

Yahoo!'s 100 Day Review:

“What Should Yahoo! Do Regarding Social Networks”?

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August 1st, 2007

Confidential

Executive Summary

- 7/17/07 - CEO Jerry Yang declared a “100 day review” of co’s strategic direction.
- Mr. Yang stated that nothing was a “sacred cow”
- One of the topics we feel the company must be reviewing closely is: Social Networking.
- Social networks are growing much faster than the “traditional portals”
- The question is will social networks become the new portal?
- Our full report assesses the following questions:
 - o How big is the industry?
 - o How fast is it growing?
 - o What are the advertising dollar opportunities?
 - o Who are the players?
 - o What are the companies worth?

Why Social Networking Is Important to Yahoo!?

We believe it's a priority for several reasons:

1. Social networking could cause a shift of the portal paradigm
2. Social networking sites may have Ad Dollar Splintering (ADS) effects
3. Social networking sites' massive user information could be extremely valuable to behavioral targeting (Yahoo!'s SmartAds).
 - a. Higher targetability and CPMs

Major Participants Overview

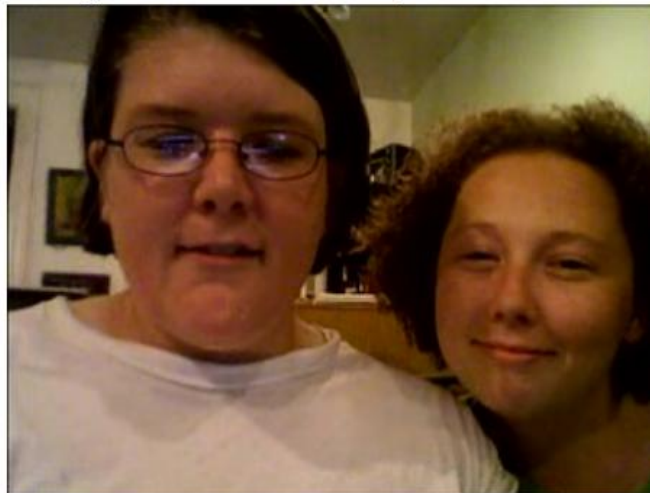
There are 4 categories in the social networking space:

- **Leisure-Oriented Sites:** entertainment focused sites, open to all users
 - o MySpace, Facebook, Friendster, Bebo, Orkut, Windows Live Space, Hi5
- **Professional Networking Sites:** sites focusing on business networking
 - o LinkedIn, itLinkz
- **Media Sharing Sites:** sites focusing on the distribution and consumption of user-generated multi-media content, such as video and photos
 - o YouTube, Flickr
- **Virtual Meeting Place Sites:** sites that are essentially a 3-D virtual world, built and owned by its residents (the users)
 - o Second Life

Social Networking – High Profile Already?

- Already mainstream – YouTube / CNN Democratic debate (July 2007).

Marriage Question from Brooklyn



00:05 / 00:18

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 Contest: The CNN/YouTube Democratic Debate

Tags: [debatequestion](#) [equalrights](#)

URL: <http://youtube.com/watch?v=Y1jodTlw1ZY>
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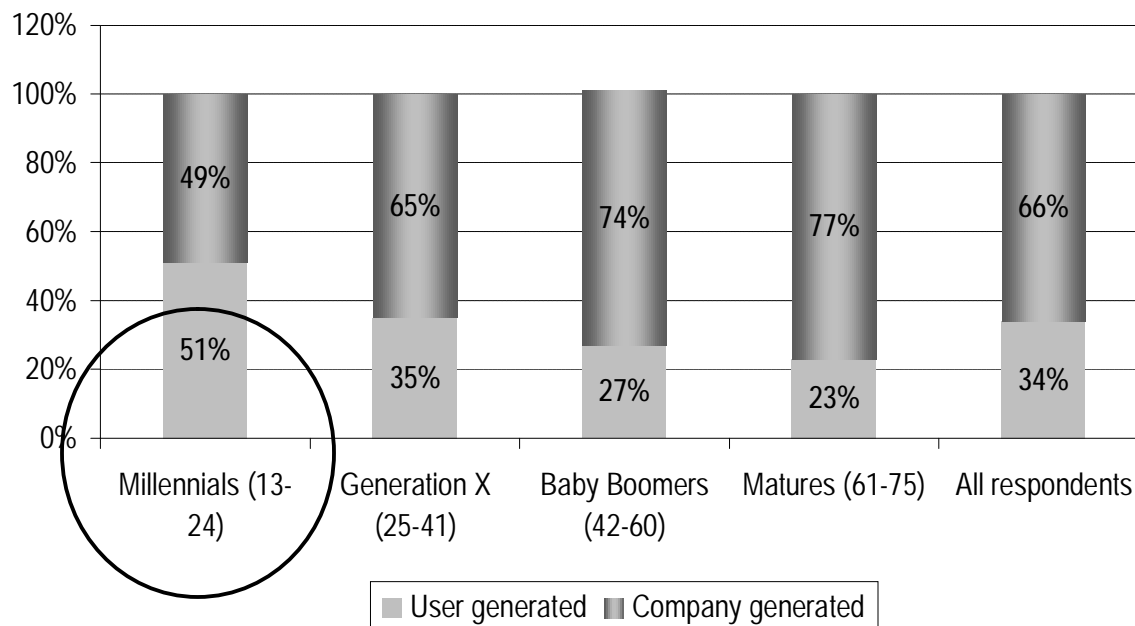


Source: YouTube

Social Networking (SN) – The New Portal?

- Majority of younger users are spending more time (51%) on user-generated sites vs. traditional sites.

Percent of Domestic Time Spent Online at User-Generated vs. Traditional Sites Feb.-March 2007



Source: Deloitte & Touche; eMarketer.com: "User-Generated Content: Will Web 2.0 Pay Its Way?"

Social Networking – Not Just the “Kids”

- The largest user group is older (35-54 yrs) than most realize (i.e. monetizable)
- Mirroring the domestic Internet demographics

	Total Internet	MySpace.com	Facebook.com	Friendster.com	Bebo.com	Hi5.com
<i>Unique Visitors (000)</i>	178,839	70,478	27,965	1,667	4,083	2,914
Total Audience	100.0	100.0	100.0	100.0	100.0	100.0
Persons 12-17	10.1	6.6	15.2	6.8	27.2	11.1
Persons 18-24	12.0	18.0	26.9	11.2	9.7	16.1
Persons 25-34	16.0	19.4	11.5	21.2	13.6	21.1
Persons 35-54	38.9	42.3	34.4	44.8	34.8	37.9
Persons 55+	14.8	10.0	6.6	10.7	7.1	8.2

Source: comScore

How Big is Social Networking?

- In June 2007, domestic visitors were ~115M, representing ~64% of total U.S. Internet users.

	Jun-06	May-07	Jun-07	% Reached	YoY Growth	Seq. Growth
Total Internet	172,907	177,487	178,839	100%	3%	1%
Yahoo! Sites	128,671	130,526	133,093	74%	3%	2%
Social Networking	N/A	112,150	115,104	64%	NM	3%
1 MYSFACE.COM	52,342	68,939	70,478	39%	35%	2%
2 FACEBOOK.COM	13,752	26,649	27,965	16%	103%	5%
3 Classmates.com Sites	13,963	12,103	14,846	8%	6%	23%
4 FLICKR.COM	5,913	8,447	9,622	5%	63%	14%
5 Windows Live Spaces	8,720	7,998	8,271	5%	-5%	3%
6 AOL People Connection	9,324	6,455	7,069	4%	-24%	9%
7 Yahoo! Groups	7,745	6,607	6,263	4%	-19%	-5%
8 BEBO.COM	1,713	3,711	4,083	2%	138%	10%
9 XANGA.COM	6,822	4,039	3,961	2%	-42%	-2%
10 MSN Groups	5,550	4,024	3,659	2%	-34%	-9%
11 Yahoo! 360°	4,686	3,797	3,507	2%	-25%	-8%
12 AIM Pages	333	2,804	3,340	2%	904%	19%
13 HI5	2102	2502	2914	2%	39%	16%
14 FRIENDSTER.COM	1,356	1,654	1,667	1%	23%	1%
15 LINKEDIN.COM	342	1652	1734	1%	407%	5%

Source: comScore

Social Networking is Growing Faster

- The social networking group and certain sites are growing much faster than Yahoo!.

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Source: comScore

Social Networking – It’s Global

- It’s a global phenomenon – many sites are growing even faster internationally.

	May-06	Apr-07	May-07	% Reached	YoY Growth	Seq. Growth
Total Internet	705,644	766,188	771,997	100%	9%	1%
Yahoo! Sites	480,200	467,642	469,826	61%	-2%	0%
Social Networking	N/A	431,492	454,132	59%	NM	5%
1 MYSACE.COM	61,635	104,961	109,535	14%	78%	4%
2 Windows Live Spaces	96,199	108,072	107,279	14%	12%	-1%
3 FACEBOOK.COM	14,096	38,764	47,208	6%	235%	22%
4 HI5.COM	20,864	29,345	28,492	4%	37%	-3%
5 FLICKR.COM	13,289	23,976	26,781	3%	102%	12%
6 Yahoo! Groups	21,006	24,582	25,615	3%	22%	4%
7 FRIENDSTER.COM	14,175	22,517	24,684	3%	74%	10%
8 Orkut	13,049	22,343	23,104	3%	77%	3%
9 MSN Groups	24,919	18,597	18,398	2%	-26%	-1%
10 BEBO.COM	6,135	14,408	17,246	2%	181%	20%
11 Classmates.com Sites	16,681	17,467	16,423	2%	-2%	-6%
12 AOL Hometown	17,956	16,525	15,944	2%	-11%	-4%

Source: comScore

Page Views (Inventory) Are Growing Rapidly

- Yahoo!'s Domestic PVs are declining (partially due to AJAX), while other sites are exploding.

	Jun-06	May-07	Jun-07	YoY Growth	Seq. Growth
Total Internet	492,975	459,025	473,831	-4%	3%
Yahoo! Sites	39,680	36,232	34,927	-12%	-4%
Social Networking	N/A	112,150	115,104	NM	3%
1 MYSFACE.COM	30,187	44,402	46,469	54%	5%
2 FACEBOOK.COM	6,093	15,841	14,785	143%	-7%
3 BEBO.COM	1,085	1,978	2,201	103%	11%
4 GAIAPONLINE.COM	273	777	750	175%	-3%
5 Orkut	346	312	455	32%	46%
6 HI5.COM	332	370	394	19%	7%
7 FRIENDSTER.COM	92	361	336	264%	-7%
8 Classmates.com Sites	259	290	326	26%	12%
9 Yahoo! Groups	431	379	293	-32%	-23%
10 Windows Live Spaces	212	221	244	15%	10%
11 AOL People Connection	247	120	183	-26%	53%
12 FLICKR.COM	80	128	179	124%	40%
13 Yahoo! 360°	208	141	158	-24%	12%
14 XANGA.COM	649	164	155	-76%	-6%
15 MSN Groups	213	123	150	-30%	22%
16 LINKEDIN.COM	31	23	26	-16%	13%

Source: comScore

Global Page Views Are Also Growing Rapidly

- Yahoo!'s Global PVs are declining too, while other sites are growing even faster than domestic.

	May-06	Apr-07	May-07	YoY Growth	Seq. Growth
Total Internet	1,828,000	1,925,110	1,944,666	6%	1%
Yahoo! Sites	114,432	107,055	106,530	-7%	0%
Social Networking	N/A	193,498	222,036	NM	15%
1 MYSpace.COM	28,807	48,911	50,593	76%	3%
2 Orkut	20,204	33,134	34,438	70%	4%
3 FACEBOOK.COM	6,562	26,655	29,882	355%	12%
4 BEBO.COM	2,176	9,396	11,202	415%	19%
5 FRIENDSTER.COM	2,186	6,402	8,990	311%	40%
6 HI5.COM	4,776	7,280	7,192	51%	-1%
7 Windows Live Spaces	2,130	2,439	2,226	5%	-9%
8 Yahoo! 360°	516	791	913	77%	15%
9 Yahoo! Groups	827	807	764	-8%	-5%
10 LINKEDIN.COM	40	49	79	98%	61%

Source: comScore

SN Users Are Engaging for Longer

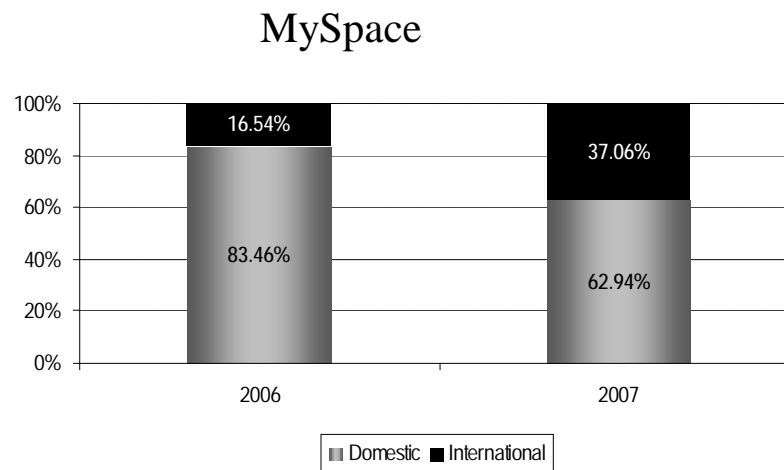
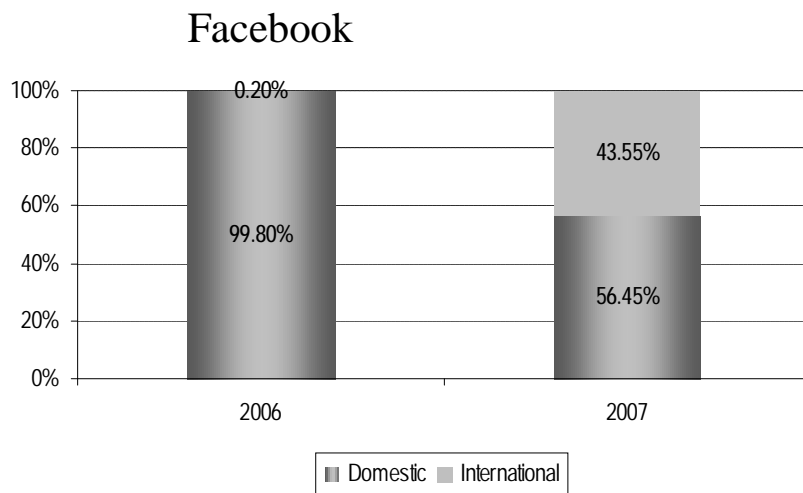
- Yahoo!'s global MOUs are declining too, while SN's are seeing robust growth.

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12 AOL Hometown	17,956	16,525	15,944	2%	-11%
13 LINKEDIN.COM	1245	3852	4101	1%	229%

Source: comScore

Geographic Mix Shift is Changing

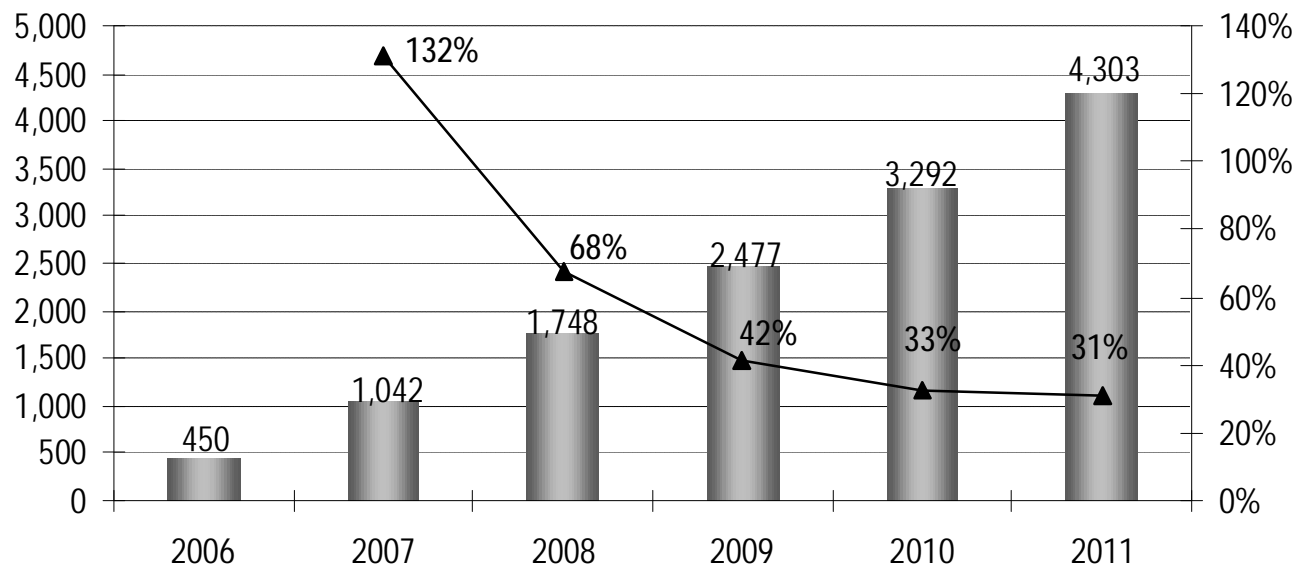
- Facebook and MySpace have had their Unique Visitors base diversify geographically



Source: comScore

How Big is the Advertising Market?

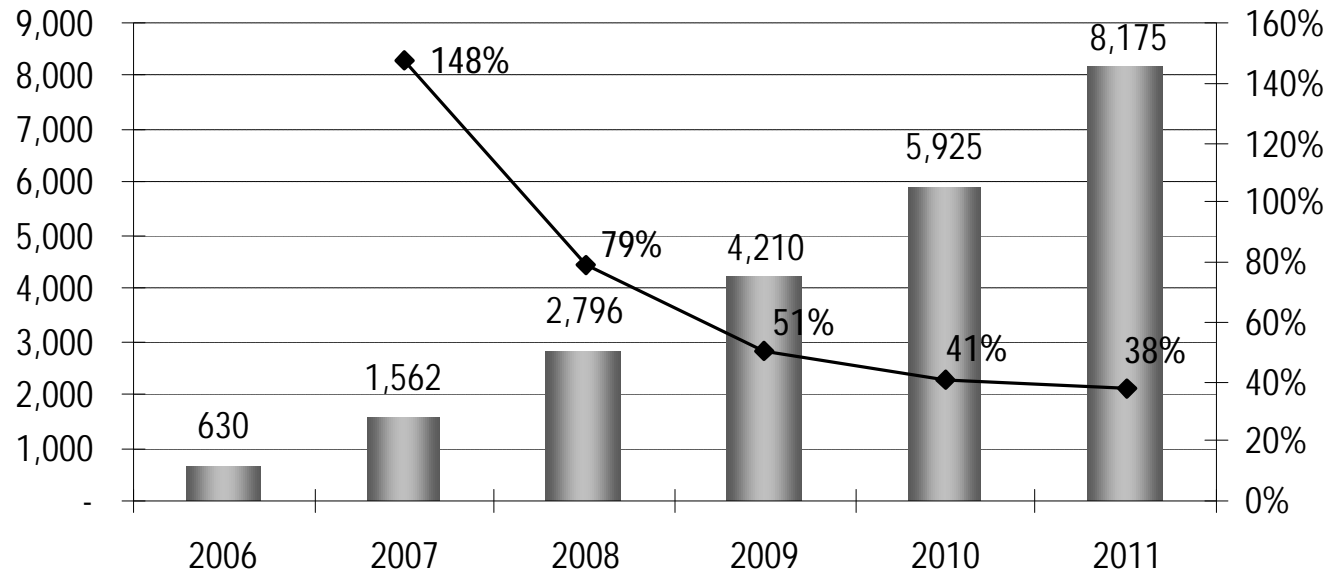
- U.S. User-Generated Content Advertising Revenues - est. \$4.3B by 2011, 43% CAGR.



Source: eMarketer.com: "User-Generated Content: Will Web 2.0 Pay Its Way?"

How Big is the Advertising Market?

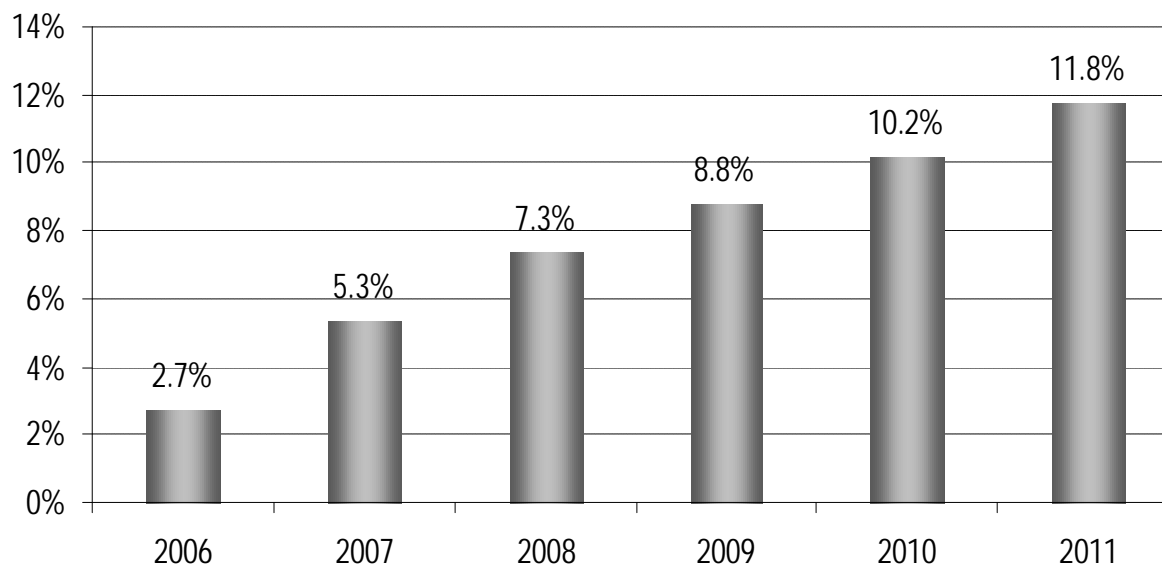
- Global User-Generated Content Advertising Revenues – est. \$8.2B.



Source: eMarketer.com: "User-Generated Content: Will Web 2.0 Pay Its Way?"

SN's to Reach ~12% of Online Advertising?

- Social Networking Advertising Revenues as a Percentage of Online Advertising Spend.



Source: eMarketer.com: "User-Generated Content: Will Web 2.0 Pay Its Way?"

Who's Actually Advertising Today?

- Major brands have already gotten comfortable with social networks.

Exhibit Marketers & Advertisers that have Employed UG and Viral Video Advertising

Ban (deodorant)	Jet Blue
Blendtec	L'Oreal
Cadillac	M&M's
Chevrolet Tahoe	Mastercard
Chrysler	Mentos
Converse	Ray Ban
Coca-Cola	Smirnoff
Doritos	Sony
Dove	Toyota
Geico	Volkswagon

Source: eMarketer.com

How are budgets growing?

Exhibit U.S. Online Marketers' Planned Spending on Emerging Advertising Tactics (% of respondents)

	2005 (predicted 2006 use)	2006 (budgeted for 2007)
Ads on third-party blogs and blog networks	30%	42%
Social networking	N/A	40%
Adding RSS feeds	40%	37%
Video ads	27%	37%
Sponsoring podcasts	14%	18%
Mobile/wireless	20%	16%
Ads in RSS feeds	21%	15%
Product placement in video games	10%	9%

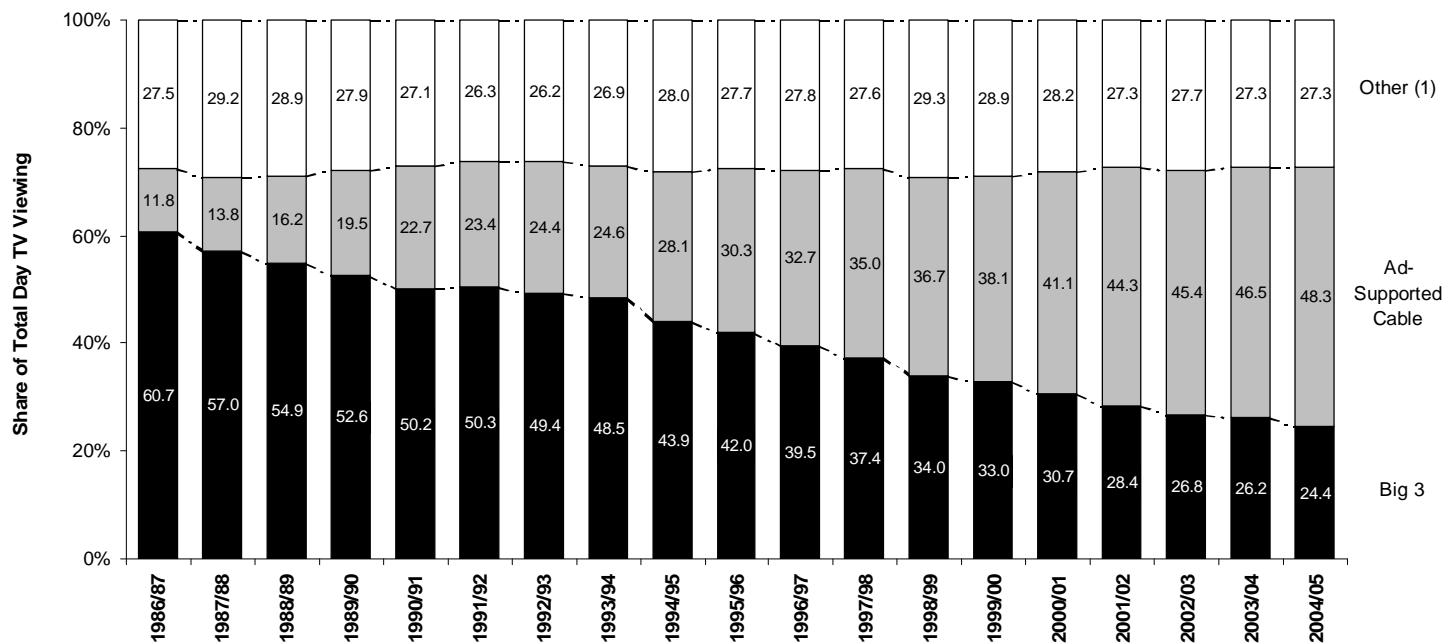
Source: MarketingSherpa Inc; eMarketer.com: "User-Generated Content: Will Web 2.0 Pay Its Way?"

Social Networking – The New Portal?

- Social networking sites are taking on the new role of disseminating public information by:
 - Adding “special channel” / portal-like features that are very timely and targeted.
 - MySpace’s launch of the Impact channel for 2008 Presidential election
 - Many presidential candidates have profiles on Facebook
 - Youtube has the “YouChoose ‘08” campaign that allows users to get to know candidates through their videos.
 - Youtube also teamed up with CNN for the CNN YouTube debates, which recently aired on July 23, 2007
- Developer platform – F8
 - Users can tie data from outside of the Social Networking Ecosystem to their profiles
 - i.e. weather, music, horoscopes, news
 - Can dampen user visits to traditional portals for basic needs

The Ad Dollar Splintering (ADS) Effect

- New advertising channels that entice advertising dollars away – the Ad Dollar Splintering (ADS) effect
 - Additional industry page view inventory; could put pressure on CPMs
- Use the evolution of television as a parallel to understand how increased choices may affect consumption (analysis done by Spencer Wang, Bear Stearns Cable and Entertainment Analyst.)



Source: Bear Stearns & Co., Inc.

SN's Could Augment Behavioral Targeting

We believe the vast amount of personal information on social networking sites could significantly aid Yahoo!'s behavioral targeting initiatives:

- Yahoo! recently soft launched SmartAds
 - Deliver more targeted display advertising to its users, using demographic and behavioral data
 - Reinvigorate the growth of branded display advertising
- Yahoo! can fully leverage social networking sites' massive database of user information to better compete with Google
 - One of the reasons for Google's DoubleClick acquisition was to help it better target display advertising.

Who Are the Potential Acquisition Candidates? - Facebook

- Yahoo! has a high concentration of international visitors; Facebook has a stronger domestic mix of 57%.
- Facebook's stellar growth helps Yahoo!'s declining traffic

Yahoo vs. Facebook Unique Visitor International and Domestic Mix

	International Mix	Domestic Mix	International YoY Growth	Domestic YoY Growth
Yahoo	72.0%	28.0%	-3%	0.3%
Facebook	43.6%	56.5%	74297%	89%

Source: comScore

- Yahoo! and Facebook could complement traffic and viewership on opposite ends

Yahoo vs. Facebook Percent (%) Unique Visitor Composition

	Persons 12-17	Persons 18-24	Persons 25-34	Persons 35-54	Persons 55+
Yahoo	9.8%	12.3%	17.4%	39.6%	13.8%
Facebook	15.2%	26.9%	11.5%	34.4%	6.6%

Source: comScore

What Should Yahoo! Pay – FaceBook Valuation

- Illustrative analysis only
- Should depict of HOW we think Yahoo! would look at it
 - Yahoo! management should have more refined information
- Focuses only on display revenues;
not incremental revs from search or premium services
- Investors can use this as a roadmap

What Should Yahoo! Pay – FaceBook Valuation

We believe price could have been the major deterrent to Yahoo!'s past pursuit in the space. Below is our attempt to build out the projections; investors can tweak assumptions on their own understanding.

- **Revenue Drivers:**

- Social Networking 84% and 25% of Internet UVs and PVs vs. Portals of 90% and 25% today
- *Page Views:*
 - Estimate PV to grow from 265 billion in 2007 to 1.6 trillion in 2016.
 - Currently growing ~200%, but we expect growth rate to decelerate significantly over the next nine years.
 - Estimate FB PV to comprise 5.5% of total Internet PV in 2016 - Yahoo currently accounts for 5.5% of global PV.

- *Monetized Page Views:*

- We sampled a significant amount of pages on Facebook
- North of 60% of pages are being monetized. For conservatism, we use 60% monetization rate
- Expect this percentage to increase to ~70% in 2016.

- *Prime Ad Revenues:*

- Estimate prime page views as a % of total to reach 10% in 2007 and grow to 20% in 2016.
- Estimate Prime CPM to amount to ~\$4 based on conversation with industry contacts and grow to ~\$18 in 2016.

- *Remnant Ad Revenues:*

- Estimate remnant page views as a % of total to reach 90% in 2007 and steadily declining to comprise 80% in 2016
- Estimate Remnant CPM of ~\$0.50, based on industry estimates and increase steadily to ~\$2 in 2016.

- **EBITDA Estimates:**

Assuming EBITDA margins of close to high 20%^s growing to high 30%^s

What Should Yahoo! Pay – FaceBook Valuation (Cont'd)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Global Internet Users - EOP (000)	740,984	815,082	880,289	924,303	961,275	999,726	1,029,718	1,060,609	1,081,822	1,103,458	1,125,527
Social Networking Users - EOP (000)	381,753	572,630	732,966	828,252	869,665	895,754	913,670	922,806	932,034	941,355	950,768
FACEBOOK											
Facebook Visitors - EOP (000)	22,753	50,056	82,593	107,371	128,845	148,171	165,952	182,547	197,151	208,980	219,429
% YoY Growth		120%	65%	30%	20%	15%	12%	10%	8%	6%	5%
% Penetration of Internet Users		6%	9%	12%	13%	15%	16%	17%	18%	19%	19%
% Penetration of SNUs		9%	11%	13%	15%	17%	18%	20%	21%	22%	23%
Page Views (in MM)	88,201	264,604	502,748	703,848	879,810	1,055,772	1,214,138	1,335,551	1,442,395	1,528,939	1,605,386
% YoY Growth		200%	90%	40%	25%	20%	15%	10%	8%	6%	5%
% of Social Networking PVs	6%	8%	11%	12%	14%	16%	18%	20%	21%	21%	22%
% of Internet PVs	0.4%	1.2%	2.1%	2.9%	3.5%	4.0%	4.5%	4.8%	5.1%	5.3%	5.5%
Page Views Utilization		60.0%	62.0%	63.5%	65.0%	66.5%	68.0%	69.5%	71.0%	71.0%	71.0%
Monetized Page Views (in MM)		158,763	311,704	446,943	571,876	702,088	825,614	928,208	1,024,101	1,085,547	1,139,824
Prime Page Views (in MM)		15,876	37,404	62,572	91,500	126,376	165,123	185,642	204,820	217,109	227,965
% of Total Monetized Page Views		10%	12%	14%	16%	18%	20%	20%	20%	20%	20%
Prime CPM		\$4.30	\$5.16	\$6.15	\$7.28	\$8.53	\$9.92	\$11.53	\$13.40	\$15.58	\$18.11
% YoY Growth			20%	19%	18%	17%	16%	16%	16%	16%	16%
Prime Ad Revenues		\$68,267,947	\$193,007,140	\$385,024,729	\$665,780,950	\$1,078,167,592	\$1,637,652,804	\$2,140,342,976	\$2,745,197,742	\$3,382,769,918	\$4,129,093,531
Remnant Page Views		142,886	274,300	384,371	480,376	575,712	660,491	742,566	819,281	868,437	911,859
% of Total Monetized Page Views		90%	88%	86%	84%	82%	80%	80%	80%	80%	80%
Remnant CPM		\$0.50	\$0.60	\$0.72	\$0.85	\$0.99	\$1.15	\$1.34	\$1.56	\$1.81	\$2.11
% YoY Growth			20%	19%	18%	17%	16%	16%	16%	16%	16%
Remnant Ad Revenues		\$71,443,200	\$164,579,732	\$275,017,664	\$406,436,045	\$571,122,368	\$761,698,979	\$995,508,361	\$1,276,836,159	\$1,573,381,357	\$1,920,508,619
Total Ad Revenues		\$139,711,147	\$357,586,872	\$660,042,393	\$1,072,216,996	\$1,649,289,959	\$2,399,351,783	\$3,135,851,337	\$4,022,033,901	\$4,956,151,275	\$6,049,602,150
EBITDA		\$39,119,121	\$108,706,409	\$213,853,735	\$358,120,477	\$567,355,746	\$849,370,531	\$1,141,449,887	\$1,504,240,679	\$1,903,162,089	\$2,323,047,225
EBITDA Margin %		28%	30%	32%	33%	34%	35%	36%	37%	38%	38%
% YoY Growth			178%	97%	67%	58%	50%	34%	32%	27%	22%
- Tax (@ 20% Revs)					71,624,095	113,471,149	169,874,106	228,289,977	300,848,136	380,632,418	464,609,445
- Capex (10% Revs)		\$13,971,115	\$35,758,687	\$66,004,239	\$107,221,700	\$164,928,996	\$239,935,178	\$313,585,134	\$402,203,390	\$495,615,127	\$604,960,215
= ~ Free Cash Flows		\$25,148,007	\$72,947,722	\$147,849,496	\$179,274,682	\$288,955,601	\$439,561,247	\$599,574,776	\$801,189,153	\$1,026,914,544	\$1,253,477,565

Source: Bear Stearns & Co., Inc.

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What Should Yahoo! Pay – FaceBook Valuation (Cont'd)

- DCF Suggest \$5-\$6B
 - WACC 17%, 10x Terminal Multiple
- 45x EBITDA multiple supports valuation
 - Recent AQNT and DoubleClick multiples 41x and 45x, respectively
- Sensitivity analysis
 - \$4.5b- \$7b

		WACC				
		15%	16%	17%	18%	19%
Prime CPM	\$3.50	\$6,469	\$5,606	\$5,041	\$4,348	\$3,878
	\$4.00	\$7,053	\$6,112	\$5,496	\$4,740	\$4,227
	\$4.30	\$7,403	\$6,415	\$5,768	\$4,974	\$4,436
	\$5.00	\$8,220	\$7,123	\$6,404	\$5,522	\$4,924
	\$5.50	\$8,804	\$7,628	\$6,858	\$5,913	\$5,273

		EBITDA Multiple				
		40.0x	42.0x	45.0x	48.0x	50.0x
Prime CPM	\$3.50	\$3,912	\$4,107	\$4,401	\$4,694	\$4,890
	\$4.00	\$4,185	\$4,394	\$4,708	\$5,021	\$5,231
	\$4.30	\$4,348	\$4,566	\$4,892	\$5,218	\$5,435
	\$5.00	\$4,730	\$4,967	\$5,322	\$5,676	\$5,913
	\$5.50	\$5,003	\$5,253	\$5,629	\$6,004	\$6,254

Source: Bear Stearns & Co., Inc.

New Trends – Mobile Opportunity

- Mobile is the next leg of growth for social networking
 - Allow users to access social networking sites anywhere in real-time, which could increase the amount of time users spend on these sites
 - GPS enabled devices adds real world dimension - enable users to keep friends updated on his or her location.
- Examples of social networking sites that have begun to go mobile include Twitter.com and Bliin.com
- Mobile Internet penetration is still low (17% of the current wireless subscribers also subscribe to mobile Internet services), allowing more room for growth
- In 2006, the mobile advertising market estimated to be around \$1.5 billion
- There are currently 2.6 billion cell phone subscribers in the world and are expected to reach 3.8 billion in 2010

Issues

- **Regulation of Security**
 - Scammers use easily accessible information to mislead members into providing private information
 - Distribution of links and attachments that contain harmful content
- **Valuable Tools for Employers/Universities**
 - Employers are using social networks to evaluate potential employees
 - Universities, such as the U.K.'s Oxford, use social networking sites to track behavior of students
 - Raise question of privacy and confidentiality
- **Banning Social Networking in the Workplace**
 - Businesses are blocking social networking sites because they feel they disrupt employee productivity
 - Sites create problems with spam and viruses
- **Sexual Predators**
 - Registered sex offenders use memberships on social networking sites to befriend younger users
 - July 2007- MySpace released and deleted profiles of 29,000 members who are registered sex offenders

Conclusions

1. Social Networking is growing and here to stay
2. SN's could become the new portals
 - a) Yahoo! risks being potentially marginalized
3. SN's can be monetized
4. Large market opportunity
5. Yahoo! needs a stronger presence in SNs
6. Acquisitions make sense
 - a) Valuations may seem large, but justified
7. Mobile – could present next leg of growth

Questions?

**ADDENDUM
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Robert Peck

Lead Analyst Name

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