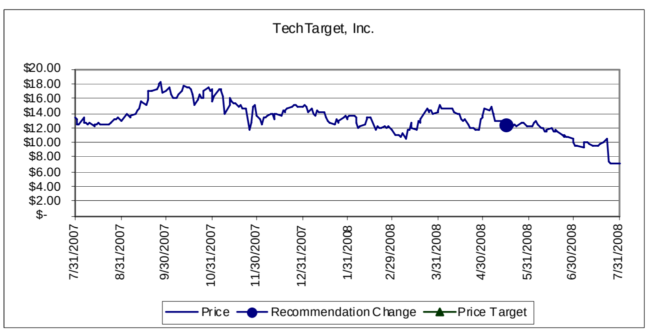


Recommendation Change

Date	Closing Price	Recommendation
16-May-08	$ 22.79	Buy

Price Target

Date	Closing Price	Price Target
24-Jun-08	$ 21.45	$ 27.00
2-Jun-08	$ 24.44	$ 30.00
16-May-08	$ 22.79	$ 28.00

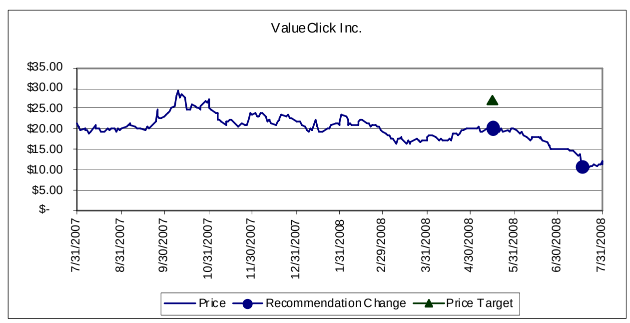


Recommendation Change

Date	Closing Price	Recommendation
16-May-08	$ 12.45	Hold

Price Target

Date	Closing Price	Price Target



Recommendation Change

Date	Closing Price	Recommendation
17-Jul-08	$ 11.01	Hold
16-May-08	$ 20.30	Buy

Price Target

Date	Closing Price	Price Target
16-May-08	$ 20.30	$ 27.00

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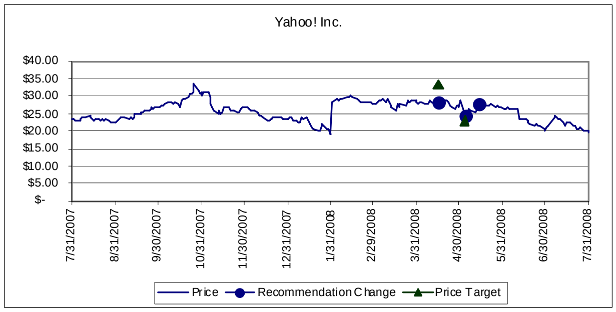

Recommendation Change		
Date	Closing Price	Recommendation
15-May-08	$ 27.75	Hold
5-May-08	$ 24.37	Sell
16-Apr-08	$ 28.31	Buy

Price Target		
Date	Closing Price	Price Target
5-May-08	$ 24.37	$ 23.00
16-Apr-08	$ 28.31	$ 33.50

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- Hold: Performance in line with the market averages anticipated.
- Sell: 12 months, estimated underperformance of 20% or more

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	% of CSTI Universe with this rating	% of rating tier for which CSTI provided IB services
Buy	54%	75%
Hold	45%	25%
Sell	1%	0%

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