

Morgan Stanley

# **Ten Questions Internet Execs Should Ask & Answer**

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# Question Focus Areas

- 1) **Globality**
- 2) **Mobile**
- 3) **Social Ecosystems**
- 4) **Advertising**
- 5) **Commerce**
- 6) **Media**
- 7) **Company Leadership Evolution**
- 8) **Steve Jobs**
- 9) **Ferocious Pace of Change in Tech**
- 10) **Closing Thoughts**

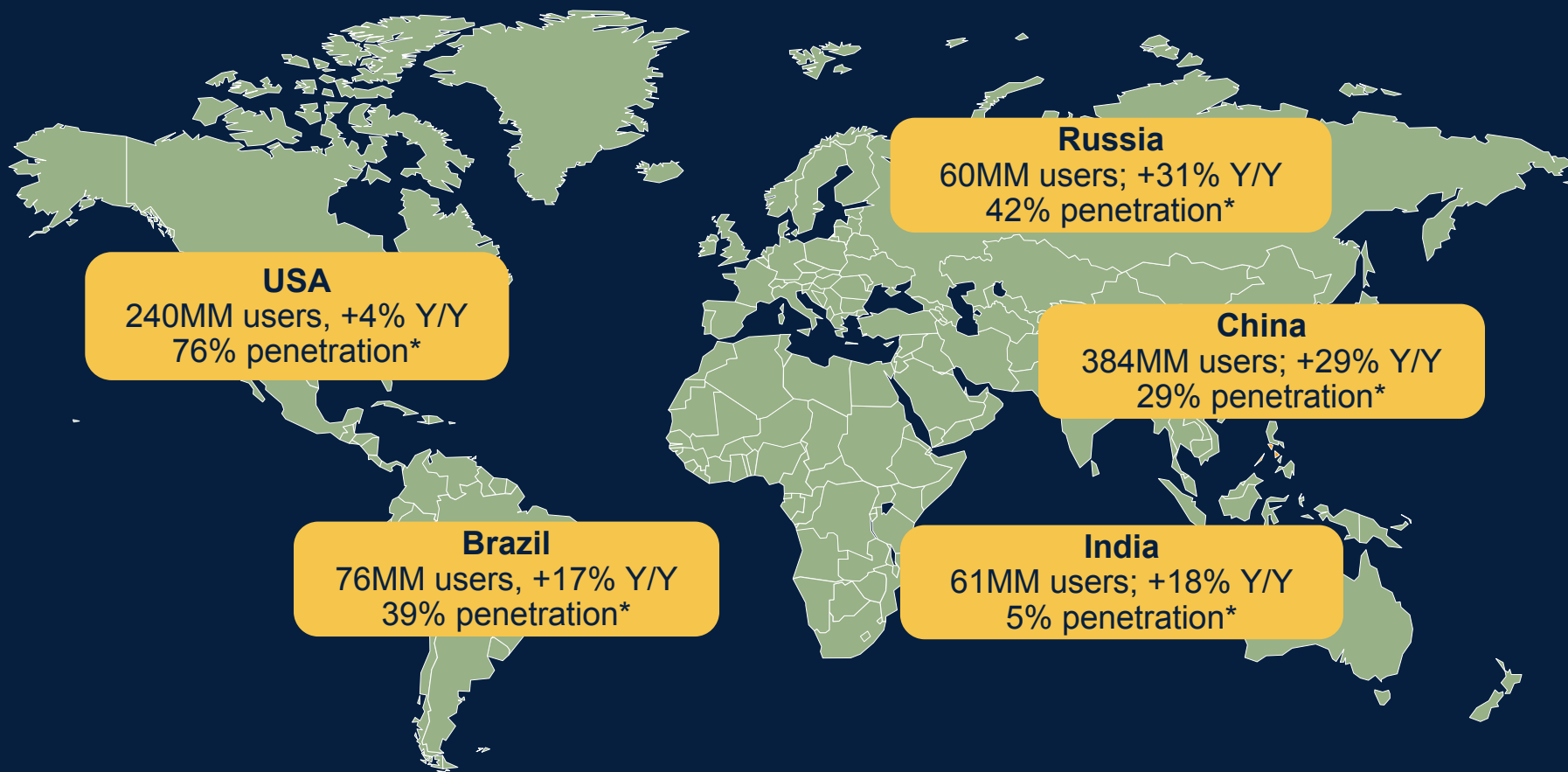
## **1. Globality**

*Do you know which players in which countries do what you do better (or at least differently) than you do?*

*Do you study / implement it?*

# Top Internet Markets – 46% of Users in 5 Countries – China, USA, Brazil, India, Russia

2009 - 1.8B Global Internet Users, +13% Y/Y<sup>(1)</sup>; 18.8T Minutes Spent, +21% Y/Y<sup>(2)</sup>



# Top Mobile Internet Markets – ~670MM 3G Subscribers (+37% Y/Y), CQ2

Rank	Country	CQ2:10 3G Subs (MM)	3G Pene- tration	3G Sub Growth Y/Y	Rank	Country	CQ2:10 3G Subs (MM)	3G Pene- tration	3G Sub Growth Y/Y
1	USA	136.6	48%	31%	16	Malaysia	7.9	26%	32%
2	Japan	106.3	96	12	17	Canada	7.3	32	62
3	Korea	38.8	80	15	18	Saudi Arabia	7.0	17	55
4	Italy	34.3	42	28	19	Turkey	6.8	11	--
5	UK	29.5	38	34	20	South Africa	6.7	14	33
6	Germany	26.5	26	30	21	Portugal	5.7	36	15
7	Spain	24.7	46	22	22	Sweden	5.5	45	25
8	Indonesia	19.2	12	57	23	Netherlands	5.5	28	33
9	France	18.8	32	32	24	Austria	5.1	46	29
10	Australia	16.7	65	31	25	Israel	4.9	51	36
11	Poland	15.4	35	27	26	Philippines	4.8	6	82
12	China	14.5	2	941	27	Egypt	4.0	7	38
13	Brazil	13.3	8	148	28	Greece	3.9	20	25
14	Taiwan	11.3	44	69	29	Singapore	3.9	55	41
15	Russia	9.6	5	81	30	Romania	3.8	13	20

**Global 3G Stats:**

**Subscribers = ~670MM**

**Penetration = 14%**

**Growth = 37%**

# Unusually High Level of Global Innovation – Facebook & Tencent Learning From Each Other's Playbooks

## Facebook

- Largest Social Network in English-Speaking Countries – 620MM visitors, +51% Y/Y in 9/10
- **Real Identity** – Sharing among real-world friends / pictures / events

## Tencent

- Largest Social Network in China – 637MM active IM users, +31% Y/Y in CQ3
- **Virtual Identity** – \$1.4B virtual goods revenue (from users customizing their avatars / purchasing game items...) in 2009, +94% Y/Y

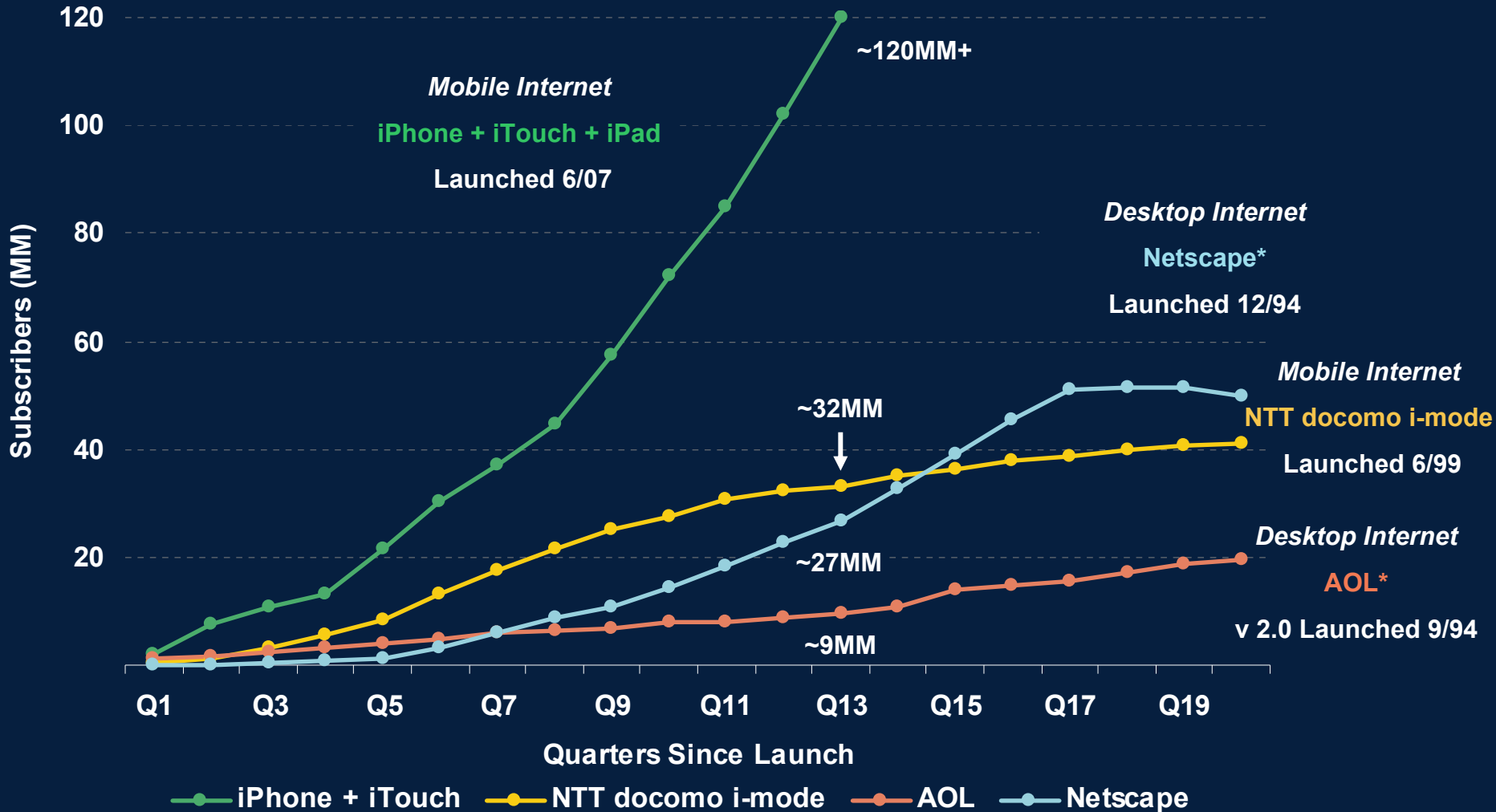


## **2. Mobile**

*Ramping faster than any 'new new thing' –  
is your business leading or lagging?*

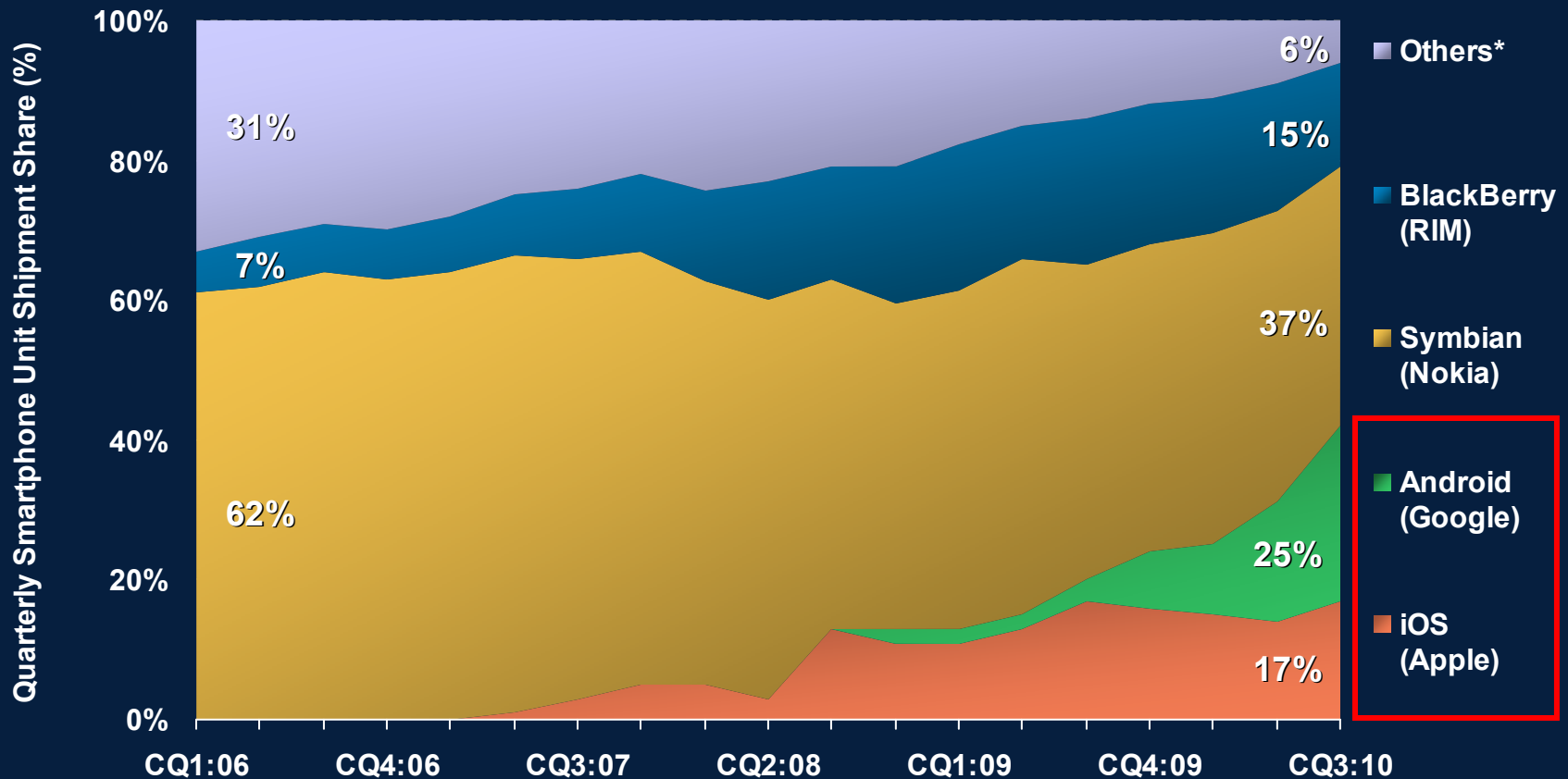
# Apple iPhone + iTouch + iPad Ramp – The Likes of Which We Haven't Seen Before

iPhone + iTouch vs. NTT docomo i-mode vs. AOL vs. Netscape Users  
First 20 Quarters Since Launch



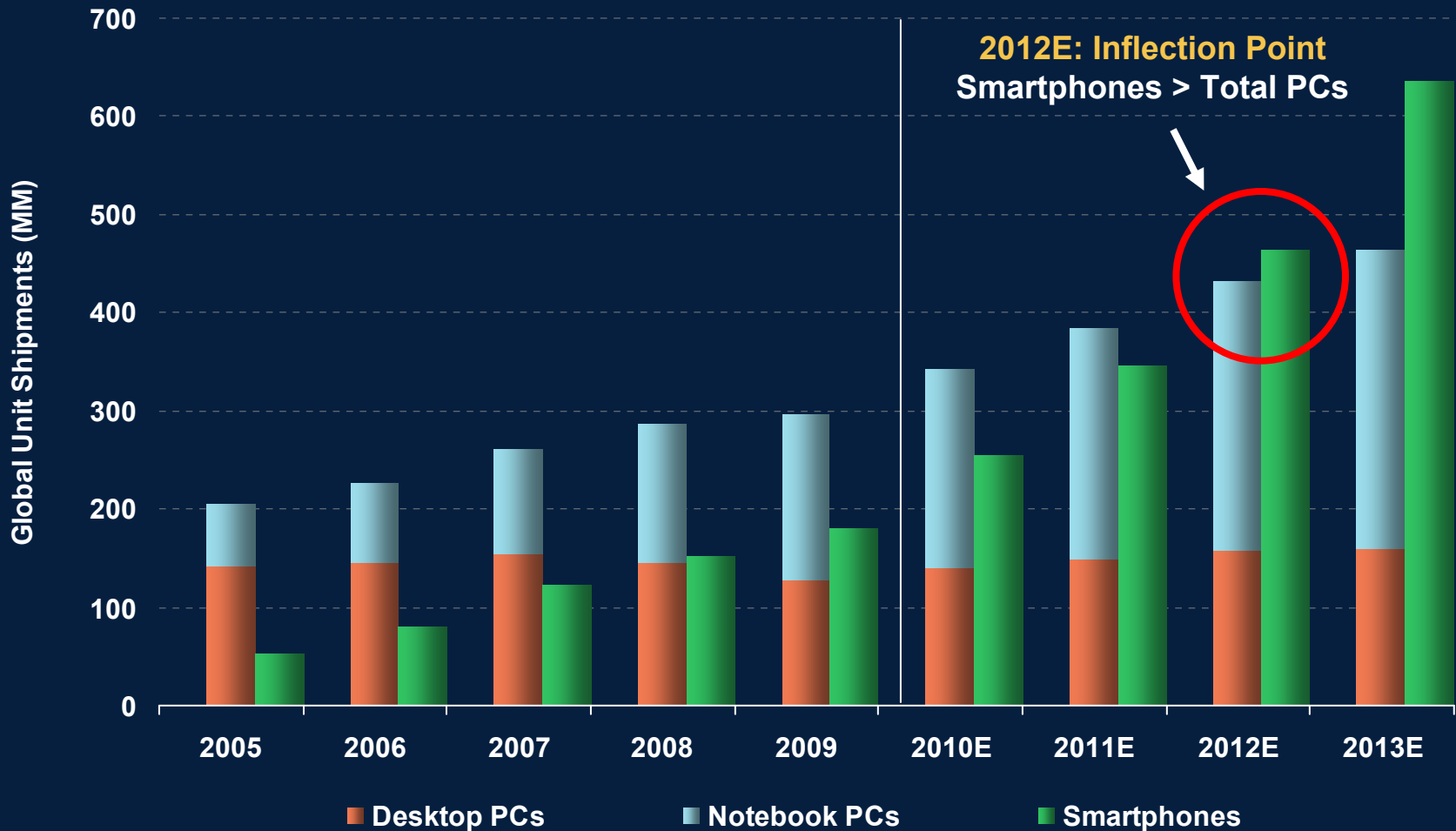
# Mobile Operating Systems – Attackers (Apple & Google) Driving Market Excitement & Momentum

Global Unit Shipment Share of Smartphones by Operating System, Symbian (Nokia) / BlackBerry (RIM) / iOS (Apple) / Android (Google) / Others, 1Q06 – 3Q10



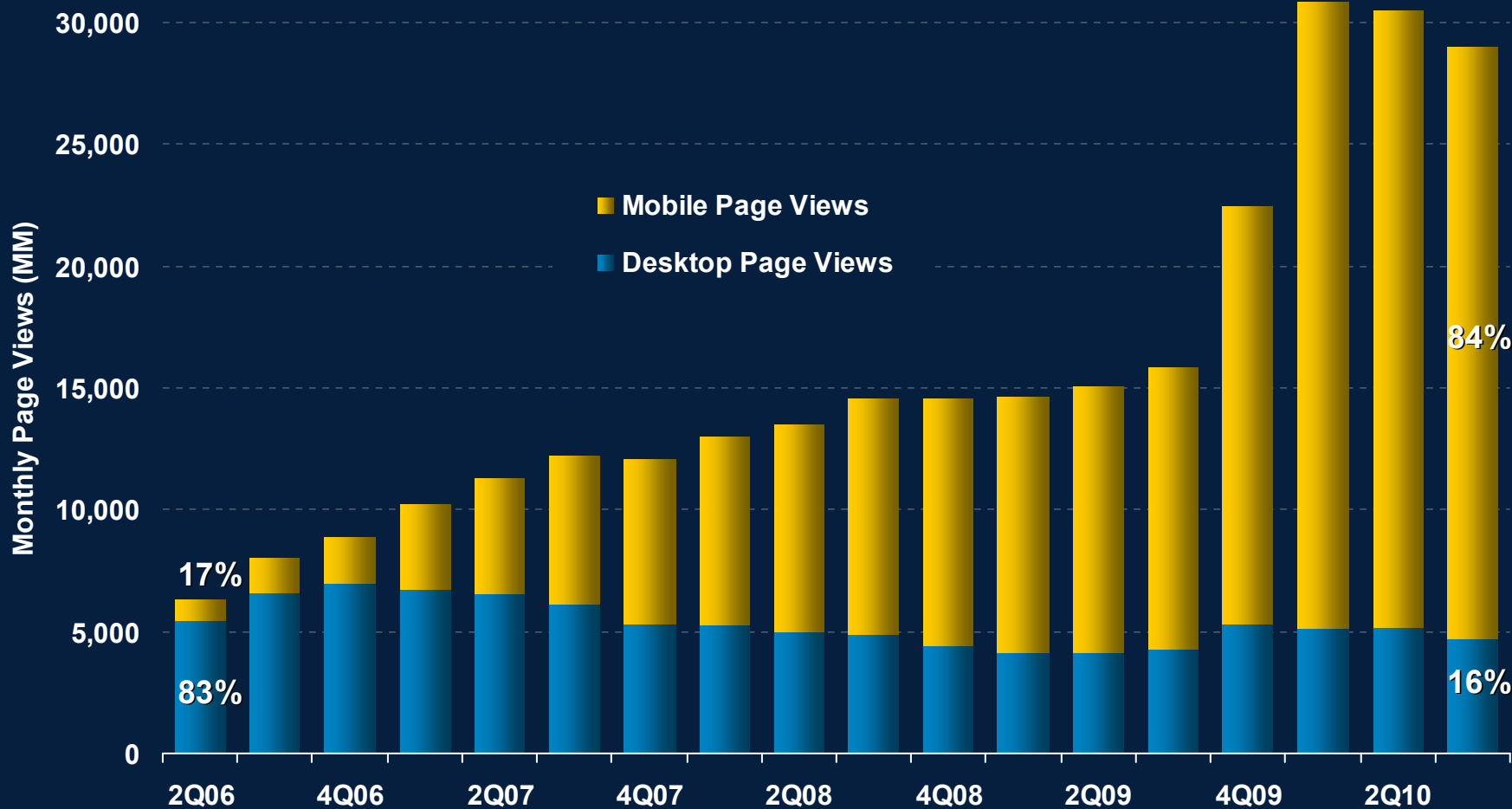
# Smartphone > PC Shipments Within 2 Years – Implies Very Rapid / Land Grab Evolution of Internet Access

Global Unit Shipments of Desktop PCs + Notebook PCs vs. Smartphones, 2005 – 2013E



# Japan Social Networking Trends Show How Quickly Mobile Can Overtake Desktop Internet Access – Mixi Mobile Page Views = 84% vs. 17% Four Years Ago

Mixi's (Japan's Leading Social Network) Monthly Page Views, Mobile vs. PC, CQ2:06 – CQ3:10



### **3. Social Ecosystems**

*Would you rather be Apple, Google or...Facebook?*

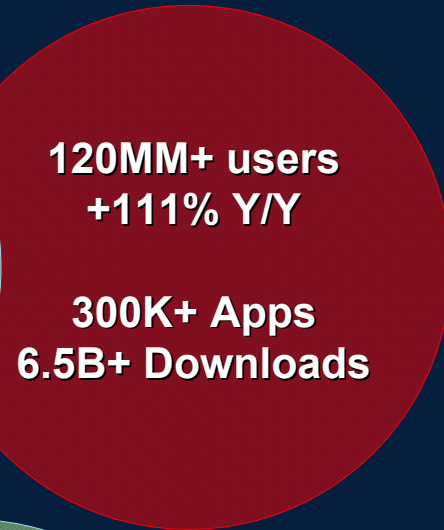
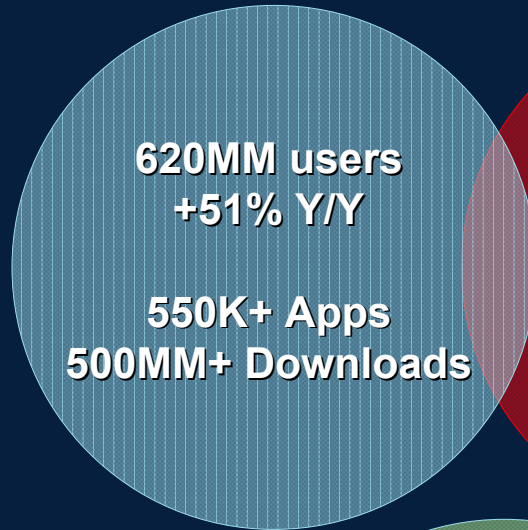
*Will their future directions help / hurt your business?*

# Facebook / Apple / Google = Platforms of Different Types...Each with Rapid Innovation

**Facebook**

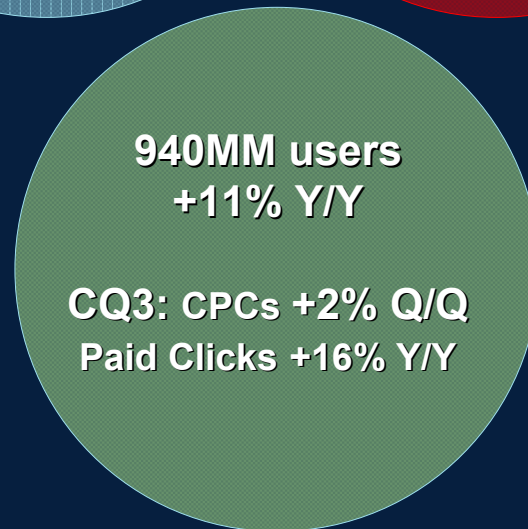
**Apple iPhone  
/ iPod / iPad**

**Social  
Networking**



**Mobile**

**Google**



**Search**

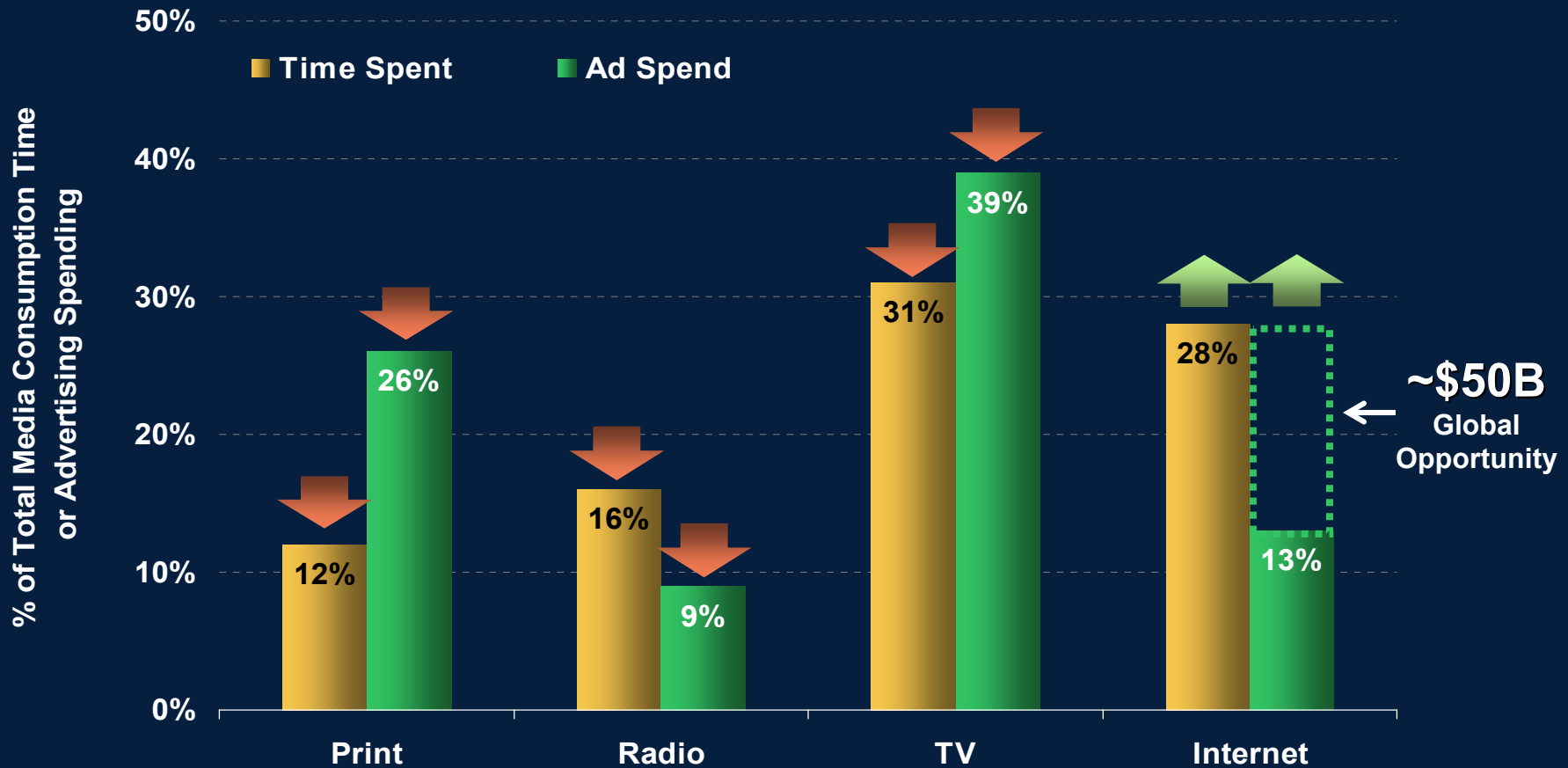
## **4. Advertising**

*Ripe for innovation –  
will your business benefit?*

# Media Time Spent vs. Ad Spend Still Out of Whack

Internet / Mobile (upside...) vs. Newspaper / Magazine / TV (downside...)

% of Time Spent in Media vs. % of Advertising Spending, USA 2009



# Advertising Dollars Follow Eyeballs – Ad Revenue per User = \$46 in 2009E vs. \$0 in 1994E

	1995E	2009E
<b>Global Internet Ad Revenue</b>	<b>\$55MM</b>	<b>\$54B</b>
<b>Ad Revenue per User</b>	<b>\$9</b>	<b>\$46</b>
<b>Global Internet Users</b>	<b>6MM</b>	<b>1.2B</b>

*Source: Global online ad revenue per Juniper Communications (1995), ZenithOptimedia (2009). Internet users per MS estimate (1995) and comScore (2009). We note that comScore reports a lower global Internet user # than International Telecommunications Union.*

# Facebook's 620MM Users (+51% Y/Y) + Under-Monetized 'Like' Connections Offer Significant New Ad Opportunities

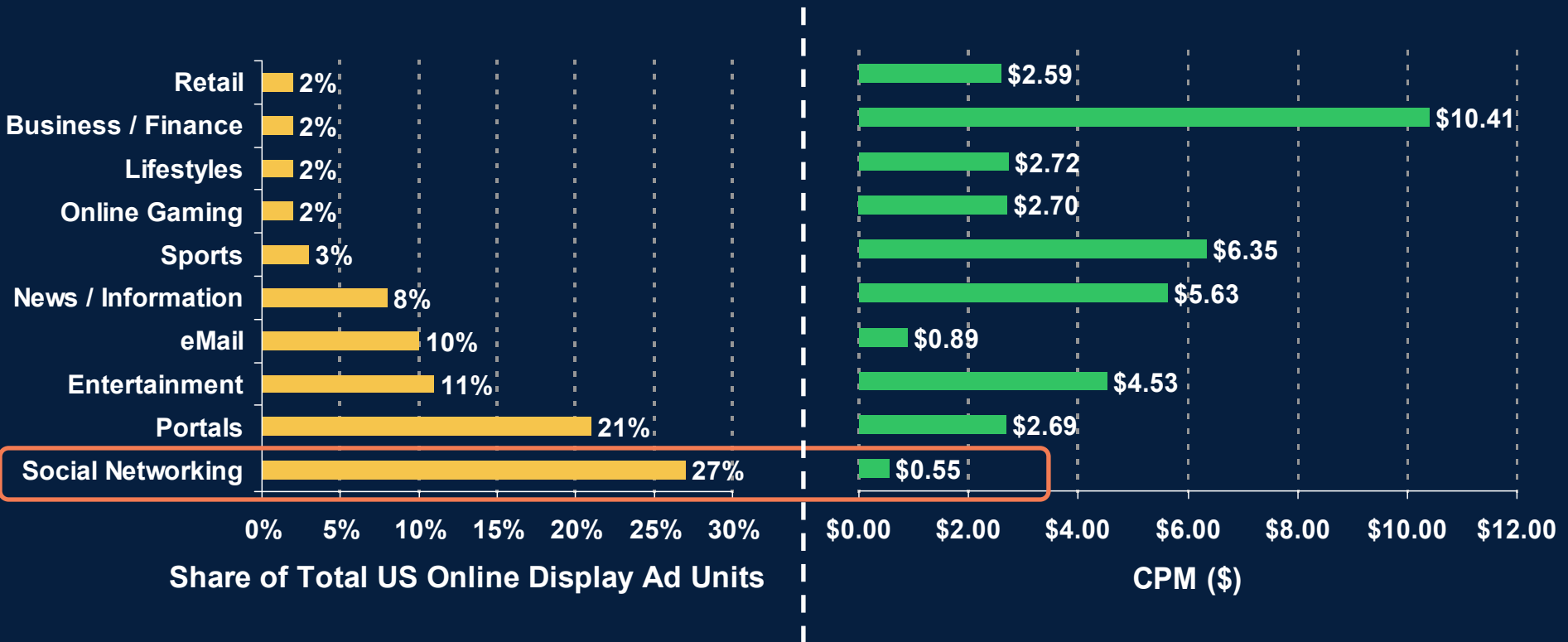
Rank	Top 20 Brands / Products	# of People Who Like This (Millions)	Equivalent TV Shows*	TV CPM Range (\$)
1	Texas Hold'em Poker (Zynga)	27.2	<i>American Idol</i>	↑
2	Facebook	25.2	<i>NCIS</i>	
3	YouTube (Google)	19.6	--	
4	Starbucks	16.9	--	~\$30
5	Coca-Cola	16.7	--	↑↓
6	Mafia Wars (Zynga)	14.4	--	
7	Oreo (Kraft)	13.2	--	
8	Skittles (Mars)	12.4	--	
9	Red Bull	11.1	<i>The Good Wife</i>	~\$25
10	Disney	10.3	<i>Glee</i>	
11	Victoria's Secret (Limited Brands)	9.1	--	↑↓
12	Converse All Star	8.8	--	
13	iTunes (Apple)	7.9	--	
14	Windows Live Messenger (Microsoft)	7.6	<i>Fringe</i>	~\$20
15	Pringles (P&G)	6.7	--	
16	iPod (Apple)	6.6	--	↓
17	ZARA	6.5	--	
18	NBA	6.0	--	
19	Starburst (Mars)	5.9	<i>Scrubs</i>	
20	Dr Pepper	5.8	<i>Vampire Diaries</i>	

# Twitter's 102MM Users (+74% Y/Y) Increasingly in Touch with Brands + Media Players

Rank	Top 20 Brands	# of Twitter Followers
1	Oprah	4.5MM
2	CNN Breaking News	3.6MM
3	New York Times	2.7MM
4	Google	2.6MM
5	E! Online	2.5MM
6	The Onion	2.4MM
7	People Magazine	2.2MM
8	Time Magazine	2.2MM
9	NBA	2.1MM
10	Mashable	2.1MM
11	Martha Stewart	2.0MM
12	Whole Foods	1.8MM
13	NPR	1.8MM
14	InStyle Magazine	1.8MM
15	NFL	1.8MM
16	BBC Click	1.8MM
17	Zappos!	1.8MM
18	Good Morning America	1.7MM
19	Woot	1.6MM
20	CBS News	1.6MM

# Online Ad CPM Dislocation?

## Share of Total USA Online Display Ad Units + CPM, by Top Publisher Categories – 3/10



# Where are the Great Online Ads?

Apple / Google / Yahoo! / Facebook / Twitter / Others Say 'Watch This Space!'

## AdAge Top 25 Advertising Campaigns in Twentieth Century

Rank	Company	Commercial	Ad Agency	Year
1	Volkswagen	<i>Think Small</i>	Doyle Dane Bernbach	1959
2	Coca-Cola	<i>The pause that refreshes</i>	D'Arcy Co.	1929
3	Marlboro	<i>The Marlboro Man</i>	Leo Burnett Co.	1955
4	Nike	<i>Just do it</i>	Wieden & Kennedy	1988
5	McDonald's	<i>You deserve a break today</i>	Needham, Harper & Steers	1971
6	DeBeers	<i>A diamond is forever</i>	N.W. Ayer & Son	1948
7	Absolut Vodka	<i>The Absolut Bottle</i>	TBWA	1981
8	Miller Lite Beer	<i>Tastes great, less filling</i>	McCann-Erickson Worldwide	1974
9	Clairol	<i>Does she...or doesn't she?</i>	Foote, Cone & Belding	1957
10	Avis	<i>We try harder</i>	Doyle Dane Bernbach	1963
11	Federal Express	<i>Fast talker</i>	Ally & Gargano	1982
12	Apple Computer	<i>1984</i>	Chiat/Day	1984
13	Alka-Seltzer	<i>Various ads</i>	Jack Tinker & Partners; Doyle Dane Bernbach; Wells Rich, Greene	1960s, 1970s
14	Pepsi-Cola	<i>Pepsi-Cola hits the spot</i>	Newell-Emmett Co.	1940s
15	Maxwell House	<i>Good to the last drop</i>	Ogilvy, Benson & Mather	1959
16	Ivory Soap	<i>99 and 44/100% Pure</i>	Proctor & Gamble Co.	1882
17	American Express	<i>Do you know me?</i>	Ogilvy & Mather	1975
18	U.S. Army	<i>Be all that you can be</i>	N.W. Ayer & Son	1981
19	Anacin	<i>Fast, fast, fast relief</i>	Ted Bates & Co.	1952
20	Rolling Stone	<i>Perception. Reality.</i>	Fallon McElligott Rice	1985
21	Pepsi-Cola	<i>The Pepsi generation</i>	Batton, Barton, Durstine & Osborn	1964
22	Hathaway Shirts	<i>The man in the Hathaway shirt</i>	Hewitt, Ogilvy, Benson & Mather	1951
23	Burma-Shave	<i>Roadside signs in verse</i>	Allen Odell	1925
24	Burger King	<i>Have it your way</i>	BBDO	1973
25	Campbell Soup	<i>Mmm mm good</i>	BBDO	1930s

## 5. Commerce

*'Wal-Mart in your pocket'...location-based services...group buying power...flash sales... deep discounts...transparent pricing...real-time alerts / ratings...virtual goods...immediate gratification...*

*Products must be fast + easy + fun.*

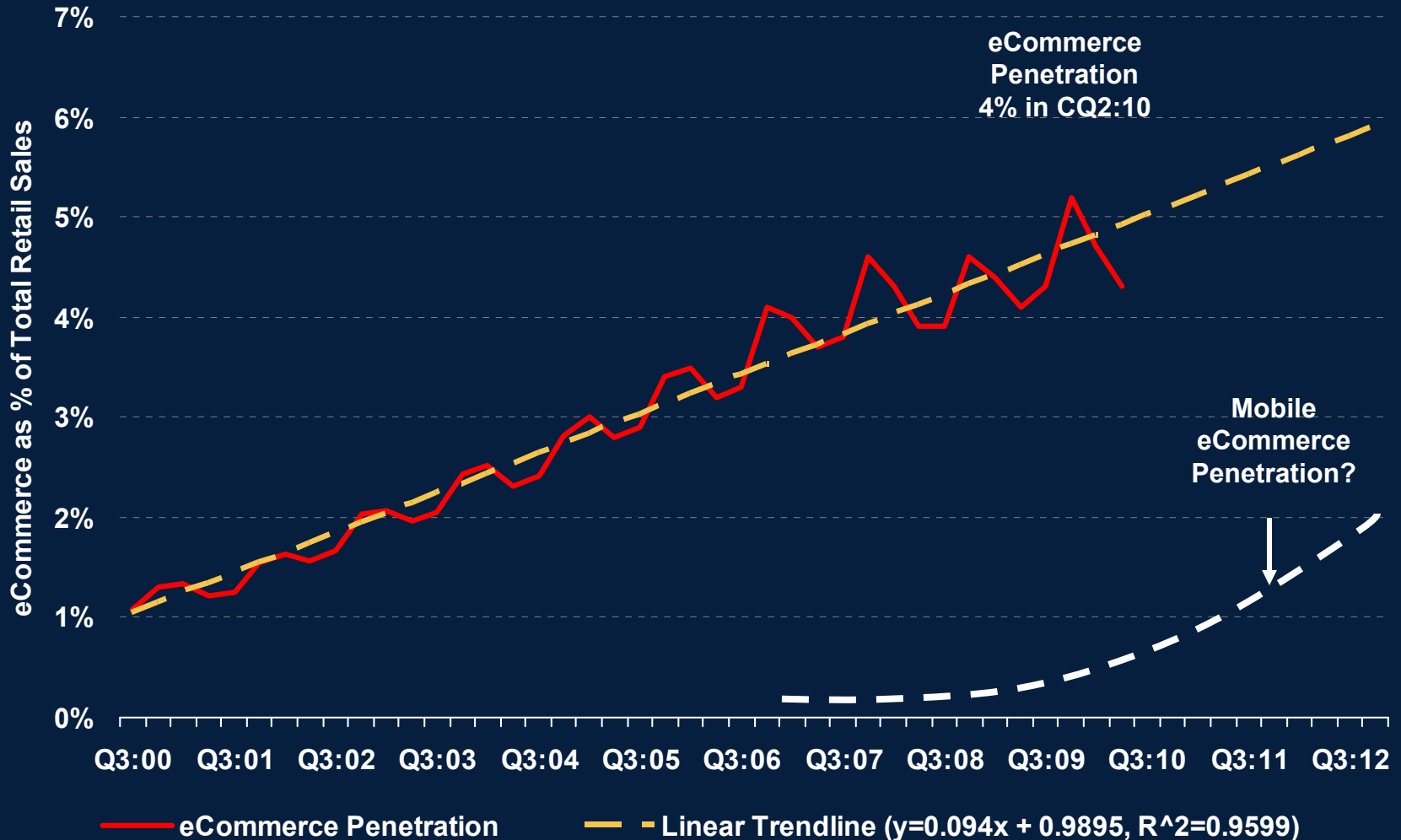
*Have you ever seen 'constant improvement' in products like we are seeing now?*

*Is your business keeping pace?*

*Do humans want everything to be like a game?*

# Online Commerce Gaining Share vs. Offline – Online at ~5% of USA Retail, Mobile Should Get to Same Level Much Faster

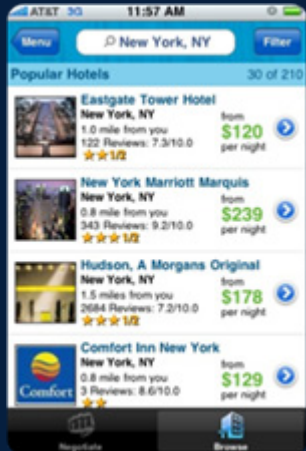
USA eCommerce % Share<sup>(1)</sup> of Total Retail Sales, CQ3:00 – CQ4:12E



# Mobile Revolutionizing Commerce – With Constant Product Improvements

- **Location-Based Services** – Enable real-time physical retail / service opportunities
- **Transparent Pricing** – Instant local + online price comparison could disrupt retailers
- **Discounts** – Invitation-only time-based selective sales gaining traction
- **Immediate Gratification** – OTA (over-the-air) instant digital product + content delivery

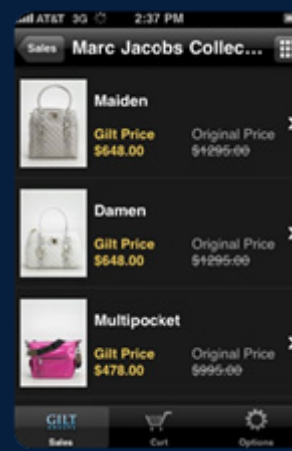
**Location-Based Services**  
**Priceline.com iPhone App**  
Finds hotel deals  
in your area



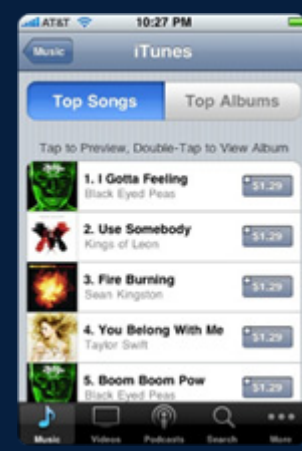
**Transparent Pricing**  
**ShopSavvy Android App**  
Comparison shopping  
among online + local stores



**Discounts**  
**Gilt iPhone App**  
Designer handbags  
Up to 70% Off



**Immediate Gratification**  
**iTunes Store on iPhone**  
Music / video / apps  
delivered wirelessly

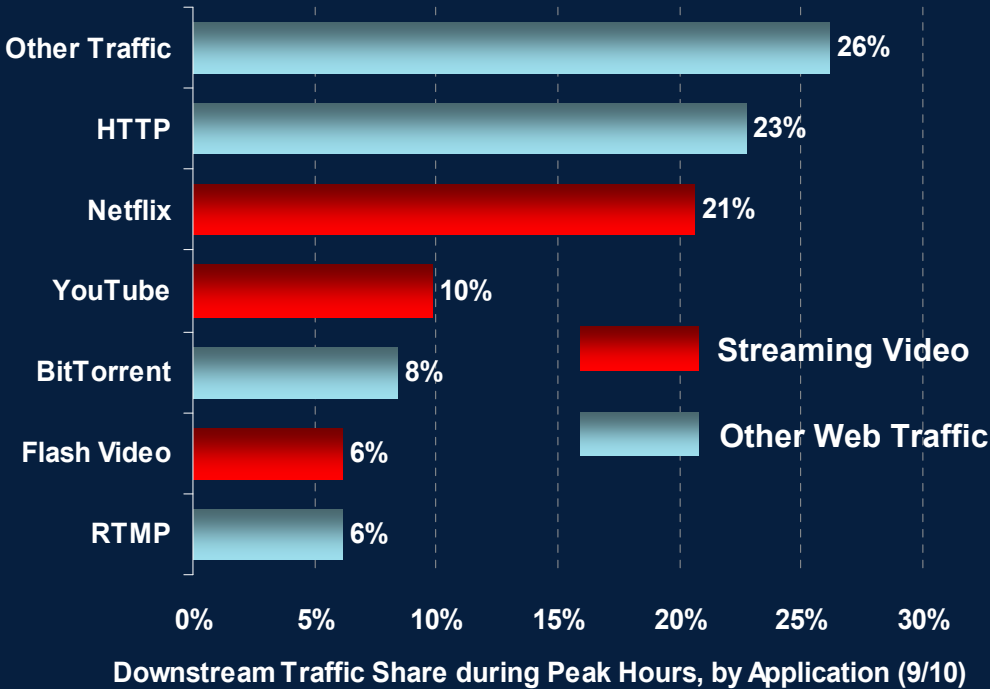


## **6. Media**

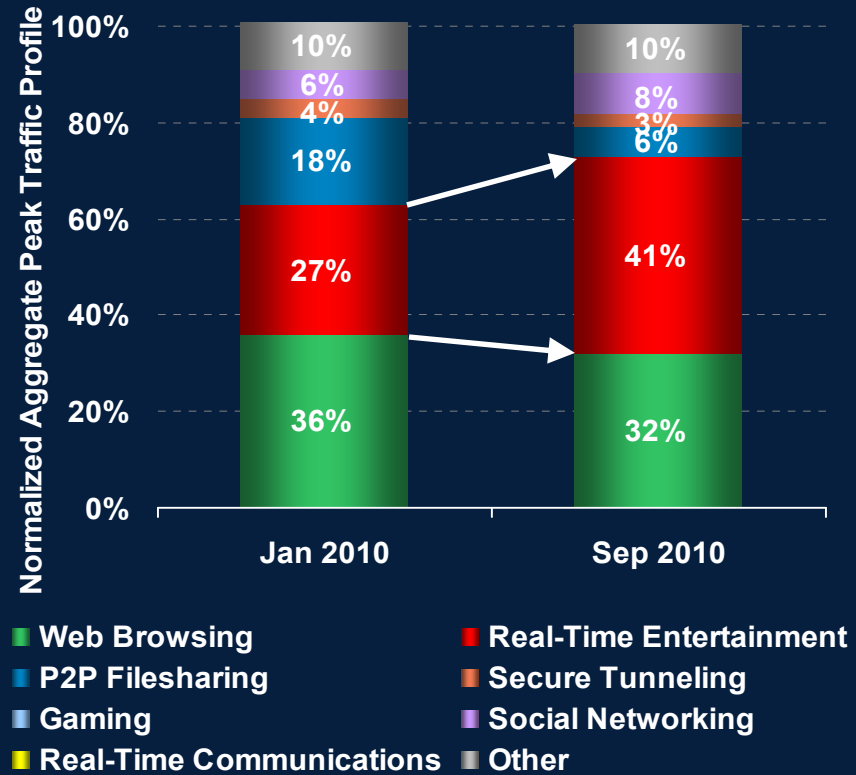
*What does the extraordinary ramp in on-demand video usage mean for your business?*

# Streaming Video Gaining Material Market Share of Internet / Mobile Usage

North America Downstream Fixed-Access Peak Hour\* Traffic Share by Application, 9/10



North America Mobile Peak Hour\* Traffic Share by Application, 9/10 vs. 1/10

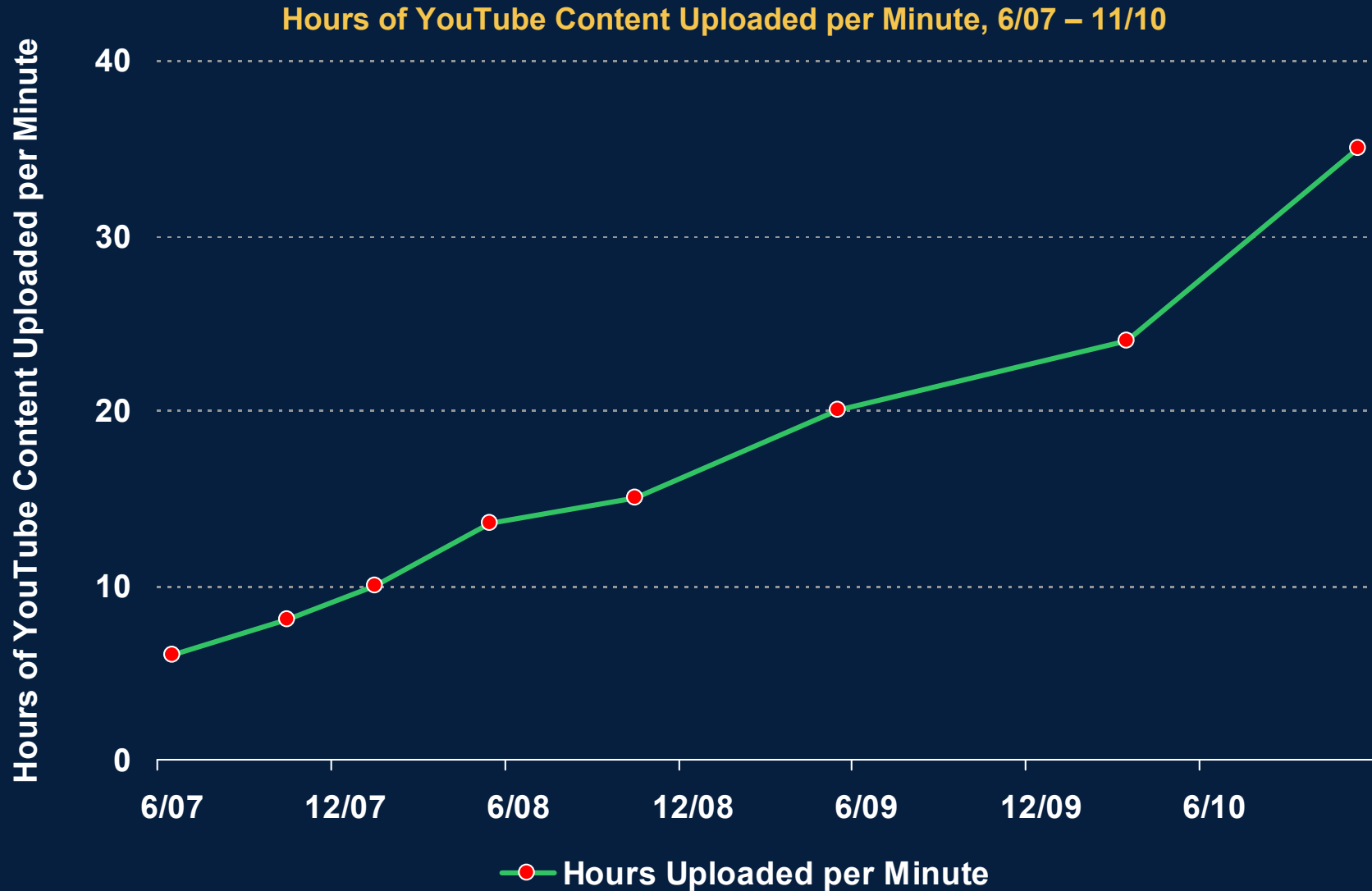


**Streaming Video Up to ~37% of Internet Traffic During Traditional "TV Hours"**

**Mobile Video = 41% of Peak Hour Traffic, Up from 27% in January**

Note: \*Peak hours are the periods during which bandwidth utilization is heaviest. They typically occur in the evening and last 3-5 hours. (e.g., peak hours for Netflix = 8-10pm). RTMP stands for real-time messaging protocol (Instant messaging). Real-time entertainment represents streamed / buffered audio and video content. Source: Sandvine Fall 2010 Global Internet Phenomena Report, Morgan Stanley Research.

# YouTube Content Growth Accelerating (+2x Y/Y) – 35 Hours of Content Added Every Minute



## ***7. Internet Company Leadership Evolution***

*Shocking changes over just 6 years...  
are you prepared for next half decade of change?*

# Global Public Internet Companies – Significant Changes Over Last 6 Years

## Top Global 15 Publicly Traded Internet Companies by Market Value – 2010 vs. 2004

		2010					2004		
Rank	Company	Region	Market Value (\$B)	Revenue (\$MM)	Rank	Company	Region	Market Value (\$B)	Revenue (\$MM)
1	Apple	USA	\$290	\$46,709	1	eBay	USA	\$71	\$3,271
2	Google	USA	197	23,612	2	Google	USA	50	3,189
3	Amazon.com	USA	76	24,508	3	Yahoo!	USA	52	3,575
4	Tencent	CHN	41	1,822	4	IAC/Interactive*	USA	38	4,188
5	eBay	USA	40	8,727	5	Yahoo! Japan	JPN	33	1,101
6	Baidu	CHN	40	641	6	Apple	USA	22	8,279
7	Yahoo!	USA	22	6,460	7	Amazon.com	USA	16	6,921
8	Yahoo! Japan	JPN	21	2,941	8	Rakuten	JPN	9	445
9	Priceline.com	USA	21	2,338	9	Monster	USA	3	846
10	Salesforce.com	USA	15	1,241	10	WebMD	USA	2	134
11	Rakuten	JPN	10	3,204	11	Shanda	CHN	3	157
12	Alibaba.com	CHN	10	568	12	NCSOFT	KOR	2	280
13	Akamai	USA	9	860	13	Index	JPN	2	357
14	Netflix	USA	9	1,670	14	NHN	KOR	1	253
15	NHN	KOR	8	1,062	15	For-side.com	JPN	1	85
<b>Total</b>			<b>\$809B</b>	<b>\$126B</b>	<b>Total</b>			<b>\$304B</b>	<b>\$33B</b>

2 of 2010 Top 15 Companies (Alibaba, Baidu) Went Public Post 2004

## **8. Steve Jobs**

*What's his 'secret sauce?'*

*Does your company have it?*

# Steve Jobs –

**‘...mind of an engineer and the heart of an artist...’**

**Larry Ellison (June 2004):** *Steve Jobs is the most brilliant person in our industry, and what is most remarkable about Steve, I think, is his incredible aesthetic sense. He has the mind of an engineer and the heart of an artist*

*— that's a very unusual combination, an enormous advantage when you do consumer products. Look at the iPod...I think the iPod is a beautiful design and I think the iMac is a brilliant design. He's done a tremendous amount of innovation on the integration of hardware design and software design.*

**Bill Gates (May 2007):** *...We build the products that we want to use ourselves. And so he's [Steve Jobs] really pursued that with incredible taste and elegance that has had a huge impact on the industry. And his ability to always come around and figure out where that next bet should be has been phenomenal.*

*Apple literally was failing when Steve went back and re-infused the innovation and risk-taking that have been phenomenal.*

Note: Ellison quote from interview with Walt Mossberg & Kara Swisher at AllThingsD: D2 Conference, June 2004.  
Gates quote from interview with Steve Jobs, Walt Mossberg & Kara Swisher at AllThingsD: D5 Conference, May 2007.  
Source: AllThingsDigital, [www.peoplesoft-planet.com](http://www.peoplesoft-planet.com)

## ***9. Ferocious Pace of Change - What's Next in Tech?***

*When do consumers / enterprises  
& incumbents / attackers need you?*

# Mobile Connectivity Drives New Ways to Do LOTS of Things Faster / Better / Cheaper from Palm of Hand

- **More Connected** – Real-time connectivity / 24x7 / in palm of hand...
- **More Affordable** – Wi-Fi nearly ubiquitous in many developed markets...for many / 3G tiered pricing lowers adoption barrier...
- **Faster** – Near-zero latency for boot-up / search / connect / pay...
- **Easier to Use** – User Interface revolution + location awareness provide something for nearly everyone...
- **Fun to Use** – Social / casual gaming / reward-driven marketing...
- **Access Nearly Everything** – Music / video / documents / 'stuff' in cloud...
- **Longer Battery Life** – Hours of continuous usage...

# Unusually High Level of Innovation - from Incumbents

- **Apple** – iPad / iPhone / iTouch / iTunes / Multi-Touch Input /
- **Google** – Android / Chrome / YouTube / Display Advertising / Web Apps / Instant + Voice Search
- **Amazon.com** – Kindle / EGM (Electronics & General Merchandise) Sales / Mobile Apps / AWS (Amazon Web Services)
- **Tencent** – Virtual Goods
- **Nintendo / Sony / Microsoft** – Motion Sensors (natural gaming input)
- **PayPal** – Mobile + Digital Goods Payments
- **Netflix** – Streaming Content
- **Salesforce.com** – Chatter (real-time enterprise collaboration platform)

# Unusually High Level of Innovation - from New Attackers

- **Facebook** – Real-time Communication / Social Graph / Credits
- **Zynga** – Social Gaming / Virtual Goods / Offers (Reward-Driven Marketing)
- **Twitter** – One-to-Many Real-Time Broadcast
- **OpenTable / Yelp / Foursquare / Shopkick** – Location-Aware Mobile Services
- **Gilt / One Kings Lane / Rue La La** – Time-based ‘Flash’ Sales
- **Groupon** – Social Group Buying
- **Tapulous / Digital Chocolate / Booyah / Ngmoco:)** – Social / Mobile Gaming
- **Pandora / Spotify** – Personalized Music

# 'Disruptive Innovation' – Clayton Christensen

*Christensen studied why great companies with smart managements and substantial resources consistently lost to 'disruptors,' companies with simpler, cheaper, and inferior products. - Michael Mauboussin (7/10)*

## Two Ways Disruptive Innovation Can Happen

### *Low-End Segment Strategy*

Disruptors introduce a product that is at the low end of the market and that is neither profitable for the incumbents nor in demand from the incumbents customers...

This becomes a problem as the disruptors improve their offering and move up market, eventually encroaching on the core business of the incumbent, and doing so with a lower cost structure.

*Amazon.com / Netflix / PayPal...*

### *Non-Consumption Strategy*

Disruptors introduce a product that was unavailable to consumers before, effectively competing with non-consumption.

*iPhone / iPad / Facebook...*

## **10. Closing Thoughts –**

*Large companies do not typically support rapid growth rates of the magnitude that follow...  
will these trends continue?*

# Global Public Internet Leaders – Strong Q3 Trends...

1. **Apple (\$283B market cap, \$20.3B in CQ3 revenue) - Momentum continued as revenue grew 67% Y/Y** – iPhone units grew 91% Y/Y to 14MM, 4MM iPads shipped and Mac growth was a healthy 27% to 4MM. 80% / 65% of Fortune 500 companies have deployed (or are piloting) iPhones / iPads. User base of 50MM Macs; 61MM iPhones; 7.5MM iPads.
2. **Google (\$193B, \$7.3B) - Momentum accelerated as search quality improved and mobile usage growth extended reach: Paid clicks up 16% Y/Y, cost-per-click up 3% Q/Q.** New initiatives gaining traction: Display advertising and mobile at \$2.5B and \$1B gross revenue run rates. Android momentum continued to surprise on upside. Capex rose a hefty 59% Q/Q to \$757MM as Google ramped investments in data centers / IT infrastructure. Base of 940MM average monthly unique users.
3. **Amazon.com (\$74B, \$7.6B) - Revenue growth remained very strong at 39% Y/Y** as EGM (electronics and general merchandise) powered up to 53% of revenue vs. slower growing media sales (+14% Y/Y). Operating margins compressed to 5.3% vs. 6.4% Y/Y owing to across-the-board investments in fulfillment (13 new fulfillment centers) / marketing / technology & content. Active customer growth remained robust (+23% Y/Y). Base of 121MM active customers.

## ...Global Public Internet Leaders – Strong Q3 Trends...

- 4. Tencent (\$41B, \$797MM) - Momentum continued as revenue rose 55% Y/Y**, driven by IVAS (Internet Value Added Services) growth of +57% Y/Y (now ~79% of total sales) and MVAS (Mobile Value Added Services) growth of +56% Y/Y (13% of sales). Online game sales supplied the majority of IVAS growth (+67% Y/Y to 49% of total sales) as titles such as CrossFire and QQ Speed reached record usage levels (measured by concurrent users). Online ad revenue maintained healthy growth (+30% Y/Y) and continued to expand its advertiser base following the momentum gained during the World Cup in June and July. Base of 198MM average monthly unique users.
- 5. eBay (\$39B, \$2.2B) - PayPal payment volume rose a healthy 26% Y/Y** while users grew 16% Y/Y to 91MM as merchant services (off-eBay) continued to grow at a strong rate (+40% Y/Y) and cross-border transactions maintained a healthy level of overall activity (24% of total transaction value). Marketplace sold items growth accelerated to 13% Y/Y as demand in international markets continued to pick up and the US / UK / Germany (eBay's largest markets) benefited from a pricing change instituted in each market over the past year. Base of 222MM average unique monthly eBay users and 90.5MM active PayPal users.
- 6. Baidu (\$39B, \$337MM) - Paid search revenue growth accelerated to 76% Y/Y**, as online advertising customers increased 26% Y/Y (to 272K, <1% of total SMEs in China, leaving room for ample upside) and advertiser ARPU rose 41% Y/Y as large corporate customers continued to increase their online marketing spend. Operating margin (56%) improved 2ppts Q/Q and 12ppts Y/Y, owing to pricing power vs. search advertising competitors and fixed-cost leverage over bandwidth and infrastructure costs. Base of 185MM average monthly unique users.

## ...Global Public Internet Leaders – Strong Q3 Trends...

- 7. Yahoo! (\$22B, \$1.6B) - Display advertising revenue rose 17% Y/Y** (from recession compressed levels) as ad targeting continued to improve while search-related revenue declined 7% Y/Y as the transition to Microsoft algorithmic search during the quarter impacted paid click volume. Turnaround remains on track, but bolstering user engagement on sites is key to fend off usage time erosion to the likes of Facebook. Outlook for Asian investments / assets remains compelling. Base of 616MM average monthly unique users.
- 8. priceline.com (\$20B, \$1.02B) - Gross bookings growth remained strong at 47% Y/Y and revenue growth continued to accelerate, reaching 37% Y/Y.** International gross bookings, which increased 67% Y/Y (78% Y/Y on an FX-neutral basis), and hotel room nights (up 54% Y/Y) remained the two primary growth drivers for the company. Gross profit of \$666MM (up 54% Y/Y, 67% margin) was driven primarily by international strength (international gross profit was \$530MM, up 80% on an FX-neutral basis and represented 80% of total gross profit). Base of 23MM average monthly unique visitors.
- 9. Alibaba.com (\$10B, \$219MM) - Revenue growth remained strong at 40% Y/Y** as international sales (outside China) grew 33% Y/Y (58% of total) and paying member growth continued (30% Y/Y to ~751K). Value-added services (such as keyword bidding, premium placement, and online translations) contributed 25%+ of China Gold Supplier sales and 20%+ of TrustPass revenue, up from mid-teens a year ago, and continue to improve the value proposition for suppliers. Base of 42MM average monthly unique users.

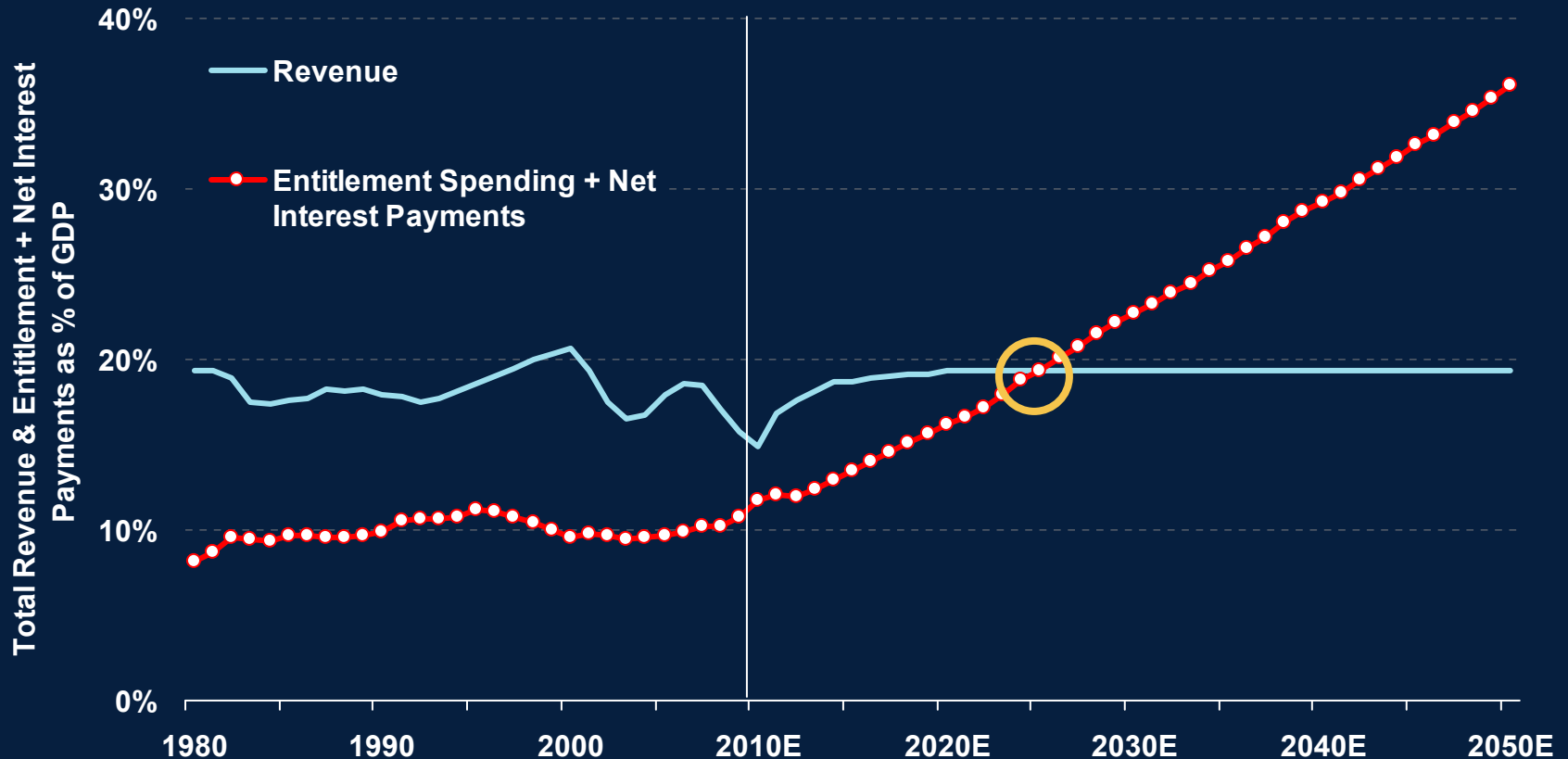
## ...Global Public Internet Leaders – Strong Q3 Trends

10. **Akamai (\$9B, \$254MM)** - Revenue growth accelerated for the fourth straight quarter to 23% Y/Y as: 1) Media & Entertainment revenue (+26% Y/Y, 44% of total) posted strong numbers driven by increasing traffic volume from strengthening over-the-top video demand; and 2) eCommerce revenue (+24% Y/Y, 32% of total) also came in strong and should continue to grow as consumers shift retail spending online during the holiday season. Akamai's continued investment in its unique network architecture position the company well to capitalize on the secular growth in online video, eCommerce, and cloud-based services.
11. **Netflix (\$9B, \$553MM)** - Very strong momentum as subscriber and revenue growth continued to accelerate – up 52% and 31% Y/Y, respectively...while subscriber acquisition cost and churn declined to their lowest levels in company history. We estimate subscriber level (at 17MM in CQ3) should surpass HBO's USA subscriber base (MS forecast at ~30MM for YE C2012E) by CH1:12E. Netflix growth has been assisted by acceptance as a key video content source on Apple's iPad and the company's large and growing library of video content.

***Something You Should be Thinking About  
that May Not be Top of Mind***

# USA Federal Government – Entitlement Spending + Interest Expense are Forecast to Exceed Revenue by 2025, per Congressional Budget Office

## Entitlement Spending + Interest Payments vs. Revenue as % of GDP, 1980 – 2050E

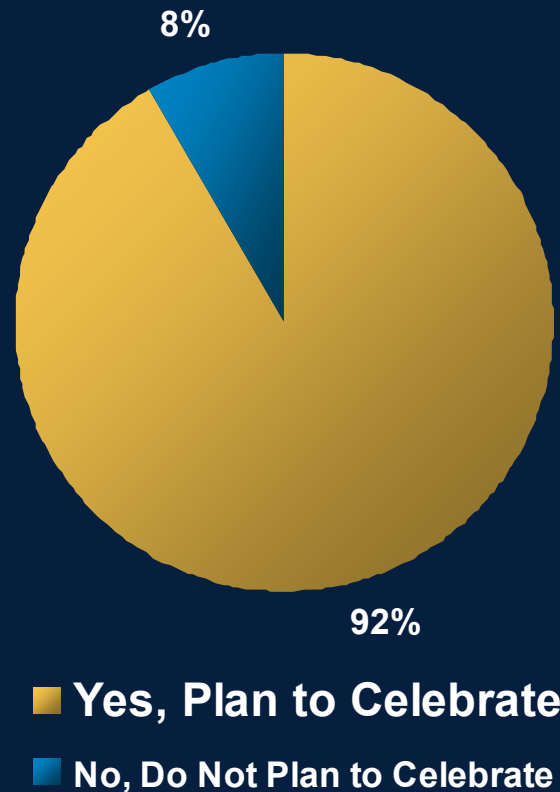


Source: Congressional Budget Office (CBO) Long-Term Budget Outlook (6/10). Note that entitlement spending includes federal government expenditures on Social Security, Medicare and Medicaid. Data in our chart is based on CBO's 'alternative fiscal scenario' forecast, which assumes a continuation of today's underlying fiscal policy. Note that CBO also maintains an 'extended-baseline' scenario, which adheres closely to current law. The alternative fiscal scenario deviates from CBO's baseline because it incorporates some policy changes that are widely expected to occur (such as extending the 2001-2003 tax cuts rather than letting them expire as scheduled by current law and adjusting physician payment rates to be in line with the Medicare economic index rather than at lower scheduled rates) and that policymakers have regularly made in the past.

# *Near Term Good News*

# Consumers Expect to Celebrate the Holiday Season in 2010 ;)

## Do You Plan to Celebrate a Major Winter Holiday This Year?



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Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)		
	Count	% of Total	Count	% of Total IBC	% of Rating Category
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Not-Rated/Hold	121	4%	22	2%	18%
Underweight/Sell	393	14%	103	11%	26%
Total	2,794		949		

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