
A Public Perspective on your Private World

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Thomas Weisel Partners
Champions of Growth

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Your World

As company management and VC board members

- ❖ **In the weeds**

- ❖ **Manage the demands of significant growth**
 - Entrenched in the day to day operations
 - Deal with personnel decisions
 - Prioritize investment paths
 - Manage cash flow
 - Evangelize channel partners
 - Seek out strategic partners
 - Run frenetically to stay ahead of competition
 - Follow the revenue dollars as you narrow in on what works

My world

As research analyst

❖ **30,000 foot view**

- **Play armchair CEO of the top public internet companies**
- **Analyze strategic decisions and see them play out**
- **Recognize patterns of success and failure over and over again**
- **Get inside the heads of the top management teams**
- **Identify trends across industries and assemble themes**

❖ **Deep financial modeling**

- **Slice and dice the public financials—See different trends**
- **Understand the short-term and long-term impact of investments**
- **Recognize what the markets value both in an IPO and in M&A**

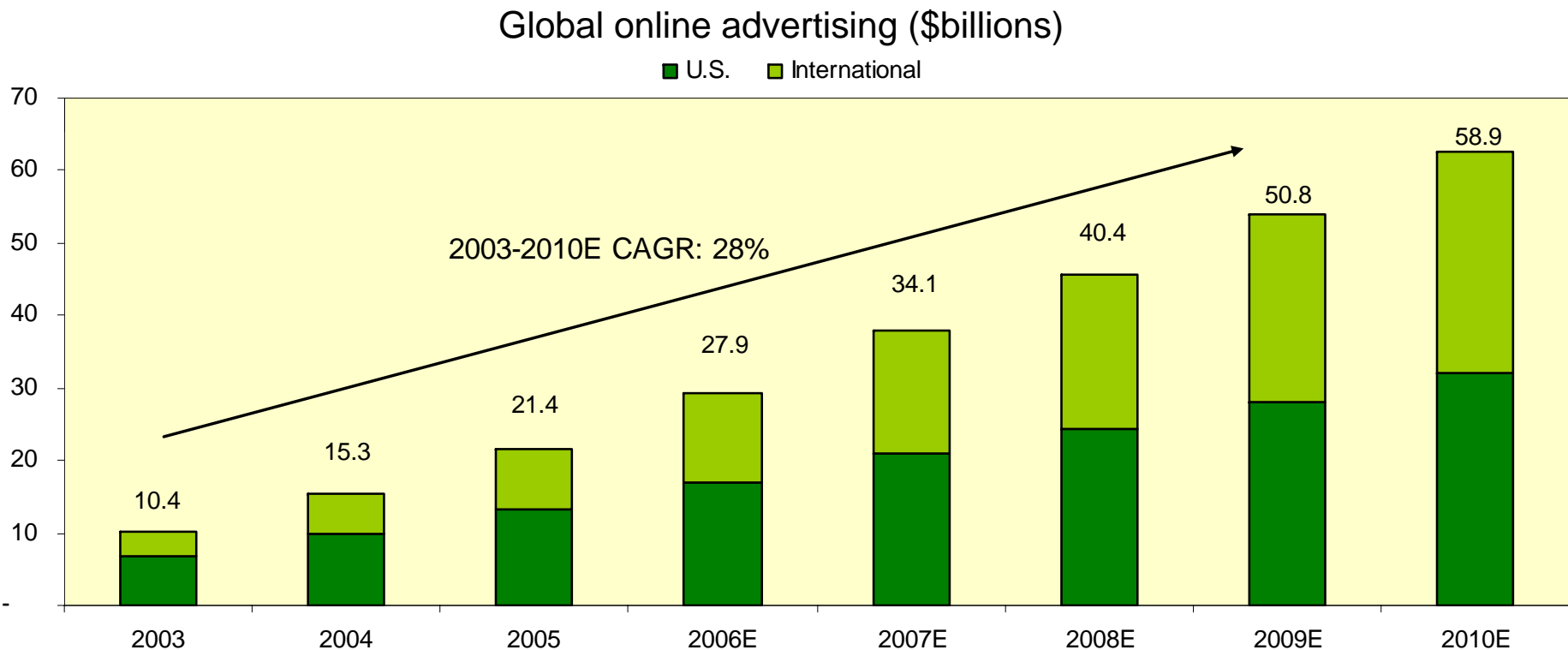
Agenda

- ❖ **Highlight some of the latest trends coming out of our research**
- ❖ **Get inside the heads of the internet incumbents**
- ❖ **Investment prioritization in the current M&A/IPO environments**

Emerging internet advertising trends

❖ Preaching to the converted

- Online advertising expected to grow nearly 30% through the end of the decade
- But the complexion is changing



Sources: Universal McCann (Robert Coen), TVB, RAB, PIB, OAAA, IAB, PWC, US Government, Hispanic Business, Thomas Weisel Partners LLC

Internet advertising: circa 1995-2000

❖ Web 1.0

- Companies such as Yahoo!, AOL, MSN, C|NET garnered a disproportionate percentage of all ad dollars
- “Dot-com” boom

❖ Ad formats

- CPM almost exclusively
- Some sponsorship
- Email
- Classified

❖ Enablers

- Digital ad agencies forming
- Mostly media buying and planning
- Performance based advertising not yet practically embraced

Internet advertising: circa 2001-2007

❖ Era of search

- Overture launches in 1998, surpasses 30k advertisers in September 2000
- Google “borrows” Overture model and launches CPC in 2002

❖ The rise of Google commences

- Since launching CPC in 2002, Google has grown its revenues 122% annually to reach \$10.6bn in 2006
- In 2007 43% of all online ad dollars will pass through Google’s gates

❖ Ad formats

- Text based CPC dominates
- Affiliate marketing
- Lead generation—buy CPM sell CPA
- Walled garden ad networks

❖ Enablers

- Online media grows increasingly complicated—need PhDs!
- SEMs/SEOs abound

Internet advertising: 2007 and beyond

- ❖ **Reigniting display advertising**
- ❖ **New ad inventory types scale and emerge**
- ❖ **Off the PC interactive advertising**
- ❖ **Global expansion**

Reigniting display advertising

❖ **Explosion of UGC and non-premium inventory**

- From a standing start companies like MySpace, Facebook, YouTube have generated significant ad tonnage
- Yahoo! page views continue to grow over 20%, introduce Y!Answers

❖ **Monetization innovations must occur and be useful**

- Yahoo! still only generating about \$1 per CPM across its entire site
- UGC sites garner much less
- Behavioral targeting
- Search remarketing
- Video/Rich media

New ad inventory types scale and emerge

- ❖ **Rich Media/Video: pre-roll, post-roll, display,**
 - U.S. rich media ad market should increase 33% annually to 2011
- ❖ **Audio ad insertion: podcasts, VoIP, IP radio**
- ❖ **Applications as ad inventory: Word Processing, spreadsheets, eMail, payment processing**

Off the PC interactive advertising

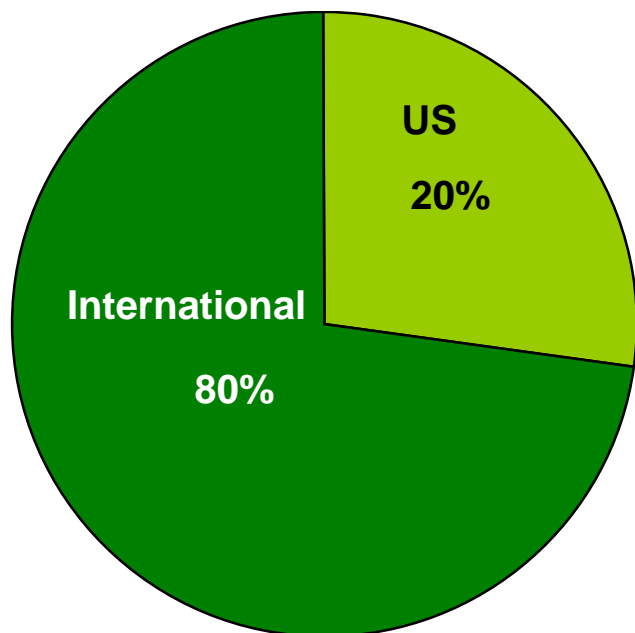
- ❖ **All media will be digital or digitally measured**
- ❖ **Will Internet leaders dominate off the PC?**
- ❖ **First mover categories:**
 - **Mobile/Local**
 - 20 years to get to first billion mobile users, 4 years to get the second billion
 - Entrée to the internet characterizes the next billion
 - Mobile ad spending to double by 2011 in the US (Jupiter)
 - Mobile gaming to reach \$11.2bn by 2010 (visiongain)
 - **VOD/IPTV**
 - 25% of households have access to VOD
 - 16% of households have DVRs
 - AQNT working to get in the SeaChange and C-COR boxes
 - TV is a \$70bn market in the US
 - **Videogame**
 - MSFT buying Massive
 - GOOG buying Adscape
 - Expected to reach nearly \$1bn in 2010

Global expansion

2006 Internet Population (in millions)

2006 Rank	2005 Rank	2004 Rank	Country or Region	Internet Users	Population (2007E)	Internet Penetration
1	1	1	United States	210,080,067	301,967,681	69.6%
2	2	2	China	132,000,000	1,317,431,495	10.0%
3	3	3	Japan	86,300,000	128,646,345	67.1%
4	5	4	Germany	50,616,207	82,509,367	61.3%
5	4	11	India	40,000,000	1,129,667,528	3.5%
6	6	5	United Kingdom	37,600,000	60,363,602	62.3%
7	7	6	Korea (South)	33,900,000	51,300,989	66.1%
8	9	8	France	30,837,592	61,350,009	50.3%
9	8	7	Italy	30,763,848	59,546,696	51.7%
10	10	10	Brazil	25,900,000	186,771,161	13.9%
11	11	NR	Russia	23,700,000	143,406,042	16.5%
12	12	9	Canada	21,900,000	32,440,970	67.5%
13	13	19	Mexico	20,200,000	106,457,446	19.0%
14	14	12	Spain	19,204,771	45,003,663	42.7%
15	13	19	Indonesia	18,000,000	224,481,720	8.0%
16	20	NR	Turkey	16,000,000	75,863,600	21.1%
17	16	13	Australia	14,729,209	20,984,595	70.2%
18	NR	NR	Vietnam	14,509,075	85,031,436	17.1%
19	17	15	Taiwan	13,800,000	23,001,442	60.0%
20	NR	NR	Argentina	13,000,000	38,237,770	34.0%
Top 20 Countries				853,040,769	4,174,463,557	20.4%
Rest of the World				240,488,923	2,400,202,860	10.0%
Total World - Users				1,093,529,692	6,574,666,417	16.6%

Internet Usage data



- ❖ More than 1 billion people log onto the Web for almost 1 hour each day
- ❖ The U.S. has the largest Internet audience with China and Japan 2nd and 3rd, respectively

Sources: comScore Media Metrix, Nielsen NetRatings, CNNIC, ITU, Internet WorldStats, and FindLaw

Internet incumbents—Get inside their heads

- ❖ **Because search has dominated, Google has dominated**
 - \$3.6bn of cash flow from operations in 2006 suggests Google can continue to invest to find the next S-curve
- ❖ **Google sneezes and the rest of the internet catches cold**
 - Fears abound when Google focuses on a space
- ❖ **Next act beyond search**
- ❖ **Yahoo! has been the dark horse**
- ❖ **Suffered from distant #2 search position**
- ❖ **But...**
 - 1 out of 2 internet users go to Yahoo! every day→ page view treasure trove
 - Strong presence in Asia where the next wave of internet growth will come
 - Investing heavily in mobile

What is Google building?

- ❖ **Text ad network**
- ❖ **Display ad network**
- ❖ **Local/mobile ad network**
- ❖ **Video ad network**
- ❖ **Audio ad network**
- ❖ **Print ad network**

- ❖ **Operating system for advertising**
- ❖ **Google as agent vs. principal issue**

- ❖ **But they can't do everything and they won't always build it**

What are Google and Yahoo! buying?

- ❖ **Outsourced R&D—even with 20% time**
- ❖ **Key areas of focus:**
 - **Mobile/Local**
 - **Video**
 - **Global expansion**

Google Acquisitions

Company	Date	Category
Keyhole	Oct-04	Local
Zipdash	Dec-04	Mobile
Where2	Dec-04	Local
Urchin	Mar-05	Marketing services
Dodgeball	May-05	Mobile
dMarc Broadcasting	Jan-06	Audio
Reqwireless	Jan-06	Mobile
@Last Software	Mar-06	Local
Upstartle	Mar-06	Application
Android	Aug-06	Mobile
Neven Vision	Aug-06	Photos
Transformic	Sep-06	Search engine
YouTube	Oct-06	Video/UGC
Ganji Inc.	Dec-06	Search engine
JASS Inc.	Dec-06	Video
JG Productions	Dec-06	Video
JotSpot Inc	Dec-06	Web 2.0
Endoxon	Dec-06	Mobile
Adscape	Jan-07	Videogame

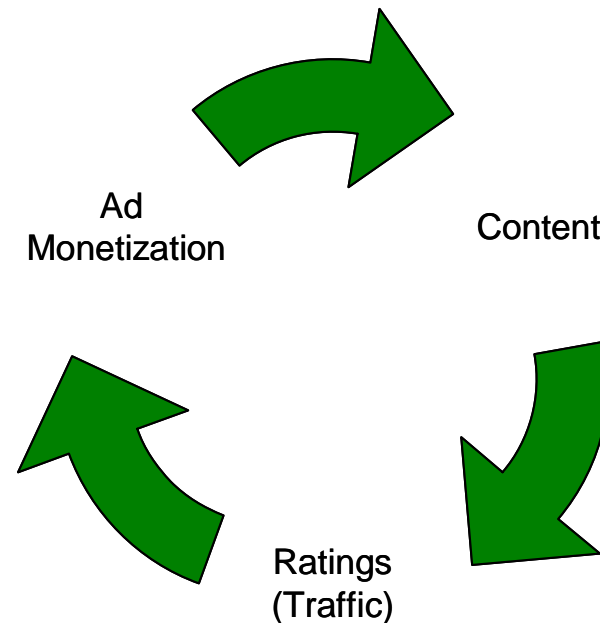
Yahoo! Acquisitions

Company	Date	Category
Stadeon	Mar-05	Mobile videogames
Flickr	Mar-05	Photo, UGC
DialPad Communications	Jun-05	VoIP Solution
Konfabulator	Jul-05	Widgets, video
Upcoming.org	Oct-05	Local
Whereonearth	Oct-05	Mobile/Local
Del.icio.us	Dec-05	UGC
Webjay	Jan-06	Music
Verdisoft	Feb-06	Mobile
Meedio	Apr-06	VOD software
Jumpcut	Sep-06	Video
Right Media (20%)	Oct-06	Marketing services
AdInterax	Oct-06	Rich media
Bix.com	Nov-06	Video/UGC
MyBlogLog	Jan-07	UGC content/tools

Investment priorities

Next generation company characteristics

- ❖ **Unique, hard to replicate content**
- ❖ **Efficient regeneration of content**
- ❖ **External innovation engine**
- ❖ **Networks matter more than ever, but social networks need tending**
- ❖ **Highly relevant advertising**



Financial positioning from a research analyst perspective

- ❖ **Only 4 internet IPOs in 2006**
 - Loopnet, Gmarket, Shutterfly, Omniture
- ❖ **Sarbanes Oxley acts as regressive tax**
- ❖ **Successful characteristics:**
 - Leaders in their space
 - Define and shape the market you serve
 - Monetization must be on a path of improvement
 - Industry must be growing fast, but not sufficient
 - Profitable, but not too profitable
 - Global positioning

❖ **M&A exit of choice in the current market**

- **Traditional media will do just about anything to increase internet exposure**
- **Private market multiples exceeding those in the public market**

❖ **Successful characteristics:**

- **Lower standards**
- **Build a user base, first and foremost**
- **Under monetization can depress valuations, but it's a consideration**
- **Google paid >100x 2006 revenues for YouTube, valuations less important**

Q&A

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