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Industry Brief

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Internet: Industry Overview

Raymond James Internet Symposium Takeaways

Earlier this week, we hosted our 2013 Internet Outlook Symposium in New York. Our symposium featured 19 companies across advertising, e-commerce, ad tech, mobile, and social; three venture capitalists; and a teen panel. Panelists discussed recent 4Q trends, as well as key themes for the Internet in 2013 and beyond. Our key takeaways include the following.

- **comScore highlighted four key themes for 2013:** 1) e-commerce strength driven by mobile; 2) digital advertising strength in social, mobile, and video; 3) programmatic ad buying growth; and 4) multi-platform media plans.
- **4Q search trends:** Performics noted spend for search increased 12% y/y with clicks up 9.5% y/y. Rimm-Kaufman Group indicated 23% y/y growth with an 18% increase in traffic and a 4% increase in CPCs. Performics is estimating mid-teens growth (12-17%) in budgets for 2013 with mobile being a key area of emphasis.
- **Advertisers/agencies more positive on Facebook:** Havas (ad agency) indicated that clients have warmed up to Facebook, though Facebook is still mostly a brand play. Performics noted that nearly all of its multi-national clients have large contracts, with Facebook with a focus on brand building initially but now looking at more performance-based as well. In addition, Adaptly (social ad platform) indicated that eight months ago 90% of ad units were right rail and now ~80% are news feed.
- **Amazon and Google influence 43% of all online purchases** (according to Mercent presentation) with 30% of consumers starting their research at Amazon and 13% on Google.
- **Teen panel**: According to our panel of five teenagers: **1) media usage** – teens indicated they do not watch much TV today, but instead use Hulu, Netflix, and other online entertainment; **2) Facebook usage** – most of the teens have reduced their usage of Facebook due to privacy concerns and instead have increased usage of other social platforms such as Twitter, Instagram (owned by Facebook), and SnapChat; **3) music** – most of the teens use Pandora and Spotify, as well as YouTube for videos; **4) smartphones:** four of the five teens have iPhones today (all four indicated they would purchase an iPhone again) with one teen using Android.
- **Solid 4Q spending trends for ad tech companies:** All of the panelists indicated solid 4Q display advertising spend, with most indicating growth above expectations. Companies levered to real-time bidding and sophisticated data science appear to be growing the fastest.
- **Venture capitalists**: Key investment themes for venture capitalists included big data for closed loop marketing, mobile, emerging markets, marketplaces, and vertically-integrated e-commerce. In addition, despite recent volatility, the venture capitalists remain positive on emerging markets, ranking China number one followed by Brazil.
- **E-commerce 4Q trends:** Overall the panelists pointed to a strong 4Q. Three out of four panelists also indicated a greater reliance on promotions by consumers than in previous years. In addition, e-commerce panelists and venture capitalists indicated that it was important to be able to differentiate vs. Amazon (i.e., going deeper, curated shopping experience, personalization). Key investment areas for e-commerce include fulfillment and shipping infrastructure, payment solutions, supply chain management, order management, mobile analytics, and personalization.
- **Survey Monkey consumer survey data: 1) Pandora has clear leadership** – 37% of listeners use Pandora in a given week; and **2) daily deal trends:** for Groupon, the survey shows that in November, December, and January 19%, 17%, and 16% of users, respectively, indicated that they purchased a Groupon in the past 30 days.

Please read domestic and foreign disclosure/risk information beginning on page 7 and Analyst Certification on page 7.

comScore
Gian Fulgoni, Co-Founder and Chairman

- **Mobile:** Over 13% of web traffic is now coming from smartphones and tablets and has doubled in the last year. Importantly, alternative screens (tablets/smartphones) are additive to video watching based on a study for the 2012 Olympics, with approximately four hours for TV only and 8.5 hours for TV plus tablet, mobile, and PC/laptop.
- **E-commerce** growth for 4Q was 14% y/y (below the 17% estimate going into the holiday season). comScore cited a lull after the Cyber five-day weekend, as well as concerns over the fiscal cliff as reasons for the lower-than-expected growth. For 2012, comScore estimates $186 billion in U.S. e-commerce (15% y/y). In addition, comScore estimates that 13% of e-commerce was conducted on mobile in 4Q (vs. 9% in 4Q11) with 70% of this from tablets.
- **Facebook** represents 83% of time spent on social media with LinkedIn and Twitter being the next largest social platforms. In addition, mobile represents a significant percentage of social minutes, representing 50% of Facebook, 48% of Pinterest, 70% of Twitter, and 99% of Instagram minutes (based on November 2012 data). comScore believes the visual web (exchanging of images) such as Instagram and Pinterest will be a key theme to watch in 2013.
- **Video:** While time spent watching online videos has increased, it represents just 7% of watching TV per month (10 hours vs. 145 hours/month of TV). Google (YouTube) remains the dominant player with 43% market share (of video views) followed by a very fragmented market of companies with 1-2% market share.
- **Four key themes for 2013:** 1) E-commerce will continue to grow strongly driven by mobile, and showrooming will continue to put pricing pressure on retail stores. 2) Strong growth for digital advertising driven by strength in social, mobile, video; viewability and audience guarantees will become the norm. 3) Programmatic ad buying will continue, but could be a drag on revenue growth if it pushes down prices; comScore also expects private exchanges to grow in importance. 4) Multi-platform media plans will grow in importance and comScore expects the emergence of new measurement systems.

Ad Agency/SEM Panel
iCrossing, Havas Digital, Performics, Rimm-Kaufman Group

- **4Q trends:** Performics noted spend for search increased 12% y/y with clicks up 9.5% y/y. In addition, Rimm-Kaufman Group indicated 23% y/y growth for search in 4Q with an 18% increase in traffic and a 4% increase in CPCs. Rimm-Kaufman Group also cited that product listing ads for Google represented 28% of non-brand queries in 4Q though prices are 26% less than text ads.
- **2013 outlook:** Havas is recommending to clients to have more fluid digital budgets for 2013 given the dynamic nature of online advertising and economic volatility. Performics is estimating mid-teens growth (12-17%) in budgets for 2013 with mobile a key emphasis.
- **International:** iCrossing cited challenges in Spain, noted Germany is bumping along, there is some recovery in the UK market, and Latin America is stable. Havas Digital cited challenges across Europe and is seeing clients reduce brand spend. Performics noted weakness in Southern Europe, strength in Eastern Europe, softer Asia performance, and strength in Latin America.
- **Facebook:** Havas indicated that clients have warmed up to Facebook, but Facebook has limited applications for clients – mostly still a brand play. Performics noted that nearly all of its multi-national clients have large contracts with Facebook now, with a focus on brand building initially but now looking at more performance-based as well. Performics noted that in 4Q, 7% of overall display budgets for its clients were allocated to Facebook though Facebook drove 20% of conversions.
- **Other social sites:** Havas noted that clients are testing Pinterest and increasing budgets there for 2013. Havas also noted that LinkedIn provides some limitations for clients, but is seeing overall good results for companies focused on B2B and financial verticals. Performics noted good success with sponsored tweets, while Rimm-Kaufman Group cited increased interest in Pinterest.
- **Paid search effectiveness:** Havas noted that paid search is losing some credibility given that paid search results are looking more like organic results. However, Performics felt the issue is due more to the increasing complexity of search results (i.e., organic, paid, social, shopping now integrated into the search page).
- **Mobile pricing:** Havas cited mobile keyword prices are closer to desktop now, but it is the long-tail keywords that are still well behind desktop. Performics cited that CPCs for tablets were ~85% of desktop in 4Q and smartphone at ~50% of desktop.

Mercent
Eric Best, CEO

Mercent is a leading provider of online advertising and channel management solutions for large retailers, including an estimated 200 major retailers with approximately 500 brands. Mercent processed approximately $2 billion in e-commerce transactions in 2012, up from $1.1 billion in 2011. The company's mix by channel is: 25% Amazon, 30% Google, 20% comparison shopping engines, 5-10% eBay, and 15-20% various other long-tail channels.

- **Amazon and Google influence 43% of all online purchases** with 30% of consumers starting their research at Amazon and 13% on Google.
- **Google:** According to Mercent, retail can represent up to 40% of Google's revenue and includes product listing ads, shopping, trusted stores, retail promotions, circulars, catalogs, local, wallet, and same-day delivery. The shift to PLAs from the free Google Product Search was a noteworthy development this year. Mercent noted that PLA spend was likely not incremental during the holiday season given most 2012 ad budgets had already been locked-in prior to the holiday season, though Mercent expects more incremental dollars from PLAs in 2013 as budgets are reset. Google PLA appears to be gaining share from comparison shopping engines. Google shopping same-store sales were up 25% y/y in December vs. 37% y/y in November as November exceeded expectations. Mercent also noted that CPCs for its clients on Google increased to ~$0.71 in December from $0.58 in November.
- **Amazon:** Mercent's same-store sales with Amazon were 33% in November and 25% y/y in December. Mercent cited that retailers often underestimate the inventory that Amazon can deliver as one of the reasons for the slower December growth.
- **Showrooming (looking in store and then checking prices on mobile phone) is becoming a bigger issue for retailers:** Mercent believes that retailers must focus on merchandising, retention, loyalty, convenience, and selection, as well as innovation and value to help lessen the impact of showrooming.

Social-Mobile
JumpTap, Mobclix, Viggle, Adaptly

- **4Q trends were strong.** Mobclix (mobile advertising exchange) indicated that 4Q was strong with the last two weeks of December being particularly strong. Rich media, particularly video, saw strong uptake. The role of location data was important as it helped close the purchase path of consumers on mobile. Also noteworthy was the large increase in volume on photography apps, particularly for iOS. JumpTap (mobile advertising network) noted that December was strong and in line with expectations.
- **Social:** Adaptly (social advertising platform) indicated strength for Facebook driven by new product rollouts including mobile and news feed advertising.
- **2013 outlook:** JumpTap indicated mobile data will be a key for 2013 as it is still difficult to get good data on the mobile audience. Mobclix also highlighted that multi-screen and multi-channel strategies will be key themes.
- **Apps vs. mobile web:** JumpTap indicated that consumers use whichever medium gets them the info they want the fastest which today is generally apps. Apps also have a higher level of engagement today. However, many companies would like mobile web to become a bigger channel in order to avoid the 30% Apple tax.
- **Facebook:** Adaptly indicated that Facebook advertising is a big shift from six months ago when Facebook was primarily right-rail advertising. Today, a campaign is generally run through the news feed first. Click-through rates on Facebook News Feed are very high today and as high as 5-15% on popular brands. Adaptly indicated that eight months ago 90% of ad units were right-rail and now ~80% are news feed.

Teen Panel

Five teenagers ranging from 15-18 years old

- **Media usage:** In general, the teens indicated they do not watch much TV today, but instead use Hulu, Netflix, and other online entertainment.
- **Facebook usage:** Most of the teens have reduced their usage of Facebook. Reasons for decreased usage included privacy concerns (many indicated lowered usage following the Facebook timeline launch) and increased usage of other social platforms including Twitter, Instagram (owned by Facebook), and SnapChat (photo sharing). The teens indicated that some of their friends are deleting their Facebook accounts.
- **Search/portal usage:** All of the teens use Google as their primary search engine. None of the teens indicated using any of the traditional portals (Yahoo!, AOL, MSN).
- **Music:** Most of the teens use Pandora and Spotify, as well as YouTube for videos. Teens are not using iTunes as much given that you generally have to buy music.
- **Video:** Most of the teens used Netflix, as well as network sites Hulu and YouTube.
- **Smartphones:** Four of the teens have iPhones today (all four indicated they would purchase an iPhone again) with one teen using Android.
- **Communicating:** The teens indicated that they use text messaging the most to communicate with friends. Several of the teens also used iChat (Apple video chat)

Ad Tech

Collective, Rocket Fuel, Rubicon Project, Core Audience

- **Solid 4Q trends:** All of the panelists indicated a solid 4Q with most indicating that 4Q was above expectations. Rubicon indicated that it is a tale of two cities, where sophisticated auction-based ad technologies are growing quickly while the more traditional ad network models (more reliant to direct sales and have not been able to make the investment in tech infrastructure) are growing slower. Rubicon also indicated that the traditional big brand advertisers are now their biggest advertisers, which was not the case a few years ago. Rocket Fuel mentioned that it posted 2.4x growth in 2012 with a stronger-than-expected 4Q. Core Audience noted that 4Q was in line with expectations and overall expenditure to paid, earned, and owned media was up. Collective also noted a strong 4Q driven in part by political advertising.
- **Ad exchanges and real-time bidding:** In general, the panelists indicated that ad inventory is moving to exchanges, which offer greater scale and typically lower prices. Facebook Ad Exchange has brought more attention to exchanges recently. That said, it appears that quality and transparency have room for improvement. Sophisticated data science is also crucial given the real-time bidding nature of impressions on exchanges and the need for accurate and precise targeting to generate sustainable ROIs for advertisers.
- **Social:** Overall, it appears the ROI on FBX appears to be strong initially, though the lower prices are likely helping. At this point, it is unclear whether FBX will be accretive to ad tech companies or merely a share shift. One panelist also commented that advertisers are more disenchanted now with spending on “likes” though they are interested in FBX (ad exchange).
- **Regulation:** In general, the panelists believe that discussions around this area have been ongoing for years. Moreover, while measures could present roadblocks, they would not be unsolvable.

Venture Capitalist Panel

General Atlantic, Insight Venture Partners, Bain Capital Ventures

- **Key investment themes:** Bain Capital was positive on using big data for closed loop marketing which it indicated that most retailers besides Amazon do not do well. Insight Venture Partners expects mobile to continue to be a key theme, though it believes e-commerce is getting overdone in the U.S. and there is less innovation from smaller e-commerce companies (vs. Amazon). General Atlantic was positive on international (especially emerging markets) marketplaces, as well as vertically-integrated e-commerce.
- **Consumer internet investments:** In general, the venture capitalists indicated that early-stage investing in consumer Internet companies is typically difficult due to the fickleness of consumers. General Atlantic indicates that it focuses on consumer businesses with strong moats. In addition, in evaluating Internet businesses, General Atlantic focuses on the business model, quality of management team, ability to recruit and retain talent, total addressable market, and penetration rate.
- **International opportunities:** Despite recent volatility, the venture capitalists remain positive on emerging markets. Insight ranked China and Brazil the highest in terms of attractiveness. Venture capitalists remained positive on China given the long-term attractiveness of the market (increasing middle class) and the speed with which the economy and infrastructure is being developed. In addition, two of the venture capitalists noted that after talks with government officials, they feel the basic VIE structure of many China companies is endorsed by the government.

E-commerce

Demandware, Gilt, PFSweb, Wayfair

- **4Q trends:** Wayfair noted significant growth during the holidays and the high promotional environment. Gilt also experienced a strong holiday season and noted the shift toward mobile (between Thanksgiving and Cyber Monday, there were days when 60% of traffic was coming from mobile); Gilt also saw more reliance on promotional activities than prior periods and consumers' willingness to engage. PFSweb also echoed the heavier promotional activity, and mentioned that average order sizes and units per order were higher on mobile than desktops. Demandware did not comment specifically on 4Q, but we note the company raised its 4Q revenue guidance after Cyber Monday.
- **Key investment areas:** Wayfair cited investments in fulfillment and shipping infrastructure (i.e., faster delivery). Gilt indicated investments in payment solutions, especially internationally, as well as investments in supply chain management and mobile analytics tools. Demandware indicated that its customers are focused on the personalization of search, products, and pages as a way to fight the commoditization of Amazon.
- **How to compete against Amazon:** Wayfair, which specializes in the home category, differentiates itself from Amazon by being more about visualization (discovery) vs. Amazon which is more about searching for items you want. Gilt differentiates itself by selection and brand relationships (i.e., partnering with brands to sell excess inventory), as well as having a curated experience for consumers.
- **Sales tax:** Overall, the panelists believe the impact will depend on how the tax is implemented, though they believe the impact will not be that significant if it is applied consistently.

SurveyMonkey

Brett Chudoba, GM of Survey Monkey Audience

Survey Monkey highlighted its audience monthly tracking study, with its most recent January survey encompassing 1,297 consumers.

- **Netflix** survey data (eight months of data) has indicated that 5-10% of consumers expect to cancel their Netflix subscription over the next 90 months. The churn expectation peaked in August at 10% and is currently in the 6% range the last two months.
- **Online Music:** According to the Survey Monkey survey of 1,361 consumers in January 2013, Pandora has clear leadership with 37% of listeners using Pandora in a given week, followed by YouTube (32%), Sirius XM (16%), iHeart Radio (9%), iTunes Radio (8%), and Spotify (7.5%).
- **Facebook has much higher engagement among younger users:** An estimated 80% of the 18-29 year-old age group post something to Facebook a few times a month or more vs. approximately 45% for the over 60 year-old age group.
- **Daily deal trends:** Based on three months of data, approximately 25% of consumers use a daily deal each month. For Groupon, the survey shows that in November, December, and January ~19%, 17%, and 16% of users, respectively, indicated that they purchased a Groupon in the past 30 days.
- **OpenTable:** According to a Survey Monkey study of ~2,500 consumers, 12% of consumers made a restaurant reservation in the last 30 days with 60% of those using OpenTable and 44% using the restaurant's website.

Company Citations

Company Name	Ticker	Exchange	Currency	Closing Price	RJ Rating	RJ Entity
Amazon.com Inc.	AMZN	NASDAQ	$	270.48	3	RJ & Associates
Apple Inc.	AAPL	NASDAQ	$	502.68	2	RJ & Associates
comScore, Inc.	SCOR	NASDAQ	$	14.08	4	RJ & Associates
Demandware	DWRE	NYSE	$	31.20	2	RJ & Associates
eBay Inc.	EBAY	NASDAQ	$	54.17	2	RJ & Associates
Facebook, Inc.	FB	NASDAQ	$	30.14	3	RJ & Associates
Google Inc.	GOOG	NASDAQ	$	711.32	2	RJ & Associates
Groupon, Inc.	GRPN	NASDAQ	$	5.09	3	RJ & Associates
LinkedIn Corp.	LNKD	NYSE	$	119.32	3	RJ & Associates
Netflix Inc.	NFLX	NASDAQ	$	97.70	4	RJ & Associates
OpenTable, Inc.	OPEN	NASDAQ	$	52.23	2	RJ & Associates
Pandora Media, Inc.	P	NYSE	$	10.85	2	RJ & Associates

Notes: Prices are as of the most recent close on the indicated exchange and may not be in US$. See Disclosure section for rating definitions. Stocks that do not trade on a U.S. national exchange may not be registered for sale in all U.S. states. NC=not covered.

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Outperform (MO2) Expected to appreciate and outperform the S&P 500 over the next 12-18 months. For higher yielding and more conservative equities, such as REITs and certain MLPs, an Outperform rating is used for securities where we are comfortable with the relative safety of the dividend and expect a total return modestly exceeding the dividend yield over the next 12-18 months.

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Underperform (MU4) Expected to underperform the S&P 500 or its sector over the next six to 12 months and should be sold.

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Outperform (MO2) The stock is expected to appreciate and outperform the S&P/TSX Composite Index over the next twelve months.
Market Perform (MP3) The stock is expected to perform generally in line with the S&P/TSX Composite Index over the next twelve months and is potentially a source of funds for more highly rated securities.
Underperform (MU4) The stock is expected to underperform the S&P/TSX Composite Index or its sector over the next six to twelve months and should be sold.

Raymond James Latin American rating definitions

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Outperform (MO2) Expected to appreciate and produce a total return of between 15.0% and 25.0% over the next twelve months.
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Underperform (MU4) Expected to underperform the underlying country index.
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	Coverage Universe Rating Distribution				Investment Banking Distribution			
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Strong Buy and Outperform (Buy)	50%	64%	30%	48%	21%	34%	0%	0%
Market Perform (Hold)	43%	35%	64%	36%	9%	23%	0%	0%
Underperform (Sell)	7%	2%	6%	15%	1%	25%	0%	0%

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Growth (G) Low to average risk equities with sound financials, more consistent earnings growth, at least a small dividend, and the potential for long-term price appreciation.

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High Risk (HR) Companies with less predictable earnings (or losses), rapidly changing market dynamics, financial and competitive issues, higher price volatility (beta), and risk of principal.

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	Raymond James & Associates makes a market in shares of FB.
Google Inc.	Raymond James & Associates makes a market in shares of GOOG.
Groupon, Inc.	Raymond James & Associates makes a market in shares of GRPN.
Netflix Inc.	Raymond James & Associates makes a market in shares of NFLX.
OpenTable, Inc.	Raymond James & Associates makes a market in shares of OPEN.
Yahoo! Inc.	Raymond James & Associates makes a market in shares of YHOO.

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Specific Investment Risks Related to the Industry or Issuer

Internet & E-commerce Industry Risk Factors
The Internet & E-commerce group is impacted by spending patterns of consumers, advertising budgets, competition from traditional physical retailers, and tax legislation.

Technology & Communication Risks
Companies in the Communication Technology sector face intense global competition, component supply issues, rapid technological change, patent infringement litigation, labor strife and macroeconomic pressures effecting demand.

Company-Specific Risks for Apple Inc.

Rapid Technology Evolution
Historically, the global consumer electronics and computer hardware business has been characterized by aggressive price cutting, with resulting downward pressure on gross margins, frequent introduction of new products, short product life cycles, evolving industry standards, continual improvement in product price/performance characteristics, rapid adoption of technological and product advancements by competitors, and price sensitivity on the part of consumers.

New Product Adoption
Apple's current dominance in the world of consumer electronics has been largely the result of a five-year run of developing hit products beginning with the first iteration of the iPhone in 2007, which was followed by the iPad in 2010. Relying on its strong margins from hardware sales, Apple is at risk should new products not create excitement in the market and fail to support premium prices. Apple relies on its carrier partners to subsidize the purchasing price of iPhones in order to maintain competitiveness vs. alternative hardware providers. In markets that lack subsidies, Apple's iPhone penetration is drastically reduced.

Defense of Intellectual Property
Apple maintains significant investments in research and development to ensure its premium market position across product categories. As a result, it holds a significant number of patents and copyrights and has registered and/or has applied to register numerous patents, trademarks and service marks. By contrast, many of the Apple's competitors seek to compete primarily through aggressive pricing and very low cost structures. If Apple is unable to protect its intellectual property from cooption by competitors, Apple's ability to maintain a competitive advantage could be negatively affected. Conversely, many of Apple's products include third-party intellectual property, which requires licenses from those third parties. Based on past experience and industry practice, those licenses have been obtained on reasonable terms. There is however no assurance that the necessary licenses could be obtained on acceptable terms or at all.

Pricing Structure
Apple is unique in that it designs and develops nearly the entire solution for its products, including the hardware, operating system, numerous software applications, and related services. Conversely, many of its competitors rely on Google's Android as a "free" (subject to various IP royalties) operating system allowing them to focus on hardware specifications and offer aggressive pricing.

Global Supply Chain
Apple is subject to a global supply chain and relies on contract manufacturers for most of its production. Working conditions at contract manufacturers in places like China have brought negative attention and may be a source of negative customer perception to its products in the future. Other risks to its supply chain may be the result of too much demand and limited component availability leading to delayed product shipments, risks associated with currency volatility, and risks associated with stability of sovereign governments.

Company-Specific Risks for Amazon.com Inc.

Intense Competition
Amazon operates in an intensely competitive environment. The core e-commerce business faces competition primarily from multi-channel retailers, eBay, and other broad or specialized e-commerce sites (either by geography or particular categories).

Margin Pressure
Margins are an important focal point given that margins are already slim. Continued investments in fulfillment operations and other growth initiatives could pressure margins in the near term.

High Level of Seasonality
Amazon's business is highly seasonal, as the company's revenue in the fourth quarter is significantly higher due to the holiday season. This heightens the risk for investors who are likely to prefer a more consistent flow of revenue throughout the year.

Foreign Exchange (Forex) Impact
The primary international markets for Amazon are the U.K., Europe (Germany, France), and Asia (Japan). Since sales and expenses are denominated in local currency, Amazon can be unfavorably impacted by forex movements.

Company-Specific Risks for Demandware

Customer and Category Concentration
Demandware's 10 largest customers represented 40% of revenue in 2011, down from 50% in 2010. neckermann is Demandware's single largest customer at 10% of revenue in 2Q12. Until recently, neckermann had been a strong and growing customer for Demandware. However, due to company-specific issues, neckermann filed for bankruptcy in late July 2012. neckermann is currently under contract with Demandware through mid-2013. We are modeling this customer to represent 9% of revenue in 2012 and 3% in 2013 (we do not model any further contribution after 1H13). No other customer was more than 5% of revenue in 2011. Finally, apparel represents about 50% of Demandware's revenue and has remained steady in the range.

Pricing Pressure
Since Demandware gets paid a percentage of GMV, there is concern the company could see some pricing pressure. That said, Demandware's interests are aligned with its customers and the company provides mission critical, market leading e-commerce platform capabilities to its customers. Moreover, according to our checks, customer satisfaction is high.

European Exposure
Europe represents 40%+ of revenue, with the majority from the U.K. and Germany. While the current macro issues in Europe are certainly top of mind, we believe Demandware operates in the healthier countries in the region. Additionally, e-commerce is in secular growth mode and thus far European e-commerce data points have been constructive.

Currency Risk
With ~50% of revenue coming from international and contracts priced in local currencies, currency volatility could impact reported results. The company has ~40% exposure to the euro and 10% to the pound. That said, Demandware does have somewhat of a natural hedge, as 50% of its costs are internatioanl. On the 2Q12 earnings call, Demandware adjusted its forward guidance to assume a euro exchange rate of $1.20, down from the previous assumption of $1.30. As a result of the change, full-year guidance was negatively impacted by $900,000.

Competition
The e-commerce platform space is intensely competitive. There are also larger, more established and better capitalized vendors in the market.

Retail Seasonality
As is typical for companies operating in the e-commerce ecosystem, sales are weighted to the holiday season (November and December). For example, 4Q11 represented 33% of Demandware's annual sales and 4Q10 was 34%.

Expiration of Lockup Period
The lockup period for Demandware will end after the market closes on September 10, 2012. This could significantly increase the share count of Demandware's common stock.

Company-Specific Risks for eBay Inc.

Intense Competition
eBay operates in an intensely competitive environment. The core e-commerce business faces competition primarily from multi-channel retailers, Amazon, and other broad or specialized e-commerce sites (either by geography or particular categories).

Margin Pressure
A continued slowdown in the Marketplace business and accelerated growth of the lower margin PayPal business could pressure margins over the near term.

Foreign Exchange Impact
eBay has localized presence in 24 countries across the globe. Since sales and expenses are denominated in local currency, eBay can be unfavorably impacted by foreign exchange movements.

Company-Specific Risks for Facebook, Inc.

Maintaining User Engagement and Adding New Users
Facebook has 1.01 billion monthly average users (MAUs) as of 3Q12, and Facebook's success depends on adding, retaining, and engaging active users. We note that a number of other social networking companies that achieved early popularity have since seen their active user bases significantly decline.

Mobile Monetization
Facebook's mobile MAUs totaled 604 million in 3Q12 (or 60% of total MAUs). Historically, Facebook has not shown ads through mobile devices, and the company does not currently generate any meaningful revenue from the use of Facebook mobile products (the company began including sponsored stories in mobile News Feeds in March 2012, though this revenue stream is still not meaningful). With mobile usage growth expected to exceed PC usage growth going forward, we believe that failure to monetize mobile usage could negatively affect revenue growth.

Competition
Facebook faces competition from a variety of companies offering Internet products, services, content, and online advertising offerings, including Google, Microsoft, Pinterest, and Twitter, as well as from mobile companies and smaller Internet companies that offer products and services that may compete with specific Facebook features. Additionally, Facebook faces competition from other social network offerings (Google+) as well as other regional social networks that have strong positions in particular countries, (Cyworld in Korea, Mixi in Japan, Orkut in Brazil and India, vKontakte in Russia). Though not currently in China, should Facebook gain access to this market in the future, it would face competition from companies such as Renren, Sina, and Tencent.

Government Restrictions
It is possible that governments may seek to censor content available on Facebook in their country, restrict access to Facebook from their country entirely, or impose other restrictions that may affect the accessibility of Facebook in their country for an extended period of time or indefinitely. For example, access to Facebook has been, or is currently, restricted in whole or in part in China, Iran, North Korea, and Syria.

Revenue Concentration
In 2011, advertising revenues accounted for 85% of total revenues, down from 95% in 2010 and 98% in 2009. If advertisers do not believe their investment in Facebook ads will generate as good of a return as investments in other alternatives, advertisers may look to cut their social ad budgets first. For example, in May 2012, GM announced that it decided to halt its paid ads on Facebook given its belief that on-site Facebook advertisements have little impact on consumers' car purchases. Additionally, in 2011, ~19% of revenues were derived from Payments processing fees from Zynga, direct advertising from Zynga, and revenue from third parties for ads shown on pages generated by Zynga apps.

Concentration of Voting Power
Following the IPO, Mr. Zuckerberg controls ~56% of the company's voting power, and as such, shareholders have essentially no input in the direction of the company.

Company-Specific Risks for Google Inc.

Intense Competition
Google faces increasing competition on all fronts. The combination of Yahoo!/Microsoft creates a more formidable competitor for Google, though Google has more than double the market share of the combined entity. Social media is also a potential emerging threat.

Margin Pressure
Given Google's increased pace of hiring and investments, operating margins are likely to remain muted, therefore limiting EPS and FCF upside in the near term.

Heightened Regulatory Scrutiny
Heightened regulatory scrutiny around Google's dominant position in search advertising in the U.S. and Europe could limit Google's ability to expand into new areas, forge new distribution deals, and form partnerships.

Concentration in Advertising
While Google offers a broad range of online products and services, over 90% of revenue comes from online advertising spend. Given the cyclical nature of advertising budgets, a slowdown in spending could adversely affect the company's growth and profitability.

Company-Specific Risks for Groupon, Inc.

Competition
The group deal space is highly competitive with several participants, including LivingSocial, Amazon, Google Offers, TravelZoo, and the Gilt Groupe, to name a few. With few barriers to entry, we believe competition will continue to be strong, with several new potential competitors emerging. Groupon also competes with traditional offline coupon and discount services, as well as newspapers, magazines, and other traditional media companies that provide coupons. A June 2011 Rice University study found that 73% of merchants have no loyalty to a daily deal site with which they have run a promotion and would consider using a different site to run their next promotion.

Limited Operating History
Groupon is operating in a market that the company itself created only recently. Given the limited historical results and short operating model history, it is difficult to predict whether strong growth can continue and whether merchant or consumer fatigue will occur.

The Implementation and Interpretation of the CARD Act
Groupons may be considered gift cards, gift certificates, stored value cards, or prepaid cards and, as a result, fall under the laws of the CARD Act, many of which contain provisions and limitations that relate to expiration dates and fees. If it were determined that Groupon fell under the rules of the CARD Act, the company's liabilities may be understated with respect to unredeemed Groupons, which may negatively impact net income in future periods.

Consumer Deal Fatigue
As daily deal products become more widespread, we believe there is the possibility for "daily deal fatigue" for consumers and merchants. For consumers, the novelty of daily deals may wear off and consumers may become fatigued with receiving too many emails from daily deal companies, with many deals being non-targeted. Increasingly, we believe it will be important for daily deals to become more personalized for the consumers. That said, an August 2011 study conducted by Rice University concluded that daily deal fatigue has not yet set in for most consumers, noting that only 13% of consumer respondents agreed they have been buying daily deals less often than in the past, and just 8% of consumer respondents indicated that they had lost interest in daily deals over time.

Long-Term Merchant ROI Still Uncertain
Given the early stage of the daily deal market (Groupon began in late 2008), the longer-term ROI proposition for merchants is still unclear. We believe the key benefits of daily deals for merchants include: 1) increasing brand awareness and 2) driving incremental and repeat traffic. Oftentimes, the initial deal produces a loss for the merchant, and repeat traffic or lift in branding may be difficult to measure for merchants. If merchants do not believe that Groupon generates long-term increases in customers, revenues, profits, and a positive long-term ROI, merchants may stop using Groupon or require lower fees.

Foreign Exchange
Fluctuations in foreign exchange rates can adversely impact Groupon's results, as 54% of Groupon's revenues were international in the quarter ending June 30, 2012.

Acquisitions
Groupon has been highly acquisitive in the past, and we expect it will continue to look for acquisition opportunities going forward. As with any acquisition, there exist operational risks that could adversely affect the company.

Company-Specific Risks for LinkedIn

Competition
LinkedIn's primary competitors today include other social networks as well as recruiting firms and talent management companies.

Engagement
According to LinkedIn, a substantial majority of its page views are generated by a minority of its members. We believe a key opportunity for LinkedIn is to increase member engagement which drives marketing revenues, though if LinkedIn cannot increase member engagement, this could negatively impact LinkedIn's long-term revenue opportunity.

Accuracy of Member Information
If member data is not accurate or out of date, this would likely have a negative impact on LinkedIn's Hiring Solutions business as Hiring Solutions customers would find it more difficult to efficiently find suitable candidates.

Company Specific Risks for Netflix Inc.

Competition
The video rental market is highly competitive and rapidly changing. The primary domestic competitors for Netflix today include: 1) multichannel video programming distributors (MVPDs) which include cable providers, telecom companies, and direct broadcast satellite 2) Internet movie and TV content providers (i.e. Apple's iTunes, Amazon.com, Hulu, YouTube); 3) DVD rental kiosks (i.e. Redbox). In Europe, the largest competitor is LoveFilm with over 1 million subscribers. Netflix's strategy vs. other providers leverage its "virtuous cycle" whereby investments in content drive subscriber growth which enables Netflix to acquire more content and more subscribers.

Streaming Content Availability and Rising Costs
As the business transitions from DVDs to streaming, the company will need to invest more to acquire streaming content in order to fuel subscriber growth. With the emergence of well-funded competitors like Google, Amazon, and Apple, as well as entrenched players such as HBO and Starz, we expect content costs to increase significantly in the future, which could negatively impact Netflix's operating margins.

Usage-based ISP Pricing
In response to high usage streaming customers, some internet service providers are charging overage fees or throttling the speed of the service. For instance, Rogers Canada had implemented $1 or more per gigabyte overage charges. In response to this, Netflix lowered the encoding bit rate of its service which results in slightly lower video quality. AT&T also implemented caps of 250 gigabytes on U-verse fiber Internet subscribers and 150 gigabytes on DSL subscribers, with an overage charge of 20c per gigabyte. To the extent that ISPs institute these types of charges or throttle the speed of service, this could lead to a worse user experience and potentially lead to lower revenues for Netflix.

Macroeconomic Uncertainty
Like most consumer-discretionary businesses, the company's operating performance is impacted by the global economic environment and the impact on consumer spending patterns. Typically, purchases of discretionary items, including movie rentals, decline during recessionary conditions.

Postal Rates
Netflix ships its DVDs through the US Postal Service. To the extent that the USPS increases first class mail rates, this would likely have a negative impact on Netflix's gross margins.

International Execution
Netflix is investing in international expansion in order to deliver strong long-term subscriber growth. However, Netflix lacks a significant brand image in many international countries and we believe is likely to face stiff competition from other global and local competitors.

Company-Specific Risks for OpenTable, Inc.

Economic Slowdown
We believe a slowdown in global economic conditions would negatively impact OpenTable's growth as restaurants may elect to delay signing up for OpenTable's solutions, and consumers would likely cut back on discretionary spending, including dining out. As such, during the downturn in 2008/2009, OpenTable experienced a slowdown in its seated diner growth. As such, from 4Q08 through 3Q09, seated diner growth was approximately 20% vs. approximately 50% prior to and after the recession.

Competition
While OpenTable remains well positioned as the clear market leader in North America, it does face competition from a number of players.

International Expansion
We believe international growth is key to OpenTable's long-term success. OpenTable has a much shorter history operating internationally (opened offices in U.K. in 2004, Tokyo in 2006, and Germany in 2007), and it remains unclear how successful OpenTable will be internationally, especially in a more competitive market, as well as in markets that may differ than the U.S. in terms of dining habits. As such, in 2008, OpenTable closed its offices in Spain and France due to different dining habits of consumers there.

Market for Local Salespeople Becoming More Competitive
With the rise of the daily deals market, we believe the market for local salespeople has become more competitive. The increased competition could lead to higher salaries and hence lower operating margins for OpenTable.

New Product Acceptance
To date, OpenTable has had limited success with acceptance of newer products and recently decided to shut down Spotlight, its group buying offering. While we believe OpenTable still has a ways to go to penetrate its addressable market of restaurants, we believe that to drive strong long-term growth, OpenTable will need to gain traction with newer product offerings.

Acquisitions
We believe OpenTable may make acquisitions in the future to gain additional market share, enter new geographies, or acquire additional technologies. With any acquisition, there exists the potential for lower-than-expected synergies and management distractions caused by the acquisition.

Company-Specific Risks for Pandora Media, Inc.

Content Costs
Content costs totaled 60% of total revenue in F2Q13. Given that rates for sound recordings (the largest component of content costs) are set to increase annually through 2015, increasing content costs are a key long-term concern. We are optimistic that Pandora will be able to renegotiate on neutral to favorable terms for 2016-2020 though there are no assurances. Content costs increase with each listener hour regardless of whether or not more revenue was generated. Further, Pandora is at a competitive disadvantage to traditional broadcast radio companies which do not pay performance rights royalties today.

Intense Competition
The market for online streaming music is intense and continues to change rapidly. The company competes directly and indirectly with many other services including traditional radio operators, other Internet radio services (e.g. iHeartRadio, Last.FM, Spotify), as well as cloud-based offerings from Google, Apple, and Amazon. While Pandora has a significant lead today given its ability to foster music discovery, we believe other Internet radio companies are increasingly focused on this given the success of Pandora. In addition, while we believe Pandora's music discovery service remains best-of-breed, other services such as Echo Nest may be considered "good enough" by consumers. As such, iHeartRadio (owned by ClearChannel) as well as Spotify recently began to integrate Echo Nest technology to better enable music discovery.

Mobile Monetization
If Pandora is not able to effectively monetize mobile, its long-term financial outlook would be affected. Mobile represents more than 70% of total listener hours today. Pandora monetizes less than one minute of radio today per hour vs. 13 minutes for broadcast radio. We believe Pandora should be able to increase this through hiring more local sales, though there can be no assurances.

International Expansion
While Pandora plans to expand globally longer term, there is no licensing regime for the streaming of sound recordings internationally, and current licensing alternatives are not commercially viable today and are prohibitively expensive. International expansion would also likely lead to significant upfront expenses in front of any meaningful revenue generation.

Meaningful Profits Likely Several Years Away
While we expect strong revenue growth to continue, we expect increasing content costs (driven by increasing mobile usage as well as higher SoundExchange rates) and investments in sales to lead to limited profitability over the next few years. We believe flattening out or potential declines in SoundExhange fees in 2016 and beyond could lead to meaningful profits in CY16 and beyond.

Company-Specific Risks for comScore, Inc.

Subscription renewals
The majority of revenue comes from subscription renewals, and thus, a failure to renew could have a negative impact on the model. We would note that comScore's renewal rate has consistently been above 90%.

Rapid technological change
The Internet and mobile spaces are rapidly changing, and companies within the space need to keep pace to remain competitive.

Customer concentration
comScore does have customer concentration. Microsoft is the largest customer and represents 10% of annual revenue. The top 10 customers are 24% of revenue.

Online privacy legislation
Given the nature of the company's operations in the Internet space, online privacy rules are always a potential risk. With that said, comScore is in a unique position because it does have explicit permission from its panel to monitor their online behavior.

Acquisition integration

The company has done four acquisitions over the past two years. The impact on EBITDA margins has been greater than expected. Management has guided for margins to improve in 2012.

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