

COMPANY NOTE

Company Update

USA | Technology | Internet

July 12, 2013

Jefferies

Google (GOOG) Reiterate Buy Ahead of Earnings as PLA Usage Remains Strong in 2Q

Key Takeaway

Our latest proprietary Product Listing Ad (PLA) checks confirm more advertisers are running more ads than ever. PLA penetration lvls in the UK are about 12 mos behind the US, but growth is high - a +ve given GOOG transitioned its Int'l Shopping program to a paid svc in Feb. Ahead of earnings, traffic trends look solid, especially at YouTube, where we model \$4.35B rev in '13. For 2Q we model \$11.24 Op EPS, ahead of \$10.83 cons. Reit Buy.

GOOG 2Q traffic trends look solid. Traffic trends at Google's core properties look solid in 2Q, giving confidence ahead of earnings. Importantly, core desktop search trends continue to look strong. We also note strong traffic trends at YouTube, where we model gross rev increasing +71% Y/Y to \$4.35B in '13. **See comScore charts starting p 3.**

Paid clicks growth faces (very) tough comps in 2Q. For 2Q, we expect Paid Click growth of +16% Y/Y and CPC declines of 1.8% Y/Y. Given the explosion of mobile clicks in recent qtrs, Paid Click / CPC will face tough / easy comps, respectively as both revert to historic lvls. In 2H'13, CPCs could rise for the first time in ~2 yrs driven in-part by the July 22 mandatory migration to Enhanced Campaigns. **See historic growth trends on page 2.**

PLA usage remains strong in 2Q, with more advertisers and ads than ever. PLAs are ads with images, and reflect a shift away from Google's standard "blue link" text ads. PLAs generate more rev on a per-ad basis, so higher PLA usage is a +ve for GOOG. In the US, we now track 9.4K advertisers (+55% Q/Q) running 156K PLA ads (+21% Q/Q). For the top-5 verticals, 59% of searches now return a PLA, up from 49% in Oct. UK PLA penetration remains about 12 mos. behind the US, but we expect the gap to quickly tighten over time. **See our full PLA study starting on p 7.**

The top-3 PLA advertisers were digital marketing companies (running ads for 3rd party retail clients), with Kenshoo again taking #1 spot. eBay (#5) remains a top PLA advertiser after being mostly absent from our checks in 2012. Walmart (#4), Macy's (#8), Amazon (#11), and Home Depot (#13) also remain top PLA advertisers. Top verticals include Clothing & Shoes, Home & Garden, and Beauty & Personal Care. Google continues to innovate and refine the PLA format. **With rich product information embedded directly in the search results, PLAs make Google appear more like Amazon.**

Valuation/Risks

Our \$1,000 PT is based on a 10-year DCF (11% WACC, 3.0% LTGR). GOOG now trades at 13.4x (ex-cash) our '14 EPS ests. **Risks:** Margin declines.

USD	Prev.	2011A	Prev.	2012A	Prev.	2013E	Prev.	2014E
Rev. (MM)	--	29,098.0	--	40,419.0	--	48,900.0	--	57,262.0
EV/Rev		9.0x		6.5x		5.4x		4.6x
EPS								
Mar	--	8.08	--	10.08	--	11.58A	--	--
Jun	--	8.74	--	10.12	--	11.24	--	--
Sep	--	9.72	--	9.03	--	11.66	--	--
Dec	--	9.50	--	10.65	--	13.76	--	--
FY Dec	--	34.53	--	39.91	--	48.24	--	56.25
FY P/E		26.7x		23.1x		19.1x		16.4x

BUY

Price target \$1,000.00

Price \$920.24

Financial Summary

Book Value (MM):	\$61,712.0
Net Debt (MM):	(\$46,569.0)
Cash/Share:	\$132.00
5 Yr. Rev. CAGR:	14.0%

Market Data

52 Week Range:	\$920.81 - \$562.09
Total Entprs. Value (MM):	\$261,619.4
Market Cap. (MM):	\$308,188.4
Insider Ownership:	0.5%
Institutional Ownership:	84.3%
Shares Out. (MM):	334.9
Float (MM):	270.6
Avg. Daily Vol.:	2,300,030

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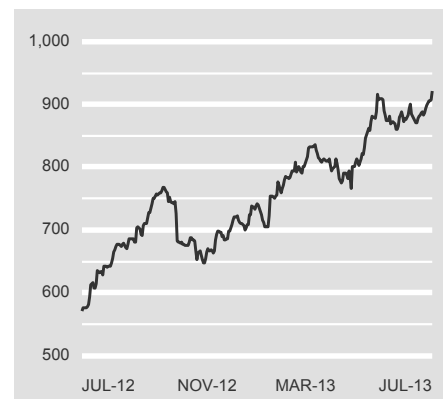
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Price Performance



Starting on page 7, please see our latest PLA data and relevant data from Google's 3rd party advertising partners.

Optimistic Ahead of Earnings

We reiterate Buy ahead of earnings as traffic data looks solid, with core desktop search and YouTube looking especially strong for the qtr. Margin is the wild card and will depend on Motorola plus the number of Nexus devices sold through Google Play. With shares trading within a reasonably tight band since May, we still think GOOG looks attractively valued (~13.4x ex-cash our '14 ests.) for a stock with such a compelling growth story.

In terms of products, Google is executing on multiple fronts as it extends its lead across a number of core services. We are particularly optimistic about YouTube, Android, and Maps, which has significant go-forward revenue potential.

For the quarter, our estimates are as follows:

Table 1: Jefferies' Google Estimates vs. Consensus

\$MM except per share	Q2 2013E		FY 2013E	
	New Estimates	Consensus	New Estimates	Consensus
Net Revenue	11,272	11,374	48,900	47,477
Operating EPS	11.24	10.83	48.24	46.25
GAAP EPS	9.27	9.21	40.29	39.04

Source: Jefferies estimates, FactSet

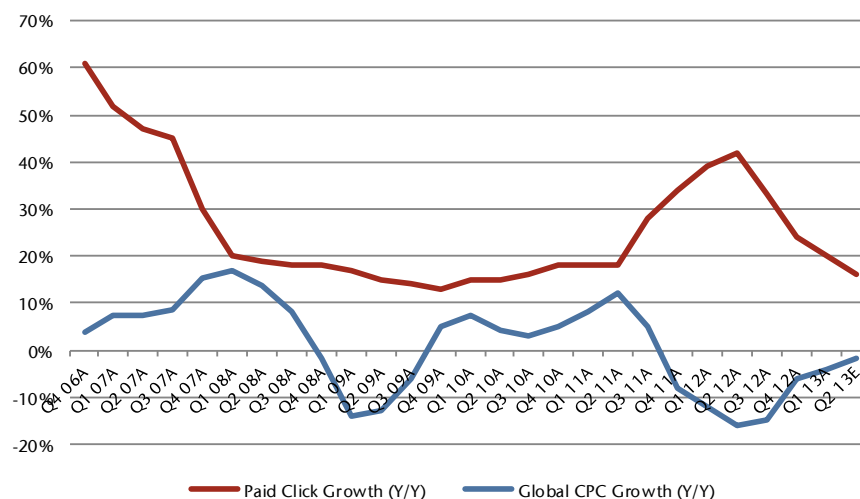
In 2H'13, CPCs could rise for the first time in ~2 years driven in-part by the July 22 mandatory migration to AdWords enhanced campaigns.

Paid Click Growth Faces (Very) Tough Comps in 2Q

For 2Q, we expect Paid Click growth of +16% Y/Y and CPC declines of -1.8% Y/Y. Note in 2H'11, the explosion of mobile searches (in addition to the mix-shift towards Int'l traffic, etc.) drove rapid Paid Click growth at the expense of CPC (see chart below). On the heels of these changes, Paid Click and CPC Y/Y growth will face very tough and very easy comps, respectively.

As Google monetizes more ads on a non-CPC basis, we think Paid Click growth is the most important indicator of a healthy advertiser ecosystem going forward.

Chart 1: Google Y/Y Paid Click and Global CPC Growth (Actuals & 2Q Ests)



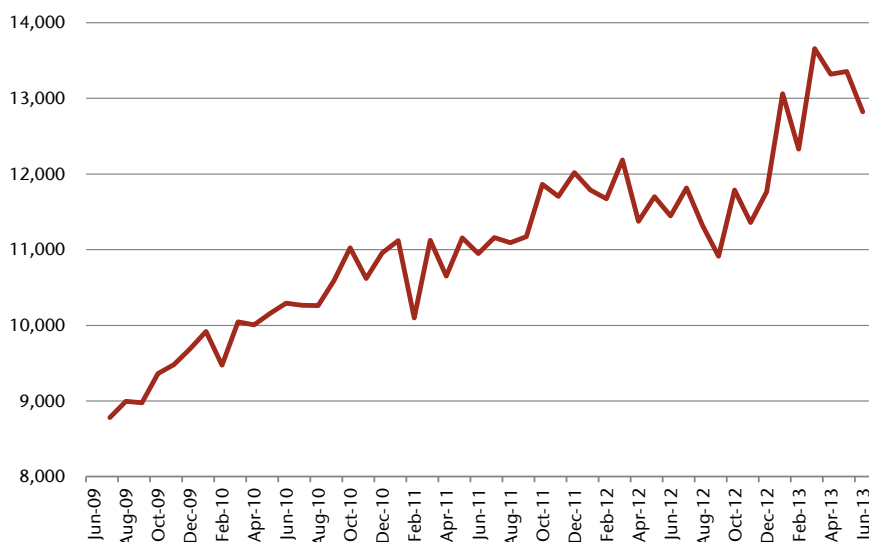
Source: Google, Jefferies ests.

2Q Traffic Trends Look Solid

Traffic data from comScore gives confidence ahead of earnings.

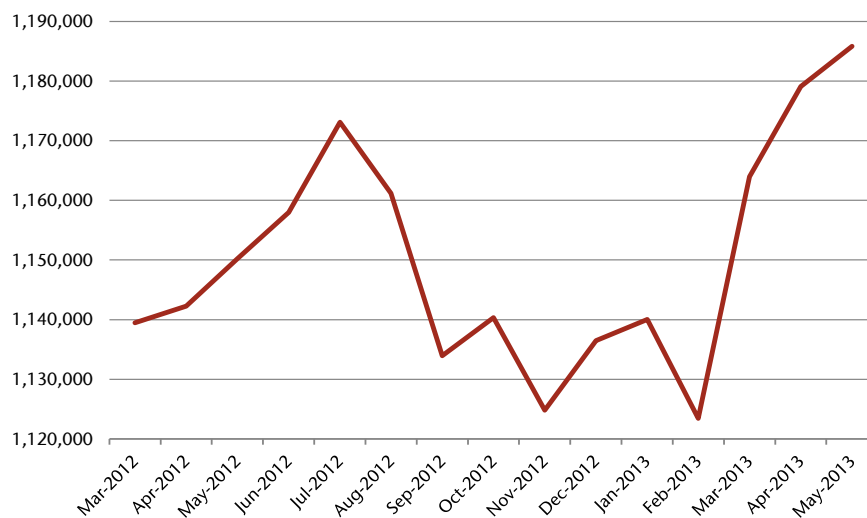
The following chart tracks (explicit core) desktop searches in the US, as measured by comScore. Despite the rapid growth of mobile searches – *which are excluded from this chart* – Google is still seeing nice growth in desktop search volume.

Chart 2: Google US Desktop Monthly Searches (MM)

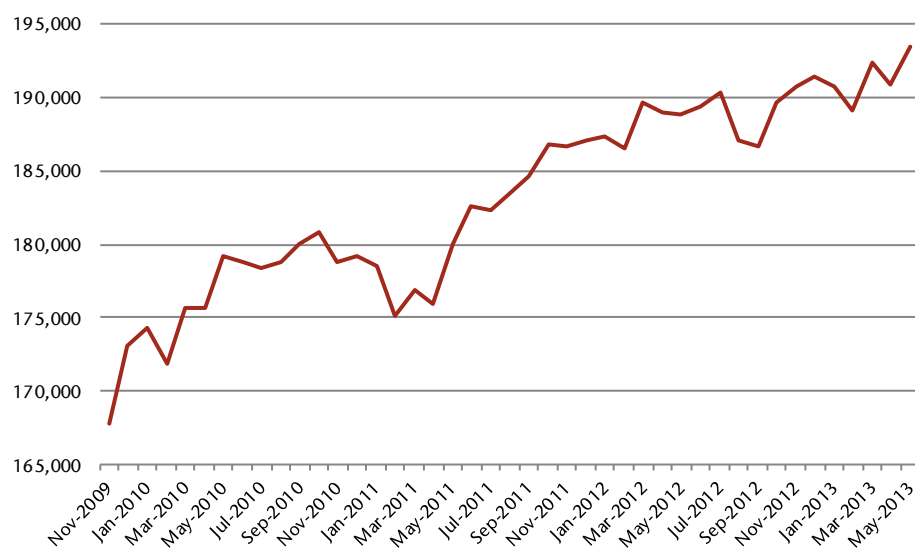


Source: comScore

Chart 3: Google Global Unique Visitors (000s)



Source: comScore

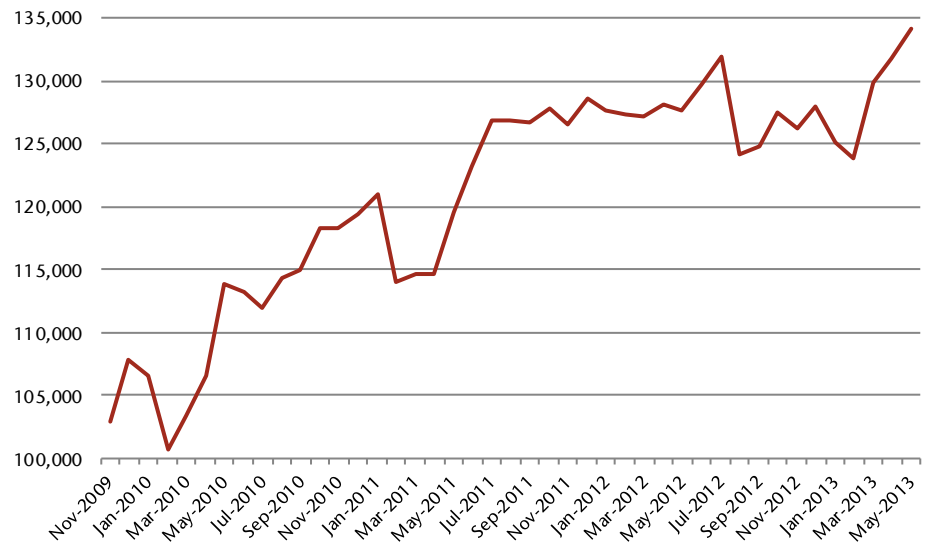
Chart 4: Google US Unique Visitors

Source: comScore

According to our estimates, YouTube is generating more revenue and is growing (much) faster than Netflix.

Chart 5: YouTube Global Unique Visitors (000s)

Source: comScore

Chart 6: YouTube US Unique Visitors

Source: comScore

Impressive Intra-Quarter Product Announcements Give us Confidence in the Longer-Term

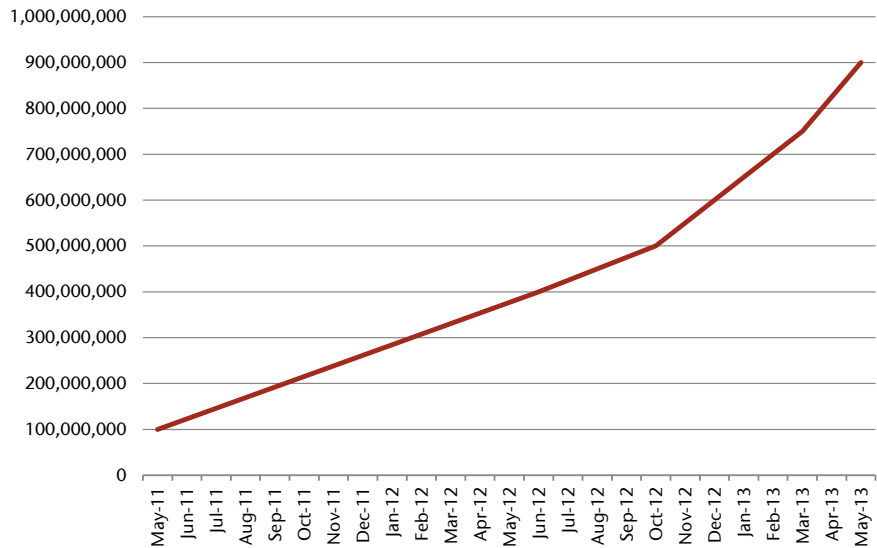
In terms of new product announcements, Google is executing on multiple fronts, and making it look easy as it extends its lead across a number of core software services.

During the quarter, Google made a flurry of product announcements at TechCrunch Disrupt ([click here to see our April 30 note](#)) and at Google IO ([click here to see our May 16 note](#)).

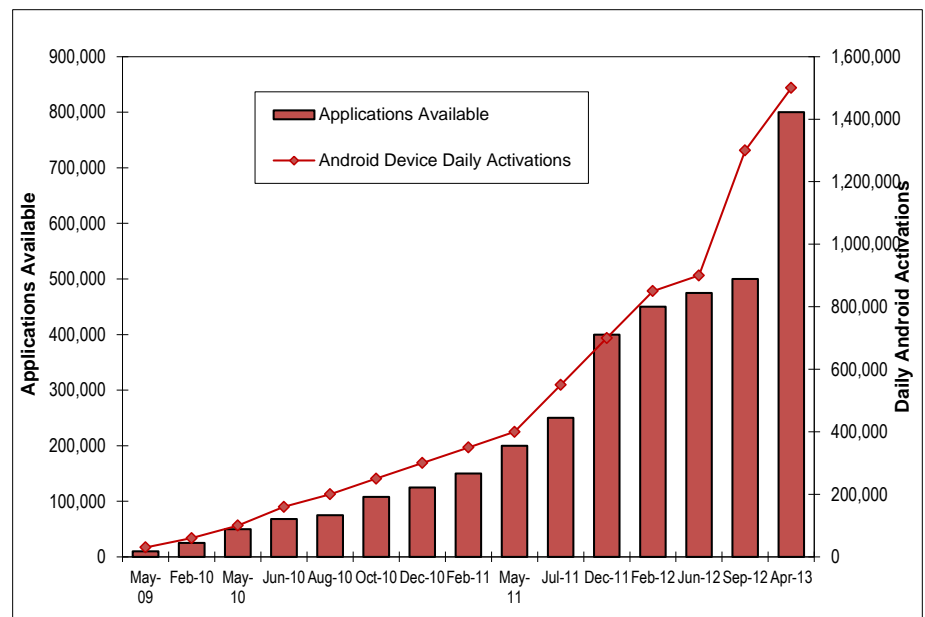
At TechCrunch Disrupt, Google announced several new social and mobile features that enhance the mobile ad business and position the company well against a new mobile app distribution opportunity. Additionally, Google+ should see an engagement boost as it serves as the backbone connecting all GOOG products along with that of 3rd party apps.

At Google I/O (GOOG's premiere developer conference), the company made a compelling case to both users and developers, with lots to like for both groups. Google announced upgrades to core services, and more notably, the UI / design looks the best we've ever seen. Most notably, over 500MM+ Android devices were activated in the past 12 months (see chart next page), reflecting rapid market share gains in emerging markets, notably the BRICs where Android now accounts for 80%+ share of shipments (approaching 90% in China). Google also made impressive improvements to the Maps UI, which should launch broadly at some point this summer.

Over 500MM Android devices have been activated in the past 12 months.

Chart 7: Cumulative Life-to-Date Global Android Device Activations

Source: Jefferies, Google

Chart 8: Android Daily Activations (Right axis) vs. Available Apps (Left)

Source: Jefferies, Google

Product Listing Ad (PLA) Usage Remains Strong in 2Q'13

Exhibit 1: Example PLA for eBay



samsung
galaxy s3 s iii...
\$459.94
eBay

Source: Google

We track more advertisers running more ads than ever before in the US, confirming that Google Shopping is a success despite the new fees. When Google Shopping transitioned its US program to a paid service on Oct. 17, 2012, some feared retailers would balk at paying Google for a previously free service. This has proven not to be the case, as PLA usage is accelerating in both the US and the UK.

These high-performing ad units are ROI positive for advertisers and as such we continue to forecast rapid adoption by retailers, especially as we approach the key holiday shopping season. We track wide adoption across a broad spectrum of verticals, but particularly in the Clothing & Shoes, Home & Garden, and Beauty & Personal Care categories, where an image of the product can ensure the user has found the *exact* item (correct color, etc.) before clicking the ad. In these top-three verticals, between ~55-70% of keywords now return a PLA.

Prior to the transition to a paid service, Google previously used scrapers to collect product details (images, inventory levels, size, color, etc.), which was then displayed in the Google Shopping search results in a format that *looked* like a PLA. The retailer did not pay for this service, essentially receiving a free advertisement. This is no longer the case as retailers must now purchase PLAs or be excluded from the Google Shopping search results.

Table 2: US PLA Usage Accelerates in 2Q (US)

	Spring '12	Oct. '12	Nov. '12	Mar. '13	June '13	Q/Q Growth
Number of advertisers using PLA ads	1,841	3,916	5,638	6,071	9,391	54.7%
Total number of ads	63,827	94,816	118,721	129,449	156,338	20.8%

Source: Jefferies

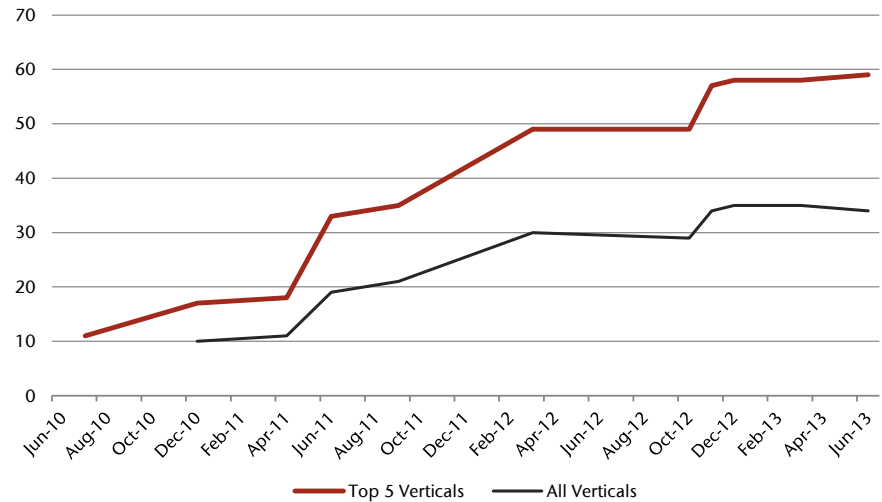
PLA Usage is growing even faster in the UK following the International Google Shopping (GS) program's Feb. 13 transition to a paid service. With the US Google Shopping program serving as a precedent, UK retailers are also adopting PLAs at a very fast rate, as expected. Overall the UK remains about 12-months behind the US in terms of PLA adoption, and we expect that gap will tighten over time.

Table 3: PLA Usage in the UK Seeing Very High Growth

	Mar. '13	June '13	Q/Q Growth
Number of UK advertisers using PLA ads	3,125	6,651	112.8%
Total number of ads	83,540	119,098	42.6%

Source: Jefferies

With rich product information (image, size, color options, etc.) embedded directly in the search results, Product Listing Ads (PLAs) make Google appear more like Amazon. We believe these ads will generate faster revenue growth, and thus we have been tracking their rollout over time. In the near term, we believe PLAs are a key catalyst as they transition to a paid service.

Chart 9: Percent of US Search Results Featuring a Product Listing Ad

Source: Jefferies

We note some concern that these new ad units are cannibalizing clicks away from the pricier AdWords blue links. While this could be happening to a certain extent, we note:

- **PLAs generate more revenue than text ads**, with much higher click-through rates more than offsetting lower CPCs. (see page 10)
- **RKG said Product Listing Ad CPCs gained ground on text ads in 1Q, and we believe this trend will continue.** Previously, PLA ads were available at a discount (vs. standard blue-link text ads), but this will change over time as PLAs are adopted by more advertisers.
- **PLA-style image ads are not newcomers to Google's Search Engine Results Page.** Google's text ads have long been competing for clicks vs. image ads on the same page. The difference is that now Google is being paid for these image ads (PLAs), where before the image ads were free.

Findings from latest PLA study

eBay remains a top PLA advertiser in 2013 after being mostly absent from our checks in 2012. eBay was formerly the #1 US PLA advertiser, but eBay stopped using PLAs for most of 2012 before reappearing in our March checks. In our June checks, eBay now appears as the #5 PLA advertiser, accounting for 2% of ads in the US.

Note eBay has been critical of paid search advertising in the past, noting that while paid search was an effective way to acquire new customers, eBay's brand was so strong that online ads may target sophisticated users who would have checked eBay anyway (as opposed to targeting / acquiring new users).

In a March whitepaper titled *Customer Heterogeneity and Paid Search Effectiveness: A Large Scale Field Experiment*, eBay confirmed it conducts A / B experiments where the company stops bidding on all keywords in a certain geography for 60 days. It is thus possible our NYC-based checks were conducted during a time when eBay was temporarily halting its NYC PLA spend.

It is also possible eBay stopped using PLAs when ad prices are at their highest (during the holidays), relying instead on direct / organic traffic given eBay is a well-known brand. When ad prices are lower (during 1 & 2Q), eBay may believe it can acquire new customers at a more favorable rate using PLAs given online ad prices are lower.

Whatever the reason, eBay remains one of the most sophisticated online advertisers, and it maintains a database of ~170MM keywords / keyword combinations (ex: 'cell phone', 'gibson les paul') that is updated daily and automatically fed into Google, Bing, and Yahoo's paid search platforms. Going forward, we expect more fluctuations as eBay adjusts and refines its online ad spend in response to changing market conditions.

The top three US PLA advertisers are digital marketing companies, which run campaigns for 3rd party retailers. Kenshoo was again the #1 advertiser in our checks accounting for over 9% of total PLA ads and extending its lead over its competition. Adobe Efficient Frontier was the #2 advertiser, accounting for 3% of PLAs, and RKG was #3, accounting for 3% of PLAs. Additionally, digital agencies Adlucent, Channel Intelligence, and Mercent were the #6, #9, and #10 advertisers; accounting for about 2%, 1%, and 1% of total PLA ads in our study, respectively.

The top UK PLA advertisers are the large eCommerce sites. As in the US, we expect digital marketers will take share over time. Currently, eBay and Amazon are the #1 and #2 PLA advertisers in the UK, running 13% and 7% of PLAs, respectively. Kenshoo is #3 running ~6% of PLAs. Overall, we track 46% of UK search results (in the top-5 verticals) return a PLA; this is roughly the same level as US PLA penetration from about 12 months ago. We will be tracking UK PLA usage over time and will report our findings in subsequent reports.

PLAs are important because these image-ads get more clicks than the traditional Google 'blue-link' text ads they effectively displace, translating into more revenue for GOOG. PLA clicks also convert into purchases at higher rates than text-ads, meaning they should command higher rates over time. Merely having an image conveys meaningful information about the product prior to clicking, resulting in fewer back-outs & more purchases.

We believe Google's ambition is to evolve these ads to the point where users can purchase the item without ever leaving the search results page. We envision PLAs that feature size / color / option dropdown menus, allowing users to specify precisely the item they want. The trick is maintaining accurate inventory levels, but

Google is introducing tools that allow retailers to upload detailed inventory information into Google's database. We also think PLAs can be an effective sales channel for local brick & mortar retailers. Google has even started testing same day-delivery in the Bay Area, which works like this: 1) retailers upload detailed inventory info; 2) users search for and subsequently purchase the items through Google; and 3) Google coordinates with 3rd party services to handle immediate delivery of these items.

Google continues to innovate and refine the format. Interestingly, we note that Google has recently added new features to their PLA ad format – a component called a “pla-hovercard” which can display incremental information on a subsequent “hover” or “mouse-over”. Traits include *pla-unit-title*; *pla-hovercard-content* and *pla-hovercard-price* where retailers can highlight shipping specials and coupons within the mouse-over like “Buy It Now with Free Shipping” or “Save 25% Sitewide Today!” (see image below).

Exhibit 2: Example of PLA with New Hovercard

The screenshot shows a Google search for "sonos playbar". The search results include a PLA (Product Listing Ad) for "Sonos PLAYBAR". The PLA displays the product name, price (\$699.00), and the retailer (Sonos). A hovercard is visible over the product, showing additional details: "Sonos PLAYBAR Sound Bar - Works With Sub Sonos Play 3 Etc. (al131-pal4)" and a price of \$599.99. The hovercard also includes a "Buy It Now with Free Shipping!" button. Below the PLA, there is a link to "SONOS PLAYBAR Wireless HiFi Soundbar" with the URL "www.sonos.com/shop/products/playbar" and the text "PLAYBAR THE SOUNDBAR FOR MUSIC LOVERS."

Source: Jefferies, Google

Methodology: Our proprietary script runs 150K+ commerce-oriented search terms through Google's search engine. We track the number of PLA's in the search results; collecting data like the name of the advertiser, the number of ads per advertiser, and category of each ad (Electronics, Health & Wellness, etc.).

According to data from Kenshoo and RKG, Google PLAs generate more revenue per ad than text ads, with higher CTRs more than offsetting lower CPCs.

Kenshoo & RKG Advertising Data Suggests PLAs Generate More Revenue for Google

Kenshoo -- the #1 advertiser in our study -- has published the following about about PLA performance.

Kenshoo says:

- **PLAs have 36% lower CPCs than text ads**
- **PLAs get 73% more clicks than text ads**

This means PLAs generate more revenue for Google on a per ad-unit basis.

Rimm Kaufman Group (RKG) -- the #3 advertiser in our study -- also published detailed findings about PLAs. The company notes that sites with a heavily SKU-based product selection are seeing 50-60% of their Google spend directed towards PLAs. A more typical site may spend 15-20% of the Google spend on PLAs, according to RKG.

RKG says:

- **PLAs have ~10% lower CPCs than text ads**
- **PLAs get ~40% more clicks than text ads**

Given our expectation that CPCs will improve over time, we believe PLAs could drive meaningfully higher amounts of revenue than current levels.

Top PLA Verticals for June (US & UK)

Table 4: Top Categories for US Product Listing Ads (June, 2013 Snapshot)

Top Google Product Listing Ad (PLA) Verticals	Number of Keywords	Keywords with a PLA	% of Keywords with a PLA
1 Clothing / Shoes	8,500	5,898	69%
2 Home & Garden	12,045	8,171	68%
3 Beauty / Personal Care	5,762	3,241	56%
4 Sports & Recreation	4,875	1,702	35%
5 Food / Restaurants	2,604	894	34%
Top 5 Sum	33,786	19,906	
Top 5 Weighted Average			59%
6 Computers / Electronics	10,289	3,198	31%
7 Animals	1,330	350	26%
8 Health & Wellness	7,612	1,743	23%
9 Science / Social Sciences / Humanities	2,726	622	23%
10 Autos / Vehicles	4,291	970	23%
11 Arts / Entertainment	8,482	1,612	19%
12 Business	4,301	776	18%
13 Other	4,169	702	17%
14 Society / Culture	2,838	352	12%
15 Families & Relationships	2,849	304	11%
16 Travel / Lodging	7,113	582	8%
17 Education / Instruction	3,215	139	4%
Aggregate Sum	93,001	31,256	
Aggregate Weighted Average			34%

Source: Jefferies

Table 5: Top Categories for UK Product Listing Ads (June., 2013 Snapshot)

Top <u>UK</u> Google Product Listing Ad (PLA) Verticals	Number of Keywords	Keywords with a PLA	% of Keywords with a PLA
1 Home & Garden	12,045	6,491	54%
2 Clothing / Shoes	8,500	4,311	51%
3 Beauty / Personal Care	5,762	2,618	45%
4 Food_&_Restaurants	2,604	693	27%
5 Sports & Recreation	4,875	1,288	26%
Top 5 Sum	33,786	15,401	
Top 5 Weighted Average			46%
6 Computers / Electronics	10,288	2,645	26%
7 Health / Wellness	7,612	1,403	18%
8 Science / Social Sciences / Humanities	2,726	502	18%
9 Animals	1,330	232	17%
10 Autos / Vehicles	4,291	717	17%
11 Other	3,369	488	14%
12 Arts / Entertainment	8,480	1,137	13%
13 Business	4,202	512	12%
14 Families / Relationships	2,849	238	8%
15 Society / Culture	2,838	225	8%
16 Travel	7,113	453	6%
17 Education / Instruction	3,215	76	2%
Aggregate Sum	92,099	24,029	
Aggregate Weighted Average			26%

Source: Jefferies

Top Historical PLA Verticals

Table 6: Top Categories for US Product Listing Ads (Mar., 2013 Snapshot)

Top Google Product Listing Ad (PLA) Verticals	Number of Keywords	Keywords with a PLA	% of Keywords with a PLA
1 Clothing / Shoes	8,500	5,775	68%
2 Home & Garden	12,045	8,059	67%
3 Beauty / Personal Care	5,762	3,214	56%
4 Food / Restaurants	2,604	961	37%
5 Sports & Recreation	4,875	1,738	36%
Top 5 Sum	33,786	19,747	
Top 5 Weighted Average			58%
6 Computers / Electronics	10,289	3,338	32%
7 Animals	1,330	404	30%
8 Health / Wellness	7,612	1,924	25%
9 Science / Social Sciences / Humanities	2,726	669	25%
10 Autos / Vehicles	4,192	1,001	24%
11 Arts / Entertainment	8,482	1,824	22%
12 Business	4,301	874	20%
13 Other	4,012	808	20%
14 Society / Culture	2,838	396	14%
15 Families / Relationships	2,849	346	12%
16 Travel	7,113	610	9%
17 Education / Instruction	3,215	168	5%
Aggregate Sum	92,745	32,109	
Aggregate Weighted Average			35%

Source: Jefferies

Table 7: Top Categories for UK Product Listing Ads (Mar., 2013 Snapshot)

Top UK Google Product Listing Ad (PLA) Verticals	Number of Keywords	Keywords with a PLA	% of Keywords with a PLA
1 Home & Garden	12,050	5,522	46%
2 Clothing / Shoes	8,501	3,876	46%
3 Beauty / Personal Care	5,769	2,505	43%
4 Sports & Recreation	4,877	1,229	25%
5 Food / Restaurants	2,612	647	25%
Top 5 Sum	33,809	13,779	
Top 5 Weighted Average			41%
6 Computers / Electronics	10,289	2,308	22%
7 Health / Wellness	7,670	1,471	19%
8 Animals	1,330	230	17%
9 Science / Social Sciences / Humanities	2,728	445	16%
10 Arts / Entertainment	8,482	1,171	14%
11 Autos / Vehicles	4,192	491	12%
12 Business	4,302	484	11%
13 Other	3,991	448	11%
14 Families / Relationships	2,849	243	9%
15 Society / Culture	2,838	235	8%
16 Travel	7,114	443	6%
17 Education / Instruction	3,216	79	2%
Aggregate Sum	92,810	21,827	
Aggregate Weighted Average			24%

Source: Jefferies

Table 8: Top Categories for US Product Listing Ads (Feb., 2013 Snapshot)

Top Google Product Listing Ad (PLA) Verticals	Number of Keywords	Keywords with a PLA	% of Keywords with a PLA
1 Home_&_Garden	12,045	8,075	67%
2 Clothing_&_Shoes	8,500	5,514	65%
3 Beauty_&_Personal_Care	5,762	2,981	52%
4 Food_&_Restaurants	2,604	989	38%
5 Sports_&_Recreation	4,875	1,699	35%
Top 5 Sum	33,786	19,258	
Top 5 Weighted Average			57%
6 Computers_&_Electronics	10,289	3,304	32%
7 Animals	1,330	406	31%
8 Health_&_Wellness	7,612	1,989	26%
9 Vehicles	4,192	1,041	25%
10 Science,_Social_Sciences_&_Humanitie	2,726	659	24%
11 Other	3,453	808	23%
12 Arts_&_Entertainment	8,480	1,786	21%
13 Business	4,301	815	19%
14 Society_&_Culture	2,838	425	15%
15 Families_&_Relationships	2,849	366	13%
16 Travel_&_Lodging	7,113	618	9%
17 Education_&_Instruction	3,215	183	6%
Aggregate Sum	92,184	31,658	
Aggregate Weighted Average			34%

Source: Jefferies

Table 9: Top Categories for US Product Listing Ads (Dec., 2012 Snapshot)

Top Google Product Listing Ad (PLA) Verticals	Number of Keywords	Keywords with a PLA	% of Keywords with a PLA
1 Home & Garden	12,045	8,074	67%
2 Clothing / Shoes	8,500	5,691	67%
3 Sports & Recreation	4,875	1,797	37%
4 Food / Restaurants	2,604	997	38%
5 Beauty / Personal Care	5,762	2,995	52%
Top 5 Sum	33,786	19,554	
Top 5 Weighted Average			58%
6 Computers / Electronics	10,289	3,245	32%
7 Automobiles / Vehicles	4,192	1,051	25%
8 Health / Wellness	7,612	1,980	26%
9 Science / Social Sciences / Humanities	2,726	675	25%
10 Other	3,445	820	24%
11 Arts / Entertainment	8,480	1,916	23%
12 Business	4,301	823	19%
13 Animals	1,330	411	31%
14 Society / Culture	2,838	441	16%
15 Families / Relationships	2,849	395	14%
16 Travel	7,113	628	9%
17 Education / Instruction	3,215	178	6%
Aggregate Sum	92,176	32,117	
Aggregate Weighted Average			35%

Source: Jefferies

Table 10: Top Categories for US Product Listing Ads (Nov., 2012 Snapshot)

Top Google Product Listing Ad (PLA) Verticals	Number of Keywords	Keywords with a PLA	% of Keywords with a PLA
1 Home & Garden	12,046	7,911	66%
2 Clothing / Shoes	8,501	5,550	65%
3 Sports & Recreation	4,875	1,775	36%
4 Food / Restaurants	2,604	952	37%
5 Beauty / Personal Care	5,762	2,942	51%
Top 5 Sum	33,788	19,130	
Top 5 Weighted Average			57%
6 Computers / Electronics	10,289	3,096	30%
7 Automobiles / Vehicles	4,193	1,059	25%
8 Health / Wellness	7,612	1,912	25%
9 Science / Social Sciences / Humanities	2,726	652	24%
10 Other	3,398	745	22%
11 Arts / Entertainment	8,480	1,720	20%
12 Business	4,302	787	18%
13 Animals	1,330	372	28%
14 Society / Culture	2,838	426	15%
15 Families / Relationships	2,848	366	13%
16 Travel	7,113	606	9%
17 Education / Instruction	3,216	171	5%
Aggregate Sum	92,133	31,042	
Aggregate Weighted Average			34%

Source: Jefferies

Table 11: Top Categories for US Product Listing Ads (Oct., 2012 Snapshot)

Top Google Product Listing Ad (PLA) Verticals	Number of Keywords	Keywords with a PLA	% of Keywords with a PLA
1 Home & Garden	12,046	7,401	61%
2 Clothing / Shoes	8,498	4,885	57%
3 Sports & Recreation	4,875	1,616	33%
4 Food / Restaurants	2,603	854	33%
5 Beauty / Personal Care	5,749	1,686	29%
Top 5 Sum	33,771	16,442	
Top 5 Weighted Average			49%
6 Computers / Electronics	10,286	2,623	26%
7 Automobiles / Vehicles	4,192	1,025	24%
8 Health / Wellness	7,601	1,720	23%
9 Science / Social Sciences / Humanities	2,725	608	22%
10 Other	3,398	605	18%
11 Arts / Entertainment	8,478	1,432	17%
12 Business	4,300	618	14%
13 Animals	1,327	147	11%
14 Society / Culture	2,838	309	11%
15 Families / Relationships	2,848	301	11%
16 Travel	7,113	597	8%
17 Education / Instruction	3,216	136	4%
Aggregate Sum	92,093	26,563	
Aggregate Weighted Average			29%

Source: Jefferies

Top PLA Advertisers

Table 12: List of Top 40 Google PLA Advertisers in the US (June, 2013 Snapshot)

Top PLA Advertisers	Number of		% of		
	PLA Ads Deployed	Total PLA Ads	Top 5 Advertisers	Top 10 Advertisers	Top 20 Advertisers
1 xg4ken.com (Kenshoo)	14005	9%	} 20%	} 27%	} 35%
2 everesttech.net (Adobe Efficient Frontier)	5345	3%			
3 rkdms.com (Rimm Kaufman Group)	4861	3%			
4 walmart.com	3987	3%			
5 ebay.com	2866	2%			
6 deepsearch.adlucent	2821	2%			
7 bizrate.com	2258	1%			
8 macys.com	2219	1%			
9 channelintelligence.com (Google)	2123	1%			
10 mercent.com	1830	1%			
11 amazon.com	1752	1%			
12 pgpartner.com (pricegrabber)	1718	1%			
13 homedepot.com	1367	1%			
14 dealtime.com	1244	1%			
15 newegg.com	1218	1%			
16 etsy.com	1131	1%			
17 globalindustrial.com	1075	1%			
18 esearchvision.com	988	1%			
19 soap.com	953	1%			
20 offeredby.net	951	1%			
21 northerntool.com	925	1%			
22 wayfair.com	852	1%			
23 did-it.com	804	1%			
24 ic-live.com	771	0%			
25 vitaminshoppe.com	756	0%			
26 zorotools.com	723	0%			
27 sears.com	708	0%			
28 webstaurantstore.com	687	0%			
29 marinsm.com	656	0%			
30 rakuten.com	576	0%			
31 bhphotovideo.com	572	0%			
32 voltagesearch.com	554	0%			
33 swansonvitamins.com	530	0%			
34 fragrancenet.com	520	0%			
35 dermstore.com	516	0%			
36 llbean.com	497	0%			
37 hayneedle.com	495	0%			
38 vitacost.com	489	0%			
39 dickssportinggoods.com	459	0%			
40 atdmt.com	451	0%			

Source: Jefferies

Table 13: List of Top 40 Google PLA Advertisers in the UK (June, 2013 Snapshot)

Top PLA Advertisers	Number of		Top 5	Top 10	Top 20	
	PLA Ads Deployed	Total PLA Ads				
1 ebay.com	15647	13%	30%	35%	39%	
2 amazon.co.uk	8291	7%				
3 xg4ken.com (Kenshoo)	6984	6%				
4 everesttech.net (Adobe Efficent Frontier)	3466	3%				
5 marinsm.com (Marin)	1540	1%				
6 notonthehighstreet.com	1400	1%				
7 argos.co.uk	1360	1%				
8 dartsearch.net	968	1%				
9 peperet.com	923	1%				
10 doubledclick.net	808	1%				
11 cheapsmells.com	610	1%				
12 viking-direct.co.uk	596	1%				
13 strawberrynetcom	551	0%				
14 lookfantastic.com	512	0%				
15 selfridges.com	505	0%				
16 onefeed.co.uk	489	0%				
17 partydelights.co.uk	489	0%				
18 ebuyer.com	464	0%				
19 toolstation.com	451	0%				
20 mrmemory.co.uk	429	0%				
21 escapade.co.uk	422	0%				
22 allfancydress.com	411	0%				
23 joke.co.uk	399	0%				
24 surfdome.com	378	0%				
25 feelunique.com	371	0%				
26 lakeland.co.uk	359	0%				
27 cosmeticsnow.co.uk	340	0%				
28 officefurnitureonline.co.uk	333	0%				
29 victorianplumbing.co.uk	313	0%				
30 jojomamanbebe.co.uk	300	0%				
31 offtek.co.uk	296	0%				
32 powerhouse-fitness.co.uk	296	0%				
33 newlook.com	283	0%				
34 cellphoneshop.net	275	0%				
35 luxebc.com	273	0%				
36 tizaro.com	273	0%				
37 wayfair.co.uk	264	0%				
38 healthmonthly.co.uk	259	0%				
39 seraphine.com	251	0%				
40 simplyscuba.com	248	0%				

Source: Jefferies

What are Product Listing Ads (PLAs)?

Product Listing Ads (PLAs) are search ads that include richer product information, such as an image of the product, price and merchant info, without requiring additional text or keywords. When users search for an item, Google will automatically show the most relevant products along with the image, price, and product name. These PLA's now form the backbone of a user's Google Shopping experience.

We estimate 70% of PLAs are monetized on a CPC basis, with 30% being monetized on a CPA basis.

Google is monetizing these ads on both a cost-per-click (CPC) and cost-per-action/acquisition (CPA) basis (CPA is US-only, for now). For CPC ads, Google is paid when a user clicks the ad. For CPA ads, Google is paid when a user performs a specific action, such as adding an item to a shopping cart, making a purchase, or signing up for a free email newsletter. Because they monetize lower in the conversion funnel, advertisers pay more for CPA ads.

PLAs are currently available in the following countries: US, UK, France, Germany, Netherlands, Switzerland, Spain, Italy, Japan, Brazil, and Australia.

Exhibit 3: Example of New, Paid Google Shopping Program (circa 2H 2012)

The screenshot shows a Google search for "buy a scooter". The search bar at the top shows the query and the number of results (About 84,100,000 results). Below the search bar, there are tabs for Web, Images, Maps, and Videos. The main results area is divided into two sections: "Product Listing Ads (PLAs)" and "Organic, free results".

Product Listing Ads (PLAs): This section is highlighted with a red box and a red arrow. It contains a grid of product listings, each with an image of a scooter, a title, a price, and a merchant name. The listings include:

- 150cc Scooter Moped: \$974.95, SaferWholes...
- Razor E200 Electric: \$219.99, toysrus.com
- Razor E100 Electric: \$115.00, Walmart
- Razor Scooters Po...: \$254.99, www.skates...
- Razor E300 Electric: \$229.09, Target
- Evo 2x Gas Powered 50...: \$559.00, Elite Toy Store
- EV Rider Vita Electric: \$2995.00, ScooterDirec...
- Currie Technologie...: \$399.99, Northern Tool

Organic, free results: This section is highlighted with a red box and a red arrow. It contains text-based search results, including:

- Buy a Power Scooter Now** 1 (877) 486 4987. www.thescooterstore.com/ Looking for an Electric Power Chair for Yourself or a Loved One?
- Buy Moped Scooters \$499 | ScooterDepot.us** www.scooterdepot.us/Buy-Scooters Huge Discount on Gas Moped Scooters 50cc \$499, 150cc \$699 Pre-Assembled View offer - Model Year End Clearance Get up to \$500 Instant Rebate
- Buy A Scooter - Sale on 50cc-250cc Scooters** www.saferwholesale.com/ Save Today By Calling 866-606-3991
- Scooters Mopeds | eBay** motors.shop.ebay.com > Buy > Powersports Buy and sell Scooters Mopeds, Mopeds, Electric Scooter, Gas Scooter items on eBay Motors online auction.
- 10 Tips: Buy a scooter, save gas money - Money - 10 Tips - TODAY ...** today.msnbc.msn.com/id/.../how-buy-scooter-your-commute/ Oct 7, 2008 - If you're on the prowl for ways to save as much money as possible right now, you may be among the growing numbers of consumers who are ...
- Scooter Diva - So You Want To Buy A Scooter** www.scooterdiva.com/buyascooter.html Ok, so you've been bitten by the scooter bug. YOU WANT TO BUY A SCOOTER. All around you are CHOICES. Everything you read, everyone you talk to, just ...
- Buy.com - Scooters** www.buy.com/cat/scooters/64741.html Built by riders, for riders this performance Fusion NX features a rugged design that takes ...

Red annotations on the image include:

- A red box around the "Product Listing Ads (PLAs)" section with a red arrow pointing to it.
- A red box around the "Organic, free results" section with a red arrow pointing to it.
- A red box around the "NEW WAY (Google Shopping):" section with a red arrow pointing to it.
- A red box around the "AdWords 'blue link' text ads" section with a red arrow pointing to it.

NEW WAY (Google Shopping):

- retailers pay for these listings
- results located prominently, either in center or right side

Source: Jefferies, Google

Exhibit 4: Example of Old, Free Google Product Search (circa 2011)

Google [Advanced Search](#)
[Google SafeSearch is ON](#)






Web [+ Show options...](#) Results 1 - 10 of about 20,700,000 for buy a scooter

Buy Moped Scooters \$479 Sponsored Link
www.ScooterDepot.us/Buy-Scooters Huge Discount on Gas Moped **Scooters** 50cc \$479, 150cc \$579 Pre-Assembled
<http://www.scooterdepot.us/Moped-Scooter...>

Buy Or Sell New & Used Scooters
 Dec 4, 2009 ... **Buy My Scooter** is where you can **buy** a new or used **scooter** or even advertise your used **scooter** or motorscooter for sale.
[Sell your scooter](#) - [Used Scooters](#) - [How it works](#)
www.buymyscooter.com/ - [Cached](#) - [Similar](#)

Gas Scooter Motorworks - America's Favorite Scooters - Scooters ... ★
 Almost every online **scooter** dealer carries the same Chinese brand with a slightly different price. Look closely before you **buy** your **scooter**. ...
www.gsmotorworks.com/ - [Cached](#) - [Similar](#)

Shopping results for buy a scooter

				
SCHWINN Stealth 1000 Electric \$349.99 new Target	Lithium Electric Scooter \$1,817.00 new Sam's Club	X-Treme Scooters XB-502 Electric \$799.99 new Sears	E300S Blue Electric Scooter by \$229.21 new Amazon.com	Razor Electric Pocket Mod Scooter, Vapor \$242.00 new Walmart

← **OLD WAY (Google Product Search):**

- retailers did not pay for these listings
- results located within the organic / free results

Source: Jefferies, Google

Exhibit 5: Retailers frequently use 3rd party digital ad firms to manage PLA campaigns

Google search results for "sonos receiver". The search bar shows "sonos receiver". Below the search bar, there are tabs for "Web", "Images", "Maps", "Shopping", "More", and "Search tools". The results show "6 personal results, 3,200,000 other results."

Ads related to **sonos receiver** ⓘ

Sonos® Official Site - The Wireless HiFi System - Sonos.com
www.sonos.com/FreeShipping
Stream All the Music on Earth.
View a Demo PLAY:3
PLAY:5 Sonos SUB

Sonos ZP90 at Amazon - Amazon.com
www.amazon.com/electronics
★★★★★ 1,426 reviews for amazon.com
Sonos ZonePlayer ZP90 Add-On Player Qualified orders over \$25 ship free

Shop for **sonos receiver** on Google

Sponsored ⓘ

Product	Price	Retailer
SONOS Connect AMP	\$499.00	Target
Sonos Connect Multi-Room D	\$349.00	OneCall T...
Sonos Package Of 2	\$650.00	eBay
Sonos CONNECT N	\$349.00	J&R
Sonos Zp120 Connect Amp	\$550.00	eBay

Target advertises Sonos receiver using PLA

Digital marketing firm Kenshoo handles the ad campaign, ad placement

Source: Jefferies, Google

Exhibit 6: Amazon reducing exposure to PLAs, but remains an important advertiser on Google

+Timothy Search Images Maps Play YouTube News Gmail Drive Calendar More ~

Google dell 24" lcd






Web Images Maps Shopping More ~ Search tools

About 78,200,000 results (0.40 seconds)

Google Shopping →

- PLA ads
- AMZN reducing exposure here

Shop for dell 24" lcd on Google Sponsored

				
Dell 24" LCD Monitor - 46...	Dell UltraSharp U...	Dell UltraSharp U...	Dell UltraSharp U...	Dell UltraSharp U...
\$509.99	\$309.99	\$461.00	\$428.99	\$342.95
Sears	Newegg...	B&H Photo...	Dell Small B...	Office Depot

DELL UltraSharp 2407FP 24-inch Flat Panel LCD Monitor with ...
accessories.us.dell.com › ... › Displays › Desktop Displays
Watch DVDs in natural format and run multiple applications
aspect panel improves productivity with less scrolling and to

Widescreen 30"-24" Monitors : Flat Panel LCD M...
accessories.us.dell.com/sna/category.aspx?c=us...
11 Results – Check out the latest range of 30-24 inch Wide:
NEC, Samsung, Viewsonic, Planar, DoubleSight Displays, t

Amazon.com: Dell UltraSharp U2410 24-inch Widescreen LCD High ...
www.amazon.com › ... › Computers & Add-Ons › Monitors
U2410 ULTRASHARP 24IN WS FP MON W/ 3YR WTY The Dell UltraSharp U2410
monitor is packed with features that make it easy to connect and a pleasure to ...

Dell UltraSharp 2405FPW Review - LCD Monitors - CNET Reviews
reviews.cnet.com › Reviews › Desktop Monitors
Jun 17, 2005 – The bottom line: Dell's 24-inch LCD delivers excellent image quality and
a ton of features--wide-ranging video inputs, picture-in-picture, and ...

AnandTech - Dell G2410H Review: A Green 24" LCD
www.anandtech.com/.../dell-g2410h-review-a-green...

AdWords →

- 'Blue links'
- Amazon still using these ads

Ads

Dell 24 LCD
www.bhphotovideo.com/Cyber_Monday
★★★★★ 29,297 seller reviews
Save on Dell Computer Monitors
UltraSharp U2410 24" Widescreen LCD
7,751 people +1'd or follow B and H

24 Inch Dell Monitors
www.dell.com/monitors
★★★★★ 2,813 reviews for dell.com
Shop 24" Flat Screen & Widescreen
Monitors at Dell's Official Site!

LCD 24 Inch Monitor
www.amazon.com/computers
Save on LCD 24 inch monitor
Free 2-Day Shipping w/Amazon Prime!

New Dell LCD 24
www.dell-lcd.buycheapr.com/
BuyCheapr™ -- Want To Save Big?
Find Dell LCD 24 Now...

Dell 24 LCD
www.pricegrabber.com/LCDMonitors
Buy the Perfect Gift! Compare a
Huge Selection of LCD Monitors.

See your ad here »

Source: Jefferies, Google

Google Model

Table 14: Google Income Statement (\$ 000s)

	F2012				F2013				F2012A	F2013E	F2014E
	Q1 12A	Q2 12A	Q3 12A	Q4 12A	Q1 13A	Q2 13E	Q3 13E	Q4 13E			
Reported Gross Revenue (incl. TAC)	\$10,645,000	\$12,214,000	\$14,101,000	\$14,419,000	\$13,969,000	\$14,456,720	\$15,307,957	\$18,025,441	\$51,379,000	\$61,759,118	\$72,438,984
% Y/Y Growth	24%	35%	45%	36%	31%	18%	9%	25%	36%	20%	17%
% Q/Q Growth	1	15	15	2	(3)	3	6	18	--	--	--
Cost of Revenue	3,715,000	4,926,000	6,443,000	6,108,000	5,840,000	5,624,037	6,015,967	7,257,980	20,928,405	24,425,225	26,879,518
Traffic Acquisition Costs (TAC)	2,510,000	2,600,000	2,770,000	3,080,000	2,960,000	3,169,692	3,243,806	3,440,464	10,960,000	12,813,962	15,176,994
% of Advertising Gross Revenue	24.5%	24.7%	25.5%	25.5%	24.9%	25.3%	25.0%	24.1%	25.1%	24.8%	24.8%
Net Revenue (excl. TAC)	\$8,135,000	\$9,614,000	\$11,331,000	\$11,339,000	\$11,009,000	\$11,272,028	\$12,049,151	\$14,569,977	\$40,419,000	\$48,900,156	\$57,261,990
% Y/Y Growth	24%	39%	51%	39%	35%	17%	6%	28%	39%	21%	17%
% Q/Q Growth	0	18	18	0	(3)	2	7	21	--	--	--
Consensus	-	#DIV/0!	-	12,360	(0)	11,397	11,987	13,252	41,415	47,792	55,388
Additional Cost of Net Revenue	1,205,000	2,326,000	3,673,000	3,049,000	2,880,000	2,853,681	2,885,130	3,811,684	10,253,000	12,430,495	12,674,129
Total Gross Profit	\$6,930,000	\$7,288,000	\$7,658,000	\$8,290,000	\$8,129,000	\$8,418,347	\$9,164,021	\$10,758,293	\$30,166,000	\$36,469,661	\$44,587,861
% Margin	85.2%	75.8%	67.6%	73.1%	73.8%	74.7%	76.1%	73.8%	74.6%	74.6%	77.9%
Research and Development	1,142,000	1,294,000	1,631,000	1,571,000	1,476,000	1,416,000	1,516,000	1,616,000	5,638,000	6,024,000	6,699,000
Sales and Marketing	1,172,000	1,313,000	1,605,000	1,621,000	1,461,000	1,426,719	1,766,970	2,170,314	5,711,000	6,825,003	7,665,907
General and Administrative	671,000	820,000	924,000	1,017,000	1,018,000	1,038,000	1,133,000	1,363,000	3,432,000	4,552,000	4,687,000
Total Stock Compensation Expense	556,000	658,000	762,000	708,000	697,000	789,600	914,400	870,840	2,684,000	3,271,840	3,533,587
Adjusted Operating Income (excl. st	\$3,945,000	\$3,861,000	\$3,498,000	\$4,081,000	\$4,174,000	\$4,537,628	\$4,748,052	\$5,608,979	\$15,385,000	\$19,068,659	\$25,535,954
% Margin	48%	40%	31%	36%	38%	40%	39%	38%	38%	39%	45%
% Y/Y Growth	22	16	(4)	1	6	18	36	37	8	24	34
% Q/Q Growth	(2)	(2)	(9)	17	2	9	5	18	--	--	--
% Margin	42%	33%	24%	30%	32%	33%	32%	33%	31%	32%	38%
EBITDA	\$4,456,000	\$4,531,000	\$4,326,000	\$5,034,000	\$5,073,000	\$5,358,733	\$5,686,973	\$6,718,255	\$18,347,000	\$22,836,960	\$28,340,553
% Margin	55%	47%	38%	44%	46%	48%	47%	46%	45%	47%	49%
% Y/Y Growth	23	20	5	11	14	18	31	33	14	24	24
% Q/Q Growth	(2)	2	(5)	16	1	6	6	18	--	--	--
Net Interest (Income) and Other (Income)	(156,000)	(254,000)	(63,000)	(152,000)	(156,000)	(64,288)	(68,000)	(72,155)	(625,000)	(360,443)	(329,472)
Adjusted Pre-Tax Profit / (Loss)	\$4,101,000	\$4,115,000	\$3,561,000	\$4,233,000	\$4,330,000	\$4,601,916	\$4,816,051	\$5,681,134	\$16,010,000	\$19,429,102	\$25,865,427
% Effective Tax Rate	18.8%	18.7%	15.5%	15.7%	10.0%	15.7%	15.7%	15.7%	17%	16%	22%
Provision / (Benefit) for Income Taxes	655,000	672,000	623,000	639,000	287,000	671,926	703,192	829,502	2,589,000	2,491,620	5,595,786
Tax Adjustments for Non-GAAP Items	118,000	97,000	(71,000)	26,000	144,000	123,967	143,561	136,722	170,000	548,250	764,464
Minority Interest	0	0	0	0	0	0	0	0	0	0	0
Operating Net Income / (Loss)	\$3,328,000	\$3,346,000	\$3,009,000	\$3,568,000	\$3,899,000	\$3,806,023	\$3,969,299	\$4,714,910	\$13,251,000	\$16,389,232	\$19,505,176
% Margin	41%	35%	27%	31%	35%	34%	33%	32%	33%	34%	34%
% Y/Y Growth	26	17	(5)	14	17	14	32	32	12	24	19
% Q/Q Growth	6	1	(10)	19	9	(2)	4	19	--	--	--
Stock-Based Compensation	556,000	658,000	762,000	708,000	697,000	789,600	914,400	870,840	2,684,000	3,271,840	3,533,587
Tax Effect of Non-GAAP Entries	(118,000)	(97,000)	71,000	(26,000)	(144,000)	(123,967)	(143,561)	(136,722)	(170,000)	(548,250)	(764,464)
Reported GAAP Net Income / (Loss)	\$2,890,000	\$2,785,000	\$2,176,000	\$2,886,000	\$3,346,000	\$3,140,390	\$3,198,460	\$4,002,892	\$10,737,000	\$13,687,742	\$16,736,053
% Margin	36%	29%	19%	25%	30%	28%	27%	27%	27%	28%	29%
% Y/Y Growth	61	11	(20)	7	16	13	47	39	10	27	22
% Q/Q Growth	7	(4)	(22)	33	16	(6)	2	25	--	--	--
Weighted Avg. Diluted Shares Outstandi	330,136	330,793	333,314	334,977	336,663	338,685	340,312	342,651	333,314	339,727	346,781
Operating EPS	\$10.08	\$10.12	\$9.03	\$10.65	\$11.58	\$11.24	\$11.66	\$13.76	\$39.76	\$48.24	\$56.25
% Y/Y Growth	25%	16%	(7%)	12%	15%	11%	29%	29%	11%	21%	17%
% Q/Q Growth	6	0	(11)	18	9	(3)	4	18	--	--	--
Reported GAAP EPS	\$8.75	\$8.42	\$6.53	\$8.62	\$9.94	\$9.27	\$9.40	\$11.68	\$32.21	\$40.29	\$48.26

Source: Company data, Jefferies estimates

Table 15: Google Revenue Build (\$ 000s)

	F2012				F2013						
	Q1 12A	Q2 12A	Q3 12A	Q4 12A	Q1 13A	Q2 13E	Q3 13E	Q4 13E	F2012A	F2013E	F2014E
Gross Revenue (including TAC)											
Google Revenue (Advertising & Other)	\$10,645,000	\$12,214,000	\$14,101,000	\$14,419,000	\$13,969,000	\$13,448,900	\$13,947,400	\$15,385,960	\$46,040,000	\$55,732,260	\$65,991,316
% Y/Y Growth	24%	35%	45%	36%	31%	10%	-1%	7%	21%	21%	18%
% Q/Q Growth	1	15	15	2	(3)	(4)	4	10	--	--	--
Advertising											
Advertising	\$10,225,000	\$10,525,000	\$10,860,000	\$12,076,000	\$11,900,000	\$12,510,000	\$12,958,300	\$14,262,560	\$43,686,000	\$51,630,860	\$61,086,850
% Y/Y Growth	23%	21%	16%	19%	16%	19%	19%	18%	20%	18%	18%
% Q/Q Growth	1%	3%	3%	11%	-1%	5%	4%	10%	--	--	--
% of Total Gross Revenue	96%	86%	77%	84%	85%	93%	93%	93%	95%	93%	93%
Search Revenue	8,850,000	9,000,000	8,910,000	9,704,000	9,540,000	9,900,000	10,068,300	11,062,560	\$36,464,000	\$40,570,860	
% Y/Y Growth	17%	15%	7%	8%	8%	10%	13%	14%	11%	11%	
Display Revenue (Youtube + ASC + AdMob)	1,375,000	1,525,000	1,950,000	2,372,000	2,360,000	2,610,000	2,890,000	3,200,000	\$7,222,000	\$11,060,000	
% Y/Y Growth	81%	77%	95%	98%	72%	71%	48%	35%	89%	53%	
Google Web Sites											
Google Web Sites	7,312,000	7,542,000	7,727,000	8,640,000	8,640,000	9,050,400	9,504,210	10,713,600	\$31,221,000	\$37,908,210	45,443,029
% Y/Y Growth	24%	21%	15%	18%	18%	20%	23%	24%	19%	21%	20%
% of Total Gross Revenue	69%	62%	55%	60%	62%	67%	68%	70%	68%	68%	69%
Google.com	6,912,000	7,042,000	6,977,000	7,740,000	7,740,000	7,950,400	8,354,210	9,513,600	\$28,671,000	\$33,558,210	
% Y/Y Growth	20%	17%	8%	11%	12%	13%	20%	23%	14%	17%	
YouTube	400,000	500,000	750,000	900,000	900,000	1,100,000	1,150,000	1,200,000	\$2,550,000	\$4,350,000	
% Y/Y Growth	186%	133%	200%	200%	125%	120%	53%	33%	182%	71%	
Mobile O&O	511,840	678,780	849,970	1,123,200	1,209,600	1,357,560	1,520,674	1,821,312	\$3,163,790	\$5,909,146	
% of Google Websites Revenue	7%	9%	11%	13%	14%	15%	16%	17%	11%	18%	
Google Network											
Google Network	2,913,000	2,983,000	3,133,000	3,436,000	3,260,000	3,459,600	3,454,090	3,548,960	\$12,465,000	\$13,722,650	\$15,643,821
% Y/Y Growth	20%	20%	21%	19%	12%	16%	10%	3%	20%	10%	14%
% of Total Gross Revenue	27%	24%	22%	24%	23%	26%	25%	23%	27%	25%	24%
AdSense Search	1,938,000	1,958,000	1,933,000	1,964,000	1,800,000	1,949,600	1,714,090	1,548,960	\$7,793,000	\$7,012,650	
% Y/Y Growth	7%	6%	5%	-1%	-7%	0%	-11%	-21%	4%	-10%	
AdSense Display (PC)	700,000	700,000	700,000	722,000	710,000	750,000	840,000	900,000	\$2,822,000	\$3,200,000	
% Y/Y Growth	49%	49%	27%	11%	1%	7%	20%	25%	32%	13%	
AdMob	275,000	325,000	500,000	750,000	750,000	760,000	900,000	1,100,000	\$1,850,000	\$3,510,000	
% Y/Y Growth	83%	86%	150%	200%	173%	134%	80%	47%	139%	90%	
Licensing & Other											
Licensing & Other	\$420,000	\$439,000	\$666,000	\$829,000	\$1,050,000	\$938,900	\$989,100	\$1,123,400	\$2,354,000	\$4,101,400	\$4,904,466
% Y/Y Growth	56%	42%	73%	102%	150%	114%	49%	36%	71%	74%	20%
% of Total Gross Revenue	4%	4%	5%	6%	8%	7%	7%	7%	5%	7%	7%
Licensing excluding DCLK	\$180,000	\$199,000	\$181,000	\$194,000	\$400,000	\$218,900	\$199,100	\$213,400	\$754,000	\$1,031,400	\$1,103,598
% Y/Y Growth	82%	66%	25%	14%	122%	10%	10%	10%	41%	37%	7%
% Q/Q Growth	6%	11%	-9%	7%	106%	-45%	-9%	7%	--	--	--
DoubleClick (Ad Server License Only)	\$160,000	\$160,000	\$160,000	\$160,000	\$160,000	\$160,000	\$160,000	\$160,000	\$640,000	\$640,000	\$665,600
% Y/Y Growth	-6%	-6%	0%	0%	0%	0%	0%	0%	-3%	0%	4%
% Q/Q Growth	0%	0%	0%	0%	0%	0%	0%	0%	--	--	--
Nexus One/Google Phones/ITA	\$80,000	\$80,000	\$225,000	\$350,000	\$350,000	\$400,000	\$450,000	\$550,000	\$735,000	\$1,750,000	\$2,251,268
% Y/Y Growth	--	300%	181%	338%	338%	400%	100%	57%	308%	138%	29%
% Q/Q Growth	0%	0%	181%	56%	0%	14%	13%	22%	--	--	--
Google Play	\$0	\$0	\$100,000	\$125,000	\$140,000	\$160,000	\$180,000	\$200,000	\$225,000	\$680,000	\$884,000
% Y/Y Growth	--	--	--	--	--	--	80%	60%	--	202%	30%
% Q/Q Growth	--	--	--	25%	12%	14%	13%	11%	--	--	--
Add: Hedging Revenue (Forecast periods)											
						(\$15,000)	(\$15,000)	(\$15,000)			
Motorola Revenue (Hardware & Other)	\$1,250,000	\$2,575,000	\$1,514,000	\$1,018,000	\$1,007,820	\$1,360,557	\$2,639,481	\$5,339,000	\$6,025,858	\$6,447,668	
% Y/Y Growth	--	--	--	--	--	--	--	--	--	13%	7%
% Q/Q Growth	--	--	--	--	--	-1%	35%	94%	--	--	--

Source: Company data, Jefferies estimates

Table 16: Google Balance Sheet (\$ 000s)

	F2012				F2013				F2012A	F2013E	F2014E
	Q1 12A	Q2 12A	Q3 12A	Q4 12A	Q1 13A	Q2 13E	Q3 13E	Q4 13E			
Cash & Cash Equivalents	\$23,108,000	\$15,437,000	\$16,260,000	\$14,778,000	\$15,375,000	\$18,039,755	\$21,313,953	\$24,688,183	\$14,778,000	\$24,688,183	\$37,654,782
Short-Term Marketable Securities	26,208,000	27,685,000	29,464,000	33,310,000	34,723,000	34,723,000	34,723,000	34,723,000	33,310,000	34,723,000	34,723,000
Accounts Receivable	5,713,000	7,341,000	7,809,000	8,585,000	7,612,000	7,877,769	8,341,626	9,822,439	8,585,000	9,822,439	11,521,012
Current Deferred Taxes	51,000	146,000	230,000	1,144,000	1,017,000	1,079,025	1,127,308	1,327,528	1,144,000	1,327,528	1,754,368
Other Current Assets	1,779,000	3,248,000	3,058,000	2,637,000	4,081,000	3,981,069	4,503,664	5,220,675	2,637,000	5,220,675	5,630,248
Current Assets	\$56,859,000	\$53,857,000	\$56,821,000	\$60,454,000	\$62,808,000	\$65,700,617	\$70,009,550	\$75,781,824	\$60,454,000	\$75,781,824	\$91,283,410
Property and Equipment	9,875,000	10,909,000	11,401,000	11,854,000	12,300,000	12,865,866	13,398,502	13,976,007	11,854,000	13,976,007	16,877,174
Long-Term Equity and Other Investments	880,000	1,040,000	1,063,000	1,469,000	1,470,000	1,470,000	1,470,000	1,470,000	1,469,000	1,470,000	1,470,000
Goodwill	7,325,000	10,120,000	10,485,000	10,537,000	10,595,000	10,595,000	10,595,000	10,595,000	10,537,000	10,595,000	10,595,000
Other Intangibles	1,541,000	7,862,000	7,754,000	7,473,000	7,324,000	6,949,000	6,549,000	6,124,001	7,473,000	6,124,001	5,488,964
Long-Term Deferred Taxes	0	0	0	0	0	0	0	0	0	0	0
Prepaid Revenue Share, Expenses and Other As	664,000	2,263,000	2,206,000	2,011,000	2,195,000	2,350,498	2,405,457	2,551,290	2,011,000	2,551,290	2,999,010
Total Assets	\$77,144,000	\$86,051,000	\$89,730,000	\$93,798,000	\$96,692,000	\$99,930,981	\$104,427,509	\$110,498,122	\$93,798,000	\$110,498,122	\$128,713,558
Accounts Payable	\$760,000	\$2,419,000	\$2,233,000	\$2,012,000	\$2,094,000	\$1,934,572	\$2,113,242	\$2,523,074	2,012,000	2,523,074	\$2,680,360
Accrued Compensation & Benefits	1,017,000	1,626,000	1,926,000	2,239,000	1,445,000	1,417,861	1,613,420	1,881,355	2,239,000	1,881,355	2,050,321
Accrued Expenses & Other Liabilities	1,248,000	2,750,000	3,313,000	3,258,000	3,007,000	2,977,208	3,372,659	3,941,596	3,258,000	3,941,596	4,257,468
Accrued Revenue Share	1,164,000	1,175,000	1,108,000	1,437,000	1,437,000	1,481,010	1,571,477	1,848,526	1,471,000	1,848,526	2,204,407
Deferred Revenue	594,000	767,000	905,000	895,000	882,000	711,714	760,781	919,946	895,000	919,946	967,482
Current Income Taxes	239,000	157,000	45,000	240,000	0	143,620	76,399	130,767	240,000	130,767	413,434
Short-Term Debt & Capital Lease Obligations	4,720,000	5,134,000	4,904,000	4,222,000	4,387,000	4,387,000	4,387,000	4,387,000	4,222,000	4,387,000	4,387,000
Total Current Liabilities	\$9,742,000	\$14,028,000	\$14,434,000	\$14,337,000	\$13,252,000	\$13,052,985	\$13,894,978	\$15,632,264	\$14,337,000	\$15,632,264	\$16,960,472
Long-Term Debt & Capital Lease Obligations	2,987,000	2,987,000	2,988,000	2,988,000	2,989,000	2,989,000	2,989,000	2,989,000	2,988,000	2,989,000	2,989,000
Long-Term Deferred Revenue	42,000	97,000	100,000	100,000	79,000	63,748	68,143	82,399	100,000	82,399	190,923
Deferred Income Taxes	2,171,000	3,407,000	3,495,000	3,918,000	4,162,000	4,162,000	4,162,000	4,162,000	3,918,000	4,162,000	4,162,000
Other Long-Term Liabilities	490,000	811,000	685,000	740,000	737,000	723,158	822,900	959,556	740,000	959,556	1,002,206
Total Liabilities	\$15,432,000	\$21,330,000	\$21,702,000	\$22,083,000	\$21,219,000	\$20,990,891	\$21,937,021	\$23,825,218	\$22,083,000	\$23,825,218	\$25,304,601
Additional Paid-In Capital	20,795,000	21,357,000	22,204,000	22,835,000	23,429,000	23,755,700	24,107,638	24,287,161	22,835,000	24,287,161	24,287,161
Retained Earnings (Accumulated Deficit)	40,495,000	43,280,000	45,456,000	48,342,000	51,688,000	54,828,390	58,026,850	62,029,743	48,342,000	62,029,743	78,765,796
Treasury Stock	0	0	0	0	0	0	0	0	0	0	0
Accumulated Other Comprehensive Income	422,000	84,000	368,000	538,000	356,000	356,000	356,000	356,000	338,000	356,000	356,000
Shareholders' Equity	\$61,712,000	\$64,721,000	\$68,028,000	\$71,715,000	\$75,473,000	\$78,940,090	\$82,490,488	\$86,672,904	\$71,715,000	\$86,672,904	\$103,408,957
Liabilities & Shareholders' Equity	\$77,144,000	\$86,051,000	\$89,730,000	\$93,798,000	\$96,692,000	\$99,930,981	\$104,427,509	\$110,498,122	\$93,798,000	\$110,498,122	\$128,713,558

Source: Company data, Jefferies estimates

Table 17: Google Cash Flow Statement (\$ 000s)

	F2012				F2013				F2012A	F2013E	F2014E
	Q1 12A	Q2 12A	Q3 12A	Q4 12A	Q1 13A	Q2 13E	Q3 13E	Q4 13E			
Net Income	\$2,890,000	\$2,785,000	\$2,176,000	\$2,886,000	\$3,346,000	\$3,140,390	\$3,198,460	\$4,002,892	\$10,737,000	\$13,687,742	\$16,736,053
Depreciation	378,000	473,000	507,000	630,000	584,000	446,105	538,921	684,275	1,988,000	2,253,301	2,169,562
Amortization of Intangibles and Warrant	133,000	197,000	321,000	323,000	315,000	375,000	400,000	425,000	974,000	1,515,000	635,037
In-process research and development	0	0	0	0	0	0	0	0	0	0	0
Tax Benefit from Stock Options	(28,000)	(27,000)	(58,000)	(75,000)	(94,000)	0	0	0	(188,000)	(94,000)	0
Stock-Based Compensation	556,000	658,000	762,000	716,000	708,000	789,600	914,400	870,840	2,692,000	3,282,840	3,533,587
Deferred Taxes	354,000	(163,000)	(168,000)	(289,000)	202,000	0	0	0	(266,000)	202,000	0
Other / Charges	(68,000)	(176,000)	32,000	(4,000)	37,000	0	0	0	(216,000)	37,000	0
Funds From Operations	\$4,215,000	\$3,747,000	\$3,572,000	\$4,187,000	\$5,098,000	\$4,751,095	\$5,051,781	\$5,983,007	\$15,721,000	\$20,883,883	\$23,074,239
(Inc.) Dec. in Accounts Receivable	301,000	(222,000)	(307,000)	(559,000)	256,000	(265,769)	(463,857)	(1,480,814)	(787,000)	(1,954,439)	(1,698,573)
(Inc.) Dec. in Income Taxes	143,000	1,026,000	167,000	156,000	(335,000)	(62,025)	(48,283)	(200,220)	1,492,000	(645,528)	(426,841)
(Inc.) Dec. in Prepaid Revenue and Othe	(308,000)	(710,000)	(9,000)	495,000	(354,000)	(55,567)	(577,554)	(862,844)	(532,000)	(1,849,965)	(857,293)
Inc. (Dec.) in Accounts Payable	169,000	(249,000)	(194,000)	(225,000)	87,000	(159,428)	178,670	409,832	(499,000)	516,074	157,287
Inc. (Dec.) in Accrued Expenses and Oth	(855,000)	612,000	727,000	278,000	(1,059,000)	72,847	623,531	1,027,896	762,000	665,274	810,155
Inc. (Dec.) in Accrued Revenue	(11,000)	34,000	(80,000)	356,000	(27,000)	44,010	90,467	277,049	299,000	384,526	355,881
Inc. (Dec.) in Deferred Revenue	40,000	14,000	128,000	(19,000)	(33,000)	(185,539)	53,462	173,421	163,000	8,344	156,060
Change in Net Working Capital	(\$521,000)	\$505,000	\$432,000	\$482,000	(\$1,465,000)	(\$611,469)	(\$143,564)	(\$655,680)	\$898,000	(\$2,875,713)	(\$1,503,324)
Cash Flow from Operations	\$3,694,000	\$4,252,000	\$4,004,000	\$4,669,000	\$3,633,000	\$4,139,625	\$4,908,217	\$5,327,328	\$16,619,000	\$18,008,170	\$21,570,915
Capital Expenditures	(607,000)	(774,000)	(872,000)	(1,020,000)	(1,203,000)	(1,011,970)	(1,071,557)	(1,261,781)	(3,273,000)	(4,548,308)	(5,070,729)
Acquisitions, Net of Cash Acquired	(92,000)	(9,854,000)	(525,000)	(97,000)	(251,000)	0	0	0	(10,568,000)	(251,000)	0
Purchases of Securities and Investments	(8,791,000)	(6,854,000)	(8,704,000)	(9,164,000)	(7,870,000)	0	0	0	(33,513,000)	(7,870,000)	0
Proceeds from Sales of Securities and Inv	17,396,000	5,456,000	7,143,000	5,380,000	6,319,000	0	0	0	35,375,000	6,319,000	0
Other	245,000	(360,000)	(349,000)	(613,000)	564,000	0	0	0	(1,077,000)	564,000	0
Net Cash Used in Investing Activities	\$8,151,000	(\$12,386,000)	(\$3,307,000)	(\$5,514,000)	(\$2,441,000)	(\$1,011,970)	(\$1,071,557)	(\$1,261,781)	(\$13,056,000)	(\$5,786,308)	(\$5,070,729)
Debt Issuance / (Repayment)	1,249,000	749,000	(1,000)	(669,000)	(401,000)	0	0	0	1,328,000	(401,000)	0
Proceeds from / (Repurchase of) Commo	(47,000)	(137,000)	(5,000)	(98,000)	(210,000)	(463,046)	(562,616)	(691,227)	(287,000)	(1,926,888)	(3,533,587)
Excess Tax Benefit from Stock Options	28,000	27,000	58,000	75,000	94,000	146	154	(91)	188,000	94,209	0
Net Cash Provided by Financing Activ	\$1,230,000	\$639,000	\$52,000	(\$692,000)	(\$517,000)	(\$462,900)	(\$562,462)	(\$691,317)	\$1,229,000	(\$2,233,679)	(\$3,533,587)
Effect of Exchange Rate Changes	50,000	(176,000)	74,000	55,000	(78,000)	0	0	0	3,000	(78,000)	0
Inc. (Dec.) in Cash and Cash Equivale	\$13,125,000	(\$7,671,000)	\$823,000	(\$1,482,000)	\$597,000	\$2,664,755	\$3,274,198	\$3,374,229	\$4,795,000	\$9,910,183	\$12,966,599
Beginning Cash and Cash Equivalents	9,983,000	23,108,000	15,437,000	16,260,000	14,778,000	15,375,000	18,039,755	21,313,953	9,983,000	14,778,000	24,688,183
Ending Cash and Cash Equivalents	\$23,108,000	\$15,437,000	\$16,260,000	\$14,778,000	\$15,375,000	\$18,039,755	\$21,313,953	\$24,688,183	\$14,778,000	\$24,688,183	\$37,654,782

Source: Company data, Jefferies estimates

Table 18: Google DCF (\$MM)

	2013													
	2012A	Q1 13A	Q2 13E	Q3 13E	Q4 13E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E
Revenue	\$40,419	\$11,009	\$11,272	\$12,049	\$14,570	\$57,262	\$64,473	\$71,215	\$76,326	\$80,522	\$84,346	\$88,279	\$91,725	\$95,306
% Y/Y Growth	39%	35%	17%	6%	28%	17%	13%	10%	7%	5%	5%	5%	4%	4%
EBITDA	\$18,347	\$5,073	\$5,359	\$5,687	\$6,718	\$28,341	\$33,315	\$37,899	\$41,036	\$43,345	\$45,297	\$47,306	\$48,885	\$50,569
% Margin	45%	46%	48%	47%	46%	49%	52%	53%	54%	54%	54%	54%	53%	53%
% Y/Y Growth	14	14	18	31	33	24	18	14	8	6	5	4	3	3
Implied Taxes on Operations	(\$3,162)	(\$796)	(\$841)	(\$893)	(\$1,055)	(\$6,131)	(\$6,996)	(\$7,959)	(\$8,618)	(\$9,102)	(\$9,512)	(\$9,934)	(\$10,266)	(\$10,620)
% Effective Tax Rate	17%	16%	16%	16%	16%	22%	21%	21%	21%	21%	21%	21%	21%	21%
Capital Expenditures	(\$3,273)	(\$1,203)	(\$1,012)	(\$1,072)	(\$1,262)	(\$5,071)	(\$5,696)	(\$6,234)	(\$6,673)	(\$7,026)	(\$7,363)	(\$7,701)	(\$8,003)	(\$8,317)
% Y/Y Growth	(5%)	98%	31%	23%	24%	11%	12%	9%	7%	5%	5%	5%	4%	4%
Change in Net Working Capital	\$898	(\$1,465)	(\$611)	(\$144)	(\$656)	(\$1,503)	(\$757)	(\$460)	(\$185)	\$57	\$141	\$208	\$322	\$352
Tax Benefit from NOL Carryforwards	0	0	0	0	22	0	0	0	0	0	0	0	0	0
Acquisitions Not Reflected on Balance Sheet	--	--	0	0	0	0	0	0	0	0	0	0	0	0
Unlevered Free Cash Flow	\$12,810	\$1,609	\$2,894	\$3,579	\$3,768	\$15,635	\$19,866	\$23,247	\$25,561	\$27,273	\$28,562	\$29,879	\$30,938	\$31,985
NPV at 3/31/13 Valuation Date and 11.4% WACC		--	\$2,817	\$3,391	\$3,475	\$13,662	\$15,586	\$16,373	\$16,165	\$15,488	\$14,564	\$13,676	\$12,716	\$11,804
Perpetuity Growth Rate / Terminal Value at 11.4% WACC														
	2.0%	2.5%	3.0%	3.5%	4.0%	Implied Terminal Value / Terminal EBITDA Multiple								
						7.7x 8.2x 8.7x 9.3x 10.0x								
	\$389,788	\$413,786	\$440,653	\$470,935	\$505,328	\$389,788 \$413,786 \$440,653 \$470,935 \$505,328								
Median DCF Valuation at 3/31/13 Valuation Date														
NPV of Cash Flows and Terminal Value	285,743													
Plus: Net Cash	48,579													
Implied Equity Value	\$334,322													
Implied Fully Diluted Shares Outstanding (MM)	334													
Implied Equity Value per Share	\$1,000													
WACC														
	9%	\$1,066	\$1,095	\$1,127	\$1,163	\$1,203	Equity Value per Share							
	10%	1,005	1,031	1,060	1,093	1,130								
	11%	950	974	1,000	1,030	1,064								
	12%	899	921	945	972	1,003								
	13%	852	872	894	919	947								

Source: Company data, Jefferies estimates

Comp Sheet

Table 19: Internet & Interactive Entertainment Comp Sheet - Estimates

			Market Cap	Revenue (\$MM)				EBITDA (\$MM)				EPS ¹ (\$)				FCF ² (\$MM)		13E Margin (%)	
Company	Ticker	Rating	7/9/2013 (\$MM)	Jefferies Estimate		Consensus		Jefferies Estimate		Consensus		Jefferies Estimate		Consensus		2013E	2014E	Gross	Operating
				2013E	2014E	2013E	2014E	2013E	2014E	2013E	2014E	2013E	2014E	2013E	2014E				
Interactive Entertainment																			
Activision	ATVI	Buy	\$16,944	4,246	4,589	4,292	4,655	1,515	1,715	1,555	1,757	0.86	1.02	0.85	1.02	890	1,441	69.2	33.3
Electronic Arts	EA	Hold	7,045	4,100	4,215	4,019	4,248	818	800	576	609	1.23	1.65	1.20	1.48	305	64	59.9	15.5
Zynga	ZNGA	Hold	2,605	1,002	1,005	900	901	109	235	63	127	0.01	0.08	(0.05)	0.00	248	345	74.0	5.9
GameStop	GME	NC	5,022	--	--	8,636	9,151	--	--	766	830	--	--	3.13	3.66	296	478	--	--
TakeTwo	TTWO	Hold	1,691	1,866	1,471	1,858	1,432	320	132	311	161	2.33	0.77	2.34	1.09	287	101	46.3	16.4
Advertising & Internet Services																			
Google	GOOG	Buy	302,115	48,900	57,262	45,682	53,553	22,837	28,341	21,831	25,762	48.24	56.25	46.23	53.32	13,460	16,500	74.6	39.0
Facebook	FB	Buy	67,250	6,754	8,491	6,741	8,517	3,579	4,514	3,575	4,575	0.57	0.78	0.57	0.78	682	1,492	73.1	38.1
Yahoo!	YHOO	Hold	31,165	4,479	4,616	4,529	4,654	1,656	1,717	1,657	1,698	1.42	1.60	1.41	1.55	1,516	937	75.0	24.0
LinkedIn	LNKD	Buy	22,101	1,552	2,276	1,500	2,108	357	660	362	550	1.56	2.75	1.47	2.10	287	154	87.3	14.4
IAC / InterActiveCorp	IACI	Hold	4,669	3,265	3,546	3,224	3,587	639	722	627	744	3.87	4.22	3.96	4.64	380	421	65.0	17.7
AOL	AOL	Buy	3,120	2,237	2,296	2,249	2,306	438	486	433	464	1.63	2.39	1.89	2.19	167	224	34.2	14.7
ValueClick	VLCK	Buy	1,973	749	817	741	832	265	316	251	286	1.98	2.28	1.87	2.08	53	215	63.1	33.4
Yelp	YELP	Buy	2,645	220	294	218	313	22	37	23	50	0.30	0.62	(0.16)	0.14	29	19	93.1	8.4
WebMD	WBMD	NC	1,339	--	--	479	508	--	--	88	103	--	--	0.72	0.93	--	--	--	--
Demand Media	DMD	Hold	613	397	441	406	462	109	118	109	125	0.40	0.50	0.40	0.47	86	91	0.5	1.8
Millennial Media	MM	NC	711	--	--	275	401	--	--	17	45	--	--	0.10	0.38	(0)	27	--	--
Zillow	Z	NC	1,662	--	--	183	254	--	--	22	48	--	--	(0.05)	0.56	10	48	--	--
Trulia	TRLA	NC	1,072	--	--	112	153	--	--	12	32	--	--	0.16	0.69	7	29	--	--
EarthLink	ELNK	Hold	672	--	--	1,256	1,208	--	--	224	219	--	--	(0.13)	(0.34)	(98)	36	--	--
comScore	SCOR	NC	905	--	--	281	314	--	--	43	53	--	--	1.01	1.14	40	43	--	--
Quinstreet	QNST	NC	372	--	--	305	298	--	--	44	43	--	--	0.57	0.62	--	--	--	--
United Online	UNTD	NC	738	--	--	862	870	--	--	114	120	--	--	0.50	0.54	48	55	--	--
Marchex	MCHX	NC	167	--	--	146	166	--	--	14	22	--	--	0.19	0.31	9	17	--	--
Online Travel																			
Priceline	PCLN	Buy	46,418	6,490	7,642	6,593	7,907	2,490	3,003	2,481	3,033	39.18	46.28	39.10	47.12	2,039	2,365	81.7	37.0
Expedia	EXPE	Hold	9,354	4,717	5,221	4,833	5,502	899	1,061	901	1,037	3.29	3.82	3.33	3.95	119	707	78.2	13.7
TripAdvisor	TRIP	Hold	9,258	936	1,117	936	1,146	373	462	375	482	1.61	1.87	1.72	2.21	231	285	98.2	36.3
Orbitz	OWW	Hold	1,063	829	850	829	864	135	142	140	152	1.85	0.41	1.66	0.35	190	63	80.2	9.8
HomeAway	AWAY	NC	2,843	--	--	340	408	--	--	96	120	--	--	0.61	0.78	117	149	--	--
Kayak	KYAK	NC	\$0	--	--	347	408	--	--	--	--	--	--	0.76	0.96	--	--	--	--
Travelzoo	TZOO	NC	450	--	--	161	173	--	--	31	35	--	--	1.17	1.35	19	22	--	--
eCommerce																			
Amazon.com	AMZN	Buy	135,240	76,532	94,915	74,724	91,066	5,209	6,774	4,698	6,159	0.99	2.71	1.23	3.04	2,402	5,538	26.8	1.8
eBay	EBAY	Buy	73,408	16,484	19,514	16,312	19,022	5,456	6,680	5,417	6,306	2.75	3.29	2.75	3.23	4,105	4,539	70.5	27.6
Groupon	GRPN	Hold	5,933	2,595	2,841	2,549	2,832	297	358	288	357	0.11	0.29	0.17	0.29	223	224	59.6	8.4
Vistaprint	VPRT	Hold	1,771	1,153	1,222	1,161	1,286	144	156	141	167	2.05	2.26	2.08	2.56	141	41	66.2	7.1
OpenTable Inc	OPEN	NC	1,547	--	--	188	217	--	--	80	96	--	--	1.93	2.25	--	--	--	--
Shutterfly	SFLY	Hold	2,254	767	930	771	895	150	204	145	177	2.34	2.77	0.34	0.74	(126)	57	54.4	2.1
Shutterstock	SSTK	Buy	2,286	222	284	225	281	49	70	47	67	0.81	1.08	0.77	1.05	26	78	62.4	21.6
Active Network Inc.	ACTV	Buy	498	473	530	464	522	54	66	50	71	(0.09)	0.28	(0.64)	(0.36)	15	46	54.4	(1.9)
Digital River	DRIV	NC	693	--	--	400	407	--	--	34	57	--	--	0.59	0.65	17	35	--	--
BlueNile	NILE	NC	483	--	--	455	511	--	--	24	27	--	--	0.81	1.04	24	29	--	--
CafePress	PRSS	Hold	117	258	287	256	285	14	20	11	21	0.19	0.44	0.18	0.49	7	15	39.4	(0.1)
Overstock	OSTK	NC	647	--	--	1,241	1,344	--	--	41	50	--	--	1.06	1.32	--	--	--	--
PFS Web	PFSW	NC	64	--	--	238	267	--	--	9	12	--	--	(0.15)	0.09	--	--	--	--
Online Entertainment																			
Netflix	NFLX	UNPF	13,890	(\$100)	4,918	4,337	5,064	268	360	295	461	1.67	3.15	1.46	3.20	17	163	29.3	2.4
Rovi Corp	ROVI	NC	2,378	--	--	645	693	--	--	299	324	--	--	2.09	2.30	181	208	--	--
Pandora	P	NC	3,427	--	--	615	852	--	--	15	55	--	--	0.03	0.24	3	50	--	--
TiVo Inc.	TIVO	Buy	1,430	284	377	352	389	34	107	10	51	1.53	0.54	(0.23)	0.08	219	116	58.7	6.8
Reentrak Corp	RENT	NC	243	--	--	114	139	--	--	9	18	--	--	(0.46)	0.39	1	9	--	--

Source: Company, Jefferies estimates, FactSet

Table 20: Internet & Interactive Entertainment Comp Sheet - Valuation

							Price	Price Target	Upside to	YTD	Firm	Firm Value /	13-16E	Price / Earnings	13-16E	2013E	Price / FCF / share	13-16E	2013E								
Company	Ticker	Rating	7/9/2013	Target	Target	Performance	(\$)	(\$)	(%)	(%)	Value ¹	2013E	2014E	2014E	EPS	P/E to	2013E	2013E	FCF	FCF							
Interactive Entertainment											(\$MMs)				CAGR (%)	Growth			CAGR (%)	Yield (%)							
Activision	ATVI	Buy	\$14.89	16	11	40.2					12,316	8	7	9	17	15	8	2.1	19	12	20	21.0					
Electronic Arts	EA	Hold	\$23.57	17	-29	62.3					5,366	7	7	1	19	14	12	1.6	23	110	(18)	7.4					
Zynga	ZNGA	Hold	\$3.34	3	-3	41.5					1,034	17	8	27	589	40	170	3.5	10	8	9	24.8					
GameStop	GME	NC	\$42.69	--	--	70.1					4,851	6	6	--	14	12	--	--	17	11	--	--					
TakeTwo	TTWO	Hold	\$15.81	15	(5)	43.6					1,498	5	11	(20)	7	20	(28)	(0.2)	6	17	(29)	15.4					
weighted average						51						8				7	40.0	15	12.0	1.5	18.4	32.67	5	13.8			
mean						52						8				8	129	20	40.7	1.7	15	31.32	(5)	17.1			
Advertising & Internet Services																											
Google	GOOG	Buy	\$905.24	1,000	10	28.0					253,536	11	9	18	19	16	16	1.2	22	18	20	5.5					
Facebook	FB	Buy	\$25.48	32	26	(4.3)					59,278	17	13	24	45	33	30	1.5	99	45	27	2.2					
Yahoo!	YHOO	Hold	\$26.68	24	-10	34.0					9,168	6	5	3	19	17	11	1.7	21	33	(18)	3.0					
LinkedIn	LNKD	Buy	\$189.34	215	14	64.9					21,126	59	32	59	121	69	54	2.3	77	144	31	0.7					
IAC / InterActiveCorp	IACI	Hold	\$48.91	50	2	3.5					4,521	7	6	9	13	12	8	1.7	12	11	6	9.0					
AOL	AOL	Buy	\$37.57	50	32	26.9					2,716	6	6	6	23	16	20	1.2	19	14	19	7.2					
ValueClick	VCLK	Buy	\$25.47	35	38	31.2					1,897	7	6	13	13	11	13	1.0	38	9	65	10.9					
Yelp	YELP	Buy	\$37.24	45	22	97.6					2,500	--	68	62	126	60	61	2.1	91	142	29	0.7					
WebMD	WBMD	NC	\$26.77	--	--	86.7					1,113	13	11	--	37	29	--	--	--	--	--	--					
Demand Media	DMD	Hold	\$6.59	8	29	(29.1)					503	5	4	7	17	13	17	1.0	7	7	0	14.9					
Millennial Media	MM	NC	\$8.94	--	--	(28.7)					572	33	13	--	88	23	--	--	--	26	--	3.8					
Zillow	Z	NC	\$60.98	--	--	119.7					1,880	84	39	--	--	109	--	--	164	35	--	2.9					
Trulia	TRLA	NC	\$33.32	--	--	105.2					743	62	23	--	211	48	--	--	165	36	--	2.8					
EarthLink	ELNK	Hold	\$6.52	6	--	0.9					1,097	5	5	--	--	--	--	--	--	19	--	5.3					
comScore	SCOR	NC	\$25.35	--	--	84.0					810	19	15	--	25	22	--	--	23	21	--	4.8					
QuinStreet	QNST	NC	\$8.67	--	--	29.0					355	8	8	--	15	14	--	--	--	--	--	--					
United Online	UNTD	NC	\$7.98	--	--	42.8					844	7	7	--	16	15	--	--	15	14	--	7.4					
Marchex	MCHX	NC	\$5.95	--	--	44.8					251	18	11	--	31	19	--	--	18	10	--	9.9					
weighted average						26						15				11	30	23	20.5	1.3	39	31	20.7	4.6			
mean						34						22				15	49	30	25.6	1.5	52	33	20.1	6.5			
Online Travel																											
Priceline	PCLN	Buy	\$897.06	860	(4)	44.6					42,363	17	14	21	23	19	18	1.3	23	20	17	5.1					
Expedia	EXPE	Hold	\$63.02	68	8	2.6					9,405	10	9	15	19	17	15	1.3	78	13	90	7.6					
TripAdvisor	TRIP	Hold	\$62.74	49	-22	49.7					9,052	24	20	20	39	34	20	2.0	40	32	21	3.1					
Orbitz	OWW	Hold	\$9.86	7.00	(29)	262.5					1,294	10	9	6	5	24	(35)	(0.2)	6	17	(28)	6.0					
HomeAway	AWAY	NC	\$33.47	--	--	52.1					2,580	27	21	--	55	43	--	--	24	19	--	5.2					
Kayak	KYAK	NC	\$0.00	--	--	(100.0)					0	--	--	--	0	0	--	--	--	--	--	--					
Travelzoo	TZOO	NC	\$29.28	--	--	54.2					385	12	11	--	25	22	--	--	24	20	--	4.9					
weighted average						44						17				14	26	22	15.7	1.3	33	20	26.6	5.2			
mean						52						17				14	24	23	4.3	1.1	33	20	25.1	5.3			
eCommerce																											
Amazon.com	AMZN	Buy	\$291.53	330	13	16.2					128,135	25	19	25	296	107	50	5.9	56	24	57	4.1					
eBay	EBAY	Buy	\$54.49	66	21	6.8					65,350	12	10	21	20	17	21	0.9	18	16	17	6.2					
Groupon	GRPN	Hold	\$8.60	6.00	-30	77.0					4,668	16	13	18	79	30	54	1.5	27	26	12	3.8					
Vistaprint	VPRT	Hold	\$51.49	39	-23	56.7					1,946	14	13	15	25	23	23	1.1	13	43	(5)	2.3					
OpenTable Inc.	OPEN	NC	\$67.91	--	--	39.2					1,519	19	16	--	35	30	--	--	--	--	--	--					
Shutterfly	SFLY	Hold	\$56.80	61	7	90.2					2,008	13	10	25	24	20	21	1.2	0	40	(195)	2.5					
Shutterstock	SSTK	Buy	\$60.36	53	-12	132.2					2,221	46	32	38	75	56	32	2.4	88	29	43	3.4					
Active Network Inc.	ACTV	Buy	\$8.08	8	-1	64.6					391	7	6	21	--	29	(272)	--	34	11	50	8.8					
Digital River	DRIV	NC	\$19.64	--	--	36.6					309	9	5	--	33	30	--	--	40	20	--	5.1					
BlueNile	NILE	NC	\$39.00	--	--	1.4					455	19	17	--	48	38	--	--	20	16	--	6.1					
CafePress	PRSS	Hold	\$6.77	6.00	-11	17.3					91	7	5	16	35	16	39	0.9	17	8	29	12.7					
Overstock	OSTK	NC	\$27.34	--	--	91.1					573	14	11	--	26	21	--	--	--	--	--	--					
PFS Web	PFSW	NC	\$3.98	--	--	39.6					57	6	--	--	--	44	--	--	--	--	--	--					
weighted average						17						20				16	192	74	39.3	4.0	42	22	39.5	4.7			
mean						51						16				13	63	35	(3.9)	2.0	31	23	1.0	5.5			
Online Entertainment																											
Netflix	NFLX	UNPF	\$247.38	160	-35	167.2					14,647	55	41	28	148	79	49	3.0	868	89	176	1.1					
Rovi Corp	ROVI	NC	\$22.99	--	--	49.0					2,959	10	9	--	11	10	--	--	13	11	--	8.7					
Pandora	P	NC	\$19.65	--	--	114.1					3,335	--	--	--	723	81	--	--	1103	68	--	1.5					
TiVo Inc.	TIVO	Buy	\$11.43	14	25	(7.1)					1,017	30	9	64	7	21	(24)	(0.3)	7	12	(18)	8.1					
Rentrak Corp	RENT	NC	\$20.45	--	--	4.9					221	25	12	--	--	52	--	--	293	27	--	3.7					
weighted average						134						39				29	208	67	31.1	2.0	744	71	115.1	2.5			
mean						66						30				18	222	48	12.4	1	457	41	78.9	5			

Source: Company, Jefferies estimates, FactSet

Company Description

Google is the world's leading search engine and one of the top Internet destinations online, delivering relevant advertising on its own site and on its network of third party websites.

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The expected total return (price appreciation plus yield) for Buy rated stocks with an average stock price consistently below \$10 is 20% or more within a 12-month period as these companies are typically more volatile than the overall stock market. For Hold rated stocks with an average stock price consistently below \$10, the expected total return (price appreciation plus yield) is plus or minus 20% within a 12-month period. For Underperform rated stocks with an average stock price consistently below \$10, the expected total return (price appreciation plus yield) is minus 20% within a 12-month period.

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1. The aim of the conviction list is to publicise the best individual stock ideas from Jefferies Global Research
2. Only stocks with a Buy or Underperform rating are allowed to be included in the recommended list.
3. Stocks are screened for minimum market capitalisation and adequate daily turnover. Furthermore, a valuation, correlation and style screen is used to ensure a well-diversified portfolio.
4. Stocks are sorted to a maximum of 30 stocks with the maximum country exposure at around 50%. Limits are also imposed on a sector basis.
5. Once a month, analysts are invited to recommend their best ideas. Analysts' stock selection can be based on one or more of the following: non-Consensus investment view, difference in earnings relative to Consensus, valuation methodology, target upside/downside % relative to the current stock price. These are then assessed against existing holdings to ensure consistency. Stocks that have either reached their target price, been downgraded over the course of the month or where a more suitable candidate has been found are removed.
6. All stocks are inserted at the last closing price and removed at the last closing price. There are no changes to the conviction list during the month.
7. Performance is calculated in US dollars on an equally weighted basis and is compared to MSCI World AC US\$.
8. The conviction list is published once a month whilst global equity markets are closed.
9. Transaction fees are not included.
10. All corporate actions are taken into account.

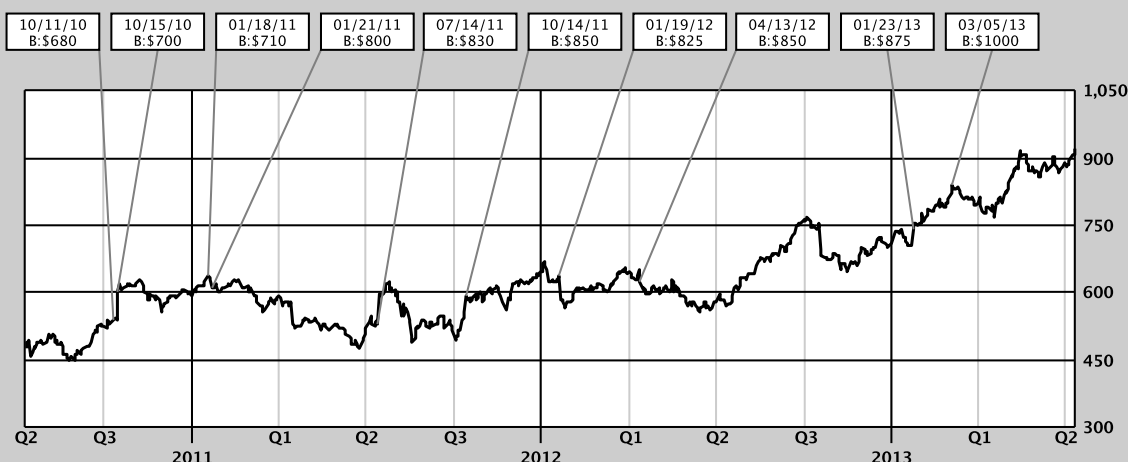
Risk which may impede the achievement of our Price Target

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Other Companies Mentioned in This Report

- Activision Blizzard, Inc. (ATVI: \$15.31, BUY)
- Amazon.com, Inc (AMZN: \$299.66, BUY)
- AOL, Inc. (AOL: \$36.98, BUY)
- CafePress, Inc. (PRSS: \$6.92, HOLD)
- Demand Media, Inc. (DMD: \$6.61, HOLD)
- EarthLink, Inc. (ELNK: \$6.58, HOLD)
- eBay, Inc. (EBAY: \$55.88, BUY)
- Electronic Arts Inc. (EA: \$24.27, HOLD)
- Expedia, Inc (EXPE: \$63.08, HOLD)
- Facebook, Inc. (FB: \$25.81, BUY)
- Google, Inc. (GOOG: \$920.24, BUY)
- IAC / InterActiveCorp (IACI: \$50.74, HOLD)
- LinkedIn Corporation (LNKD: \$196.57, BUY)
- Netflix, Inc. (NFLX: \$244.17, UNDERPERFORM)
- Priceline.com, Inc. (PCLN: \$910.35, BUY)
- Shutterfly, Inc (SFLY: \$56.57, HOLD)
- Take-Two Interactive Software, Inc. (TTWO: \$16.04, HOLD)
- The Active Network Inc. (ACTV: \$8.70, BUY)
- TiVo Inc. (TIVO: \$11.64, BUY)
- TripAdvisor (TRIP: \$60.44, HOLD)
- ValueClick, Inc. (VCLK: \$25.20, BUY)
- Vistaprint N.V. (VPRT: \$50.01, HOLD)
- Yahoo!, Inc. (YHOO: \$27.04, HOLD)
- Yelp, Inc. (YELP: \$37.45, BUY)
- Zynga, Inc. (ZNGA: \$3.54, HOLD)

Rating and Price Target History for: Google, Inc. (GOOG) as of 07-11-2013



Distribution of Ratings

Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY	785	47.37%	164	20.89%
HOLD	740	44.66%	108	14.59%
UNDERPERFORM	132	7.97%	1	0.76%

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