

Internet

Baird's Book of Lists, Vol. 1, No. 1

Taking a quick break from earnings season ... we are introducing the first edition of a periodic note "**Baird's Book of Lists**" in which we will aim to highlight various rankings and lists related to our coverage that can provide investors with a glimpse into interesting trends and/or emerging themes that might not always be obvious from day-to-day research. Oh, and from our "quote of the week," forget self-driving cars, invest in telecommuting! Feel free to reach out with your suggestions as well.

- **So what's in a list?** In this inaugural edition, we are highlighting: 1) Cities with the most Amazon corporate job openings; 2) Top rising searches on YouTube; 3) Most expensive cars sold recently on eBay; and 4) the largest commercial office space lease in San Francisco's history just signed by... In addition, we are profiling a couple of fast rising apps: *tbh* and *Zello*.
- **Which East Coast city will win Amazon's HQ2?** Our first list ranks cities by the number of corporate job openings at Amazon.com. Out of the total positions (11,781 as of Friday afternoon), roughly 50% are located out west (mostly Seattle and the San Francisco Bay Area.) However, if we exclude West Coast cities from the HQ2 hunt, then perhaps corporate job density is a useful measure to gauge Amazon's interest in an area, and an important clue into which city may "win the prize." By this yardstick, the East Coast corridor would seem to have a big advantage (see specific rankings inside).
- **Top Searches on YouTube.** With a glimpse into trends in popular culture, we rank the top searches from YouTube from the past 30 days. Apparently there was some pent-up demand for the *Cuphead* video game, which I recall seeing in development a couple of years ago. The rankings also shed light into one of fastest-rising hip hop artists of the year.
- **The largest used car retailer in the U.S.?** Probably eBay, one of the lesser-known facts about the e-commerce marketplace. This week, we list the most expensive cars sold on the platform over the past 30 days, which contains some good news if you have a Ford GT in the garage.
- **Not actually a list, but a record...** Dropbox last week signed the largest Class-A commercial lease ever in San Francisco, totaling 736k sq ft; this follows Facebook's lease at 181 Fremont for the entire 436k office tower. Who says business is slowing in the Bay Area?
- **Top rising apps (aka, why would Facebook acquire a two-month old app for \$100 million?)** Anyone with a tween probably knew *tbh* before the media caught on. We discuss *tbh* and *Zello* inside.
- **Quote of the week: Peter Thiel (Founders Fund):** "The self-driving car trend is an important trend...but I'm not sure it's a good investment. The transportation-related technology that I wonder about more...is telecommuting, that's a trend worth exploring a lot more."

INDUSTRY UPDATE

Prices as of 10/27/2017

Ticker	Price	Mkt Cap (mil)	Rating	Risk
AMZN	\$1,100.95	\$541,667	O	A
ATVI	\$64.14	\$48,105	O	A
BABA	\$176.15	\$457,814	O	H
CVNA	\$12.76	\$1,744	O	H
EA	\$116.89	\$36,820	O	A
EBAY	\$36.80	\$39,670	O	A
ECOM	\$11.25	\$287	N	H
FB	\$177.88	\$522,611	O	A
GME	\$19.34	\$1,963	O	S
GOOG	\$1,019.27	\$717,566	O	A
GOOGL	\$1,033.67	\$727,704	O	A
SFLY	\$41.86	\$1,373	N	A
SHOP	\$107.27	\$9,558	O	H
TTWO	\$107.84	\$12,434	N	A
TWTR	\$21.68	\$15,269	N	H
W	\$67.55	\$5,803	N	H
YELP	\$45.40	\$3,827	N	H
ZNGA	\$3.77	\$3,284	N	S

Baird covered companies

Please refer to Appendix
- Important Disclosures
and Analyst Certification

Details

Taking a quick break from earnings season, we are introducing the first edition of a periodic research note we call "**Baird's Book of Lists.**" More specifically, we aim to highlight various rankings and lists related to our coverage areas of Internet and Interactive Entertainment that we think can provide investors with a glimpse into interesting trends and/or emerging themes that might not always be obvious from day-to-day research. In our inaugural edition, we are highlighting: 1) top sites for Amazon corporate job openings; 2) top rising searches on YouTube; and 3) the most expensive cars sold recently on eBay. In addition, we are profiling a couple of fast rising apps: *tbh* and *zello*.

And the winner is....Metropolitan Washington D.C.? East Coast Corridor cities may have a big advantage in Amazon HQ2 search. Our first list is cities and states ranked by the number of Amazon corporate job openings. We view this as relevant to the HQ2 search, as Amazon might prioritize locations based on already having a sizable non-fulfillment workforce. The states with the most current Amazon corporate job openings: Washington State (4,733), California (1,195), Virginia (527), Massachusetts (328), and New York (319). Related to the HQ2 hunt, if we exclude West Coast locations Seattle and San Francisco, which have the most job openings, then the metropolitan areas with the largest number of corporate job openings are in Washington D.C./Northern Virginia (531), Boston (326) and New York City/NJ (315). Not to be dismissed, Austin (80, excluding Whole Foods) and Toronto (60) are next on the list, while some of the oft-discussed potential HQ locations that actually have a small number of corporate job openings (or none), include Atlanta, Charlotte, Detroit, Minneapolis and Pittsburgh. Bottom line... with a fairly large airport hub (Dulles), geographic diversity (East Coast/Southeast), a large number of employees (in particular Amazon Web Services), and perhaps the side-benefit for Jeff Bezos given the nearby Washington Post, we would give a slight advantage to the DC metropolitan area.

Figure 1: Current Corporate Job Openings at Amazon by Metropolitan Area

Seattle	4,729	Minneapolis/St. Paul	19
San Francisco/San Jose	889	Houston	18
Washington/No. Va	531	Pittsburgh	17
Boston	326	Phoenix	16
New York City	315	Detroit	10
Vancouver	271	Montreal	7
Los Angeles/Riverside	196	Las Vegas	6
Austin	80	Cincinnati	3
Toronto	60	Charlotte	3
Chicago	56	St. Louis	3
Dallas/Ft. Worth	54	Philadelphia	3
Sacramento	54	Miami/Ft. Lauderdale	3
Denver	46	Kansas City	-
Atlanta	34	San Antonio	-
Portland	27	Tampa/St. Petersburg	-
San Diego	20	Orlando	-

Source: Amazon.com

Top Searches on YouTube. With a glimpse of trends in popular culture, we rank the top searches from YouTube from the past 30 days. Apparently there was some pent-up demand for the Cuphead video game, which I recall seeing in development a couple of years ago.

Figure 2: Top Searches on YouTube (last 30 days)

Cuphead	Game
Rockstar	Song
Post Malone	Artist
FIFA 18	Game
Star Wars	Brand

Source: YouTube

What is the largest used car retailer in the U.S.? Probably eBay, which is one of the lesser-known facts about the e-commerce marketplace. This week, we found the most expensive cars sold on the platform over the past 30 days, which contains some good news if you have a Ford GT in your garage that you're looking to sell.

Figure 3: Most Expensive Cars Sold on eBay (last 30 days)

2006 Ford GT	\$300,000
2012 Lamborghini Aventador	\$240,700
2006 Ford GT	\$240,420
2016 Ferrari 488	\$237,100
1970 Plymouth Road Runner	\$217,700

Source: eBay

App Profiles: Each week in this note, we will profile a couple of fast-growing apps based on changes to rankings on the App Store and Google Play. Two of the top-ranked apps downloaded last month were:

- **Tbh** – Anyone with a tween or teen probably knew this app even before Facebook acquired the company. Investors might think the most interesting part of the story is Facebook buying an app just two months after it launched for a reported \$100 million. My 13-year-old and his group of friends are using the app fairly often, while my 11-year-old is requesting access, but still being denied (by her parents.) The best thing about the app is that it is supposed to provide positive emotional support to young people, in a world with lots of negative social media. If Facebook is feeling pressure to capture the attention of young people, this app could help. We'll see...
- **Zello Walkie Talkie** - The big mover last month among app downloads, Zello's two-way radio proved to be a useful communications tool for people involved in natural disasters. It can also be an entertaining way to communicate with the kids if they aren't responding to text messages.

Valuation & Risks

Amazon.com (AMZN)

Valuation

We derive our \$1,100 price target based upon a combination of DCF, EV/EBITDA multiples, and sum-of-the parts analysis. We apply a 2x multiple to our 2018 retail segment revenue expectations of \$167 billion, 7x 2018E AWS revenue of ~\$21.8 billion, and 6x 2018E Advertising/Other revenues of \$5.7 billion.

Risks

Amazon faces macro, e-commerce, and online advertising-related risks.

Activision Blizzard, Inc. (ATVI)

Valuation

We rate Activision Blizzard an Outperform with a \$68 price target. Our price target is based on combination of 18x 2018E EV/EBITDA and 25-30x 2018E P/E, which are close to peak sector multiples from prior cycles (previous console cycle range 19x-32x).

Risks

Key risks include consumer spending headwinds, sluggish industry trends, and Q4 seasonality.

Alibaba Group Holding Limited (BABA)

Valuation

Our \$190 price target is supported by a combination of our multi-year DCF as well as a 23x FY19 EV/EBITDA multiple, a premium to mean comps of 15-20x, which we believe is warranted given Alibaba's high revenue growth rate and strong margin profile.

Risks

Key risks include competitive domestic and global markets, SEC investigation, regulatory risks, government interference, and complexity of international expansion.

Carvana Co. (CVNA)

Valuation

Our \$23 price target represents 2018E EV/Sales and EV/Gross Profit multiples of 1.2x and 10x, respectively. The revenue multiple is a discount to the auto/e-commerce peer multiple of 2.3x, while the gross profit multiple is slightly above peers of 4.2x.

Risks

Risks include independent company execution risks (post-DriveTime), market penetration risks, technology risk, macroeconomic sensitivity, and financing risks.

Electronic Arts, Inc. (EA)

Valuation

Our \$115 price target is based on 25x our preliminary CY18 EPS target of \$4.74, which assumes 10-15% growth from FY18. This is in line with comps of 22-27x, based on the company's revenue visibility, ongoing improved execution and product momentum.

Risks

Hit-driven business, seasonality, console transition, and shifting industry business models.

eBay Inc. (EBAY)

Valuation

Our \$38 price target is derived from ~17x 2018E EPS, below comps of 18-20x, which reflects near-term volume headwinds from lingering SEO issues, elevated investment levels geared toward improving overall platform sophistication/technology (structured data), and slower growth rates relative to e-commerce peers.

Risks

Key risks, in our view, include online consumer spending trends and competition from heavyweight internet competitors such as Amazon (AMZN) and Google (GOOG).

ChannelAdvisor Corporation (ECOM)

Valuation

Our \$15 price target is based on 3x 2017E revenues, on the low end of ecommerce/SaaS peers (3-6x).

Risks

Risks include channel concentration, competition, disintermediation, lack of profitability and diversification.

Facebook, Inc. (FB)

Valuation

Our \$185 target price is supported by a combination of a multi-year DCF as well as 30x 2018E P/E and 18x 2018E EV/EBITDA, in line to slightly above peer group multiple of 20-28x 2017E EPS and 16-22x 2018E EBITDA.

Risks

Key risks include shift to mobile platforms, competition, regulatory oversight and privacy concerns, macro environment and general business risks.

GameStop Corp. (GME)

Valuation

Our Outperform rating and \$24 price target are based on 6.5x 2017E EPS, below retail sector multiples (10x-15x). Our price target considers the company's five-year historical valuation range, of 7x-32x for forward earnings which situates our multiple at the low end of that range.

Risks

Risks include console/hardware transition, declines in spending on console games, competition from big box retailers, the shift from physical to online game distribution, Q4 seasonality, pricing pressure and a hit-driven business.

Alphabet Inc. (C) (GOOG)

Valuation

Our \$1150 price target is based on 16x 2018E EV/EBITDA and 30x 2018E P/E, in line with to slightly above comparable multiples of 18-20x and 20-22x, respectively, largely due to Alphabet's scale, market share penetration, and long-term growth trajectory.

Risks

Risks include competitive threats from technology companies such as Apple, Facebook and Microsoft; anti-trust and other regulatory risks; margin pressures from newer initiatives and hiring.

Alphabet Inc. (A) (GOOGL)

Valuation

Our \$1150 price target is based on 16x 2018E EV/EBITDA and 30x 2018E P/E, in line with to slightly above comparable multiples of 18-20x and 20-22x, respectively, largely due to Alphabet's scale, market share penetration, and long-term growth trajectory.

Risks

Risks include competitive threats from technology companies such as Apple, Facebook and Microsoft; anti-trust and other regulatory risks; margin pressures from newer initiatives and hiring.

Shutterfly, Inc. (SFLY)

Valuation

Our price target of \$50 is based 8x 2018E EBITDA, 25x GAAP EPS, slightly below comparables (10-15x and 20-25x, respectively) due to extended investment period and recent execution issues.

Risks

Risks include seasonality, price competition and changes in consumer behavior toward photo consumption.

Shopify Inc. (SHOP)

Valuation

Our \$110 price target is derived from a combination of 10x our 2018E revenue estimate of \$908 million and a multi-year DCF. These multiples are at the high end of median Internet and SaaS valuations (6-10x 2018E sales).

Risks

Risks include competition, churn among smb's and data center costs.

Take-Two Interactive Software, Inc. (TTWO)

Valuation

Our \$80 target price is based on 23x blended F2019E EPS of \$3.50 (in line with comps of 20-25x).

Risks

Key risks include seasonality, concentration of profits from one franchise, and challenging industry conditions.

Twitter, Inc. (TWTR)

Valuation

Our \$17 price target is based on 3.3x EV/2018E revenue and 12.1x 2018E EV/EBITDA, below the comparable median multiples of 3-5x and 15x, respectively, primarily reflecting Twitter's cloudy near-term growth outlook as the company works to improve user growth and monetization.

Risks

Key risks include near-term trading volatility, macro factors, strong platform competitors, and changing consumer habits.

Wayfair Inc. (W)

Valuation

Our \$65 price target is derived from 1x our 2018E revenue estimate (at the low end of the online retail comparables at 0.5x-2x) of \$5.35 billion (\$62/share plus ~\$3/share net cash), supported by our DCF analysis.

Risks

Risks include competition, lack of profitability, drop-ship model depending on third parties, and second-half seasonality.

Yelp, Inc. (YELP)

Valuation

Our \$37 price target is based on 15x 2018E EBITDA and 4x 2018E revenues, in-line with comps of 14-20x and 3-5x, respectively. Our target multiple is largely driven off of growth assumptions, but we also usually consider historical multiple ranges, relative sector multiples, and management's execution track record.

Risks

Risks include competition, advertiser churn and fast pace of technology change.

Zynga, Inc. (ZNGA)

Valuation

Our \$4 price target is based upon 10x 2018E EV/EBITDA plus roughly \$1 per share in cash, below comps of 13x, reflecting Zynga's mobile transition and consequently lower growth rate.

Risks

Highly competitive mobile gaming landscape, leadership transition, a limited number of top "catalog" games.

Appendix - Important Disclosures and Analyst Certification

Covered Companies Mentioned

All stock prices below are the 10/27/2017 closing price.

Activision Blizzard, Inc. (ATVI - \$64.14 - Outperform)
Alibaba Group Holding Limited (BABA - \$176.15 - Outperform)
Alphabet Inc. (A) (GOOGL - \$1,033.67 - Outperform)
Alphabet Inc. (C) (GOOG - \$1,019.27 - Outperform)
Amazon.com (AMZN - \$1,100.95 - Outperform)
Carvana Co. (CVNA - \$12.76 - Outperform)
ChannelAdvisor Corporation (ECOM - \$11.25 - Neutral)
eBay Inc. (EBAY - \$36.80 - Outperform)
Electronic Arts, Inc. (EA - \$116.89 - Outperform)
Facebook, Inc. (FB - \$177.88 - Outperform)
GameStop Corp. (GME - \$19.34 - Outperform)
Shopify Inc. (SHOP - \$107.27 - Outperform)
Shutterfly, Inc. (SFLY - \$41.86 - Neutral)
Take-Two Interactive Software, Inc. (TTWO - \$107.84 - Neutral)
Twitter, Inc. (TWTR - \$21.68 - Neutral)
Wayfair Inc. (W - \$67.55 - Neutral)
Yelp, Inc. (YELP - \$45.40 - Neutral)
Zynga, Inc. (ZNGA - \$3.77 - Neutral)
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