

# Internet Investor Sentiment

## Proprietary Survey Unveils Sentiment Insights

- **Intro** — We view understanding investor sentiment as a key ingredient to successful stock picking, particularly in a sector like Internet that tends to have greater volatility and momentum-based investing. Given that, we conducted an online survey of both long-only/mutual and hedge fund Internet investors. The key takeaways are below and in charts and tables in the subsequent pages. In general, we view this survey as supporting a bullish view of Internet stocks in 2014 and our positive view on GOOG, AMZN, EBAY and FB, as well as our focus on mobile as a key growth driver.
- **Key Takeaways** — Key takeaways from the survey include: 1) AMZN, FB and GOOG were the top large-cap picks while AWAY, P and GRPN were the top SMID cap picks; 2) Despite FB's over 100% run YTD, it was the overwhelming #1 large-cap pick among hedge funds and had over 60% more 1st place votes (13 vs. 8) than 2nd place GOOG; 3) Interestingly, while FB was the top large-cap hedge fund pick, it was notably further down the mutual fund/long-only large-cap list (#5 out of 11); 4) Despite its under-performance in 2013, EBAY ranked as the #4 large-cap; 5) Despite PCLN's historical outperformance vs. EXPE, EXPE slightly edged out PCLN; 6) 2013 IPOs ranked the lowest for both large (TWTR) and SMID cap (FUEL, ZU, YUME); 7) 3 of the top 4 SMID caps (P, GRPN, YELP) generate most of their revs from local advertising; 8) 65% of all respondents said they were bullish on the 2014 outlook for the group while 58% said their portfolios were currently overweight the group, suggesting additional appetite for buying; and, 8) Mobile, was the most common write-in when asked what are the most important themes/issue that will affect Internet stocks in 2014 (see Figure 14 for additional detail).

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**Figure 1. Hedge Fund vs. Long-Only/ Mutual Fund vs. Citi Rankings**

(in order of top-to-bottom picks)

Large Cap				SMID Cap		
All <sup>1</sup>	HF	LO / MF	Citi	All <sup>1</sup>	HF	LO / MF
AMZN	FB	AMZN	FB	AWAY	AWAY	AWAY
FB*	GOOG	EBAY	GOOG	P	P	P
GOOG*	AMZN	GOOG	YHOO	GRPN	GRPN	GRPN
EBAY	EBAY	EXPE	EBAY	YELP	YELP	YELP
EXPE	EXPE	FB	AMZN	IACI	IACI	AOL
PCLN	PCLN	LNKD		AOL	AOL	IACI
LNKD	LNKD	PCLN		OPEN	OPEN	OPEN
YHOO	YHOO	NFLX		Z	FUEL	Z
NFLX	NFLX*	TRIP		FUEL	Z	ZU
TRIP	TRIP*	TWTR		ZU	ZU	FUEL
TWTR	TWTR	YHOO		YUME	YUME	YUME

Source: Citi Research; (1) includes both HF & LO/MF; (\*) denotes a tie

### See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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## Introduction & Survey Methodology

We view understanding investor sentiment as a key ingredient to successful stock picking, particularly in a sector like Internet that tends to have greater volatility and momentum-based investing. Given that, we conducted an online survey of both mutual and hedge fund Internet investors. We asked respondents to answer five questions including: 1) ranking their 2014 large-cap Internet picks, 2) ranking their 2014 SMID-cap Internet picks, 3) characterizing their 2014 Internet sector outlook, 4) characterizing the Internet sector's current weighting in their portfolio, and 5) a free-response question regarding the most important themes/issues expected to affect Internet stocks in 2014. We received 55 responses in total, including 42 responses from hedge funds and 13 from long-only/mutual funds. In the following pages, we present the consolidated results including all responses (i.e. from both hedge funds and long-only/mutual funds) and also further segmented/cut by hedge funds and long-only/mutual funds. We've also highlighted our key takeaways, and in general, note that we view this survey as supporting a bullish view of Internet stocks in 2014 and our positive view on GOOG, AMZN, EBAY and FB, as well as our focus on mobile as a key growth driver.

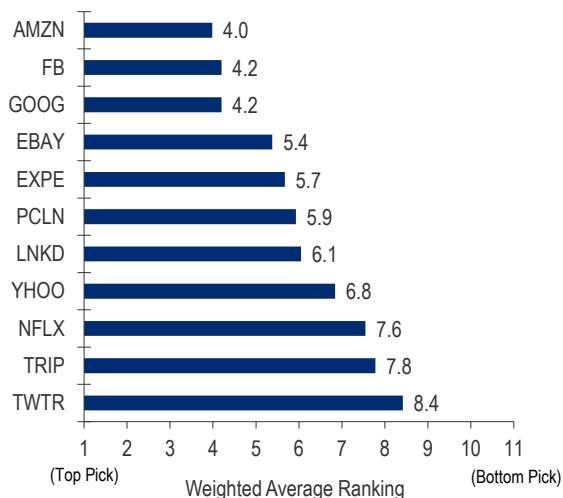
## Consolidated Survey Results

We highlight the following key takeaways from our consolidated survey results, which contain all survey responses, including those from both hedge funds and long-only/mutual funds (see Figures 2-5 for details):

- Amazon, Google and Facebook were the top large-cap Internet picks overall, while Twitter, TripAdvisor and Netflix were the bottom picks overall.
  - Despite its significant under-performance in 2013 (up ~6% YTD vs. up 70% for our Internet index), eBay ranked #4 overall out of 11 large-caps.
  - Despite Priceline's historical outperformance vs. Expedia, the two were nearly tied, with Expedia slightly edging out Priceline.
- HomeAway, Pandora and Groupon were the top SMID-cap Internet picks overall, while YuMe, zulily and Rocket Fuel were the bottom picks overall.
  - Three of the top four SMID caps (Pandora, Groupon, and Yelp) generate most of their revenue from local advertising.
  - Of the 11 SMID caps listed in our survey, the three IPOs in 2013 also happen to rank lowest.
- The percent of all Internet investors saying that they were bullish on the outlook for the group in 2014 (65%) was greater than the percent saying their portfolios were currently overweight the group (58%), suggesting additional appetite for buying overall. Interestingly, while the % of hedge and long-only/mutual funds that are bullish on the outlook for 2014 was roughly consistent (67% vs. 62% for hedge and long-only/mutual funds, respectively), the breakdown for current portfolio weighting differed notably with 53% of hedge funds currently overweight Internet in their portfolio vs. 77% for long-only/mutual funds. This suggests likely greater buying potential from hedge funds as compared with long-only mutual funds.

Figure 2. 2014 Large Cap Internet Picks – Consolidated Survey

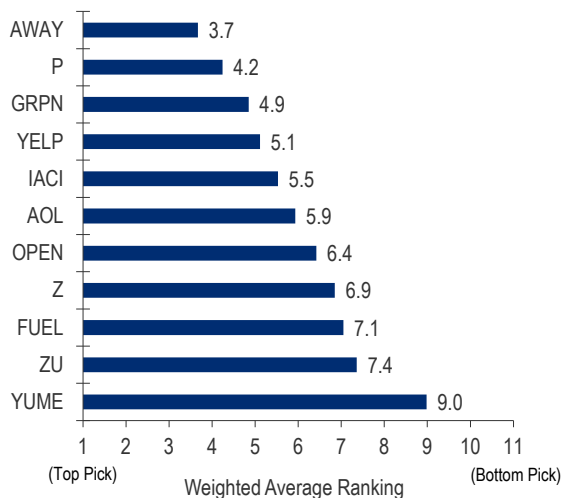
Rank order your top large-cap Internet picks for 2014:



Source: Citi Research; SurveyMonkey  
n=55

Figure 3. 2014 SMID Cap Internet Picks – Consolidated Survey

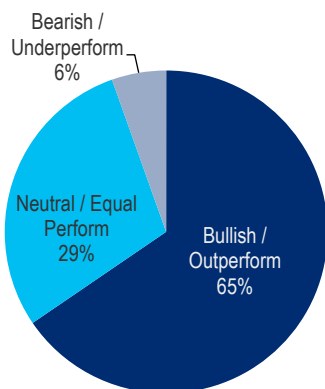
Rank order your top SMID-cap Internet picks for 2014:



Source: Citi Research; SurveyMonkey  
n=55

Figure 4. 2014 Internet Sector Outlook – Consolidated Survey

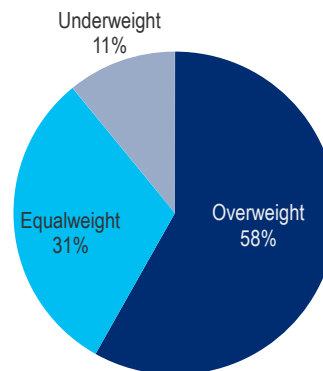
Characterize your outlook for the Internet sector in 2014:



Source: Citi Research; SurveyMonkey  
n=55

Figure 5. Internet Sector's Current Portfolio Weighting – Consolidated Survey

Characterize the Internet sector's current weighting within your portfolio:



Source: Citi Research; SurveyMonkey  
n=55

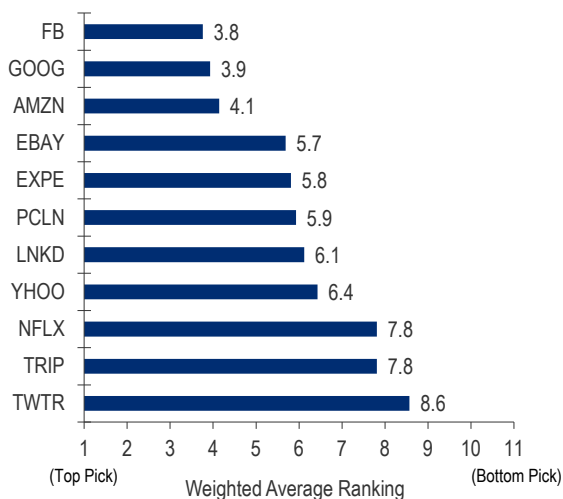
## Hedge Fund Survey Results

We highlight the following key-takeaways from hedge funds (see Figures 6-9 for details):

- Facebook, Google and Amazon were the top three large-cap hedge fund picks, while Twitter, Netflix and TripAdvisor were the bottom three.
  - Despite shares being up over 100% YTD, Facebook was the overwhelming top hedge fund pick with over 30% of hedge funds ranking it as their #1 pick and nearly 50% placing it in their top three. Interestingly, and as Figure 10 shows below, long-only/mutual fund investors ranked Facebook meaningfully lower overall (#5 out of 11).
- HomeAway, Pandora and Groupon were the top three SMID-cap hedge fund picks, while YuMe, zulily and Zillow were the bottom three.
- 67% of hedge fund respondents are bullish on the outlook for Internet in 2014, 26% are neutral and 7% are bearish.
- 53% of hedge fund respondents are overweight Internet in their current portfolios, 33% are equalweight and 14% are underweight.

Figure 6. 2014 Large Cap Internet Picks – Hedge Funds

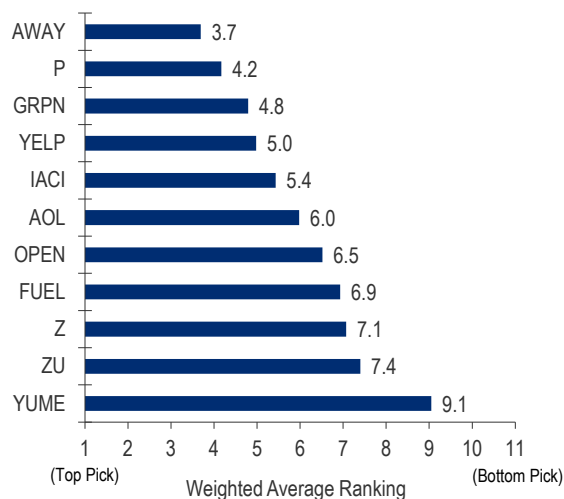
Rank order your top large-cap Internet picks for 2014:



Source: Citi Research; SurveyMonkey  
n=42

Figure 7. 2014 SMID Cap Internet Picks – Hedge Funds

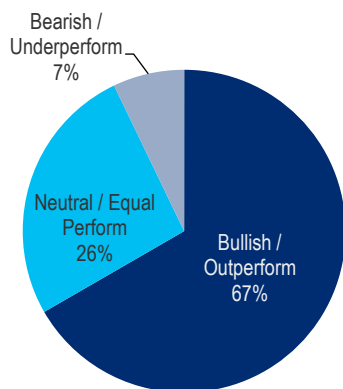
Rank order your top SMID-cap Internet picks for 2014:



Source: Citi Research; SurveyMonkey  
n=42

Figure 8. 2014 Internet Sector Outlook – Hedge Funds

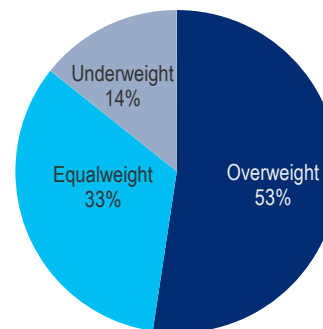
*Characterize your outlook for the Internet sector in 2014:*



Source: Citi Research; SurveyMonkey  
n=42

Figure 9. Internet Sector's Current Portfolio Weighting – Hedge Funds

*Characterize the Internet sector's current weighting within your portfolio:*



Source: Citi Research; SurveyMonkey  
n=42

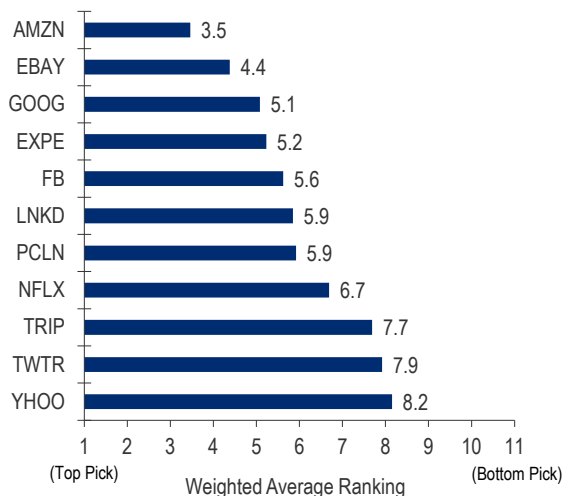
## Long Only / Mutual Funds Survey Results

We highlight the following key-takeaways from long-only/mutual funds (see Figures 10-13 for details):

- Amazon, eBay and Google were the top three large-cap long-only picks, while Yahoo, Twitter and TripAdvisor were the bottom three.
  - As noted above, long-only/mutual fund investors ranked Facebook meaningfully lower (#5 out of 11) than hedge fund investors (#1 out of 11)
  - Nearly 50% of long-only respondents ranked Yahoo! as their bottom pick (vs. 26% of hedge fund respondents).
- HomeAway, Pandora and Groupon were the top three SMID-cap long-only picks, while YuMe, Rocket Fuel and zulily were the bottom three.
- 62% of long-only respondents are bullish on the outlook for Internet in 2014, while 38% are neutral.
- 77% of long-only respondents are overweight Internet in their current portfolios, 23% are equalweight.

Figure 10. 2014 Large Cap Internet Picks – Long Only / Mutual Funds

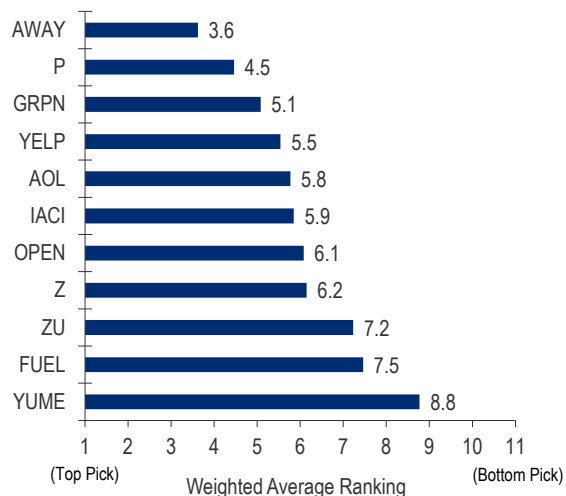
Rank order your top large-cap Internet picks for 2014:



Source: Citi Research; SurveyMonkey  
n=13

Figure 11. 2014 SMID Cap Internet Picks – Long Only / Mutual Funds

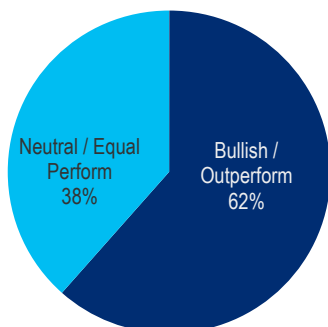
Rank order your top SMID-cap Internet picks for 2014:



Source: Citi Research; SurveyMonkey  
n=13

Figure 12. 2014 Internet Sector Outlook – Long Only / Mutual Funds

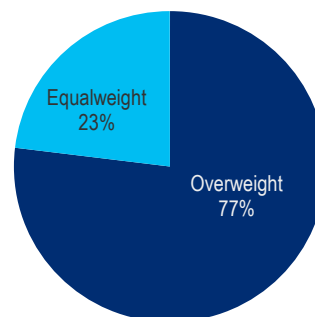
Characterize your outlook for the Internet sector in 2014:



Source: Citi Research; SurveyMonkey  
n=13

Figure 13. Internet Sector's Current Portfolio Weighting – Long Only / Mutual Funds

Characterize the Internet sector's current weighting within your portfolio:



Source: Citi Research; SurveyMonkey  
n=13



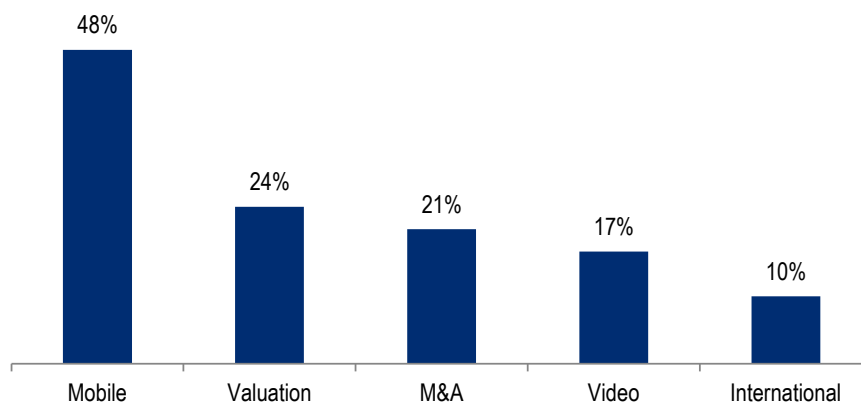
## Key Themes & Issues in 2014

As the figure below shows, the top themes/issues identified by all Internet investors (i.e. including both HF and LO/MF) that will affect the sector in 2014 include (in order): "mobile", "valuation", "M&A", "video" and "international".

Figure 14. Top Themes & Issues in 2014

**What are the most important themes/issues that will affect Internet stocks in 2014?**

(% of respondents that answered question)



Source: Citi Research; SurveyMonkey

n=29

## Amazon.com, Inc.

(AMZN.O; US\$393.37; 1)

### Valuation

We arrive at a \$457 price target for Amazon which is the average of: 1) sum of the parts applying a 18x multiple on the 2015E adjusted EBITDA for its retail division and 35x on its AWS/Advertising division which yields \$497; and 2) DCF which yields \$418 based on an 9% WACC and 13x terminal EV/FCF multiple.

### Risks

Risks to achievement of our price target are as follows: 1) Macro - As an enabler of online retail and with a business model that is based on fees derived from online retail transactions, Amazon's business is susceptible to changes in consumer spending. 2) Margin Expansion - Over the long term, we believe margins can rise appreciably from current levels. This is partially due to the assumption that Amazon will one day achieve density in its fulfillment center network as well as a mix shift to the higher-margin cloud business over time. If AWS loses market share or spending levels do not subside over time, Amazon's long-term margins may disappoint.

## eBay Inc.

(EBAY.O; US\$54.01; 1)

### Valuation

We arrive at a \$63 price-target for EBAY, which is the average of: 1) Our sum-of-the-parts analysis applying an 11x multiple and 14x respectively for Marketplaces and PayPal on the company's 2014 adj. EBITDA which yields \$64 and 2) our DCF analysis, which yields \$62 based on an assumed 10-year EBITDA CAGR of 14%, a WACC of 11% and an 5x terminal EV/EBITDA multiple.

### Risks

Key risks to our target price include:

1) Macro – As an enabler of online retail and with a business model that is based on fees derived from online retail transactions, eBay's business is susceptible to changes in consumer spending. Of course, benefiting eBay in terms of macro economic sensitivity is the online segment's continue market share gains and out-performance relative to the overall retail market, as well as the company's other growth initiatives (e.g., international expansion, PayPal Offline, etc.). 2) Marketplace Pricing Changes – While management has noted that it expects the Marketplace fee changes to have roughly a net neutral impact and that we see them as benefiting merchant satisfaction and Marketplace dynamics long-term, it is difficult to precisely determine the near-term impact these fee changes could have on overall take rates and on listings velocity. Given that these fees went into effect in early 2Q13, we should have a clearer sense of their impact on the 2Q13 earnings call as well as 3) PayPal Offline Adoption – Given the importance to our upside case investment thesis of PayPal's offline POS initiatives, any datapoints that might surface over the next 6-12 months (as the company launches its consumer awareness and acquisition efforts) that call into question consumer interest and adoption could limit mid- and long-term upside to expectations. Other related factors include the level of direct merchant adoptions, variances in the cost to acquire customers and/or drive adoption, and/or the levels of spending by offline users.

## Facebook, Inc

(FB.O; US\$53.71; 1)

### Valuation

We arrive at a \$57 price target for Facebook which is the average of: 1) 25x our 2014 adjusted EBITDA estimate which yields \$57; and 2) our DCF which yields \$57 based on a terminal EBITDA multiple of 10.5x and WACC of 8%.

### Risks

Key risks include: 1) while we assume an improvement in blended monetization rates, both for the desktop and mobile channels, in our model, monetization gains could be greater and/or occur sooner than we are forecasting for a number of reasons (if this were to occur, our estimates could prove too conservative); and, 2) while our model includes an assumption for improved desktop monetization, it also includes an assumption for continued declines in desktop usage (offset, of course, by mobile usage gains). To the extent that usage on the currently higher-monetizing desktop channel does not decline by as much or as soon as we are forecasting, our estimates could prove too conservative.

If the impact on the company from any of these factors proves to be greater/less than we anticipate, we believe the stock will likely have difficulty achieving our target price or could outperform it.

## Google Inc.

(GOOG.O; US\$1,109.46; 1)

### Valuation

We arrive at a \$1,190 price target for Google which is the average of: 1) 11.5x the company's 2015 adj. EBITDA which yields \$1,190 and 2) our DCF which yields \$1,190 based on a WACC of 9.5% and a 12x terminal EV/FCF multiple.

### Risks

Risks include: 1) given that the vast majority of Google's revenue is derived from advertising and that advertising spend in general has tended to be sensitive to overall economic conditions, Google's business and stock price could be susceptible to changes in economic conditions and/or consumer spending trends; 2) the possibility that expected positive contributors to pricing / CPCs / monetization like Enhanced Campaigns and Product Listing Ads (PLAs) are not as meaningful as expected; and 3) Google faces significant competition in nearly every aspect of their business, including competition from other general purpose and vertical search engines, social networks, other forms of advertising (including both traditional and digital channels), among others. If the impact on the company from any of these factors proves to be greater/less than we anticipate, we believe the stock will likely have difficulty achieving our target price or could outperform it.

## Yahoo! Inc.

(YHOO.O; US\$40.20; 1)

### Valuation

We arrive at a \$46 price target for Yahoo! which is based on our sum-of-the-parts analysis which yields: 1) \$15/share for the core Yahoo! business based on our DCF which utilizes a 6x terminal EV/EBITDA multiple and 9% WACC; 2) \$24/share for the company's Alibaba stake (fully taxed and IPO/liquidity discounted); and 3) \$6/share for the company's YJ stake.

### Risks

Key risks for Yahoo! include: 1) a delay of the AG IPO; 2) datapoints that create a perceived or real concerns around the turnaround effort at core Yahoo!; and/or 3) significant competition, including competition from other Internet media companies, social networks, traditional advertising/media, and search engines, among others. If the impact on the company from any of these factors proves to be greater/less than we anticipate, we believe the stock will likely have difficulty achieving our target price or could outperform it.

## Appendix A-1

### Analyst Certification

The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

### IMPORTANT DISCLOSURES

#### Facebook, Inc (FB)

##### Ratings and Target Price History Fundamental Research

Analyst: Mark May

Covered since July 9 2013



	Date	Rating	Target Price	Closing Price
1	8-Oct-11	Stock rating system changed		
2	27-Jun-12	*2	*35.00	32.23
3	24-Oct-12	*1	*30.00	23.23

\* Indicates change

	Date	Rating	Target Price	Closing Price
4	31-Jan-13	*2	30.00	30.98
5	26-Apr-13	Coverage terminated		
6	9-Jul-13	2	*27.00	25.48

	Date	Rating	Target Price	Closing Price
7	25-Jul-13	2	*32.00	34.36
8	24-Sep-13	*1	*55.00	48.45
9	31-Oct-13	1	*57.00	50.21

Rating/target price changes above reflect Eastern Standard Time

#### Facebook, Inc (FB)

##### Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Mark May

Covered since July 9 2013



\* Indicates change

Rating/target price changes above reflect Eastern Standard Time

## Google Inc. (GOOG)

### Ratings and Target Price History

### Fundamental Research

Analyst: Mark May  
Covered since July 9 2013



	Date	Rating	Target Price	Closing Price
1	21-Jan-11	1H	*750.00	611.83
2	15-Apr-11	*2H	*650.00	530.70
3	14-Jul-11	2H	*690.00	528.94
4	6-Oct-11	2H	*575.00	514.71
5	8-Oct-11	Stock rating system changed		
6	8-Oct-11		*2	515.12
7	13-Oct-11	2	*680.00	558.99

\* Indicates change

	Date	Rating	Target Price	Closing Price
8	27-Nov-11	*1	680.00	563.00
9	27-Mar-12	1	*750.00	647.02
10	21-Jun-12	1	*740.00	565.21
11	23-Sep-12	1	*850.00	733.99
12	19-Oct-12	1	*800.00	681.79
13	22-Jan-13	1	*830.00	702.87
14	18-Apr-13	1	*915.00	765.91

	Date	Rating	Target Price	Closing Price
15	26-Apr-13	Coverage terminated		
16	9-Jul-13	1	*1,100.00	905.24
17	19-Jul-13	1	*1,005.00	896.60
18	18-Oct-13	1	*1,025.00	1,011.41
19	18-Nov-13	1	*1,190.00	1,031.55

Rating/target price changes above reflect Eastern Standard Time

## Google Inc. (GOOG)

### Ratings and Target Price History

### Best Ideas Research

### Relative Call (3 Month)

Analyst: Mark May  
Covered since July 9 2013



	Date	Rating	Target Price	Closing Price
1	20-Jan-11	*ADD MP	-	626.77

\* Indicates change

	Date	Rating	Target Price	Closing Price
2	20-Apr-11	*REM MP	-	525.73

Rating/target price changes above reflect Eastern Standard Time

## Amazon.com, Inc. (AMZN)

### Ratings and Target Price History

### Fundamental Research

Analyst: Mark May  
Covered since July 9 2013



	Date	Rating	Target Price	Closing Price
1	6-May-11	1H	*240.00	197.60
2	26-Jul-11	1H	*280.00	214.18
3	8-Oct-11	Stock rating system changed		
4	8-Oct-11		*1	224.74

\* Indicates change

	Date	Rating	Target Price	Closing Price
5	25-Oct-11	1	*255.00	227.15
6	31-Jan-12	1	*215.00	194.44
7	27-Apr-12	1	*275.00	226.85
8	29-Jan-13	1	*300.00	260.35

	Date	Rating	Target Price	Closing Price
9	26-Apr-13	Coverage terminated		
10	9-Jul-13	1	*340.00	291.53
11	25-Oct-13	1	*381.00	363.39

Rating/target price changes above reflect Eastern Standard Time

## Amazon.com, Inc. (AMZN)

### Ratings and Target Price History

#### Best Ideas Research

#### Relative Call (3 Month)

Analyst: Mark May

Covered since July 9 2013



	Date	Rating	Target Price	Closing Price
1	18-Nov-11	*ADD MP	-	197.14

\* Indicates change

	Date	Rating	Target Price	Closing Price
2	24-Aug-12	*REM MP	-	245.74

Rating/target price changes above reflect Eastern Standard Time

## eBay Inc. (EBAY)

### Ratings and Target Price History

#### Fundamental Research

Analyst: Mark May

Covered since July 9 2013



	Date	Rating	Target Price	Closing Price
1	2-Dec-10	*2H	31.00	29.91
2	20-Jan-11	2H	*33.00	30.78
3	27-Apr-11	2H	*36.00	34.03
4	29-Jun-11	*1H	*38.00	30.86
5	20-Jul-11	1H	*39.00	33.17
6	8-Oct-11	Stock rating system changed		

\* Indicates change

	Date	Rating	Target Price	Closing Price
7	8-Oct-11	*1	39.00	31.07
8	18-Mar-12	*2	39.00	37.69
9	18-Apr-12	2	*41.00	35.87
10	19-Jul-12	2	*45.00	43.95
11	17-Oct-12	2	*50.00	48.20
12	17-Jan-13	2	*57.00	54.17

	Date	Rating	Target Price	Closing Price
13	26-Apr-13	Coverage terminated		
14	9-Jul-13	*1	*65.00	54.49
15	17-Jul-13	1	*64.00	57.38
16	17-Oct-13	1	*63.00	51.38

Rating/target price changes above reflect Eastern Standard Time

## eBay Inc. (EBAY)

### Ratings and Target Price History

#### Best Ideas Research

#### Relative Call (3 Month)

Analyst: Mark May

Covered since July 9 2013



\* Indicates change

Rating/target price changes above reflect Eastern Standard Time

## Yahoo! Inc. (YHOO)

### Ratings and Target Price History

### Fundamental Research

Analyst: Mark May  
Covered since July 9 2013



	Date	Rating	Target Price	Closing Price
1	26-Jan-11	2H	*19.00	15.57
2	19-Jul-11	2H	*17.00	14.59
3	8-Oct-11	Stock rating system changed		
4	8-Oct-11	*2	17.00	15.47

\* Indicates change

	Date	Rating	Target Price	Closing Price
5	24-Jan-12	2	*18.00	15.69
6	29-Jan-13	2	*21.00	19.70
7	16-Apr-13	2	*23.00	23.79
8	26-Apr-13	Coverage terminated		

	Date	Rating	Target Price	Closing Price
9	9-Jul-13	*1	*30.00	26.68
10	17-Jul-13	1	*31.00	29.66
11	30-Sep-13	1	*39.00	33.17
12	17-Dec-13	1	*46.00	39.51

Rating/target price changes above reflect Eastern Standard Time

## Yahoo! Inc. (YHOO)

### Ratings and Target Price History

### Best Ideas Research

### Relative Call (3 Month)

Analyst: Mark May  
Covered since July 9 2013



	Date	Rating	Target Price	Closing Price
1	20-Jan-11	*ADD LP	-	16.23

\* Indicates change

	Date	Rating	Target Price	Closing Price
2	20-Apr-11	*REM LP	-	16.87

Rating/target price changes above reflect Eastern Standard Time

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