

State Of The Internet: 2012

Henry Blodget

CEO & EIC, Business Insider

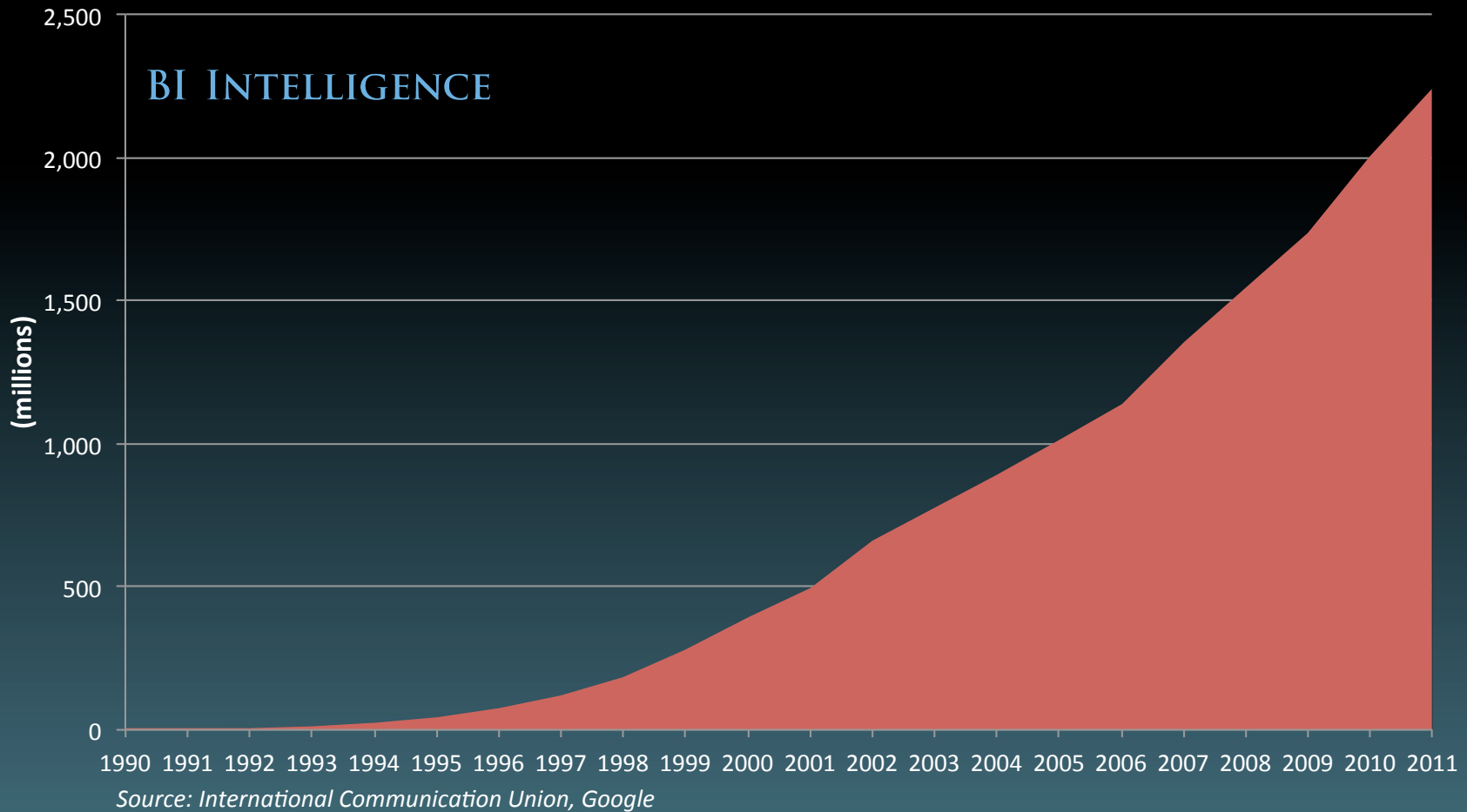
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**The commercial Internet is
now ~20 years old.**

So, how are we doing?

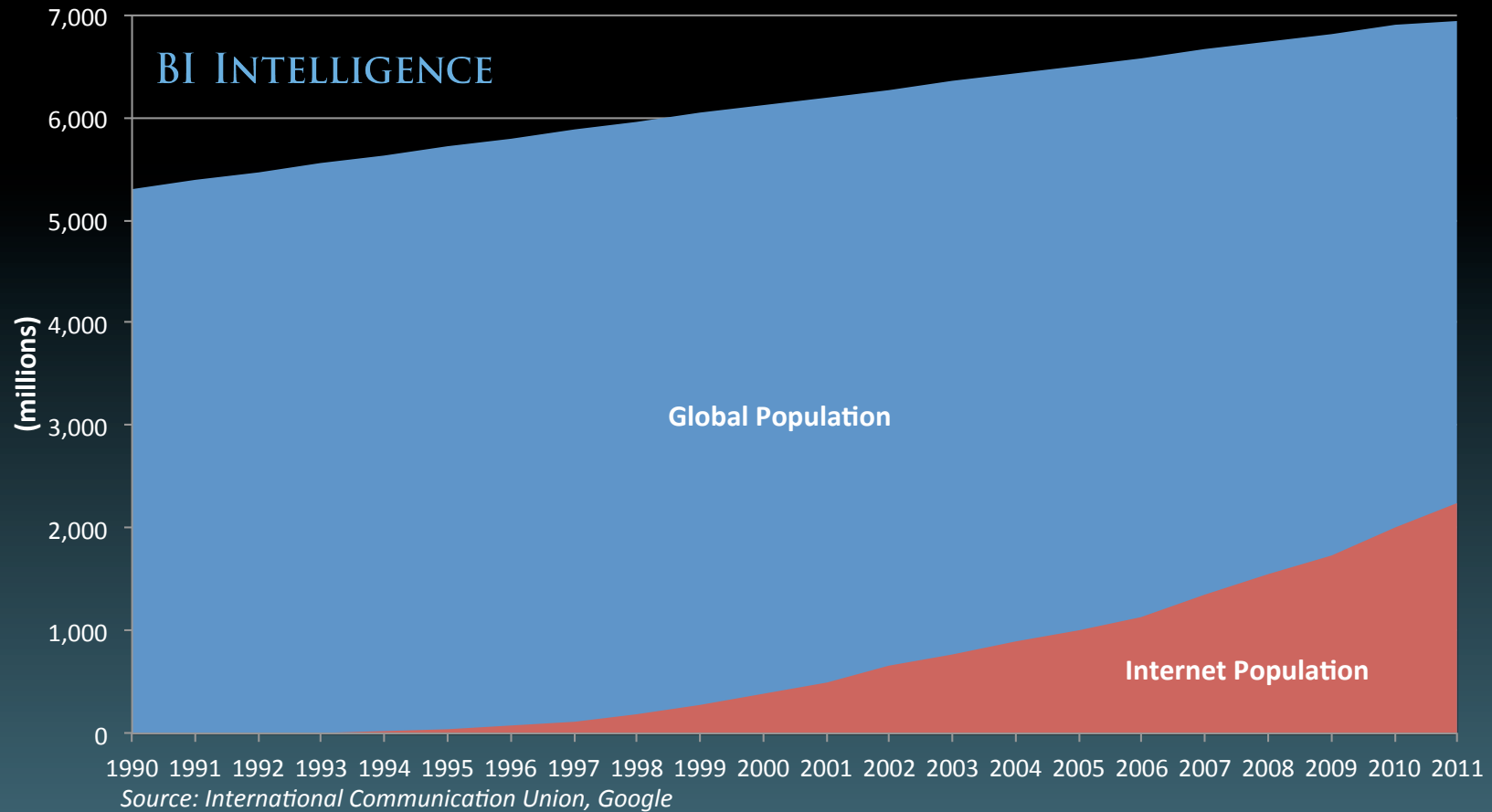
2+ billion people online

Global Internet Population

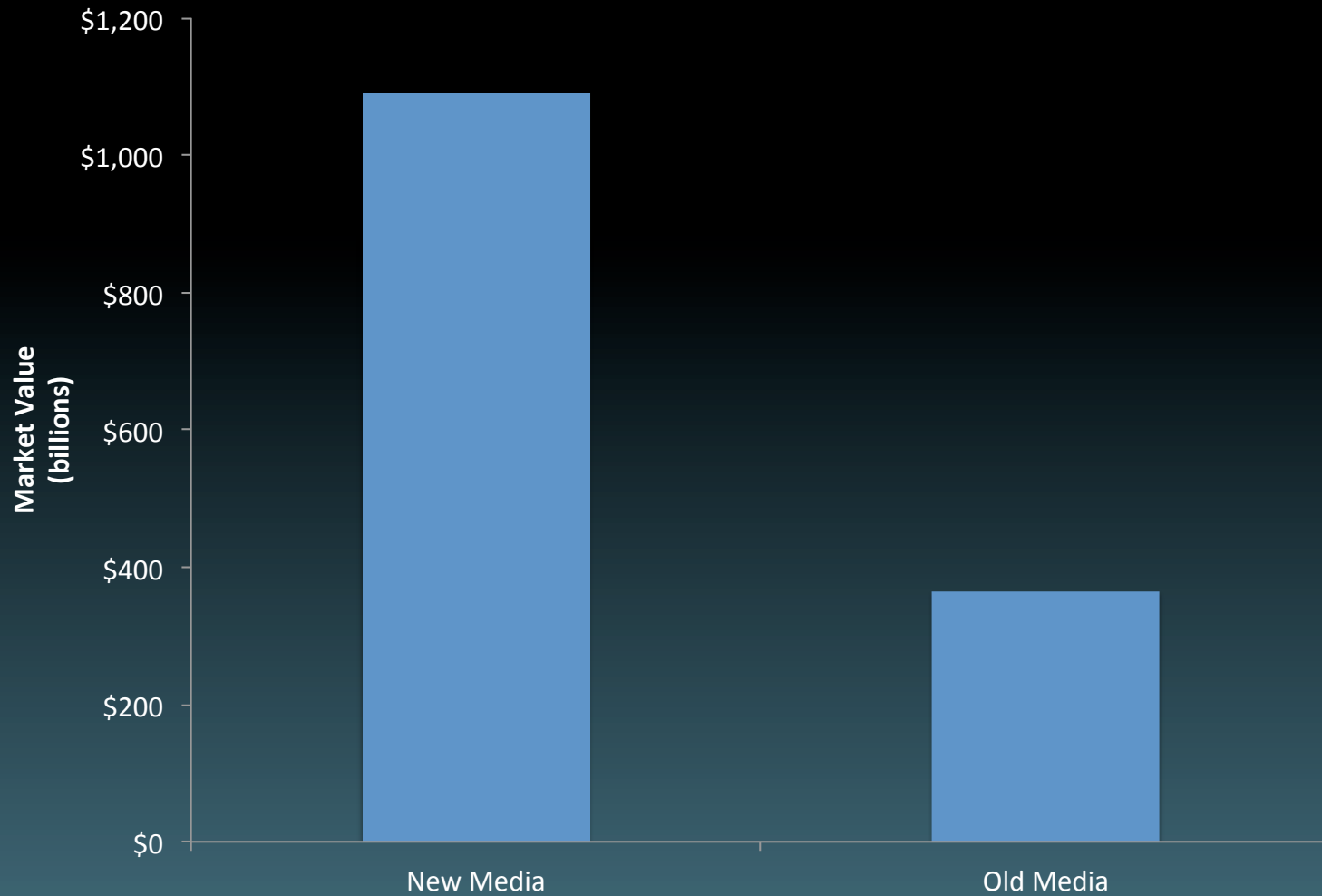


2/3 of the world left to go

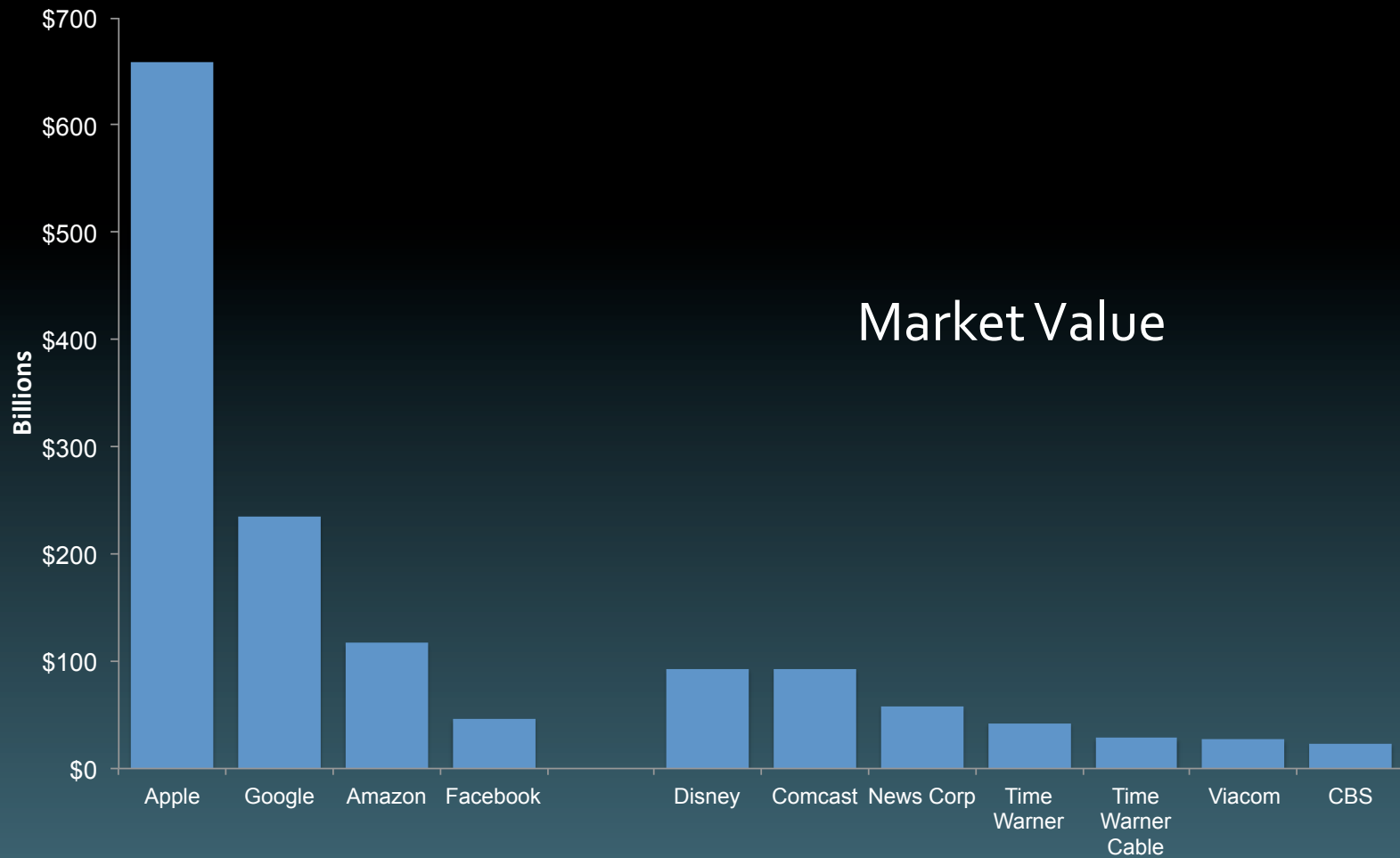
Global Internet Population



US "New media" stock value 3X "old media"

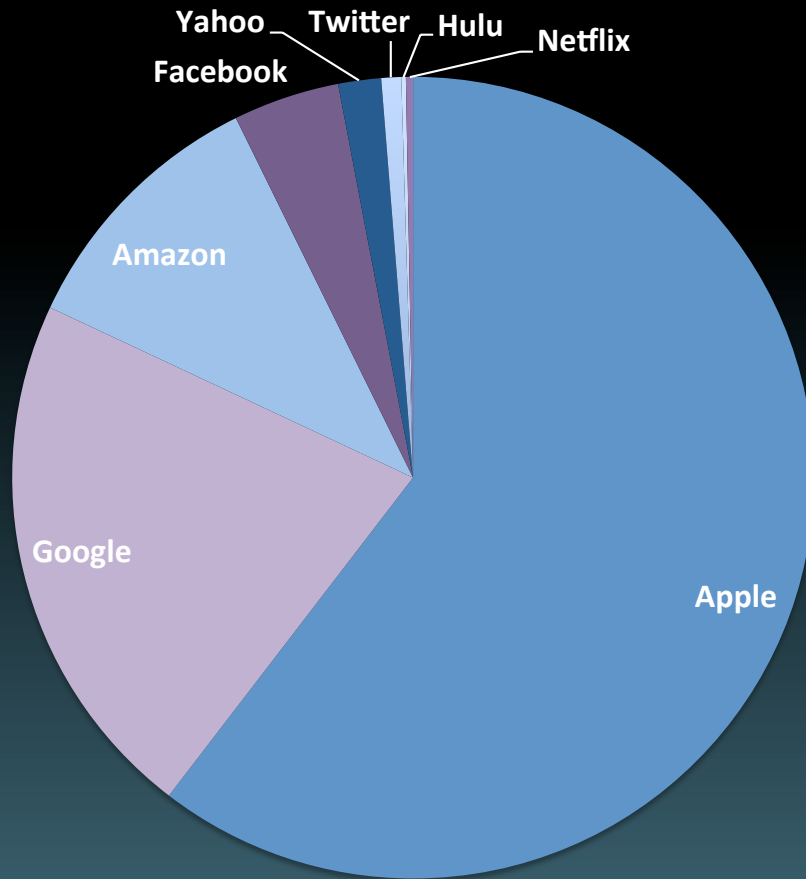


(When you include Apple)



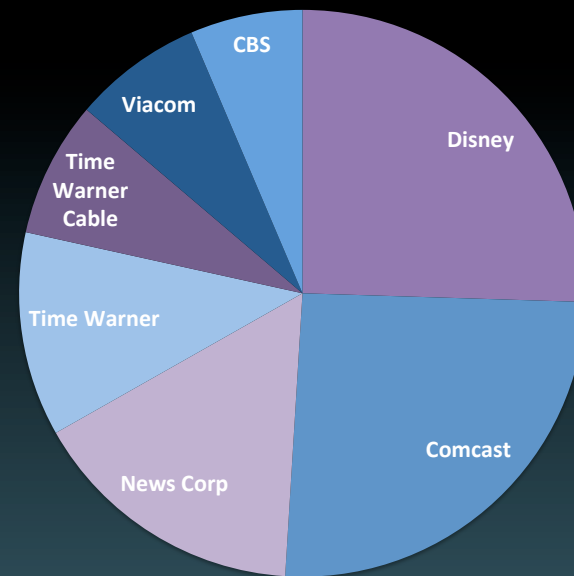
As ever, power is very concentrated...

“New Media”



\$1,089 Billion Market Value

“Old Media”



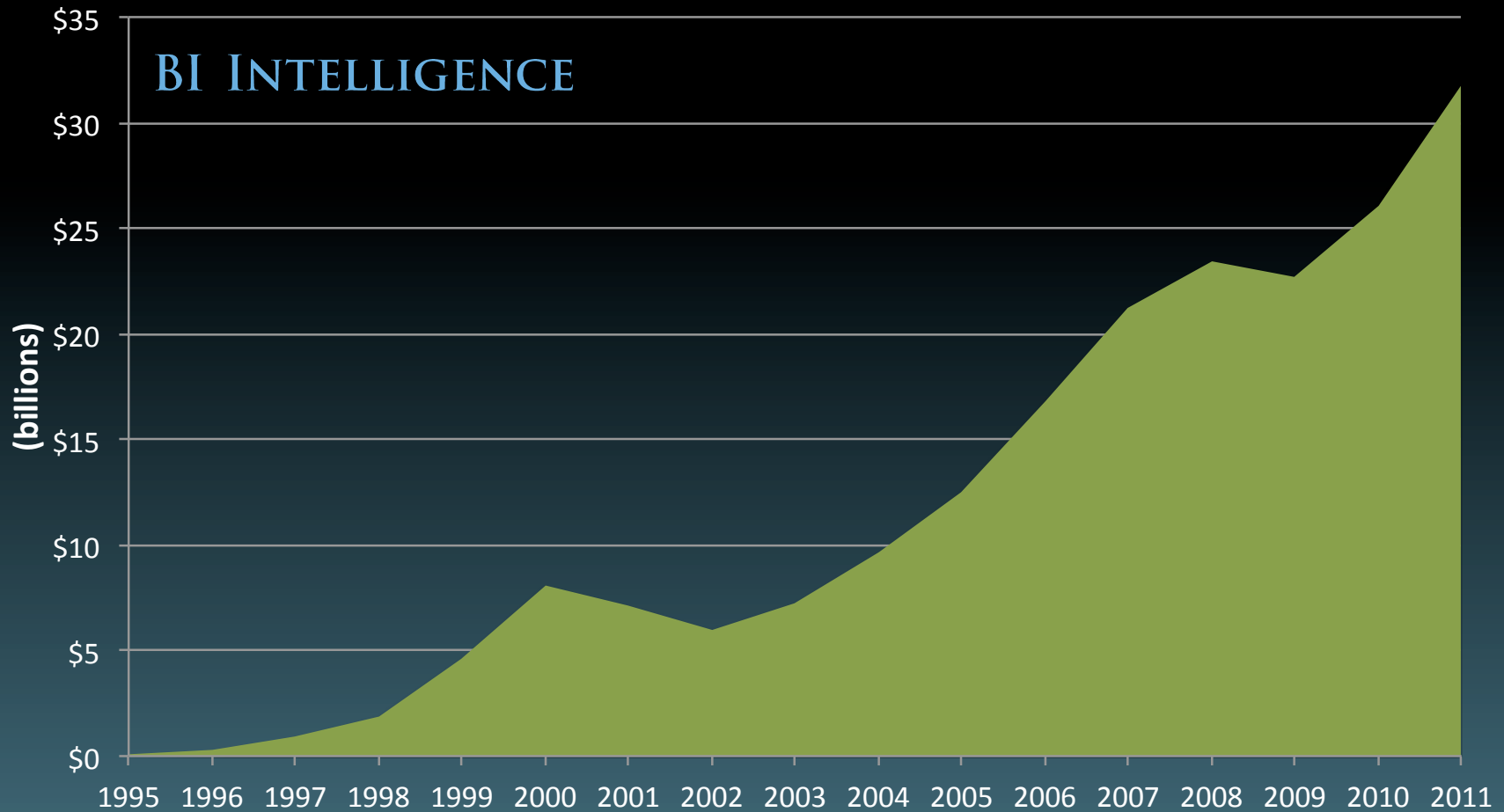
\$366 Billion Market Value

**And now to the actual
businesses...**

MEDIA

U.S. Digital Advertising is making huge gains

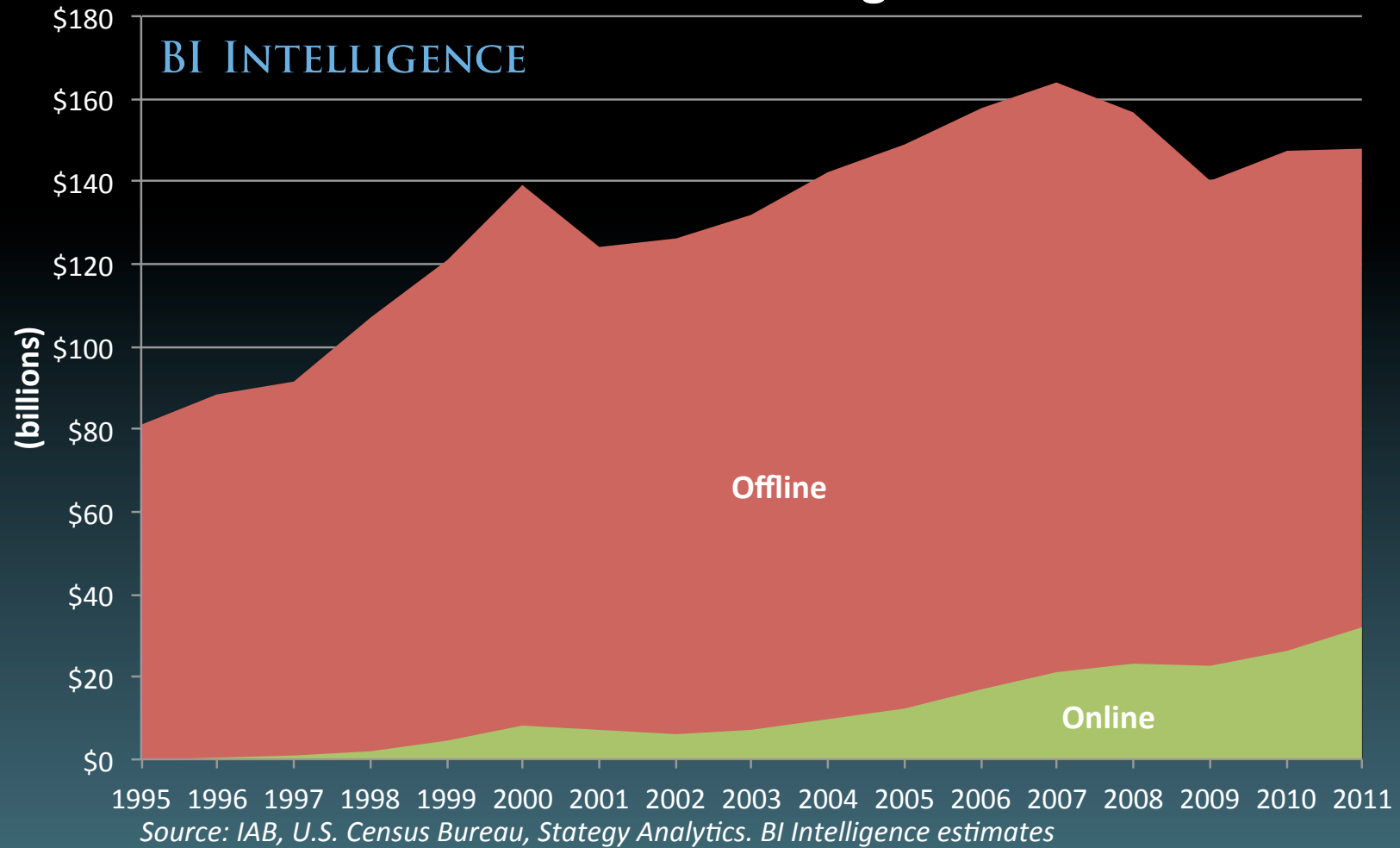
U.S. Digital Advertising



Source: IAB

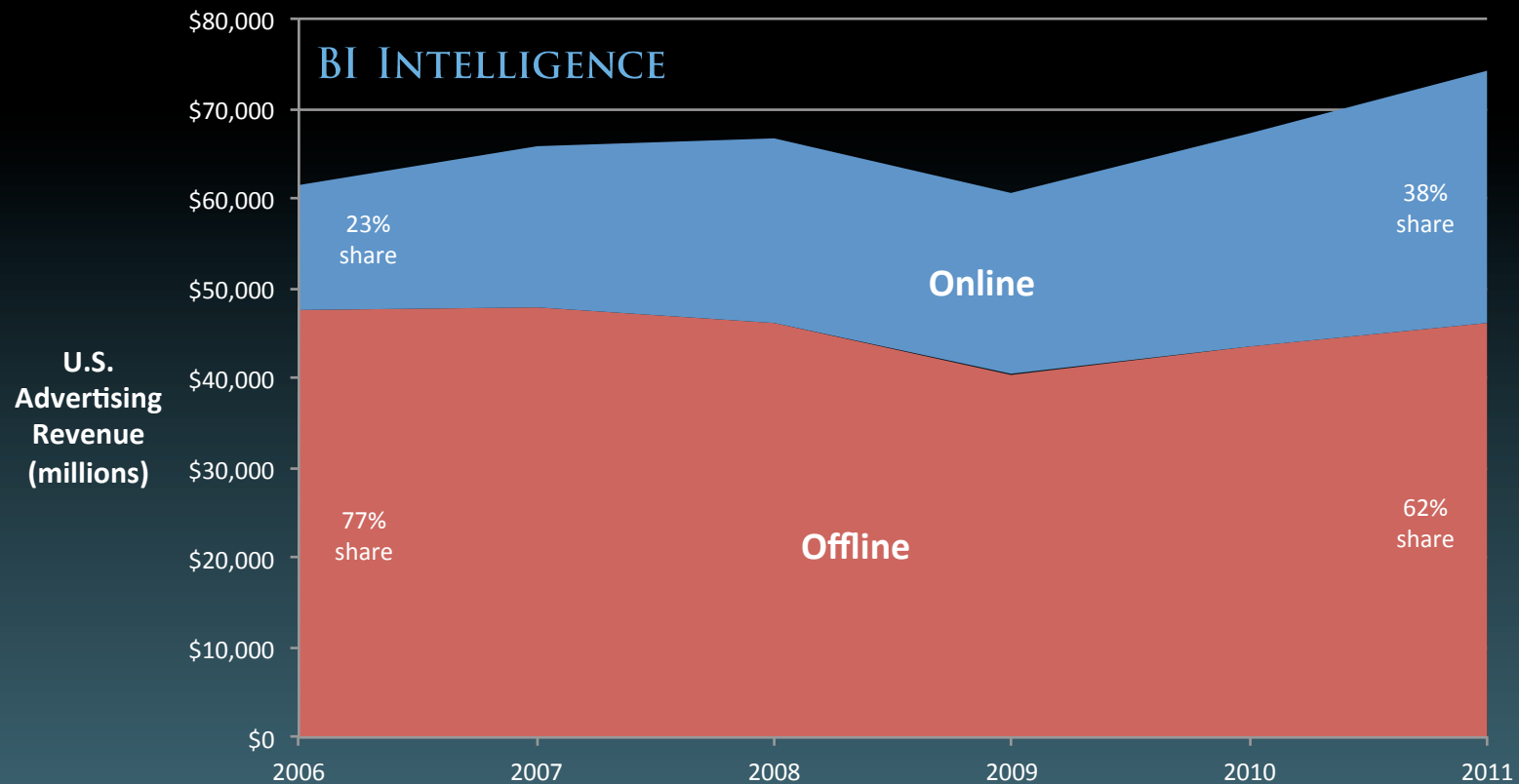
And now accounts for ~20% of total ad spend

U.S. Advertising



Among the largest media companies, more than one-third of ad spending is now online.

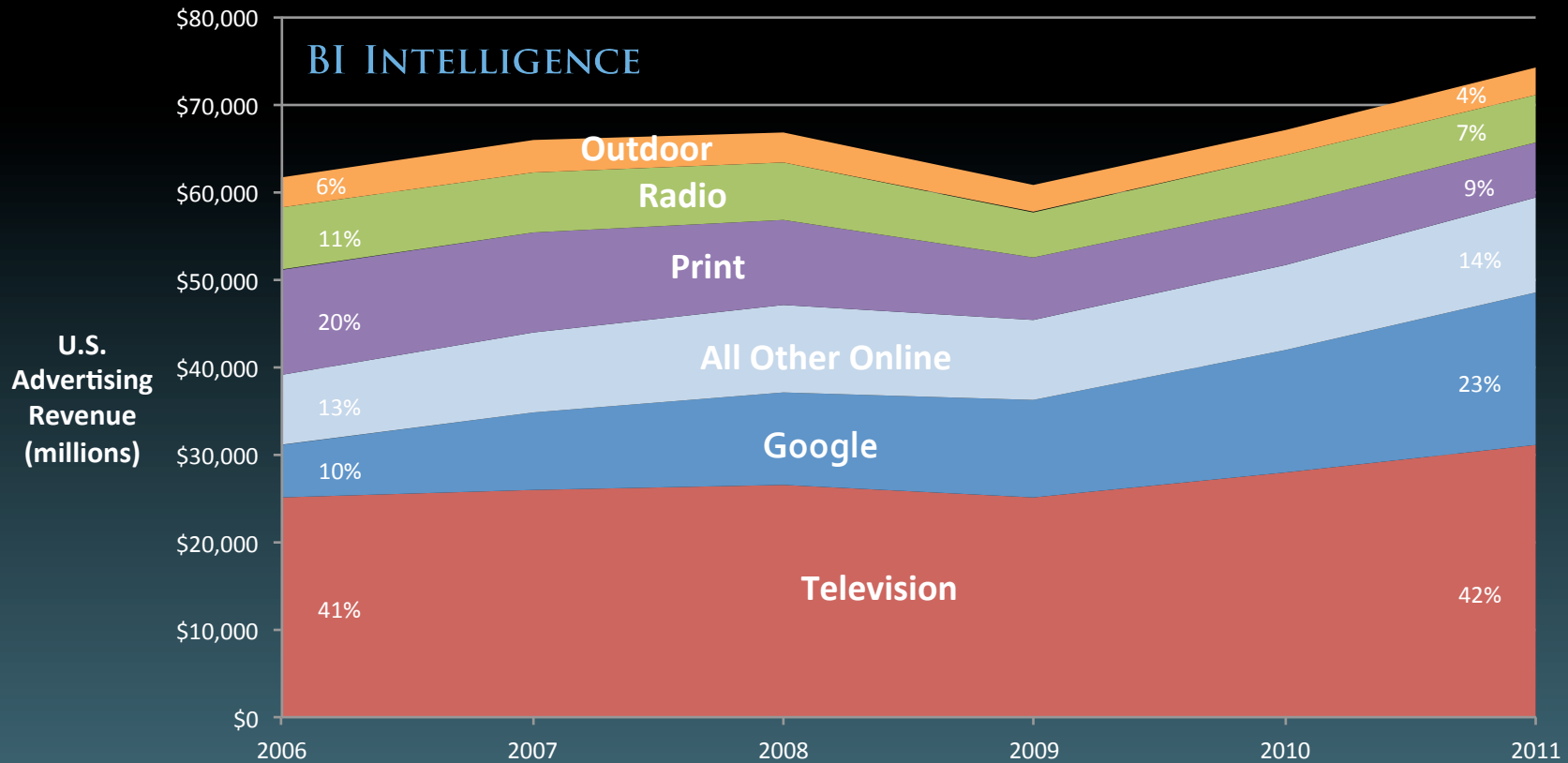
Online vs. Offline Advertising (U.S.), 2006-2011



Source: Company filings and BI Intelligence estimates. Companies include: Google, Yahoo, AOL, Microsoft, Facebook, Time Warner, Disney, Viacom, CBS, News Corp, New York Times, Gannett, McClatchy, Time Inc, Entercom, CBS Radio, Clear Channel, Citadel, Cum

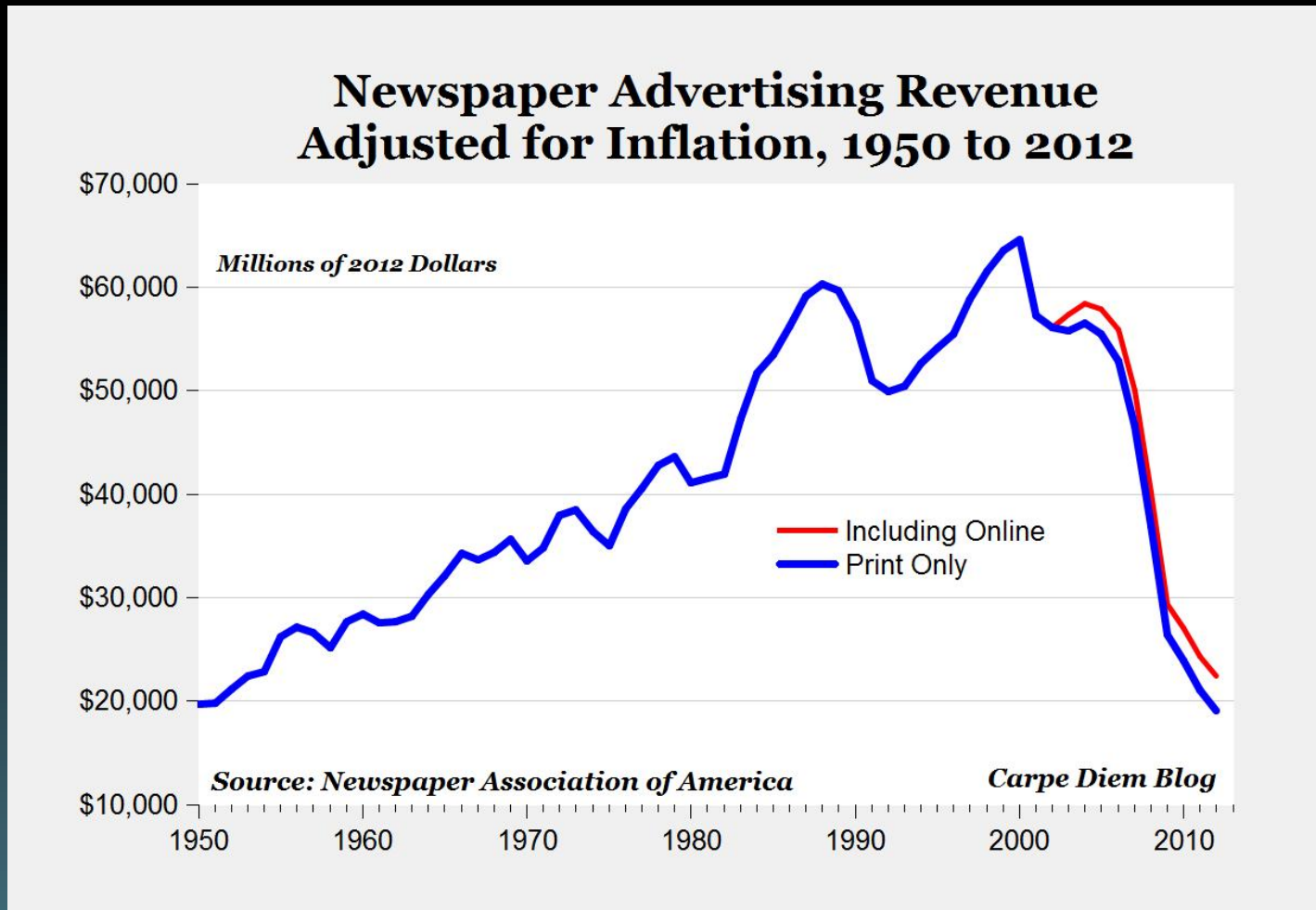
TV still biggest. Online close behind. Print getting smashed.

U.S. Advertising, 2006-2011



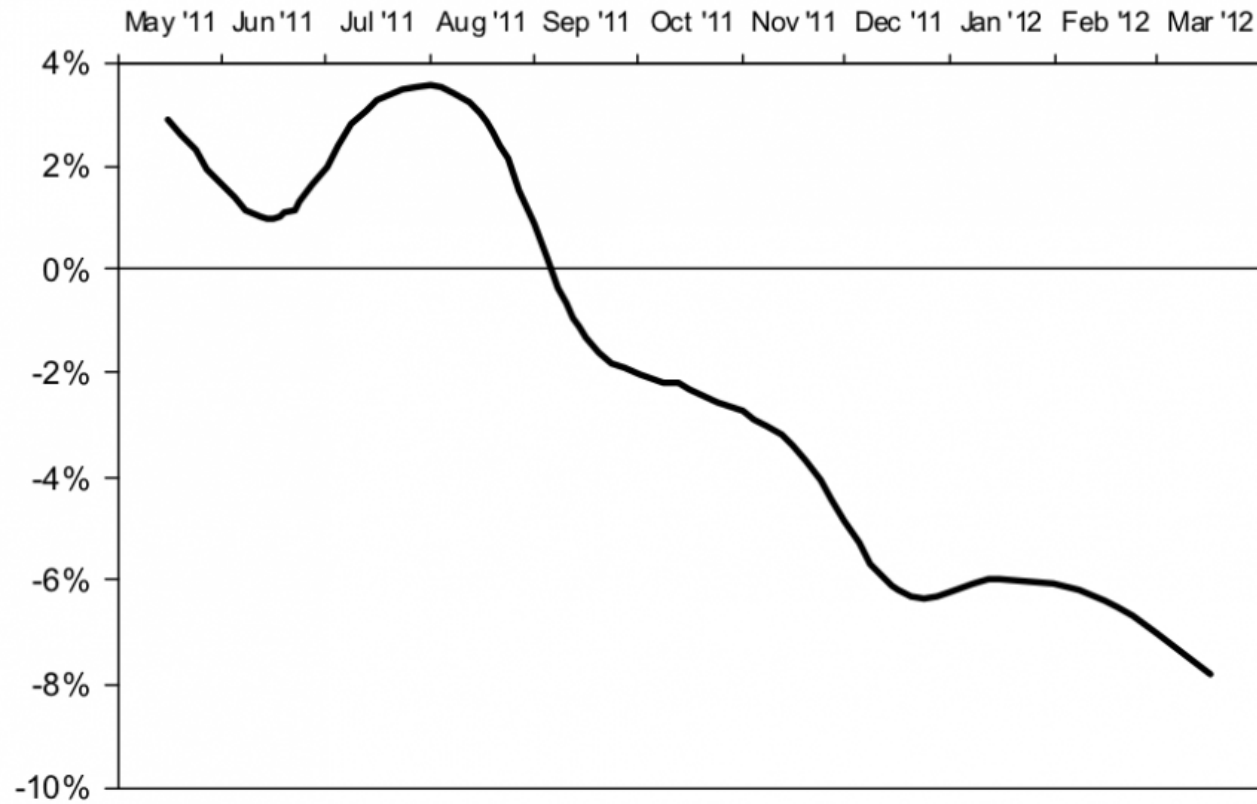
Source: Represents annual U.S. advertising revenue for 20 large media companies based on company filings and our own estimates

Newspaper ad revenue has collapsed



TV may be next.

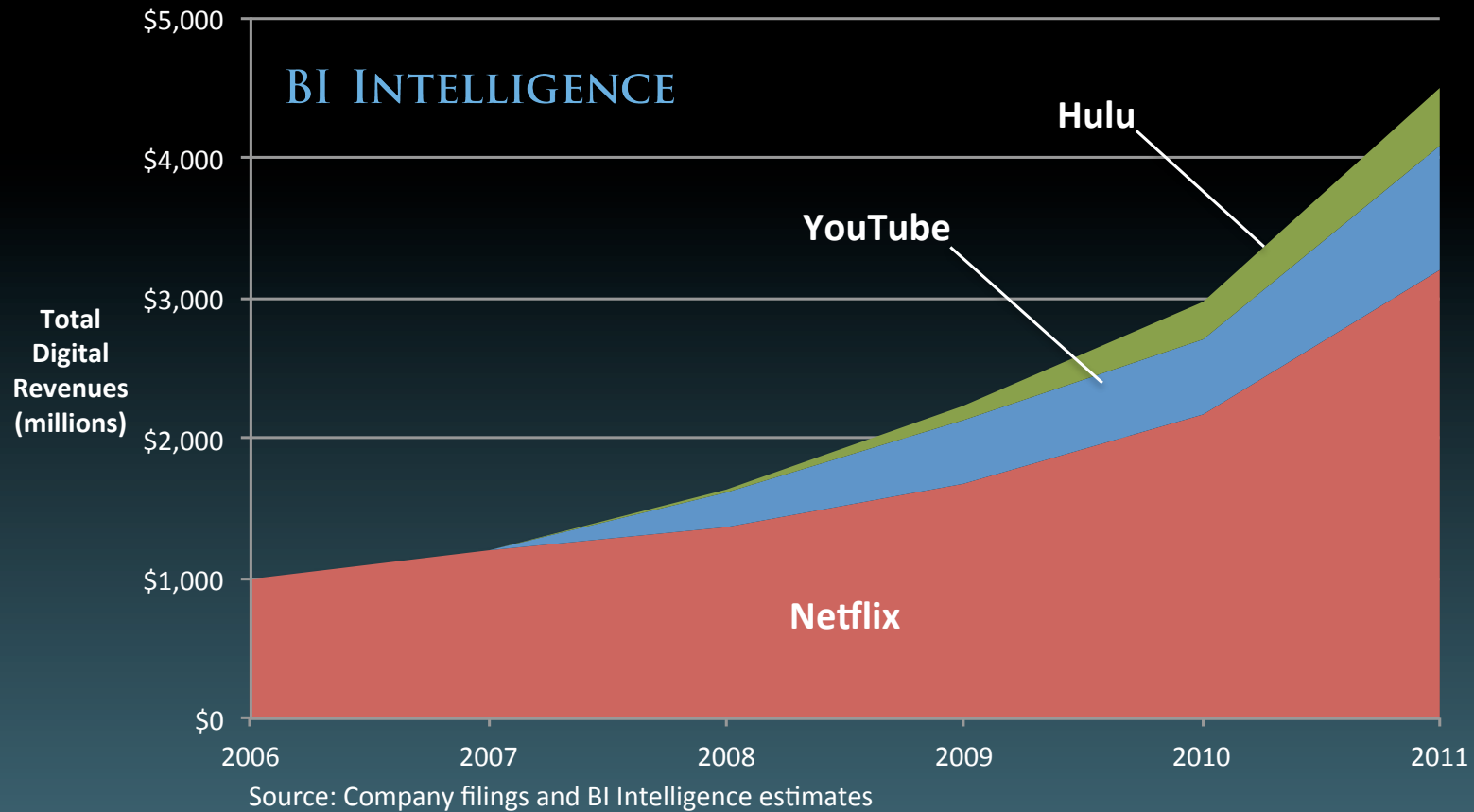
Figure 7. Change in Live + Same Day Ratings; Persons 2+; Total Day (percent)



Source: Citi Investment Research and Analysis; Nielsen

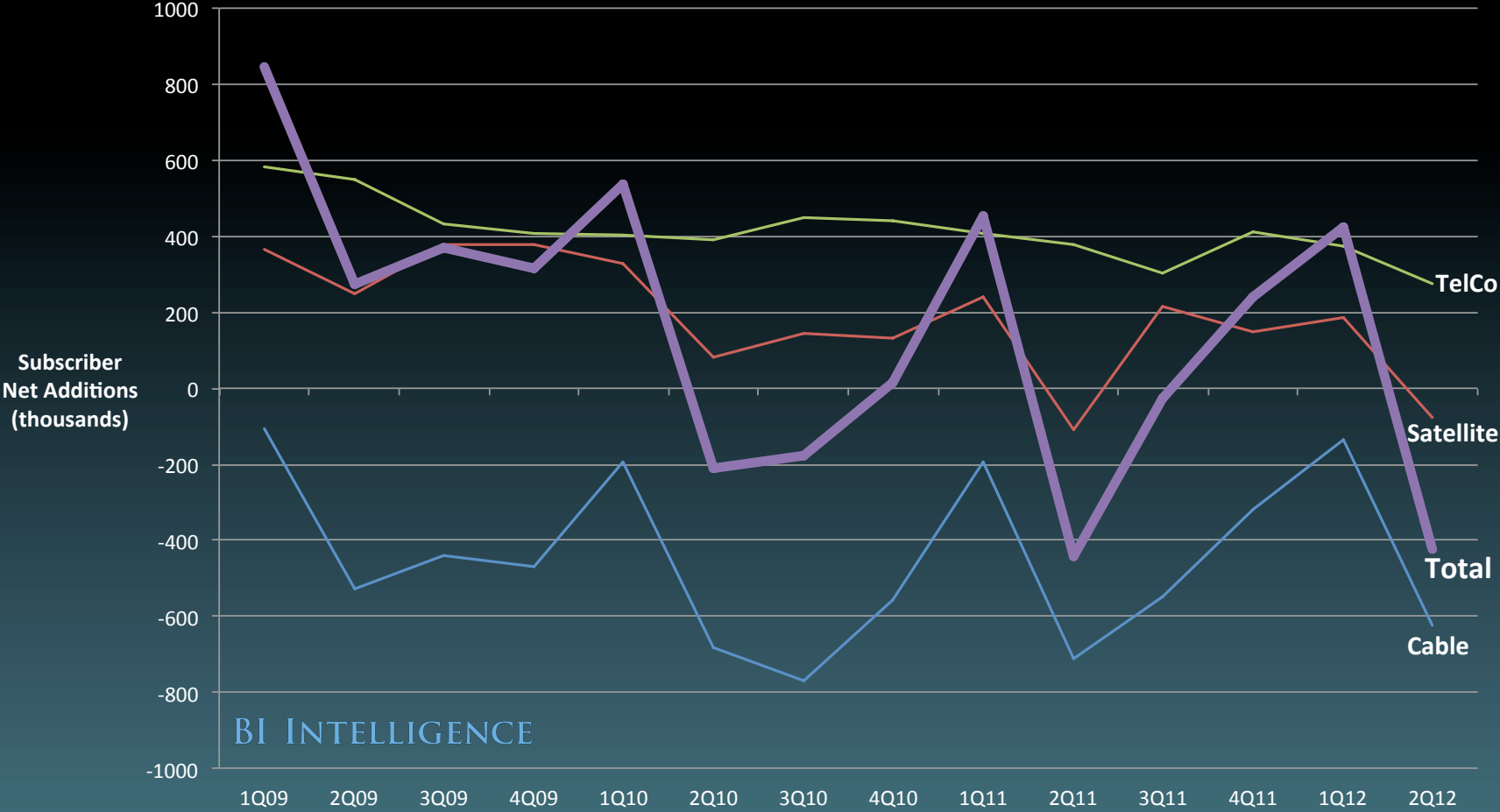
“Over-the-top” video is real and growing fast.

Digital Video Revenue, 2006-2011



Pay TV subscriptions are trending down.

Pay TV Subscriber Net Additions

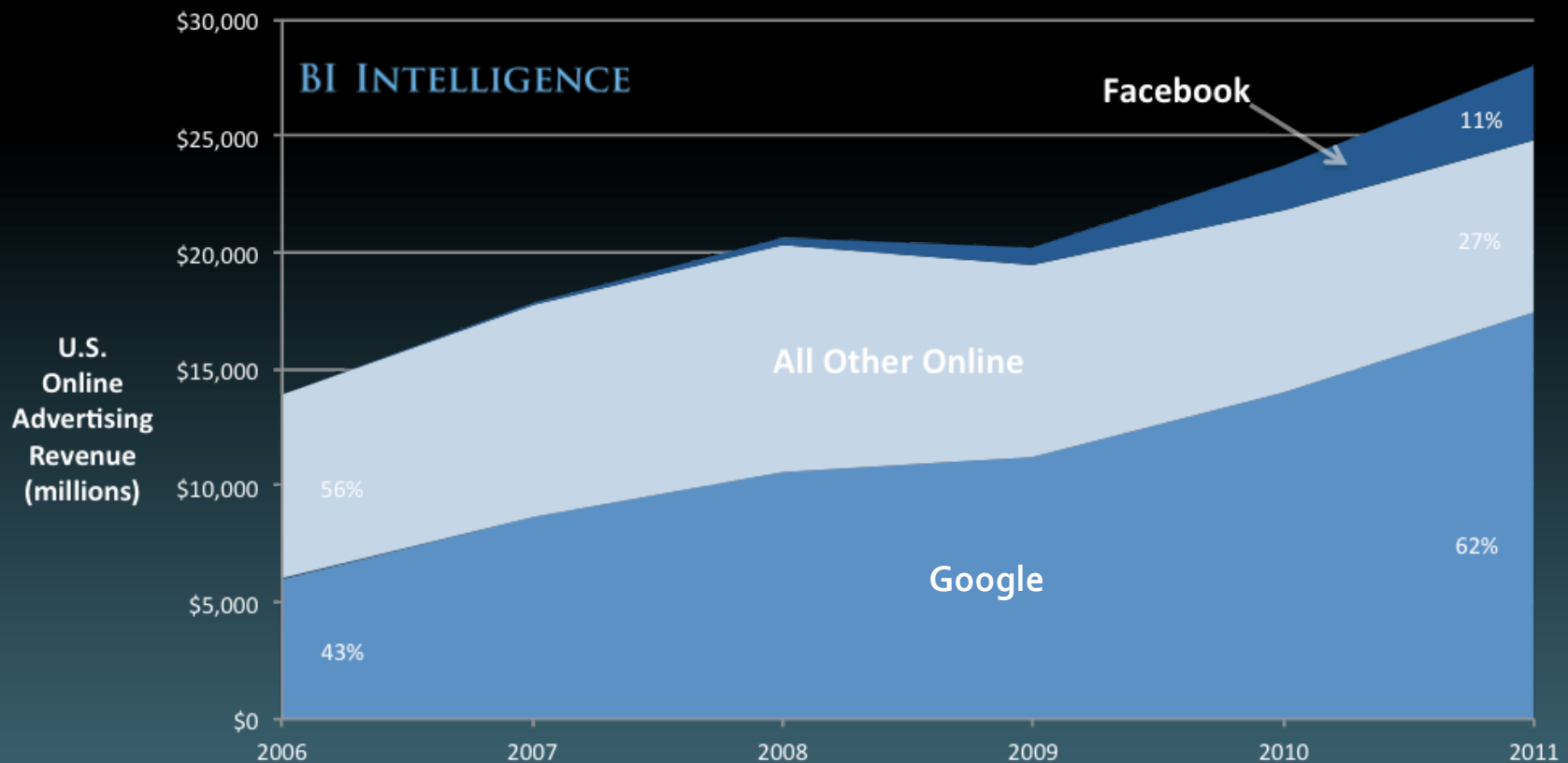


Source: Bernstein Research, BI Intelligence estimates

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In online ads, Google is completely dominant. Facebook's gaining steam...

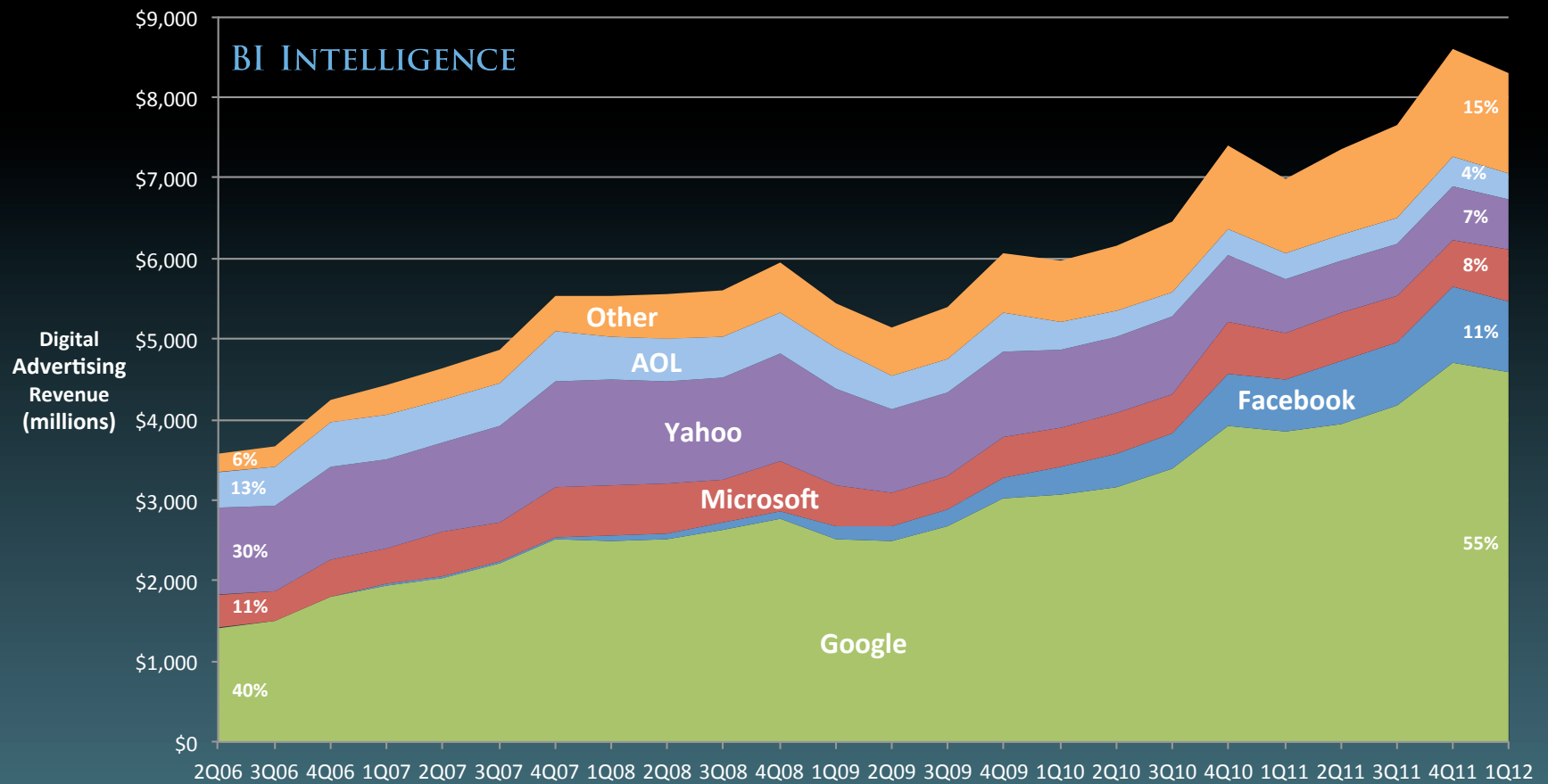
Online Advertising (U.S.), 2006-2011



Source: Company filings and BI Intelligence estimates. US only. Companies include: Google, Yahoo, AOL, Microsoft, Facebook

Facebook has already blown past AOL, Microsoft, and Yahoo

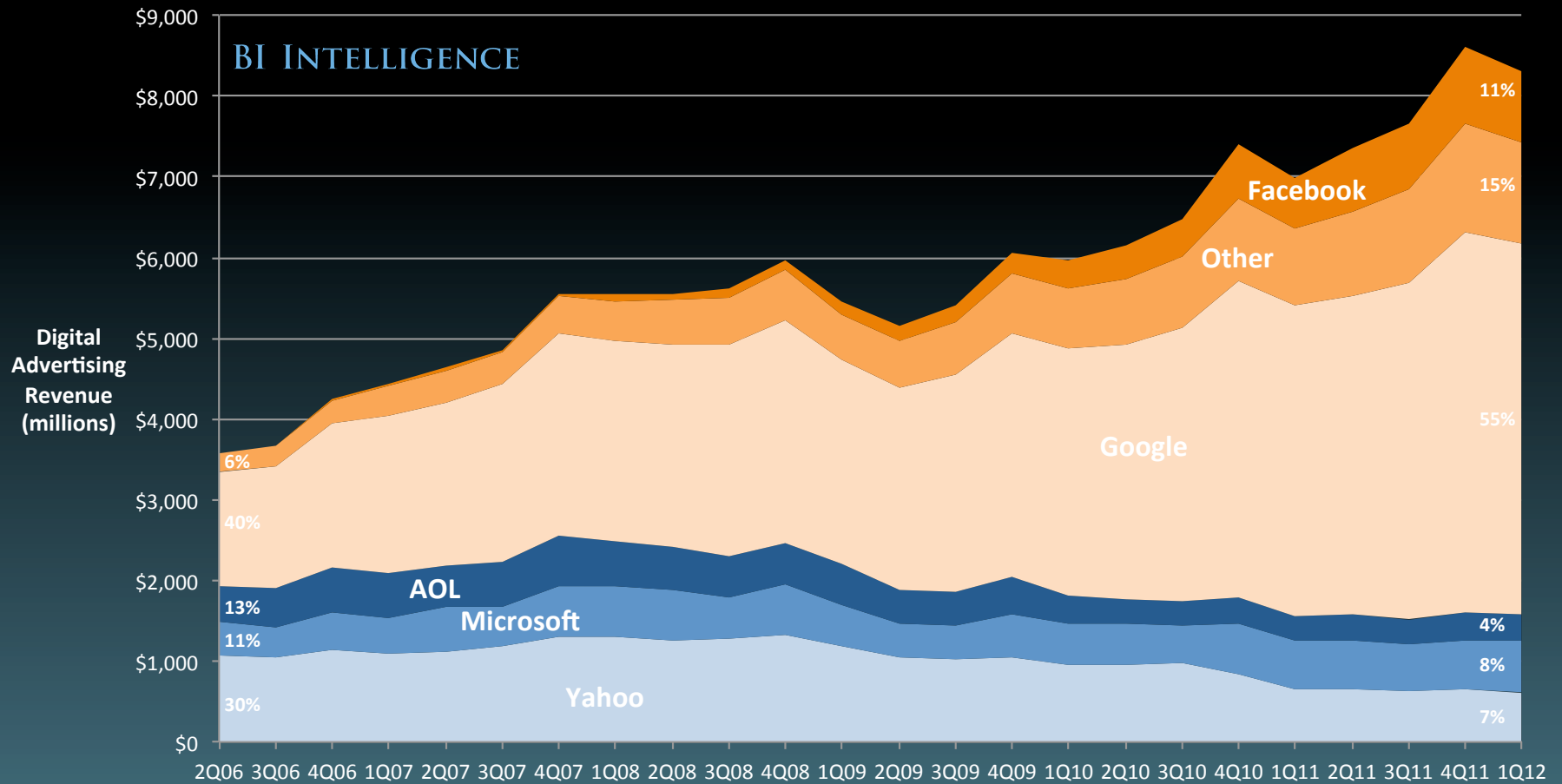
U.S Digital Advertising



Source: company filings BII estimates

Google, Facebook and a handful of new companies are winning, portals losing.

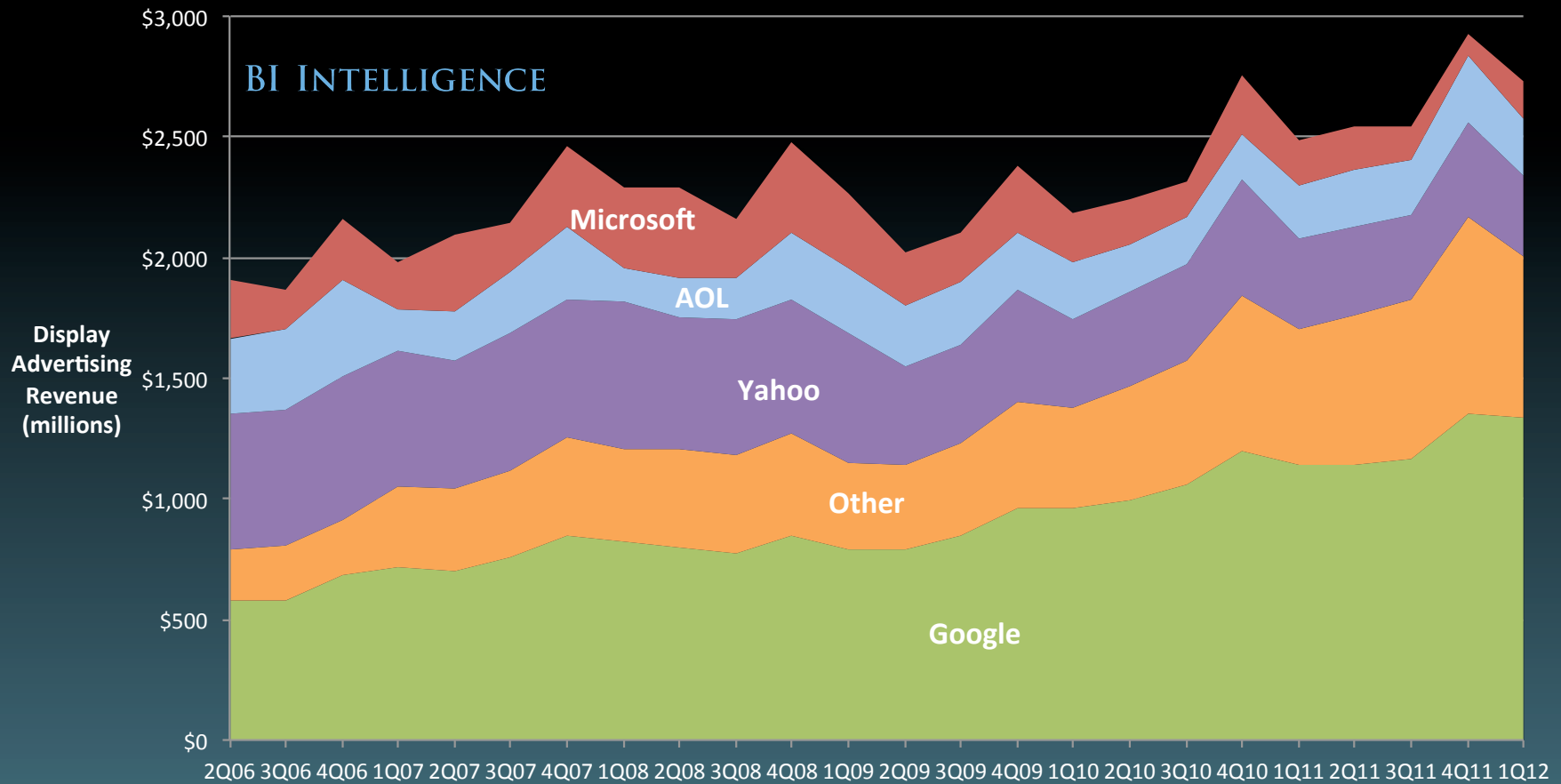
U.S Digital Advertising: Winners And Losers



Source: company filings, BII estimates

"Display" ad growth is flattening.

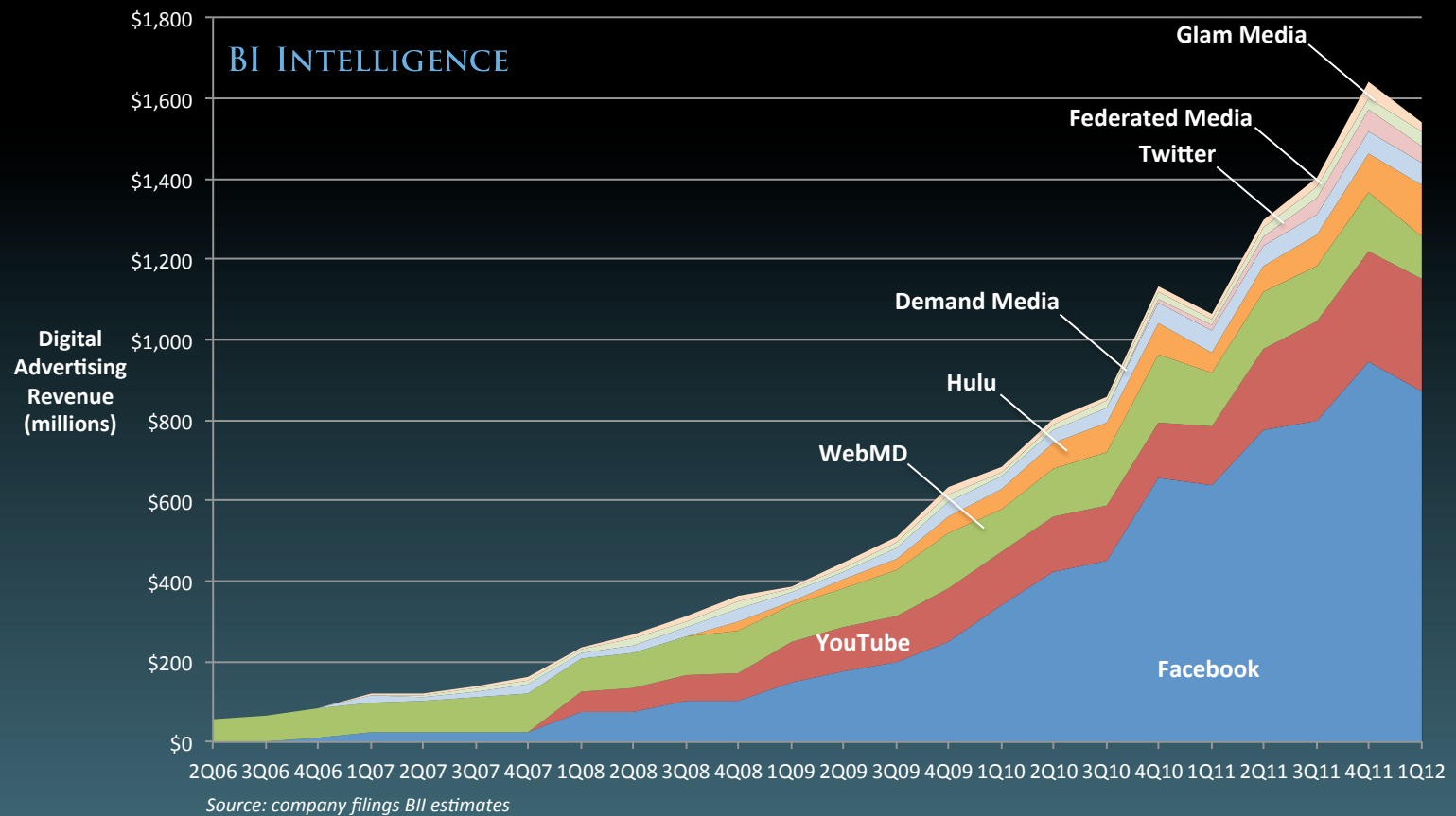
U.S. Display Advertising



Source: company filings, BII estimates

And new companies taking share from portals... YouTube, Hulu, Glam, Twitter, Demand, et al.

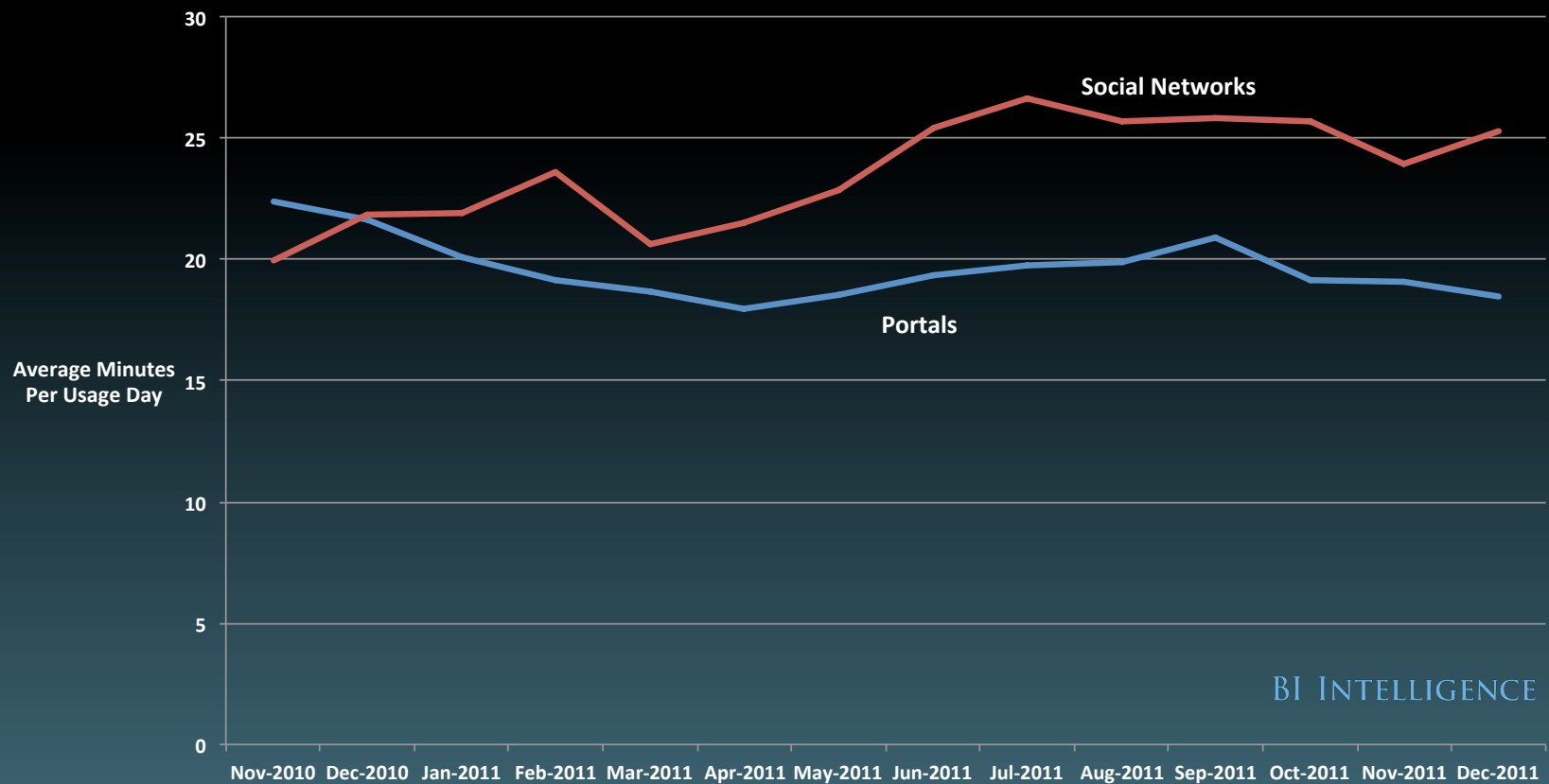
US Digital Advertising: New Growth Companies



SOCIAL

Americans now spend more time on social networks than portals

Average Time Spent: Portals vs. Social Networks (U.S.)



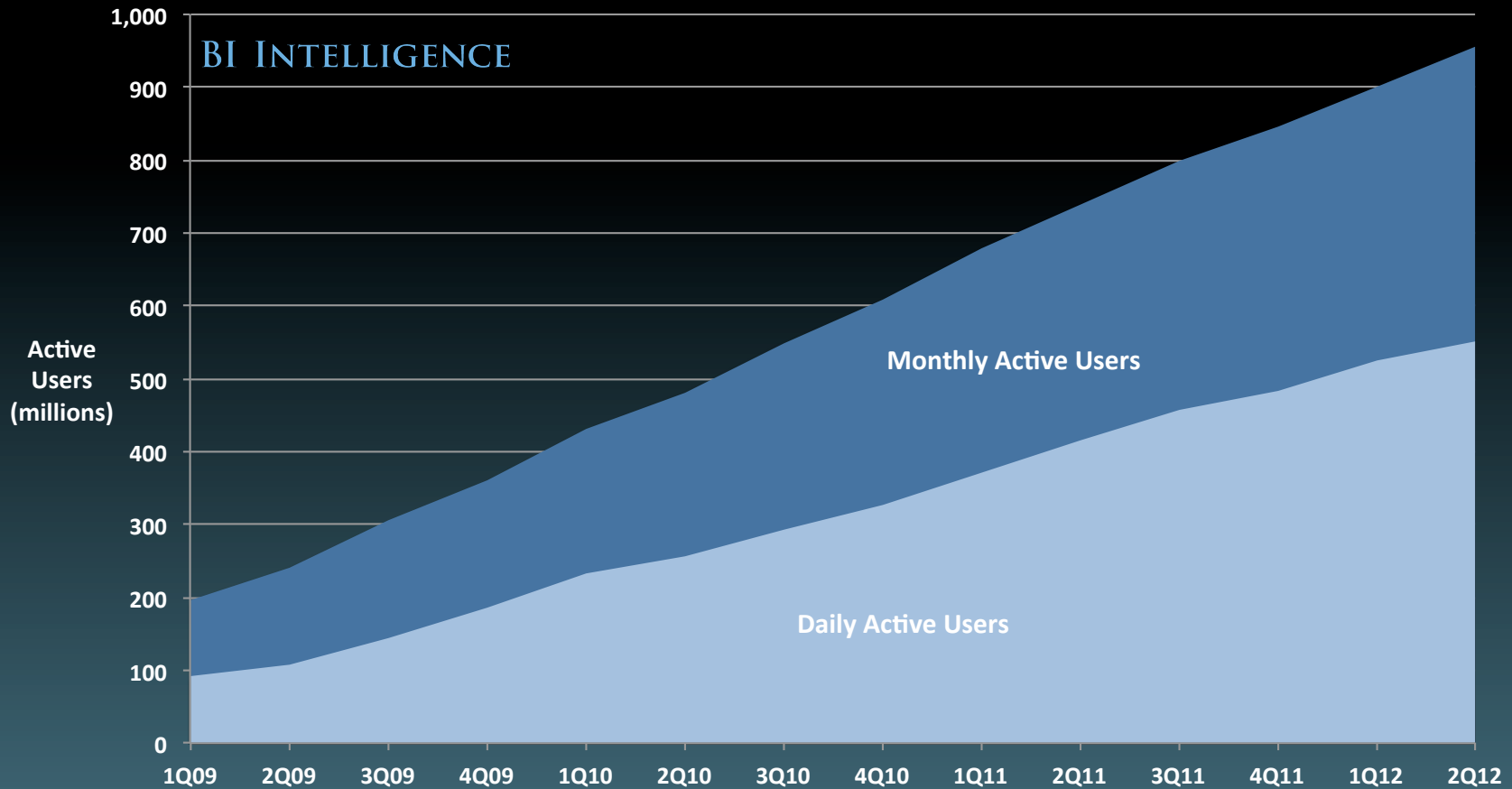
Source: comScore

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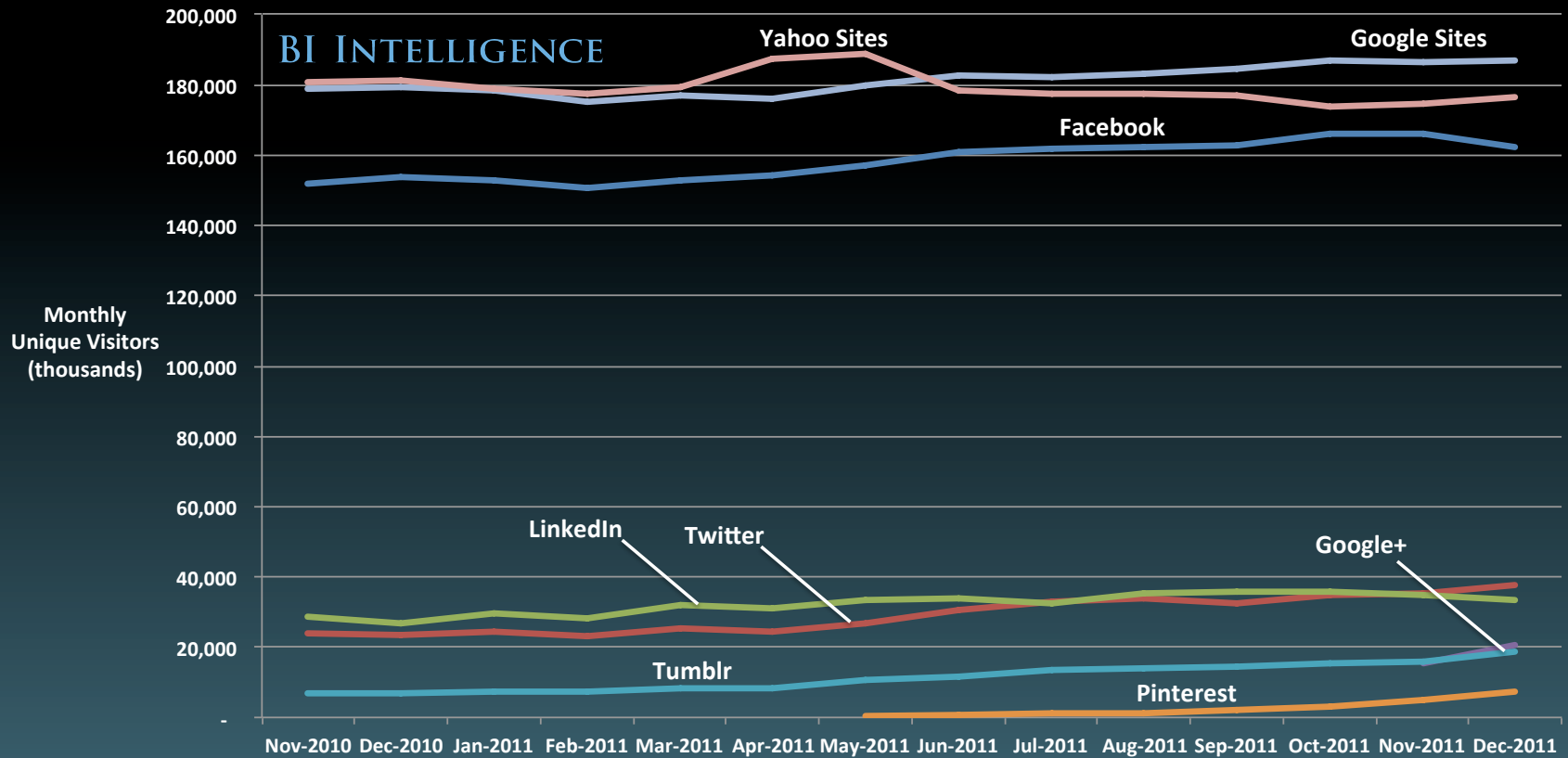
1/7th of the world's population use Facebook

Facebook Active Users



Within social, Facebook dominates.

Social Networks: Unique Visitors (U.S.)



Source: comScore

**So, will Facebook be bigger than
Google?**

Unlikely.

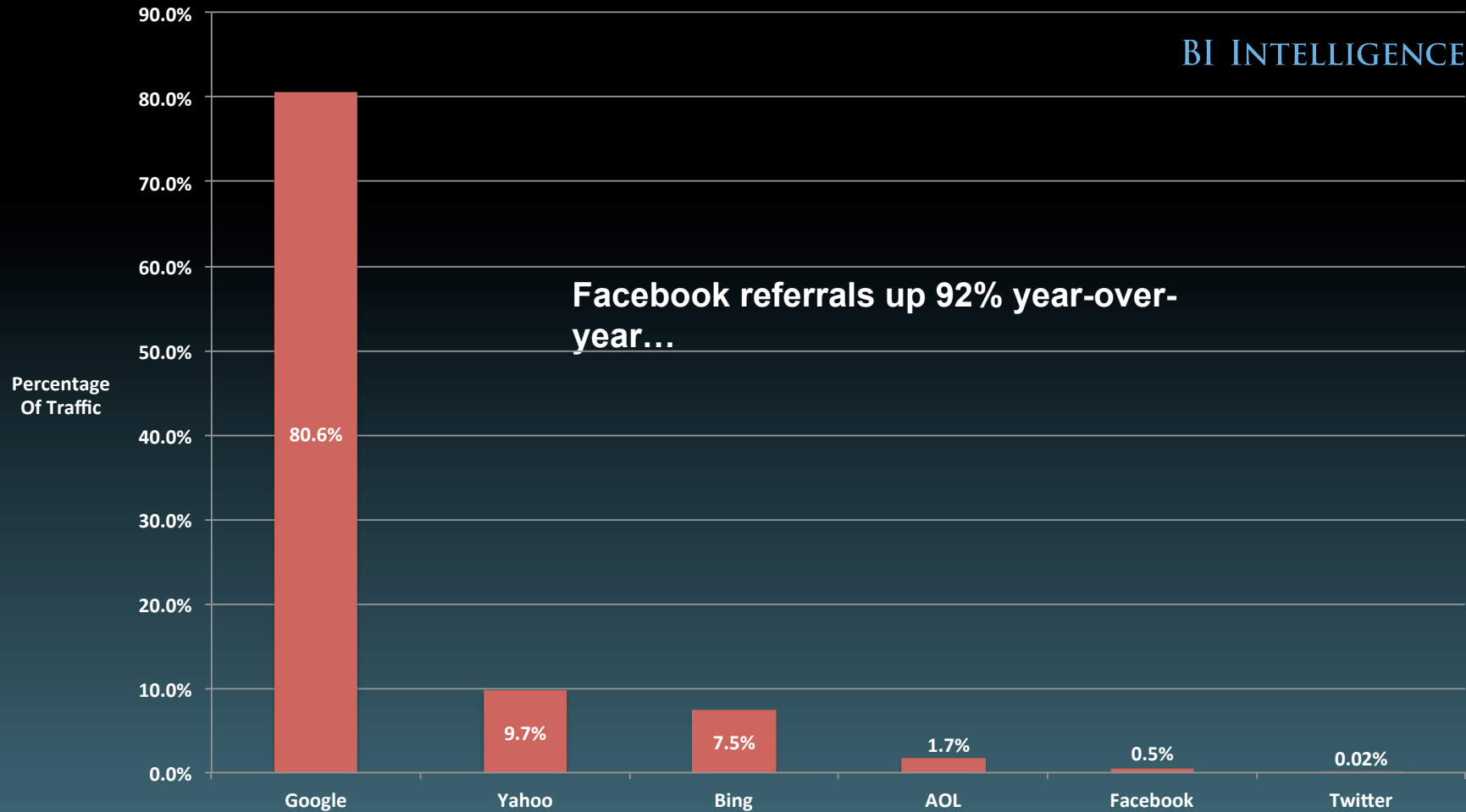
Google is the best ad product in the history of the world... because it's like advertising at a store.

**Facebook, meanwhile, is like
advertising at a party.**

Social referrals to commerce sites are still tiny

Drivers of E-Commerce Traffic

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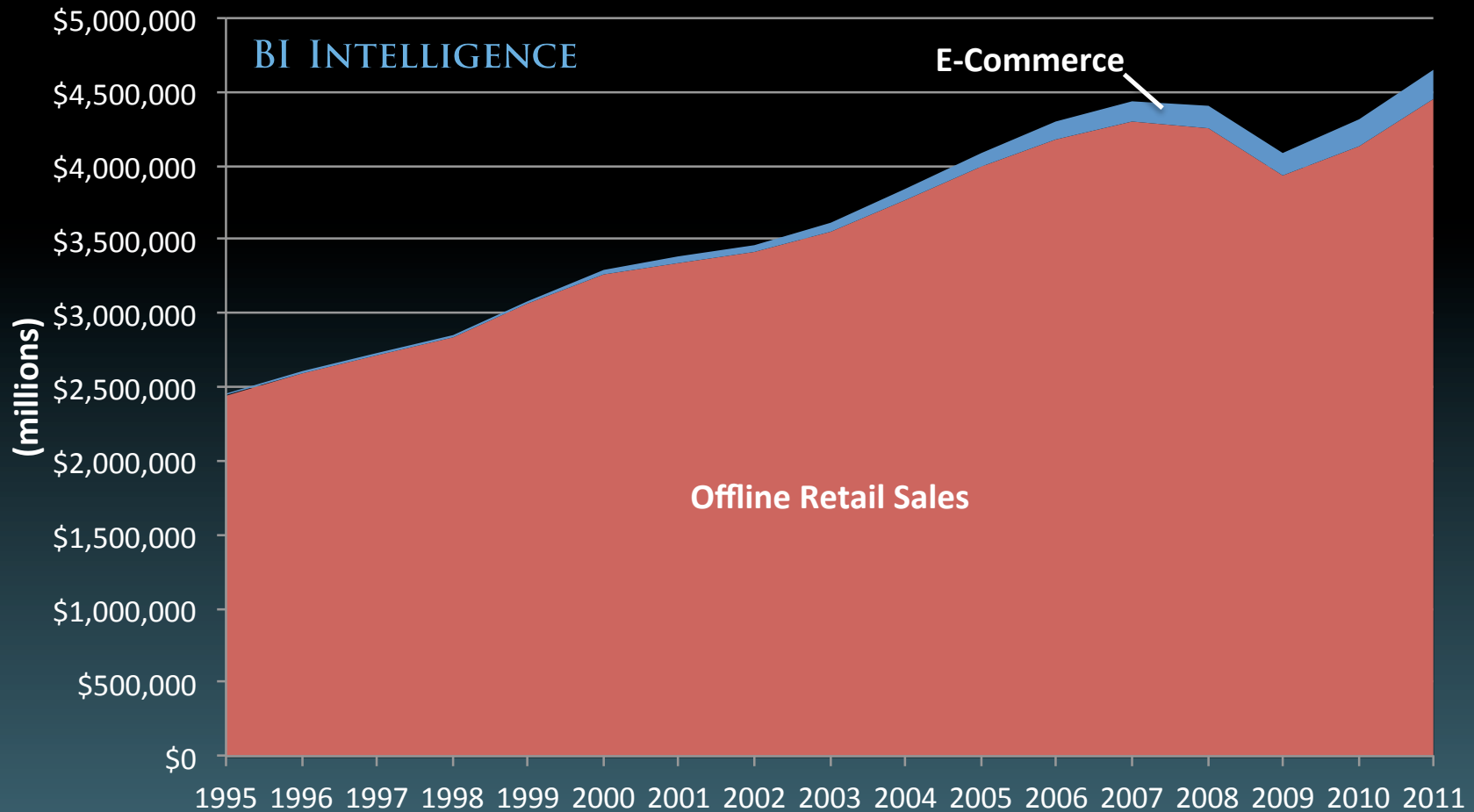
Source: RichRelevance

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eCOMMERCE

E-Commerce continues to take share...

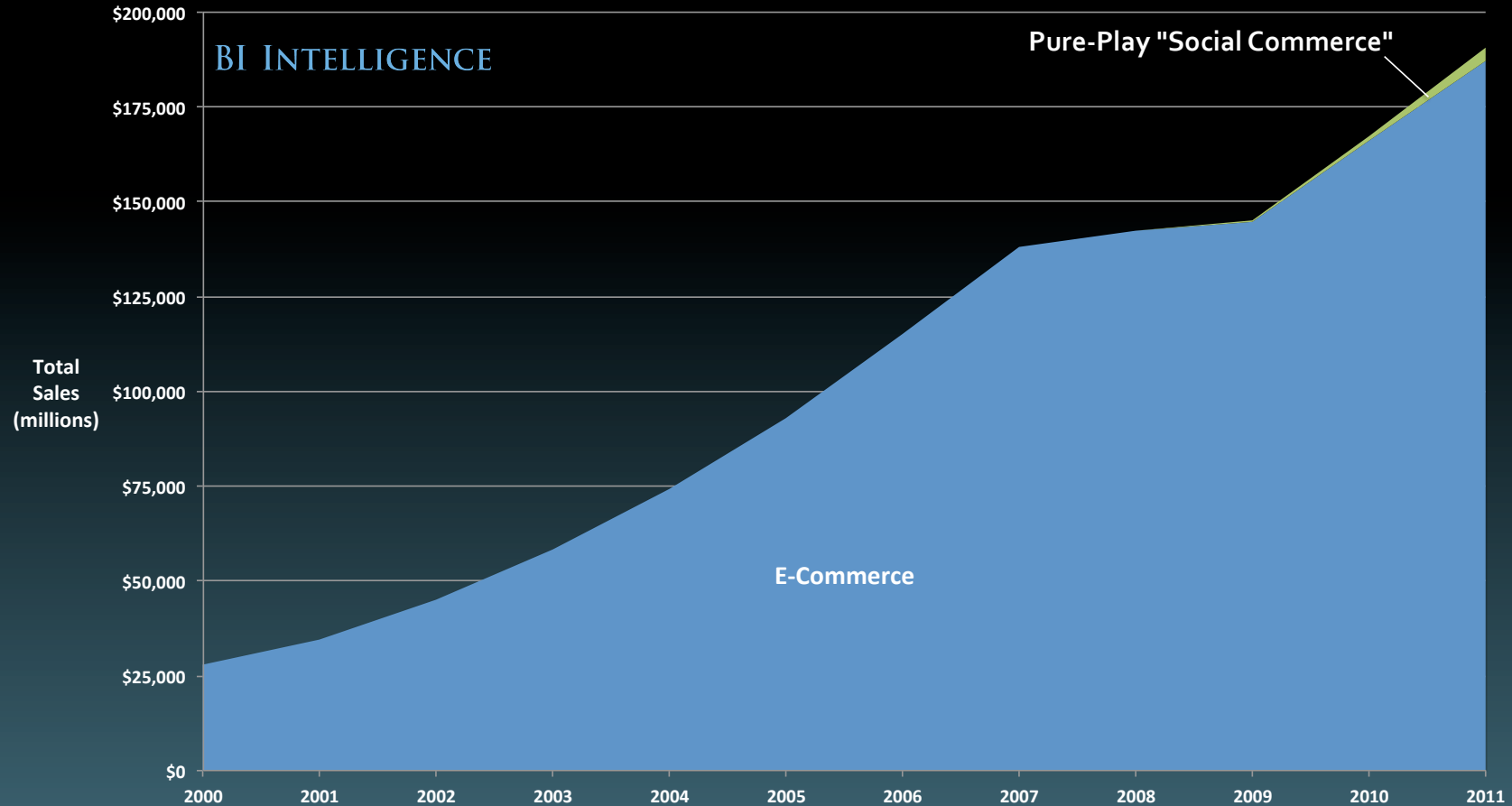
U.S. Retail Sales



Source: Federal Reserve Economic Data--St. Louis Fed, BI Intelligence estimates

New "pure-plays" launched in last few years...

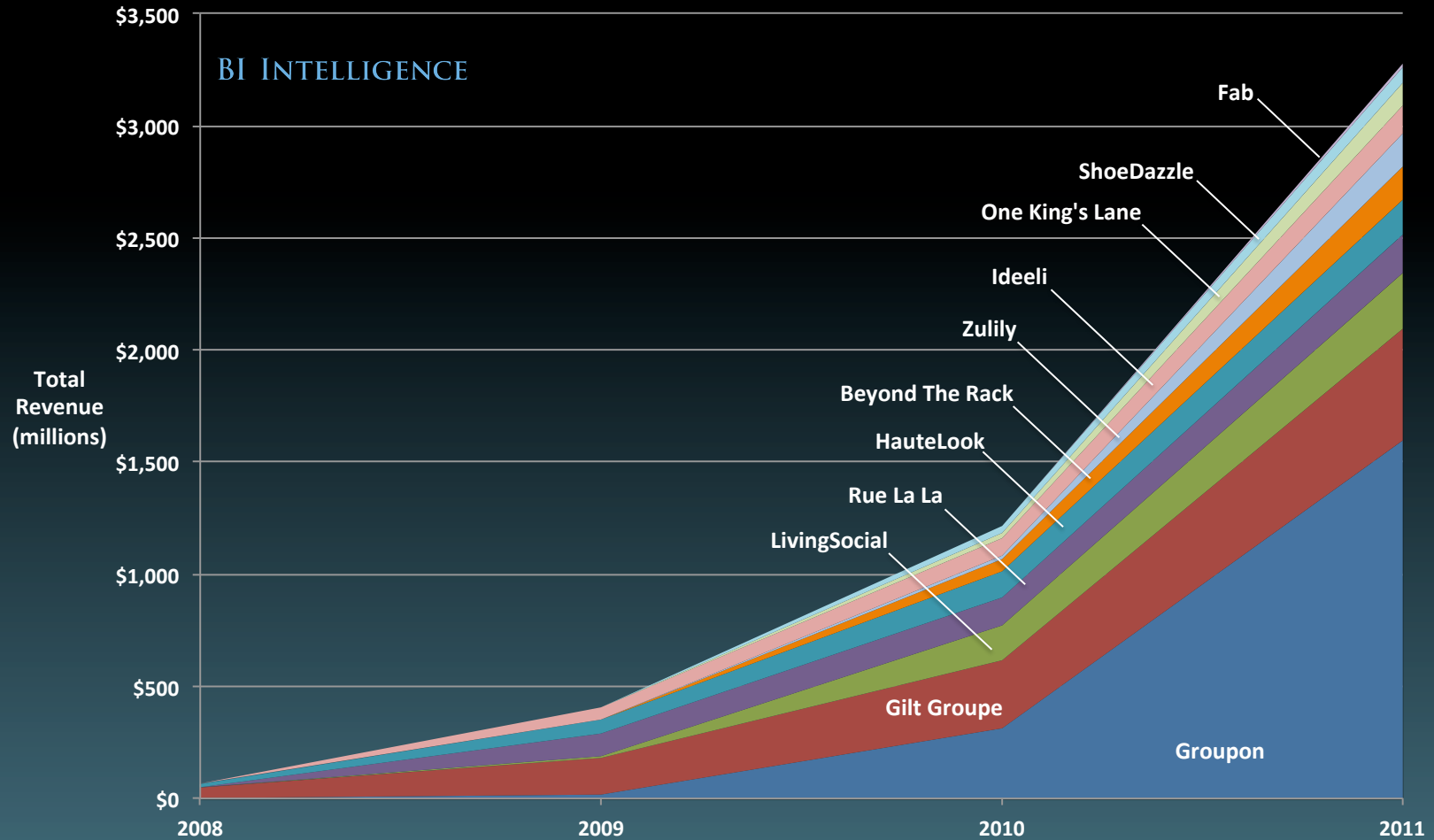
U.S. E-Commerce Sales



Source: Federal Reserve Economic Data - St. Louis Fed, Company Filings, BII Estimates

... And they're growing fast.

Social Commerce Revenues



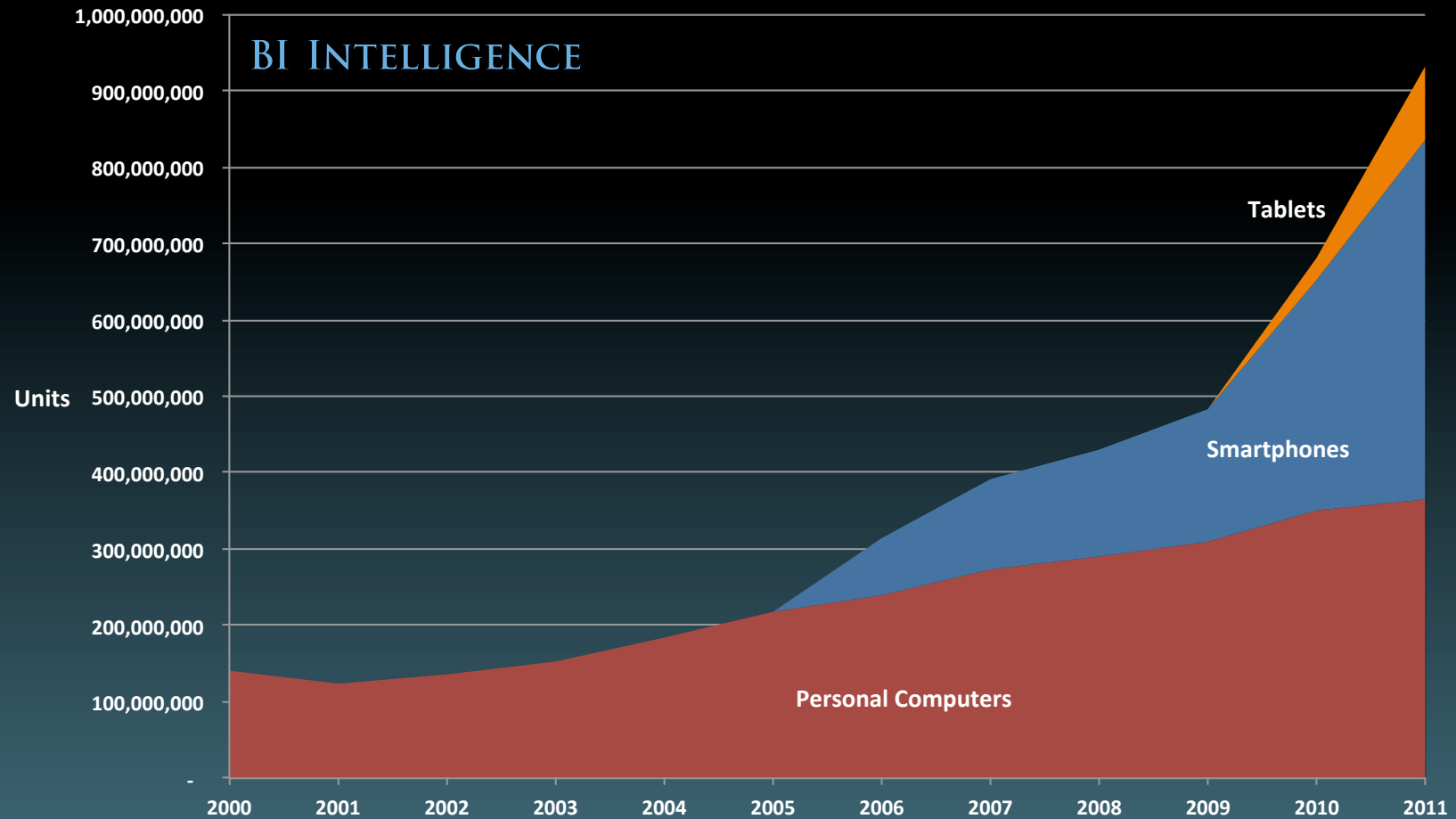
Source: Company Filings, BII Estimates

MOBILE

**Something profound
happened last year...**

Smartphone sales overtook PC sales

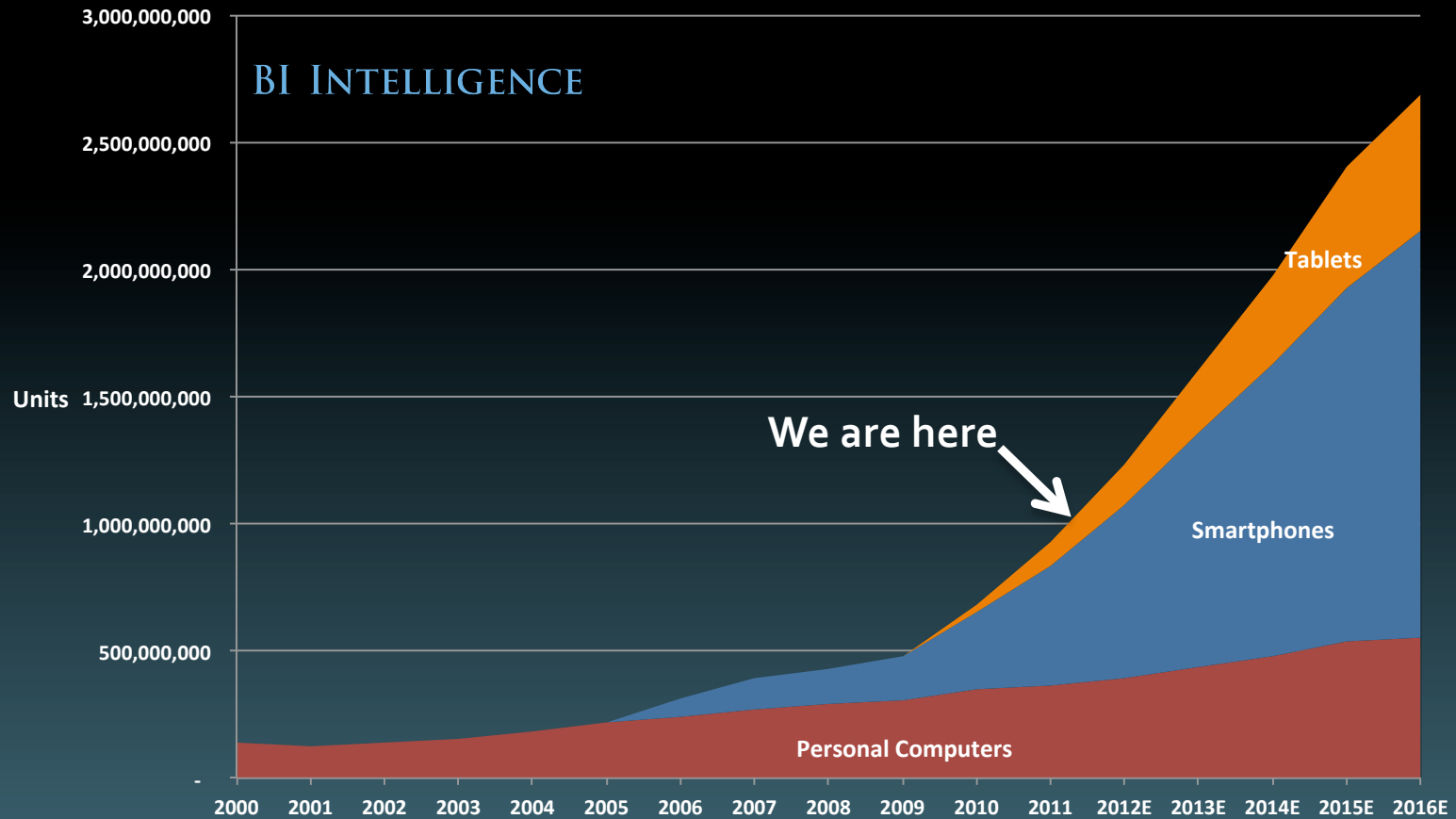
Global Internet Device Sales



Source: Gartner, IDC, Strategy Analytics, company filings, BI Intelligence estimates

And will soon dwarf them

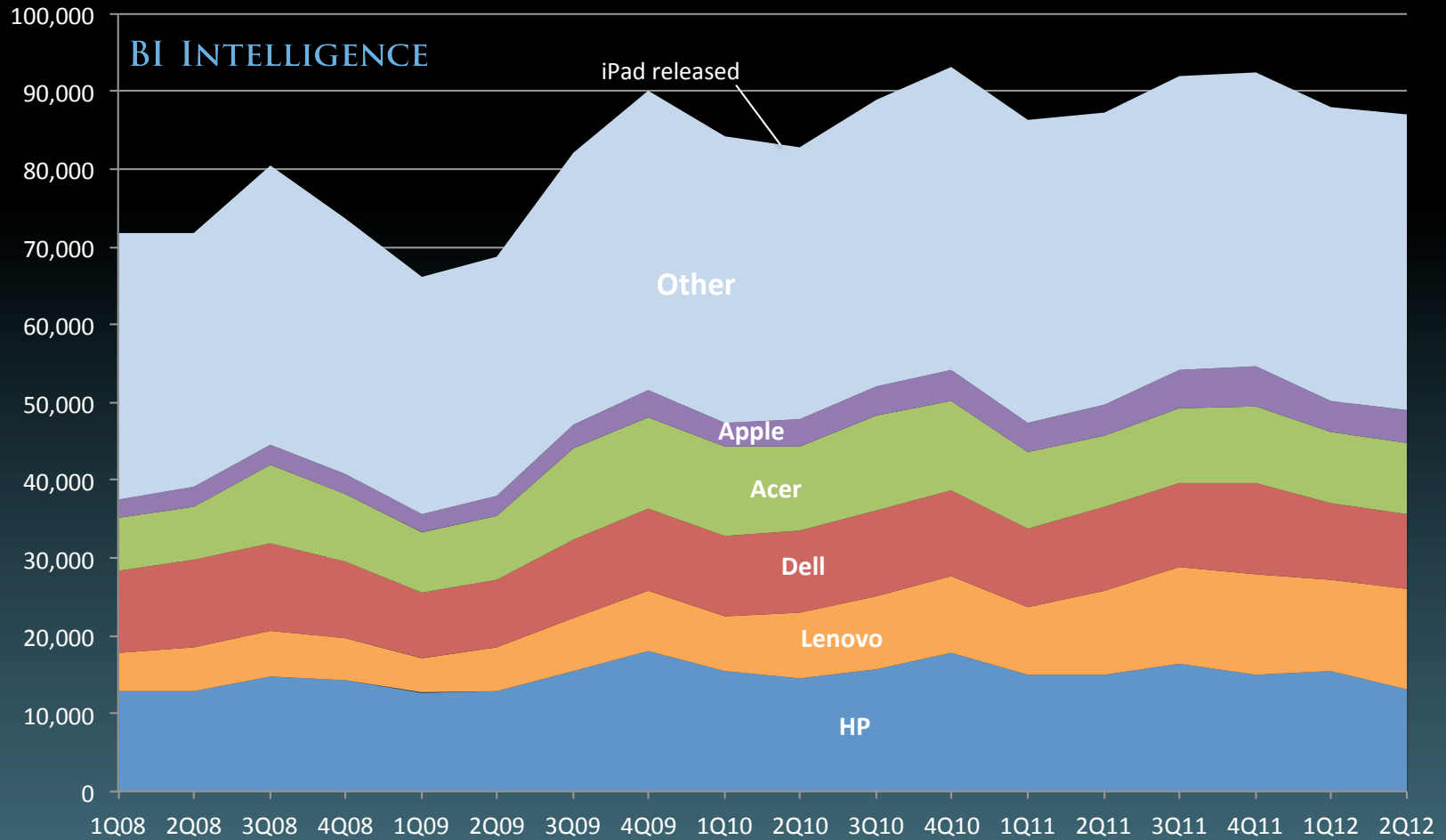
Global Internet Device Sales



Source: Gartner, IDC, Strategy Analytics, company filings, BI Intelligence estimates

PC sales, meanwhile, are in a stall

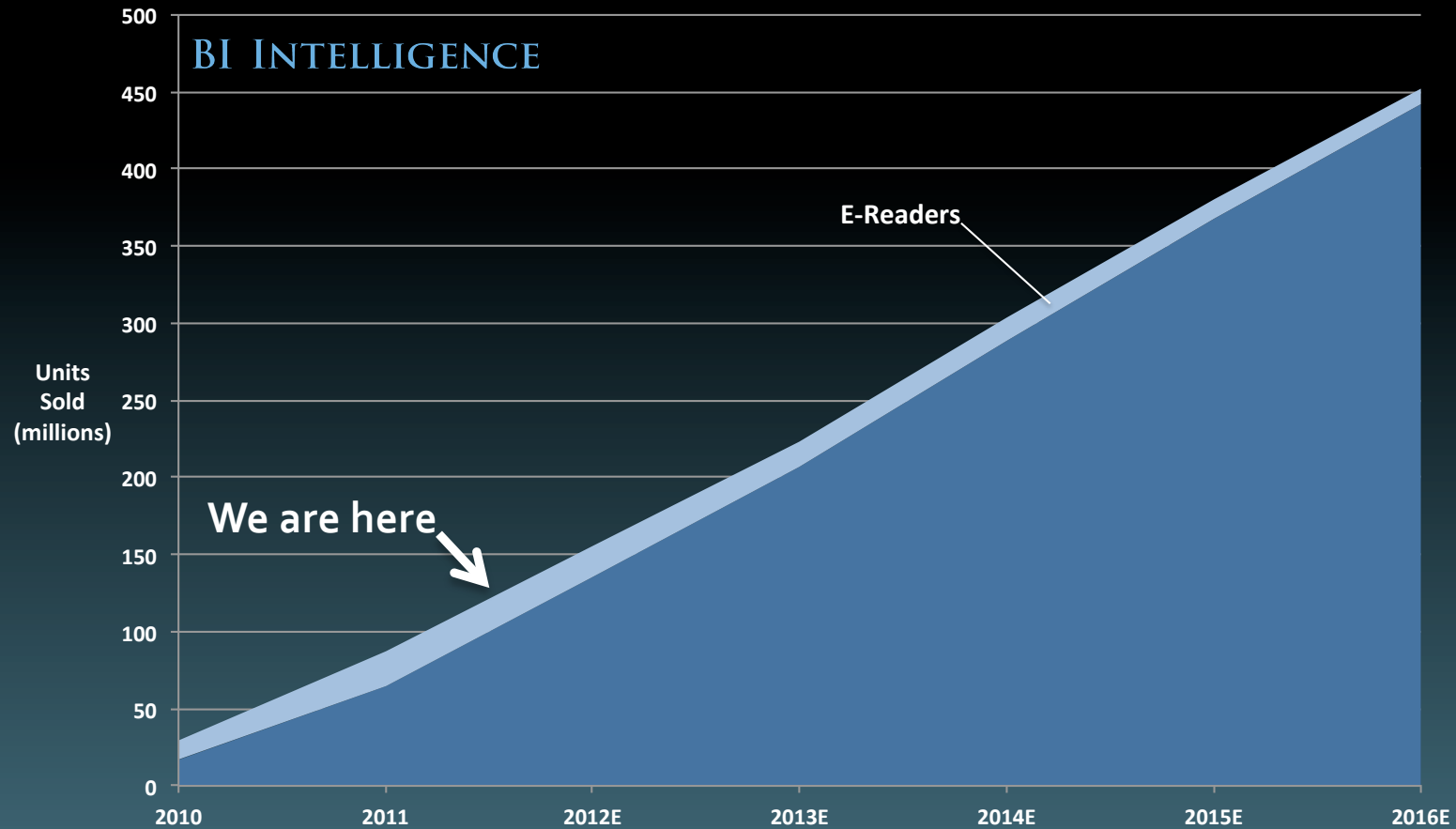
Global PC Shipments By Manufacturer



Source: Gartner, IDC

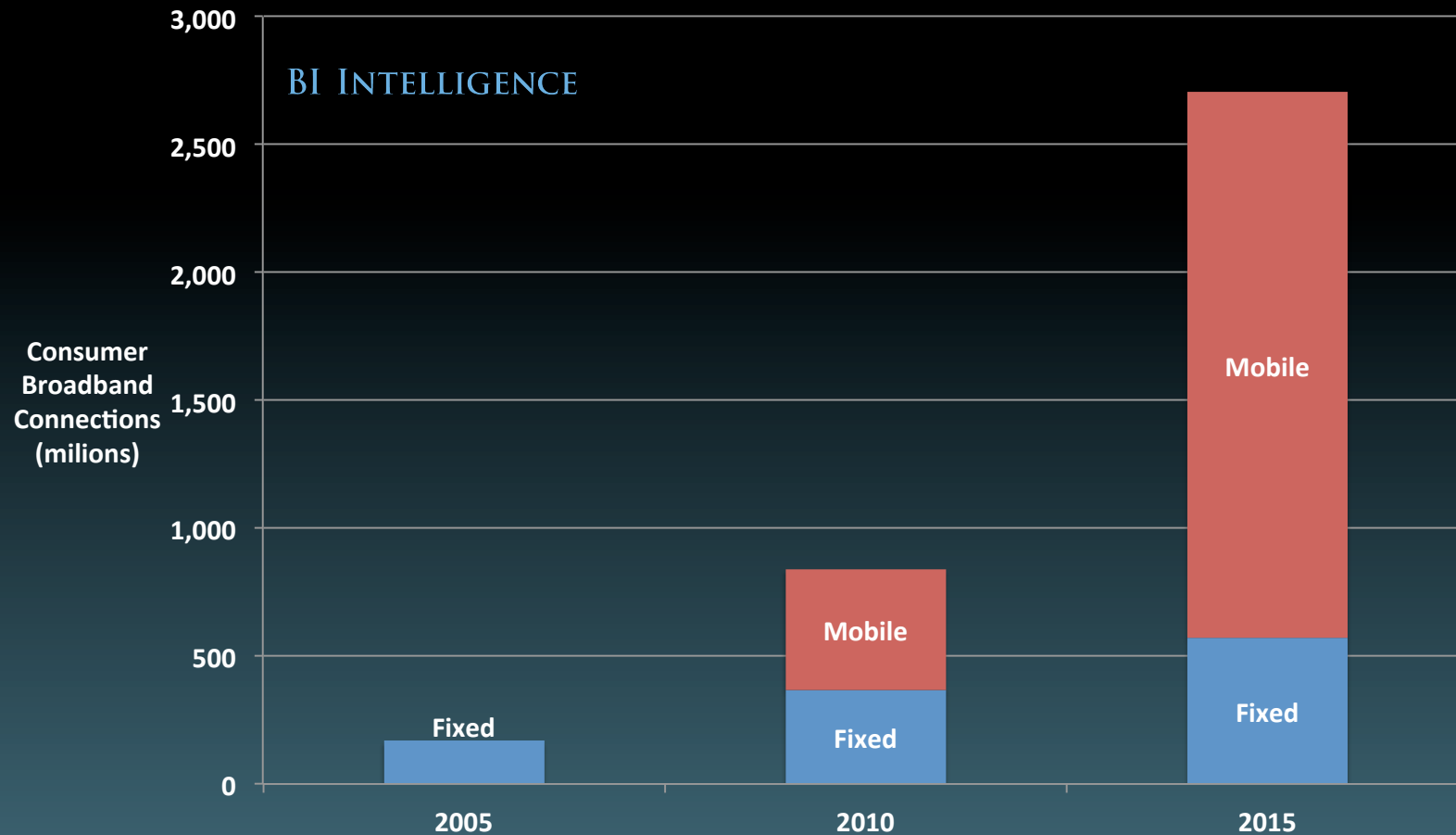
Tablets will also blow past PC sales in a few years

Tablet Sales Forecast



So the future is mobile

G-20 Internet Access

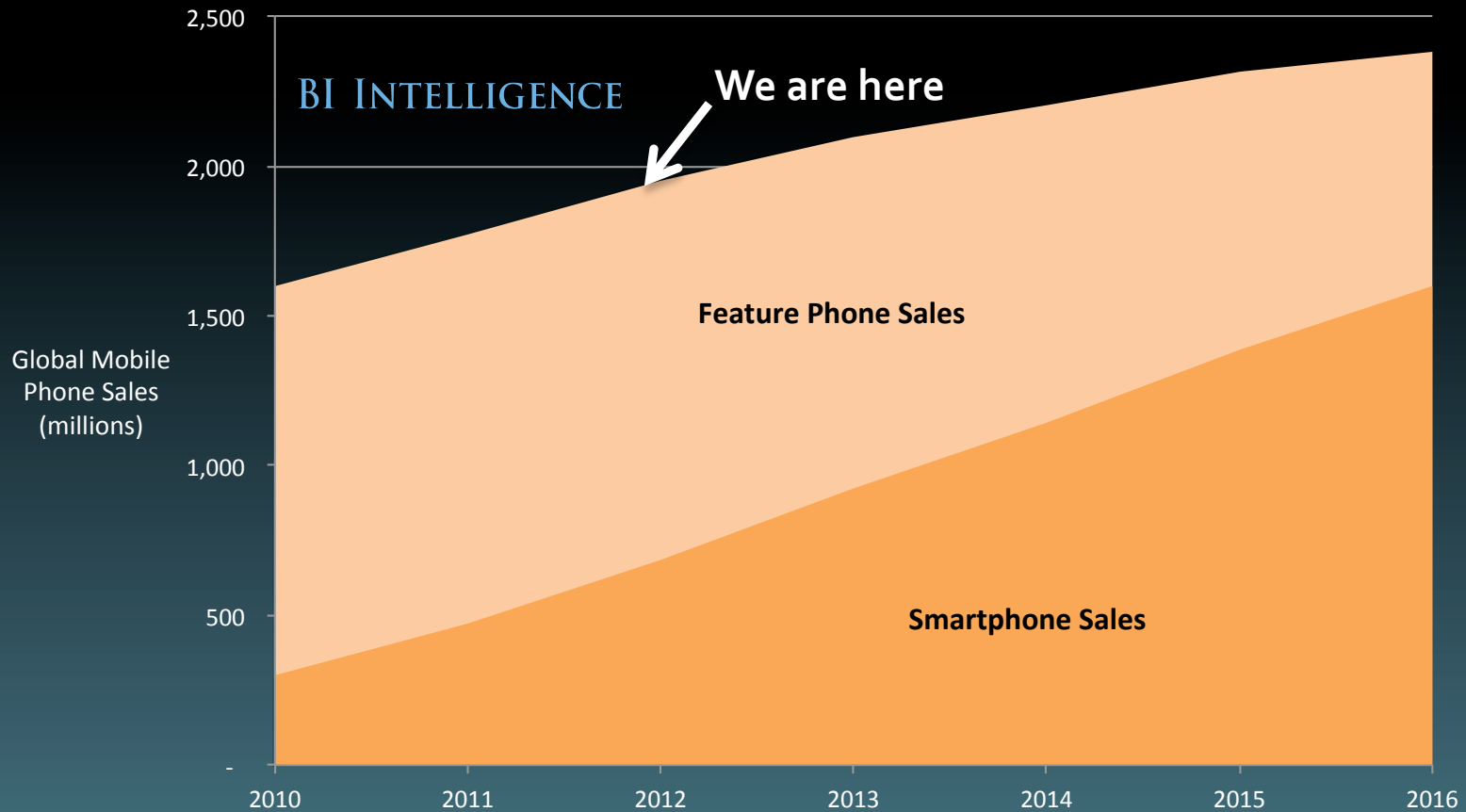


Source: Boston Consulting Group, Mary Meeker, Kleiner Perkins, Morgan Stanley Research, Berg Insight

Where are we in the mobile revolution?

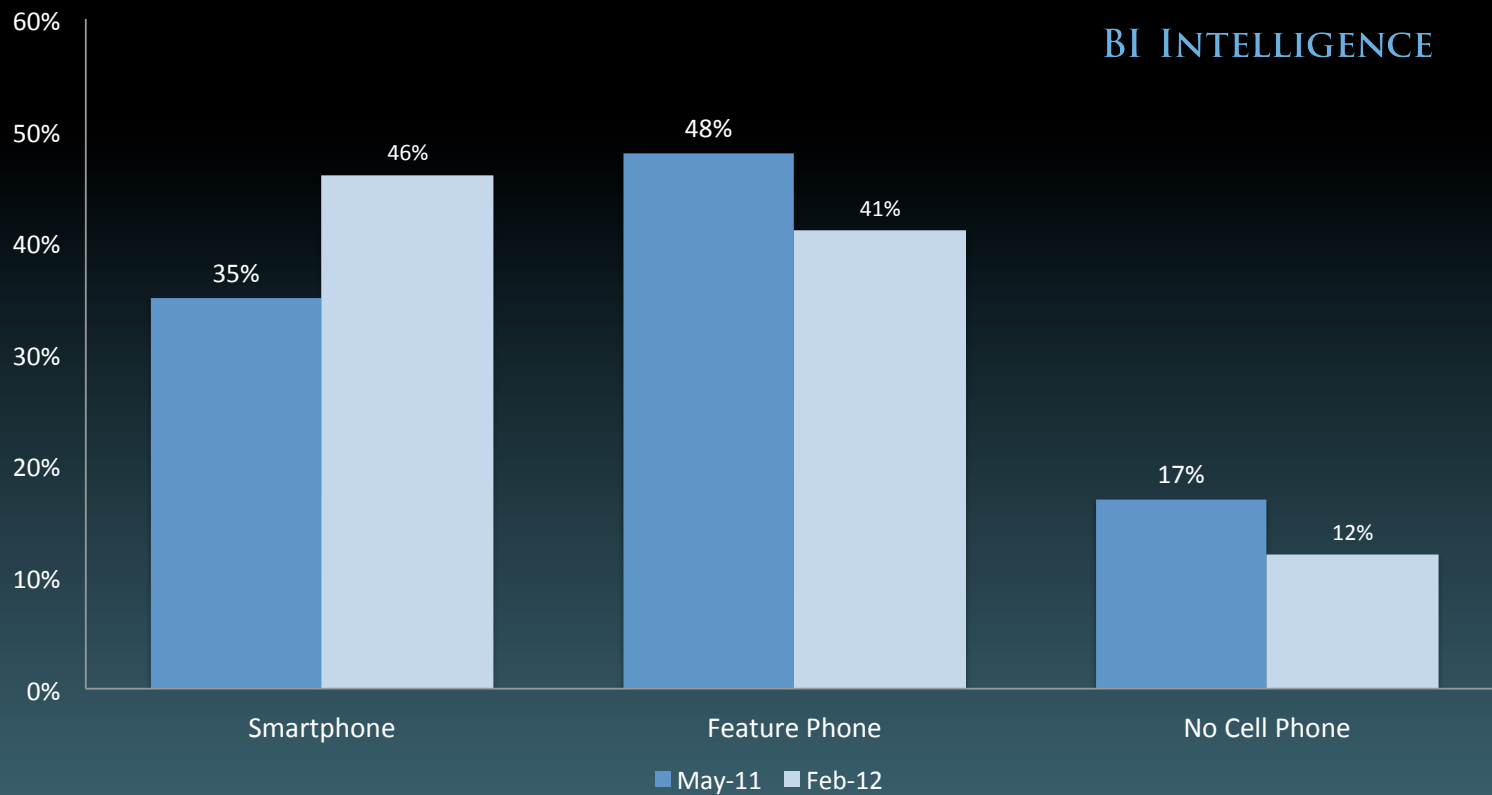
Globally, we're early.

Global Smartphone Penetration Forecast

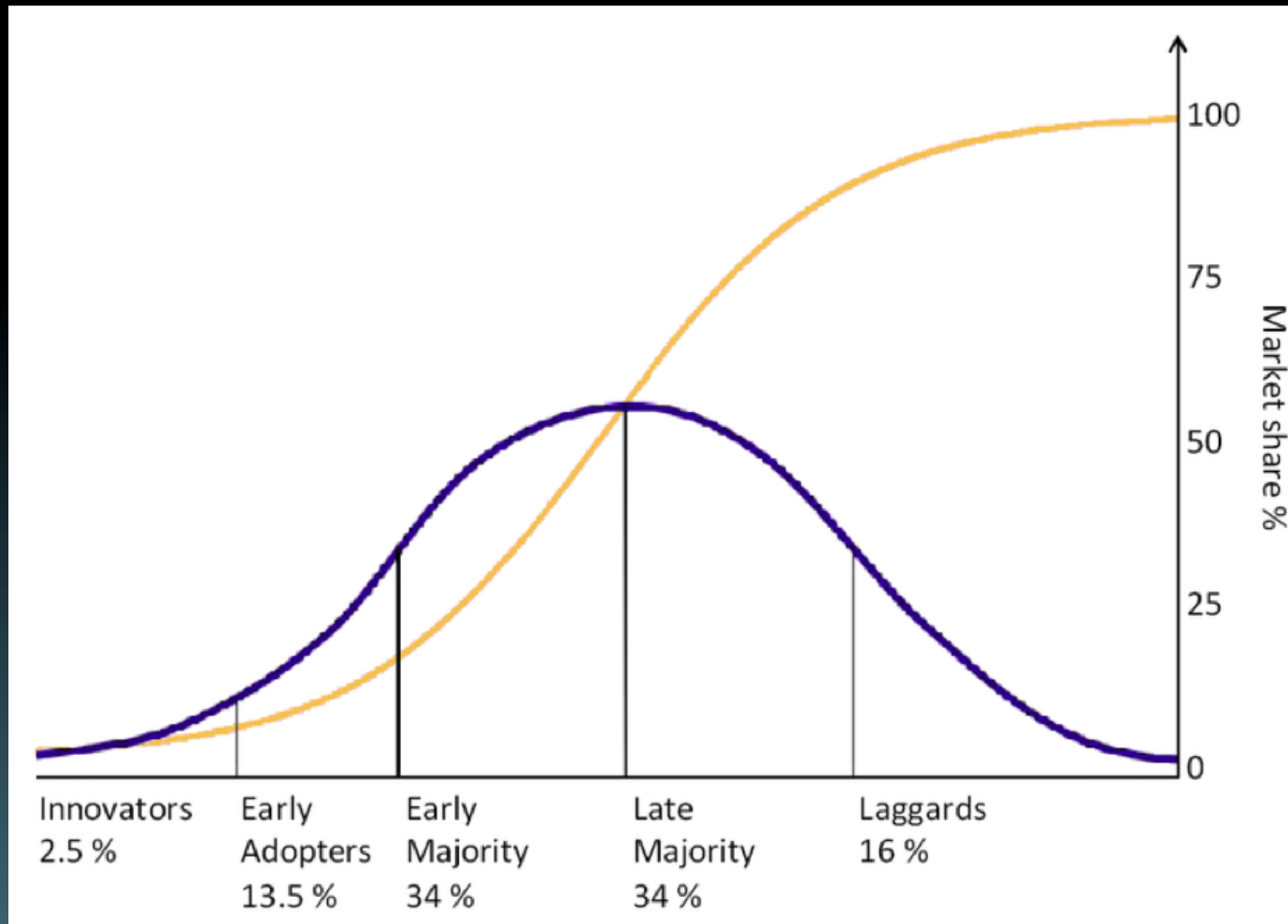


The U.S., however, is more than halfway there

Changes In Smartphone Ownership, 2011-2012 (U.S.)

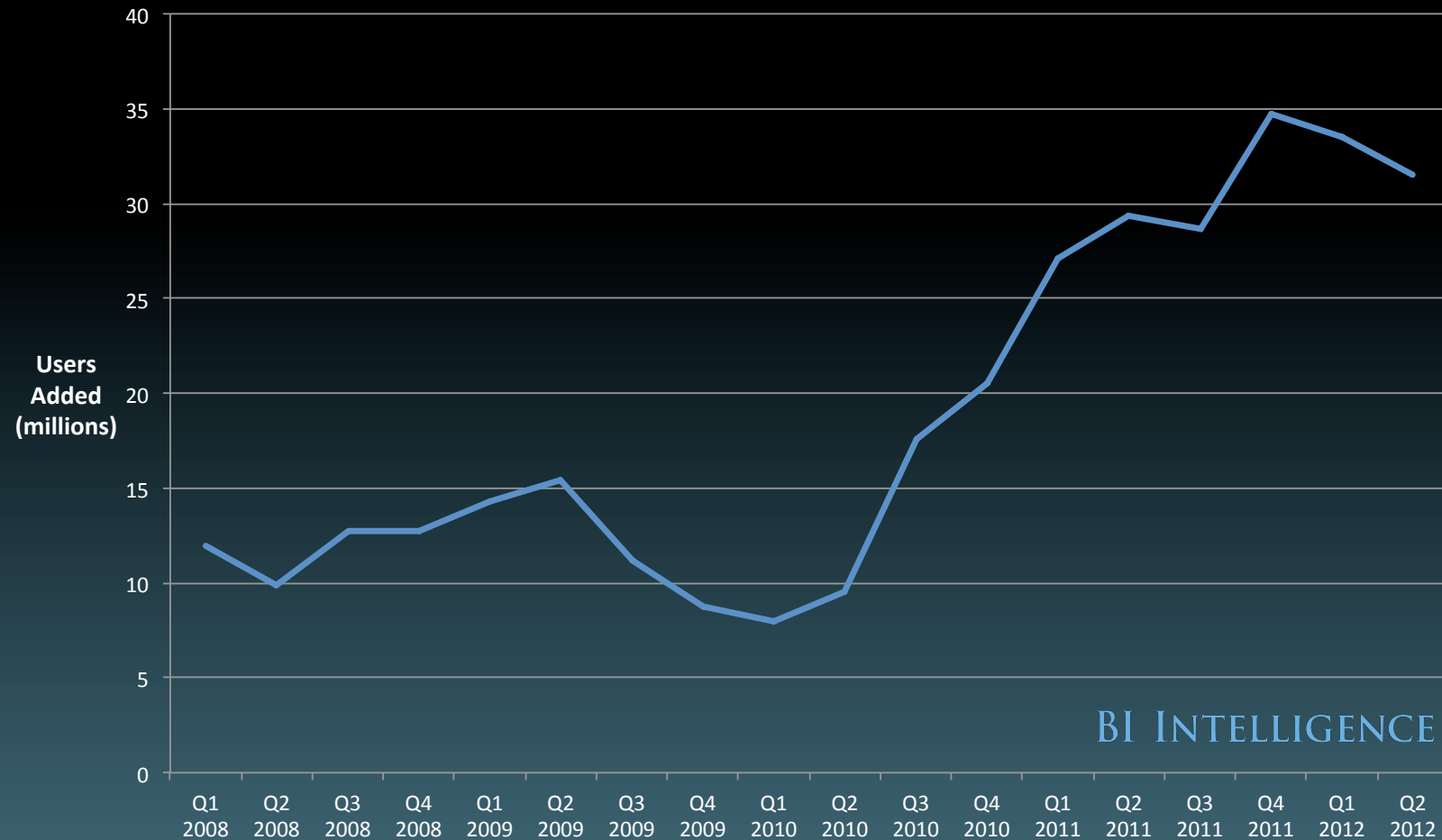


Growth slows after hitting 50% penetration



In the US, we've hit that point.

U.S. Smartphone Market: Year-Over-Year Net Adds



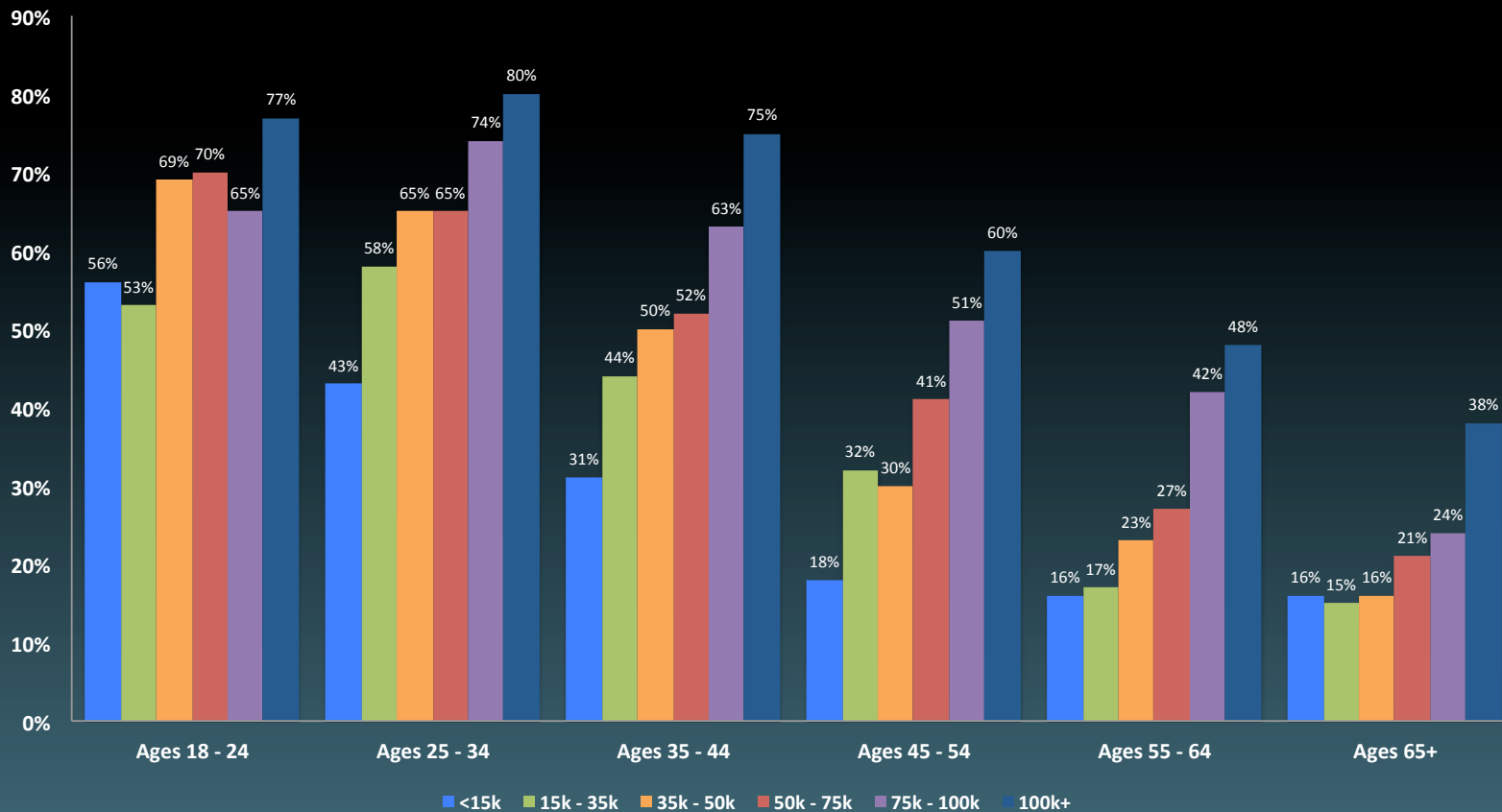
Source: comScore, Nielsen

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Most of the under-penetrated segments in US are older and poorer

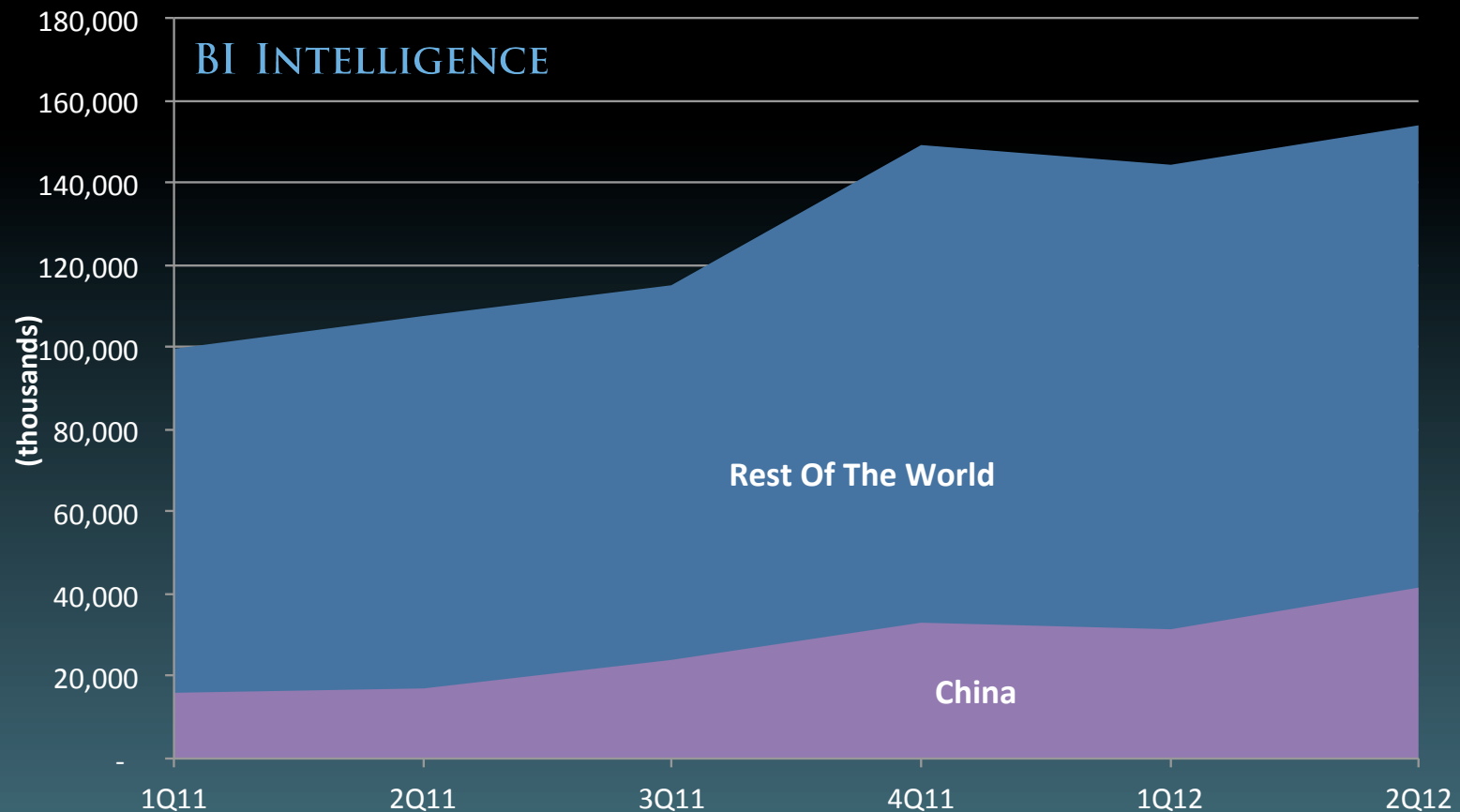
Smartphone Penetration By Age And Income (U.S.)



Source: Nielsen

So the focus is on China, which now accounts for a quarter of smartphone sales.

Global Smartphone Shipments



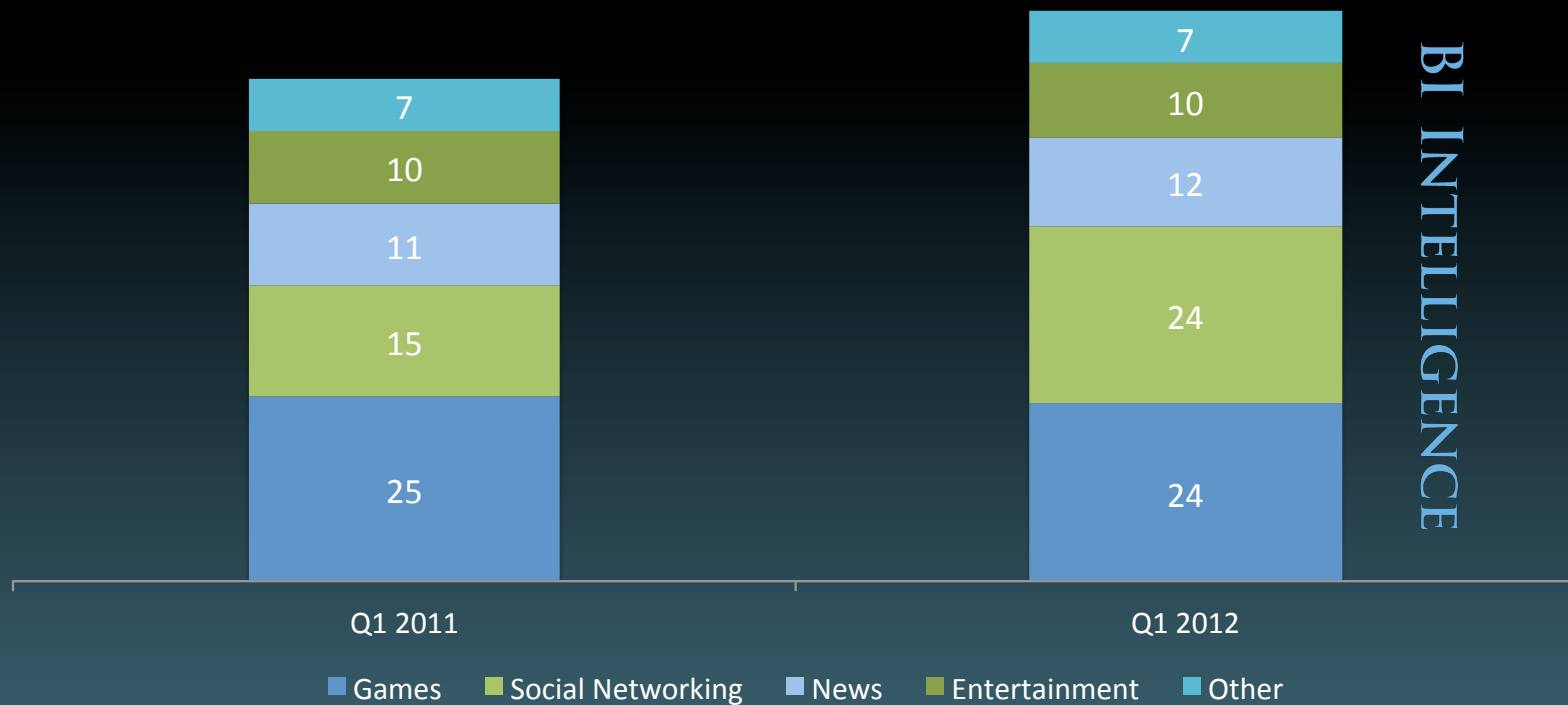
Source: Gartner, IDC, Strategy Analytics, Canalys, BII estimates

**So, what do people
do on mobile?**

**Well, first, they do pretty much
everything they do online...**

They play games and social-network...

Daily Smartphone App Consumption, Minutes Per Category



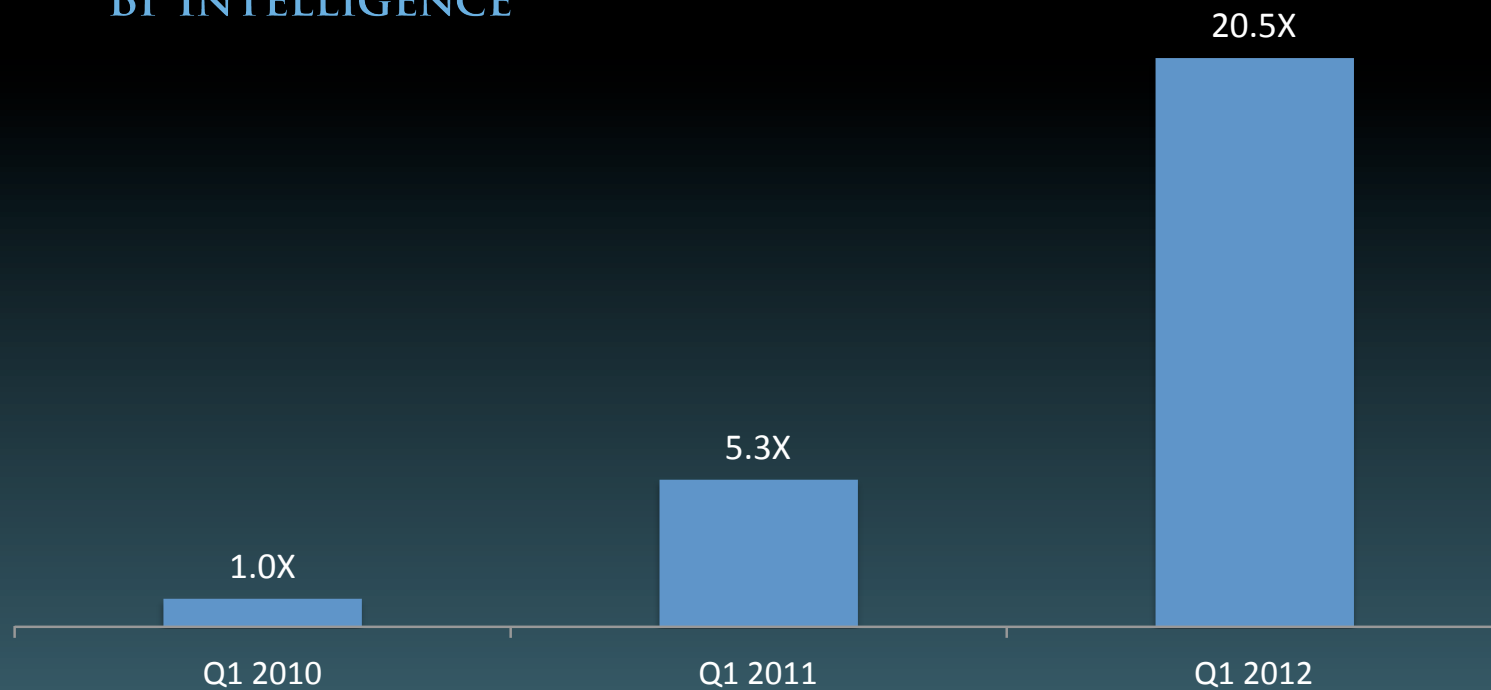
Source: Flurry Analytics

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Games sessions up 20-fold in two years

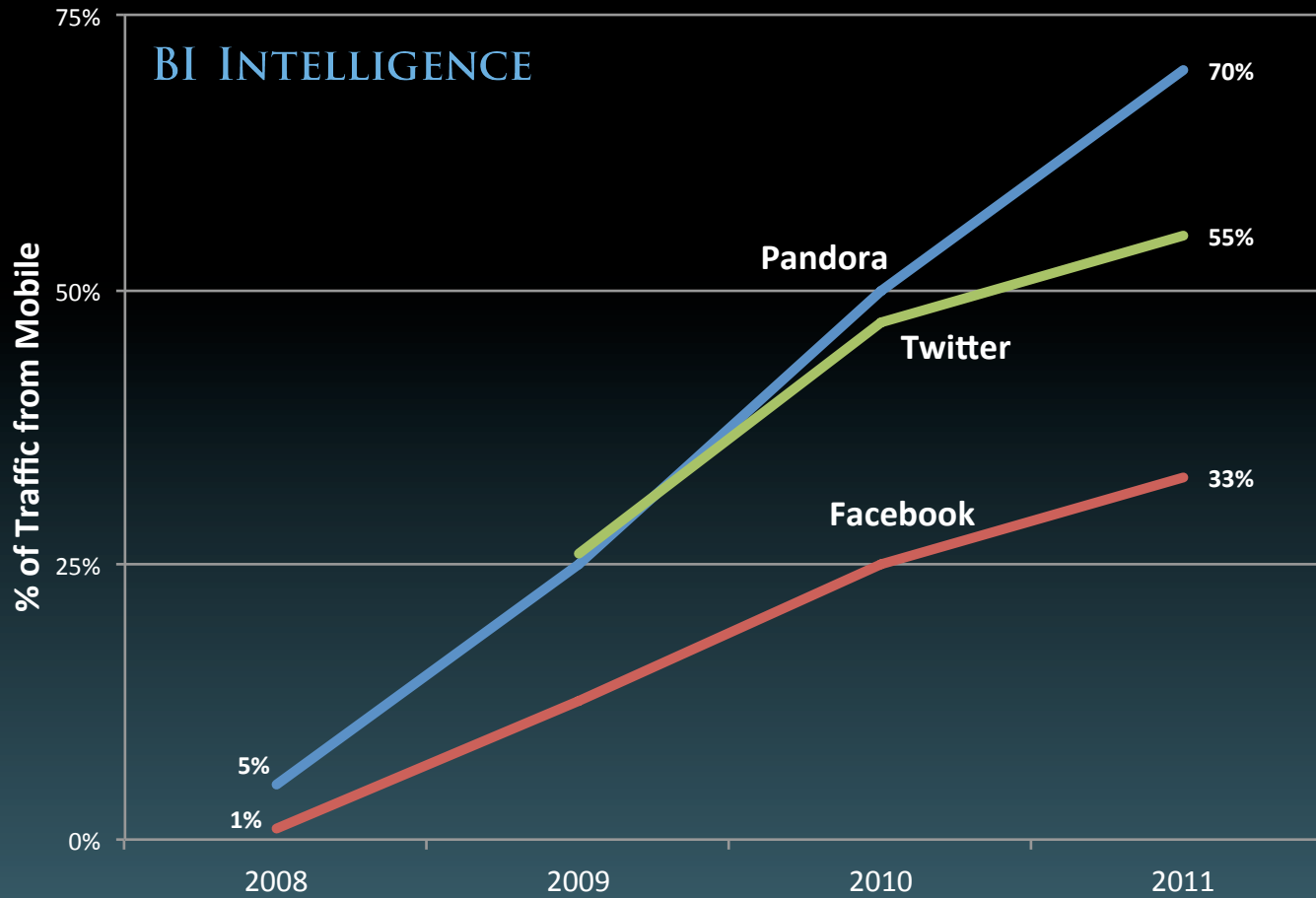
iOS & Android Mobile Game Session Growth

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Source: Flurry Analytics

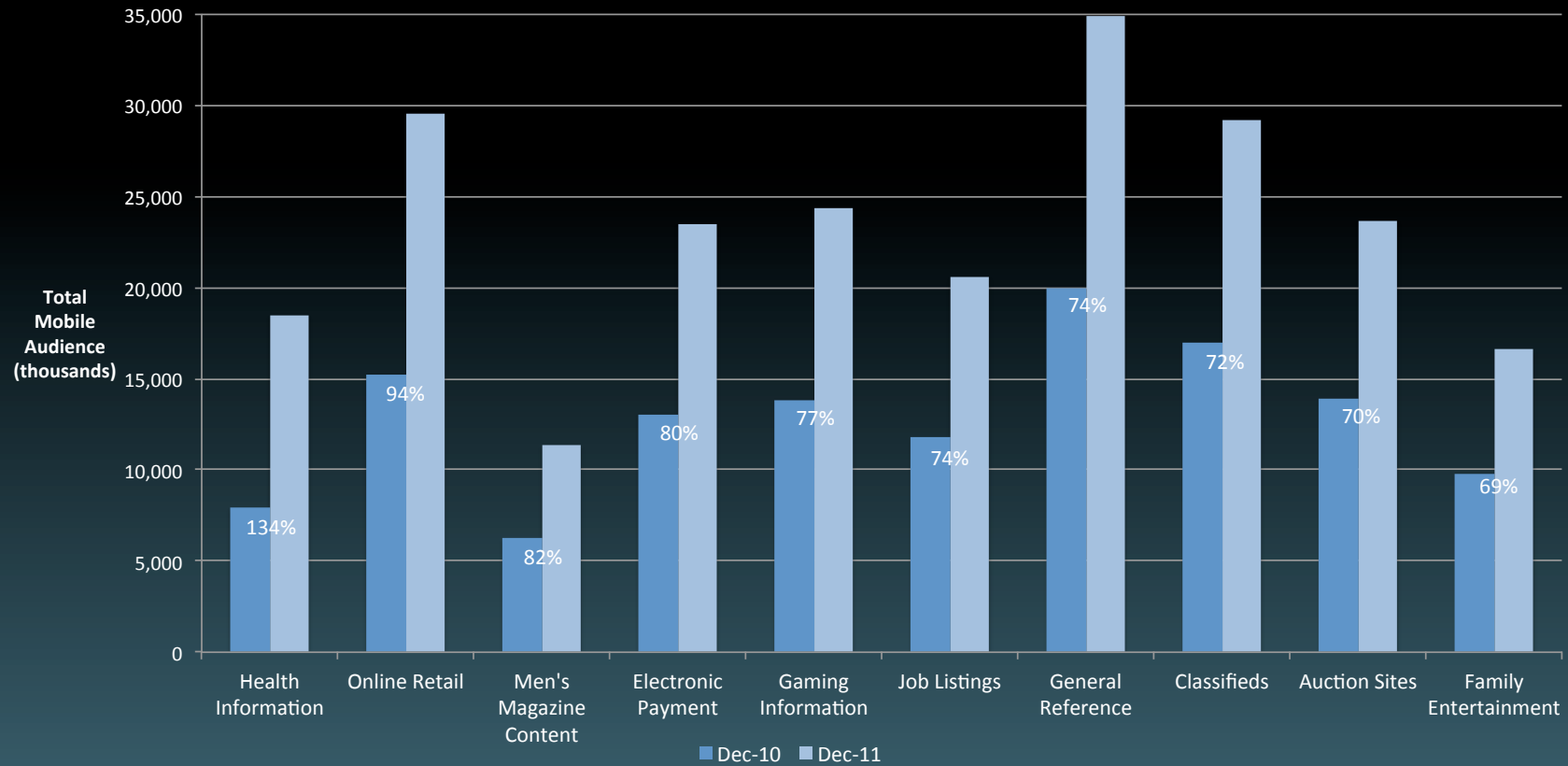
They listen to music...



Source: Mary Meeker, Kleiner Perkins, companies

They consume content...

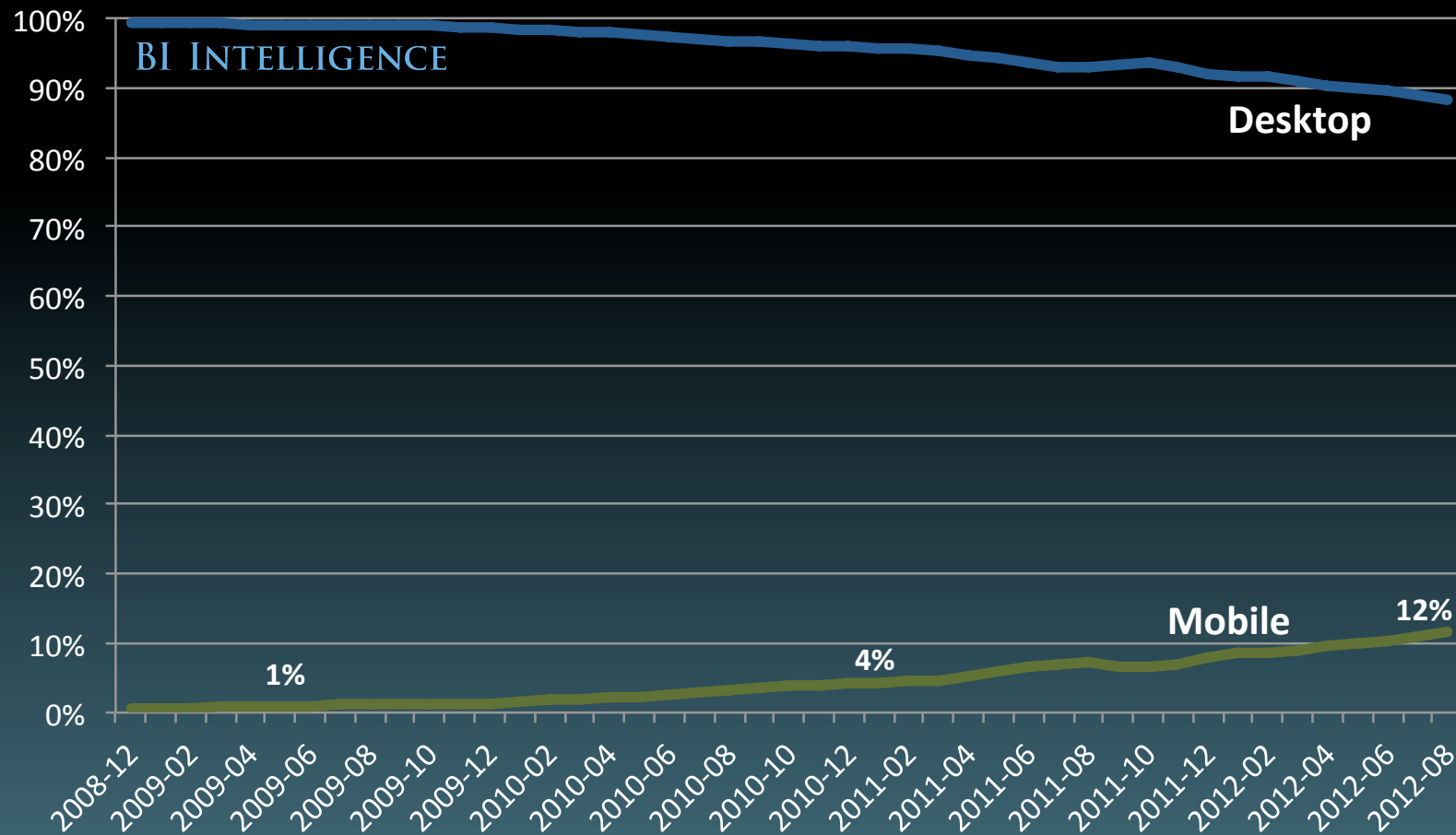
Top Mobile Categories By Growth In Audience, Dec. 2010 vs. Dec. 2011 (U.S.)



Source: comScore MobieLens, 3 mon. avg. ending Dec-2011 vs. Dec-2010

Mobile now accounts for 12% of global internet traffic

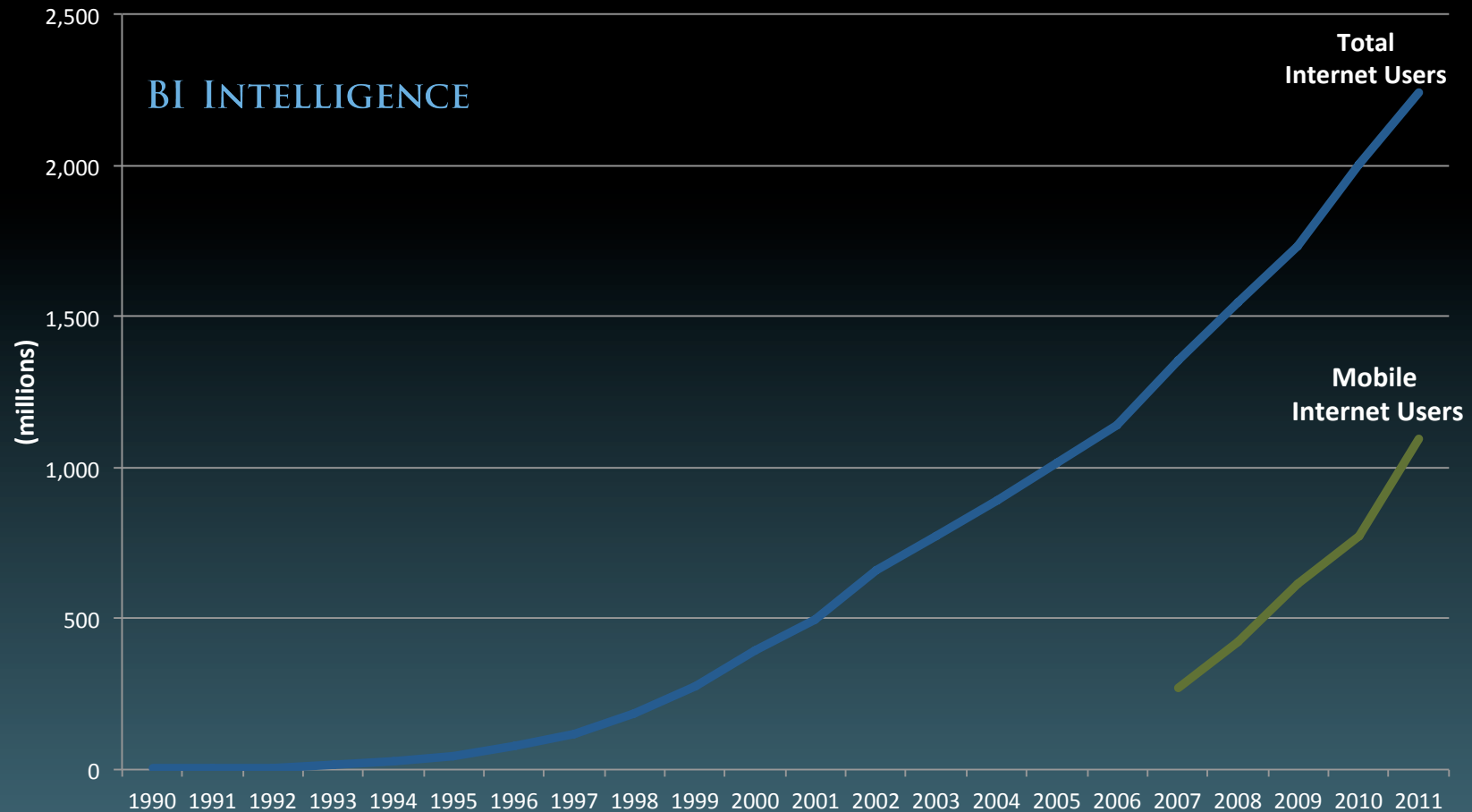
Global Internet Traffic: Mobile vs. Desktop



Source: StatCounter

And it's scaling faster than the desktop

Mobile Internet Users

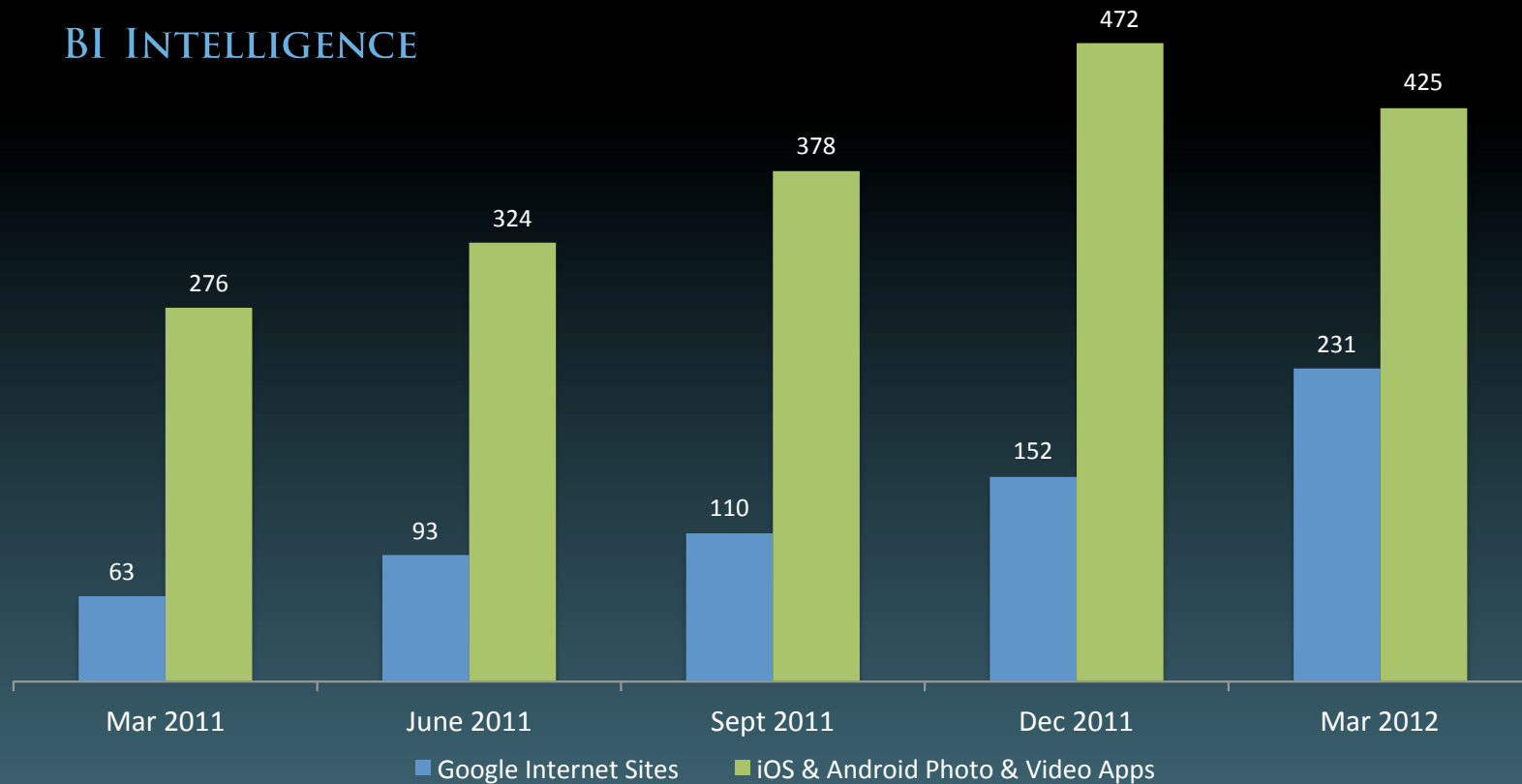


Source: International Communication Union, Google

They look at pictures and video.

U.S. Video Engagement, Monthly Minutes Per Active User

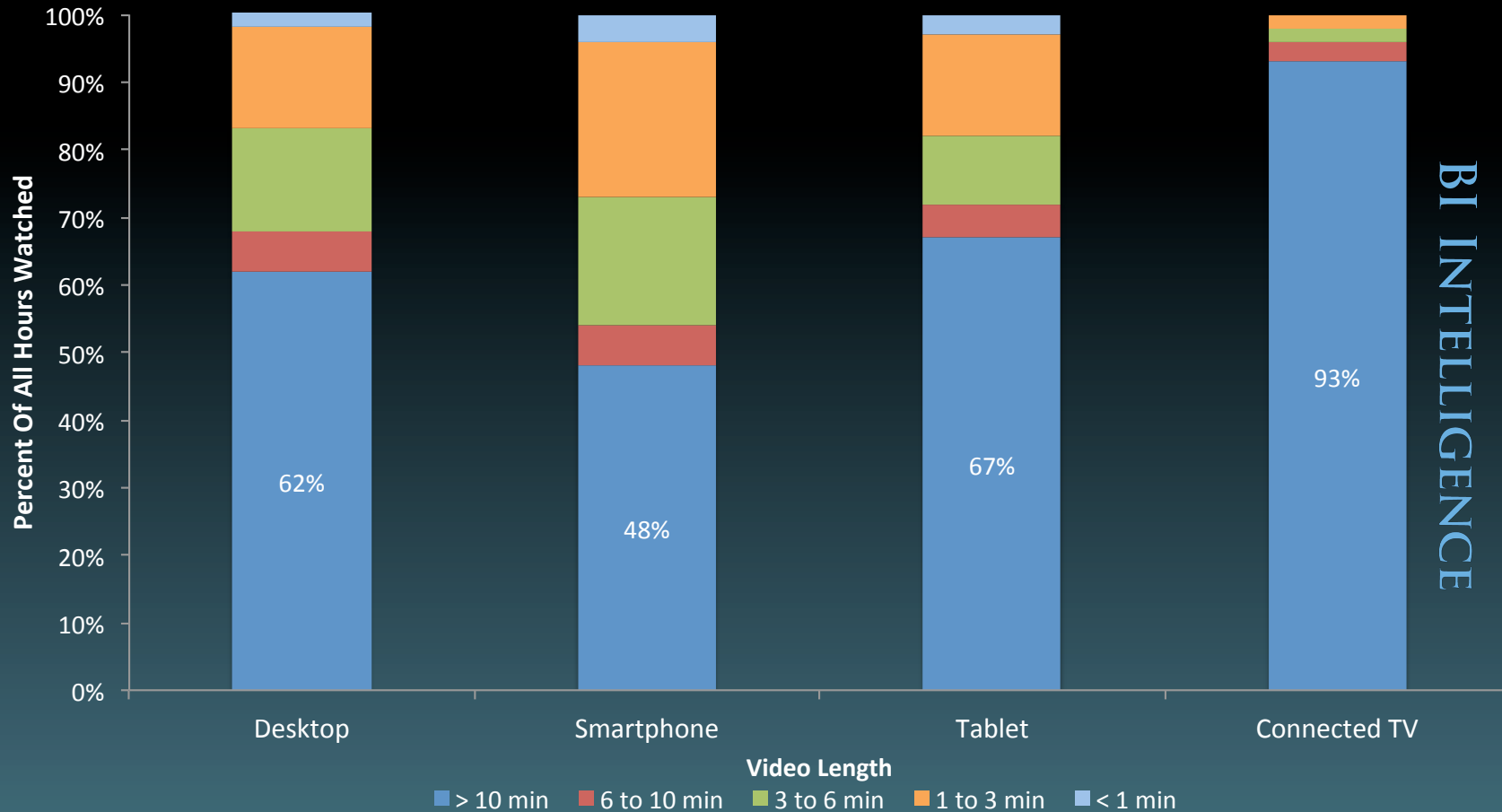
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Source: Flurry Analytics, comScore Video Matrix

They even watch movies and TV.

Time Watched By Video Length And Device



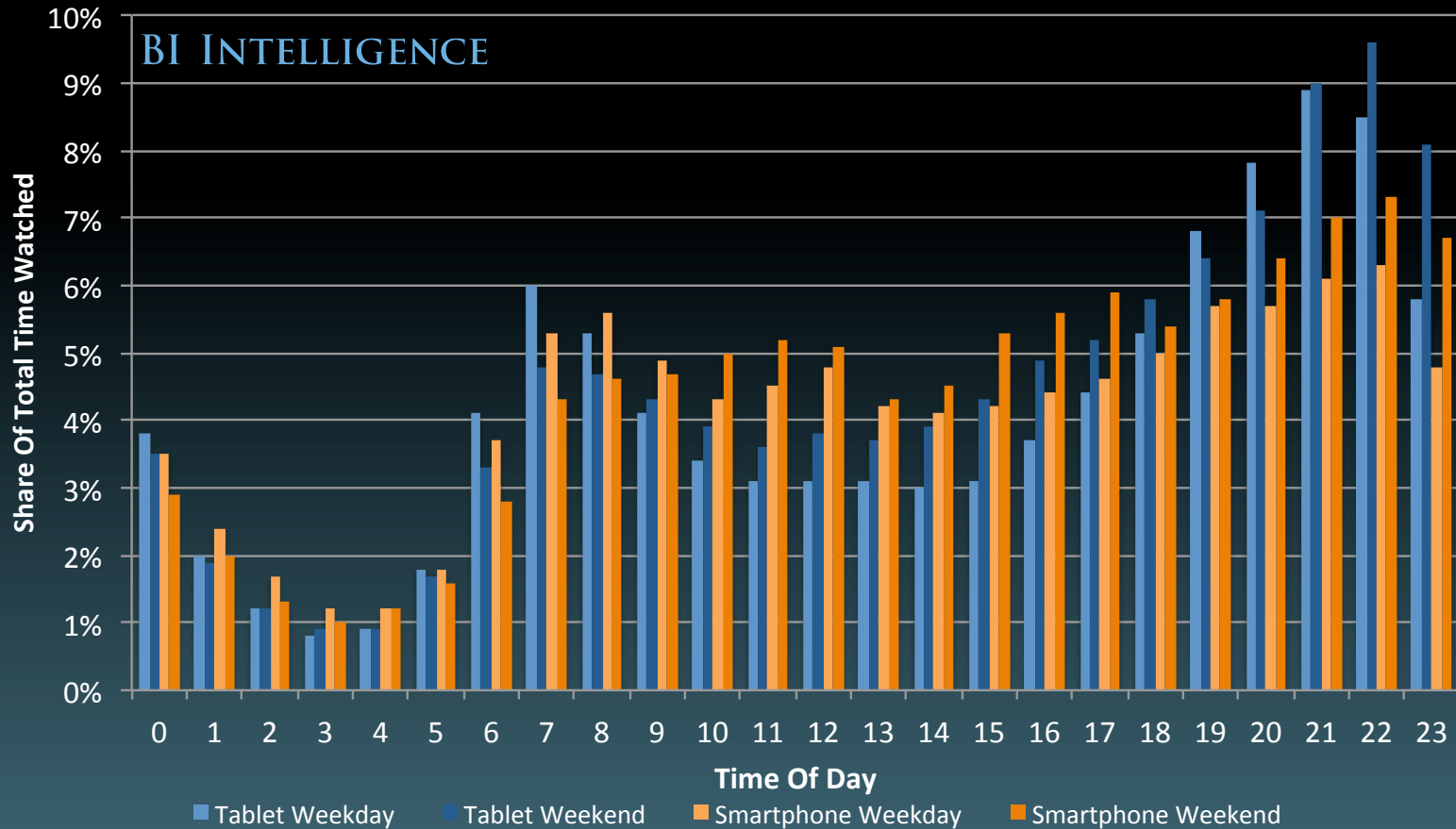
Source: Ooyala, Q2 2012

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Especially at night

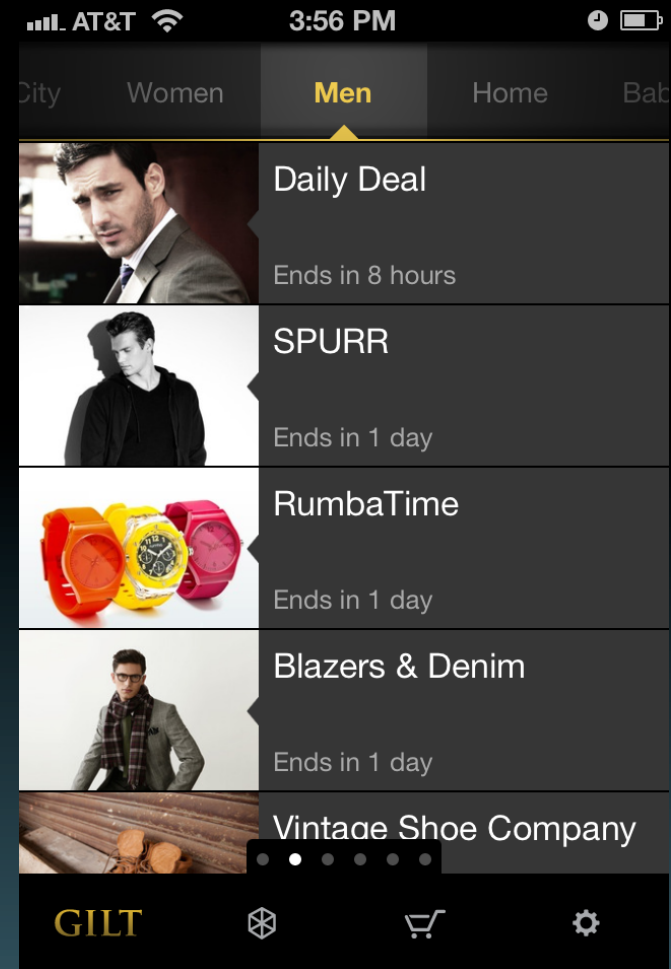
When People Watch Mobile Video, By Device



Source: Ooyala

They Shop...

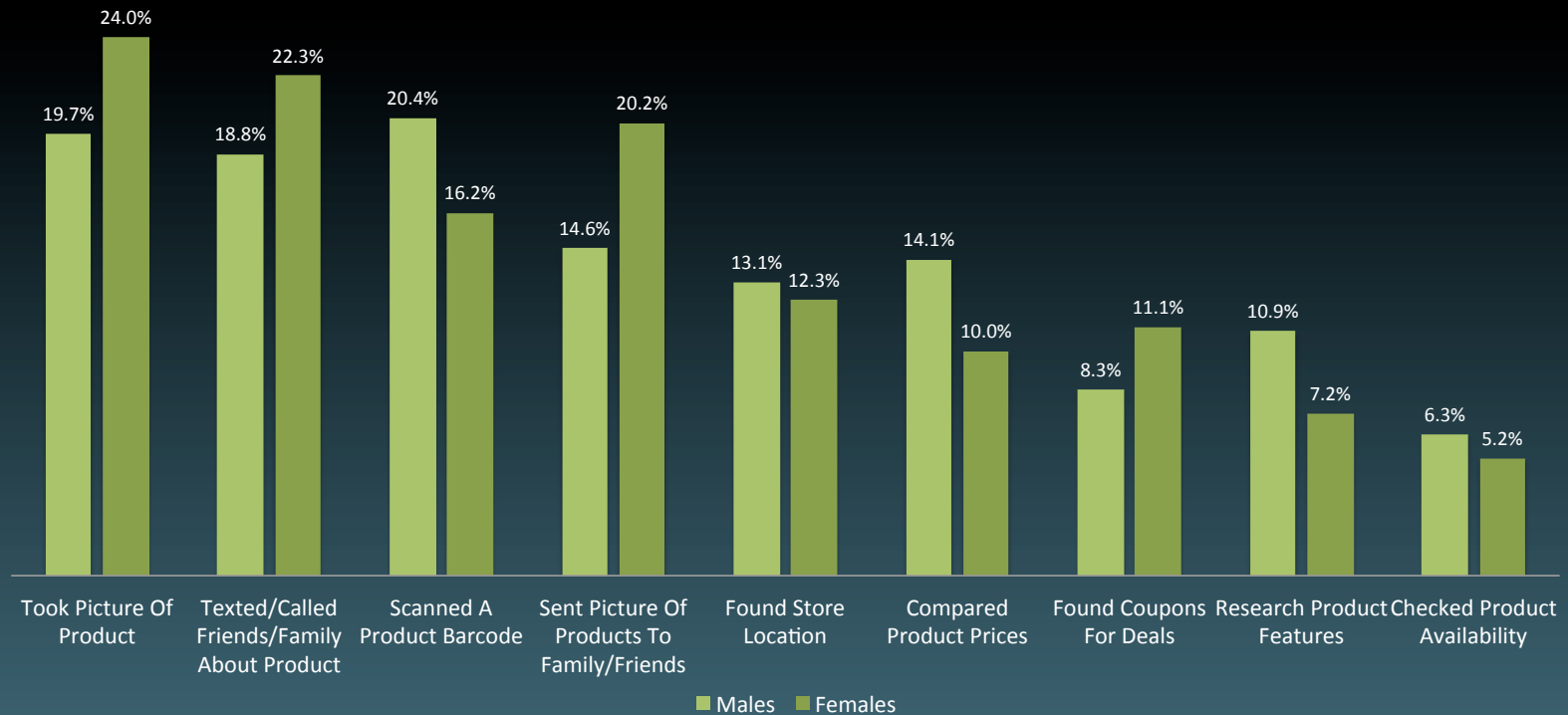
- Mobile accounts for 20 % of Gilt's weekday sales and 30% of its weekend sales
 - The iPad accounts for 40% of mobile sales
- 38% of U.S. consumers have used smartphones to buy products or services
 - comScore, Dec 2011



They use smartphones to make buying decisions in stores.

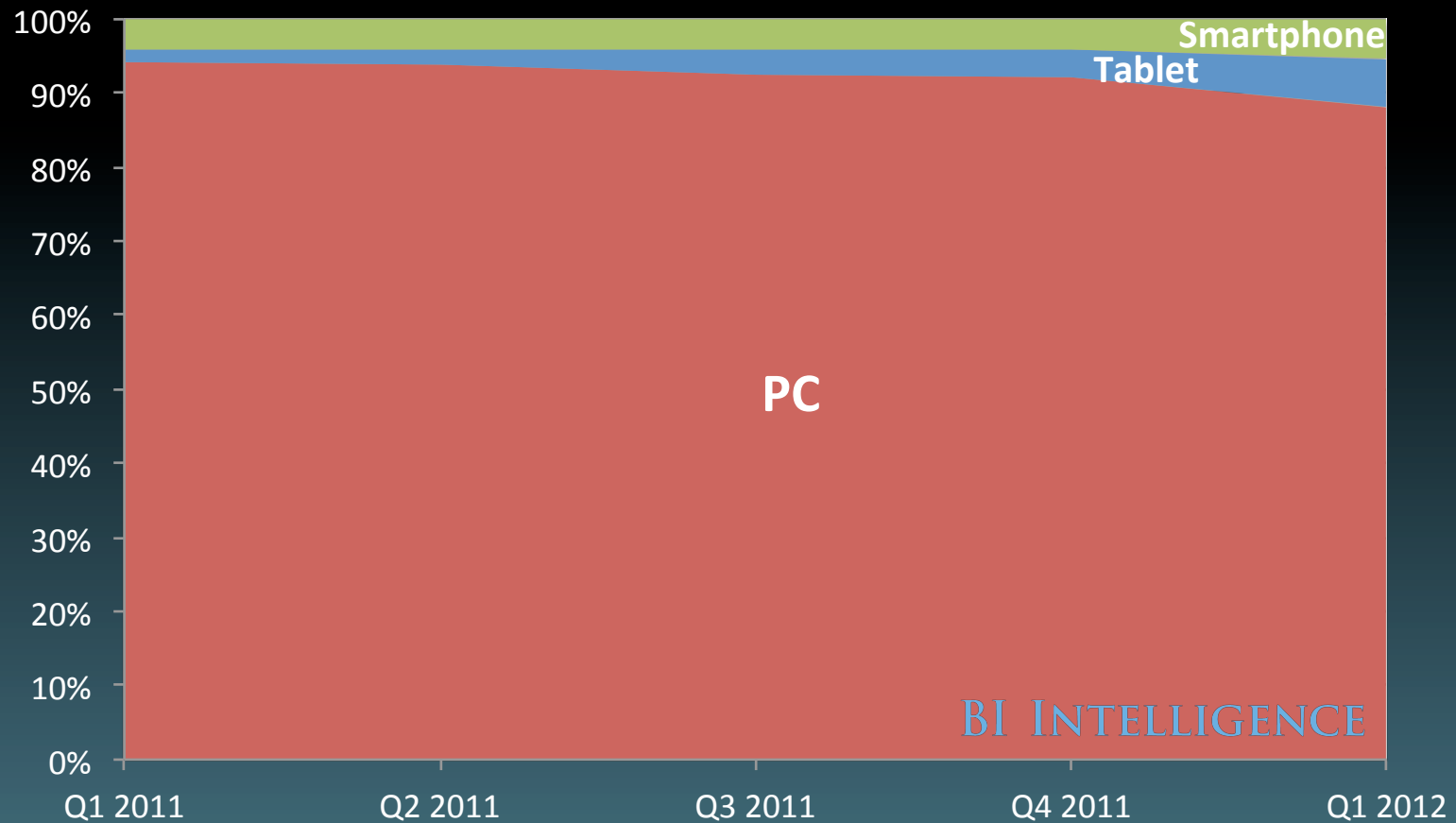
U.S. Smartphone Owners Activity In Retail Stores

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Mobile is starting to drive significant traffic to ecommerce sites

Ecommerce Website Traffic By Device

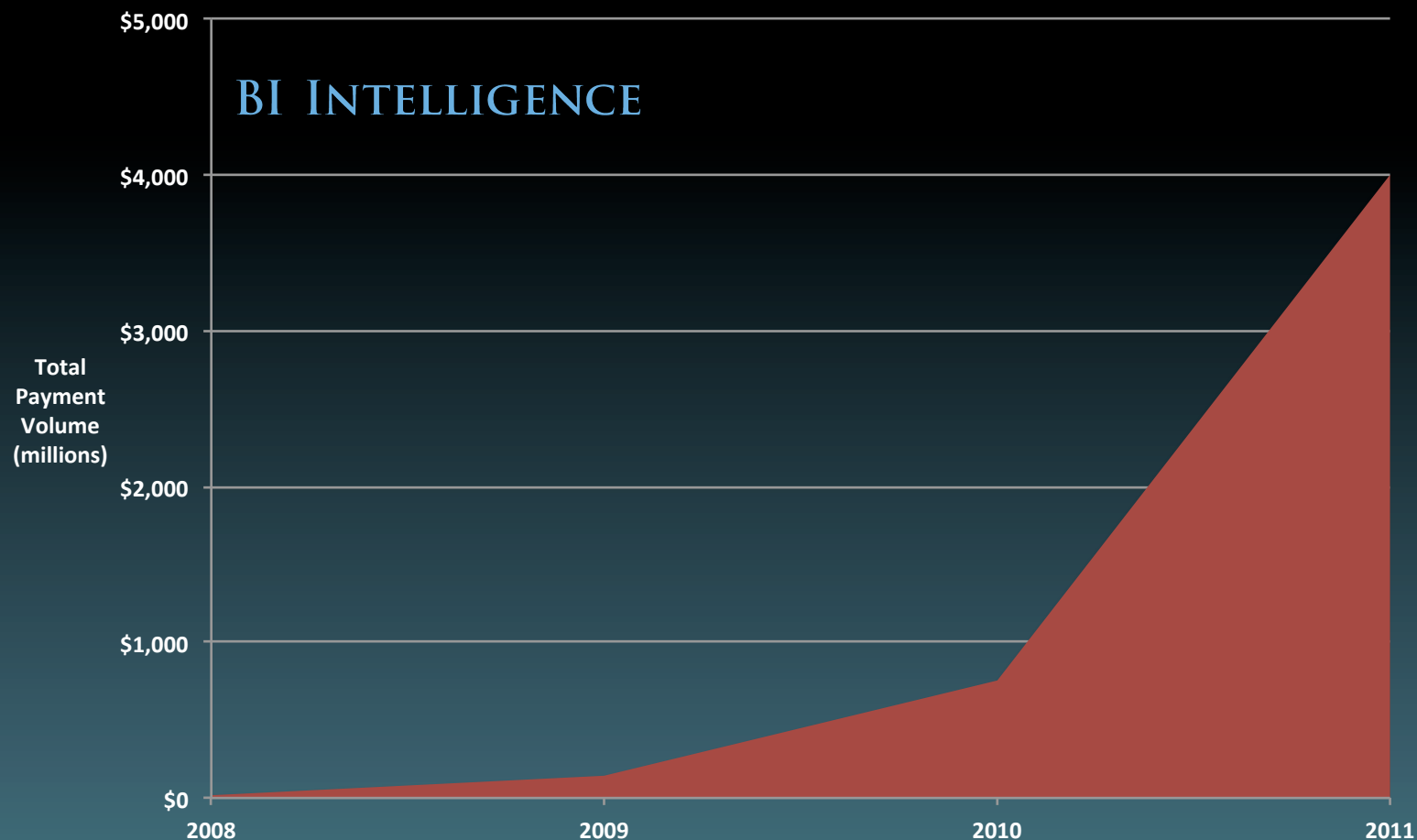


Source: Monetate

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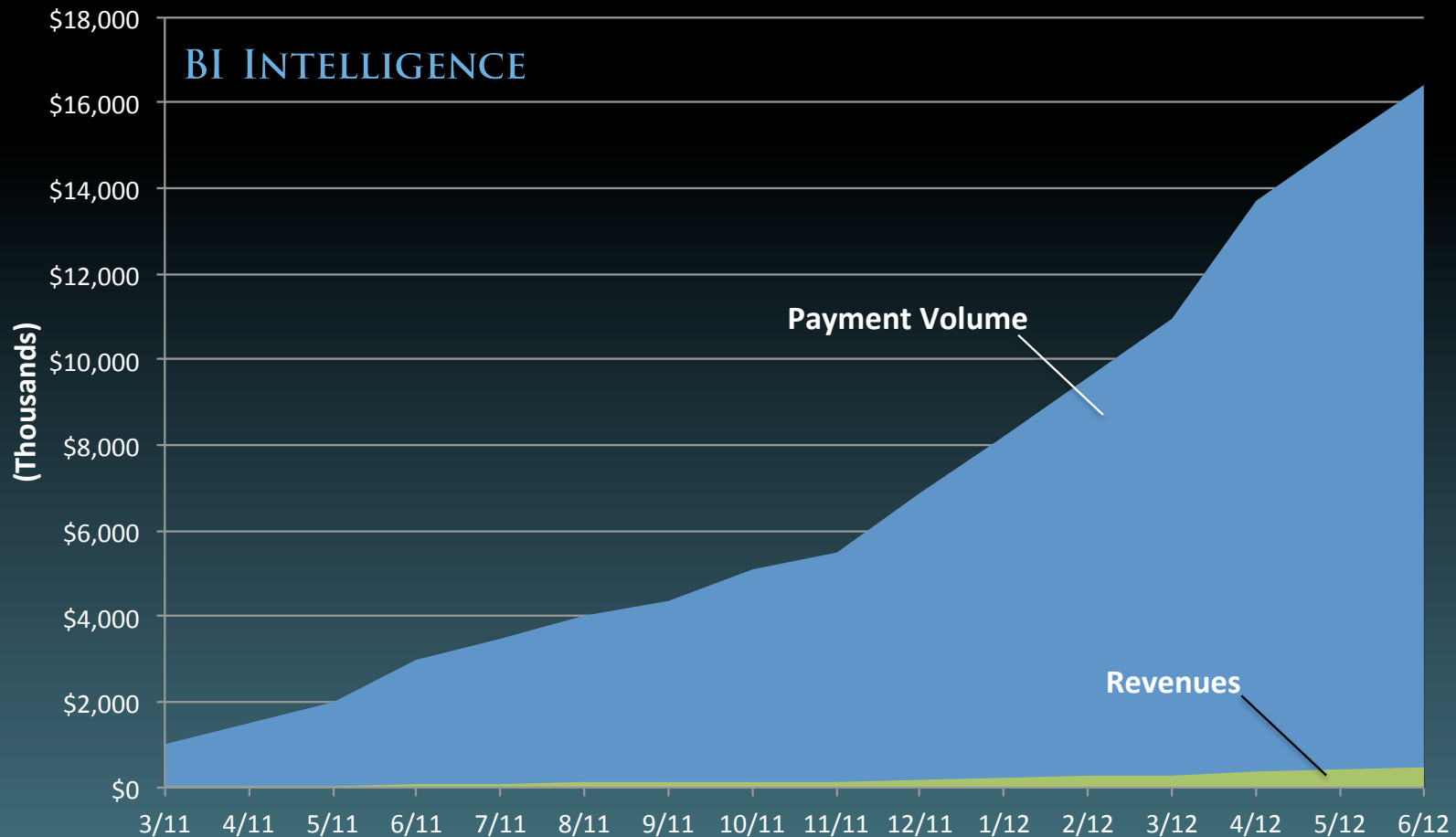
They pay for stuff... Paypal's mobile payments are growing rapidly

PayPal Mobile Payments Processed



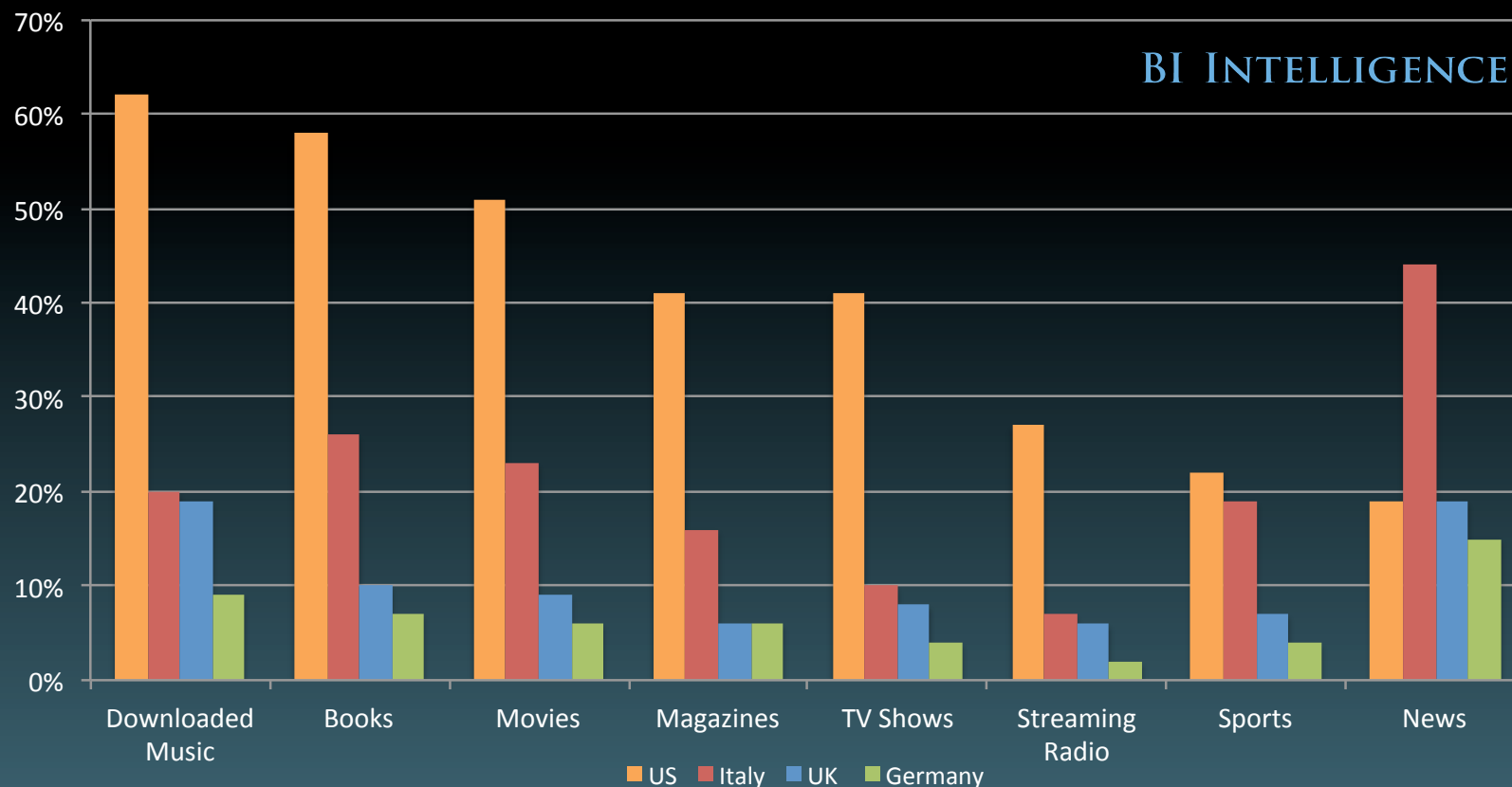
Square launched about two years ago, and it's already processing \$16+ million a day

Square Estimated Daily Payment Volume and Revenues



They even buy content! (on tablets)

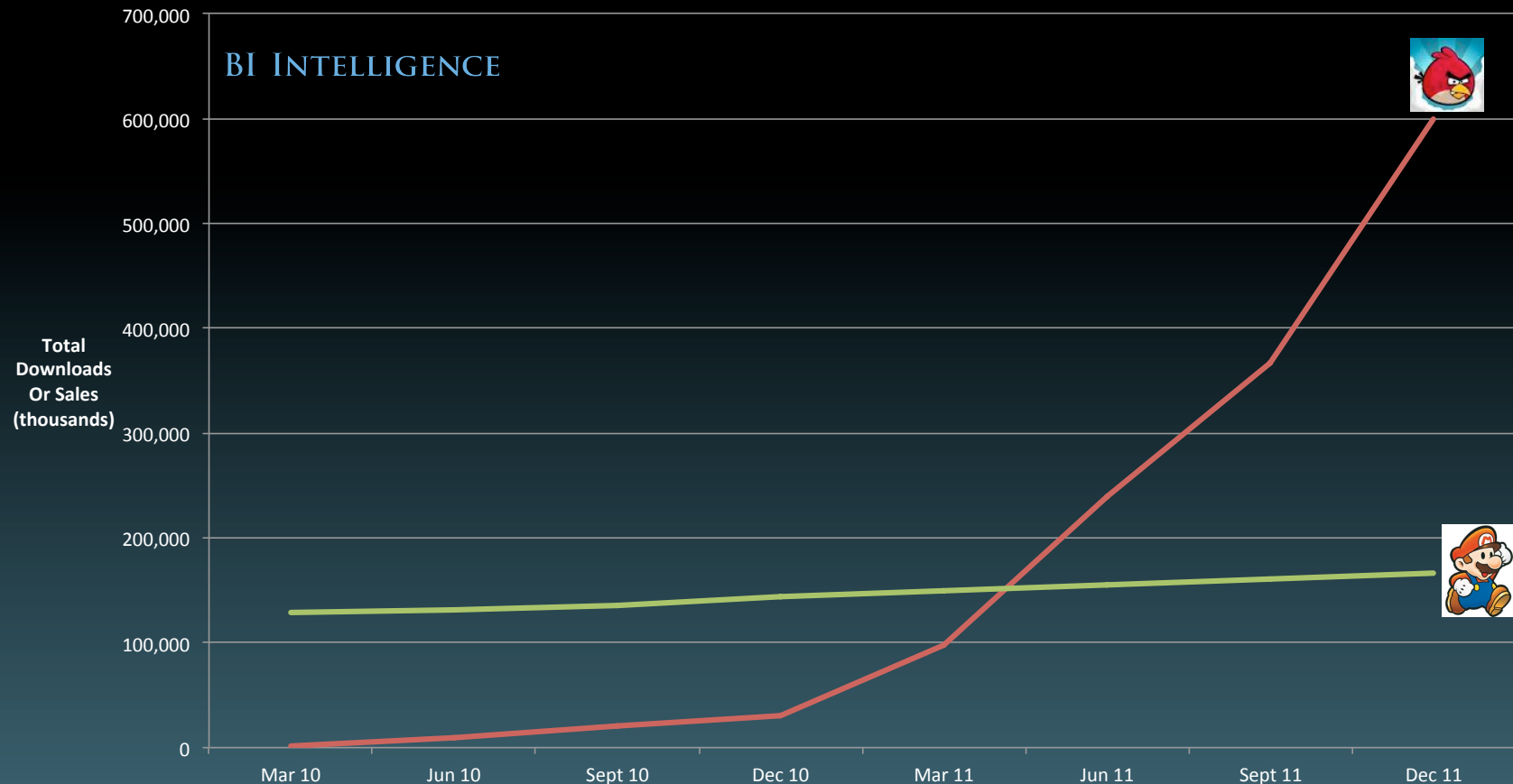
Media Content Paid For On A Tablet, Q4 2011



**But the really interesting stuff
that people do on mobile
is what they
DON'T do online...**

Angry birds has over 1 billion downloads

Angry Birds Downloads vs. Nintendo DS Sales



Source: New reports, company releases, BI Intelligence estimates

Note: Includes Nintendo 3DS Sales

Instagram hit 100 million users in 2 years

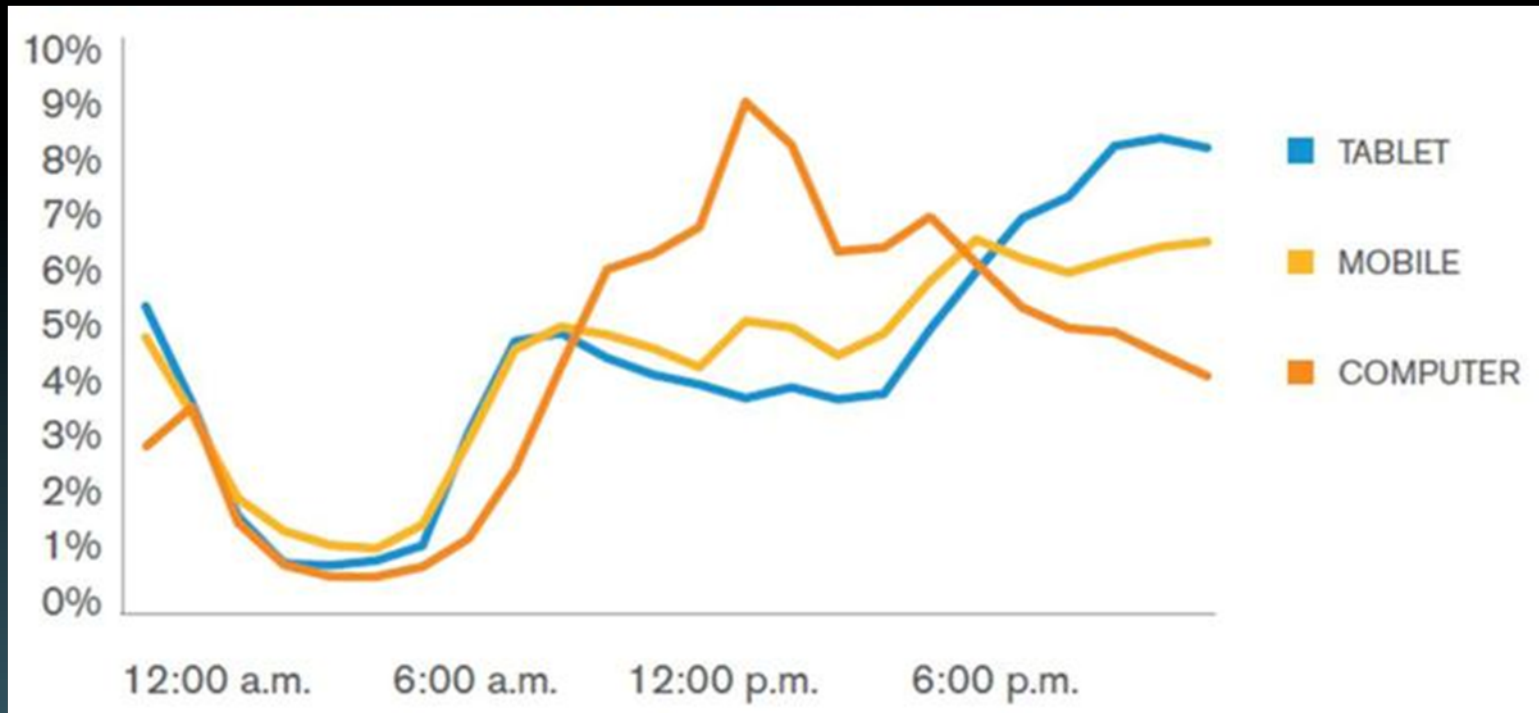


BOTTOM LINE:

**The growth of mobile = more
Internet usage, new applications**

Mobile makes Internet usage 24/7

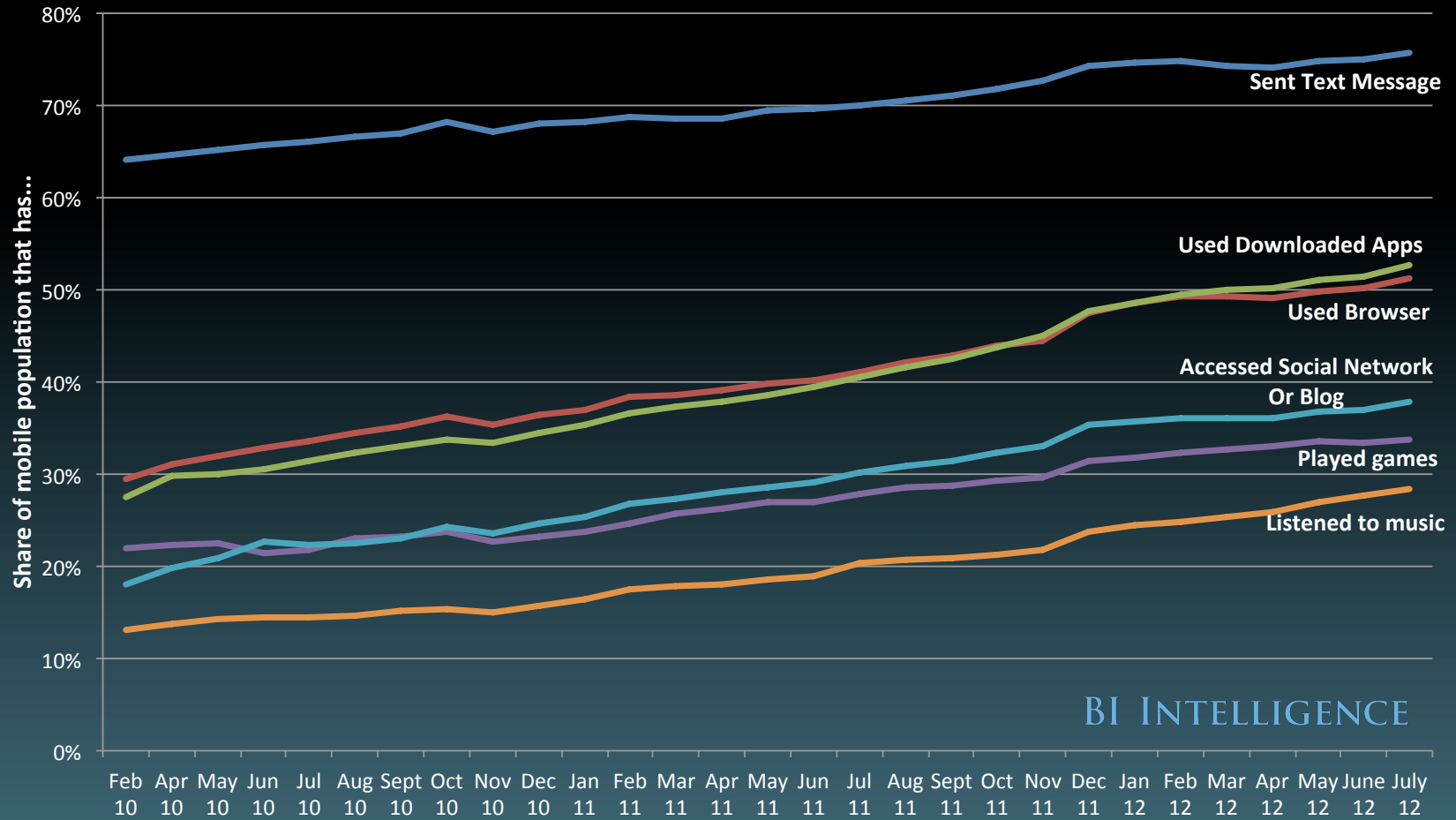
Share Of Device Page Traffic Over A Day:



Source: comScore, Telefonica, Macquarie Capital (USA), December 2011

Usage is up across the board...

U.S. Mobile Content Usage



Source: comScore

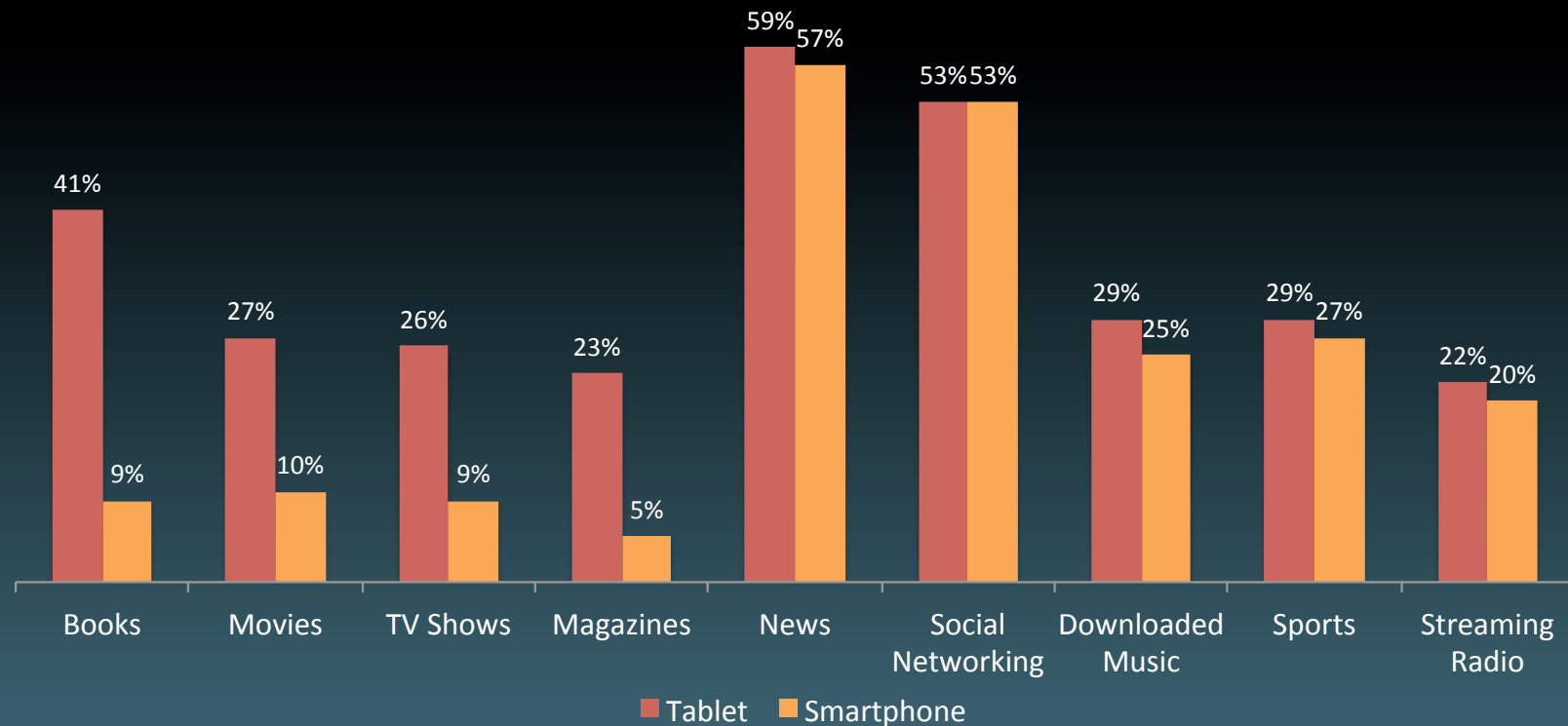
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And people are consuming a huge amount of content through mobile...

Media Content Accessed Through Mobile Device

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Source: Nielsen Q4 2011 Mobile Connected Device Report

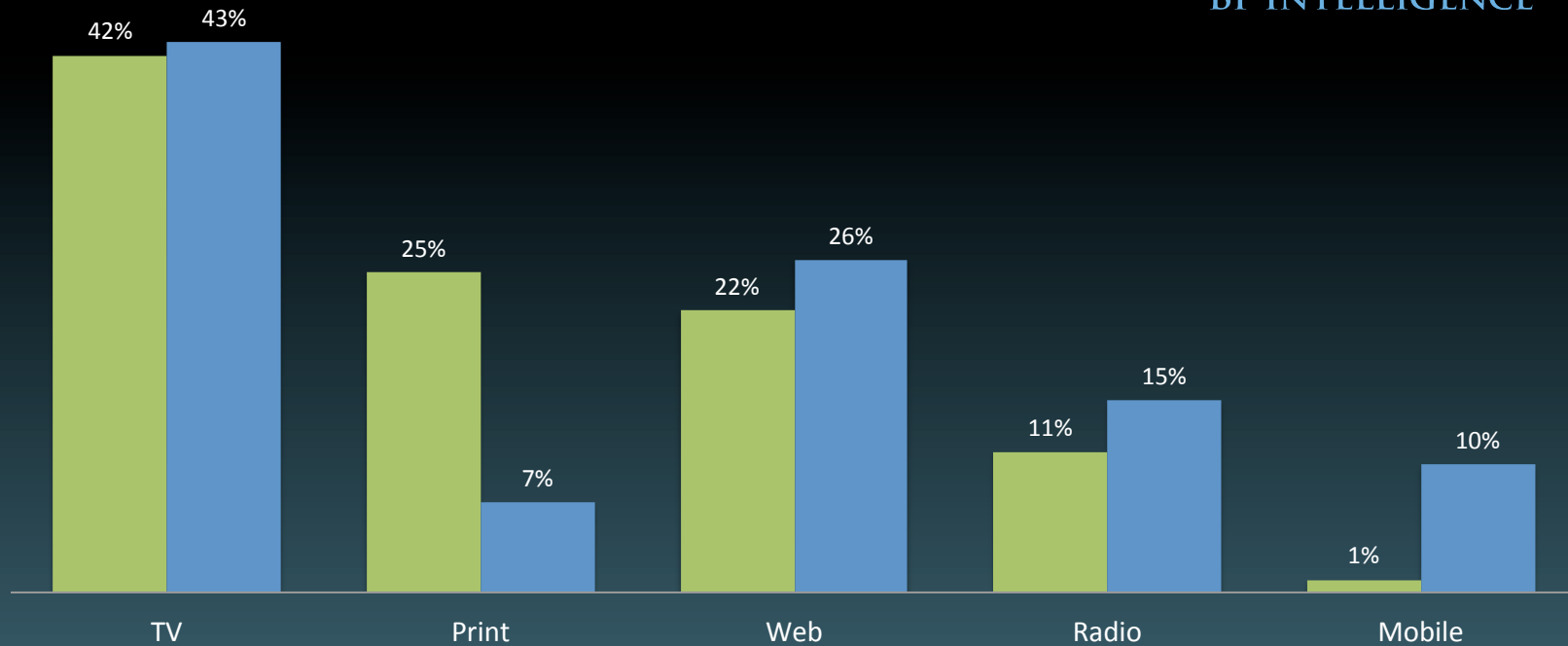
**So mobile advertising
will be huge, right?**

Hmm...

The "bullish" mobile-ad story is the huge gap between time-spent and ad spending.

2011 U.S. Ad Spending vs. Consumer Time Spent By Media

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Source: Mary Meeker (KPCB), eMarketer, IAB

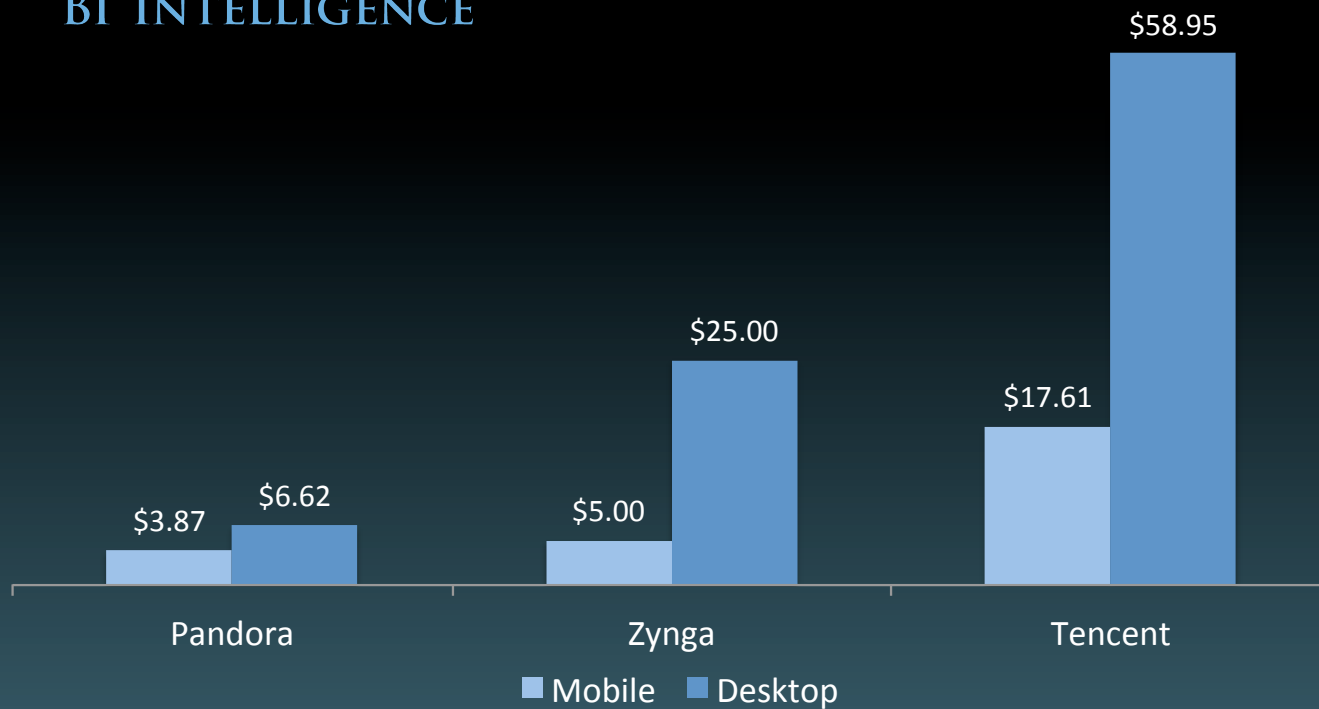
**But maybe there's a good reason
for that gap...**

The screen is really small.

Mobile monetization still behind the desktop

ARPU, Desktop vs. Mobile

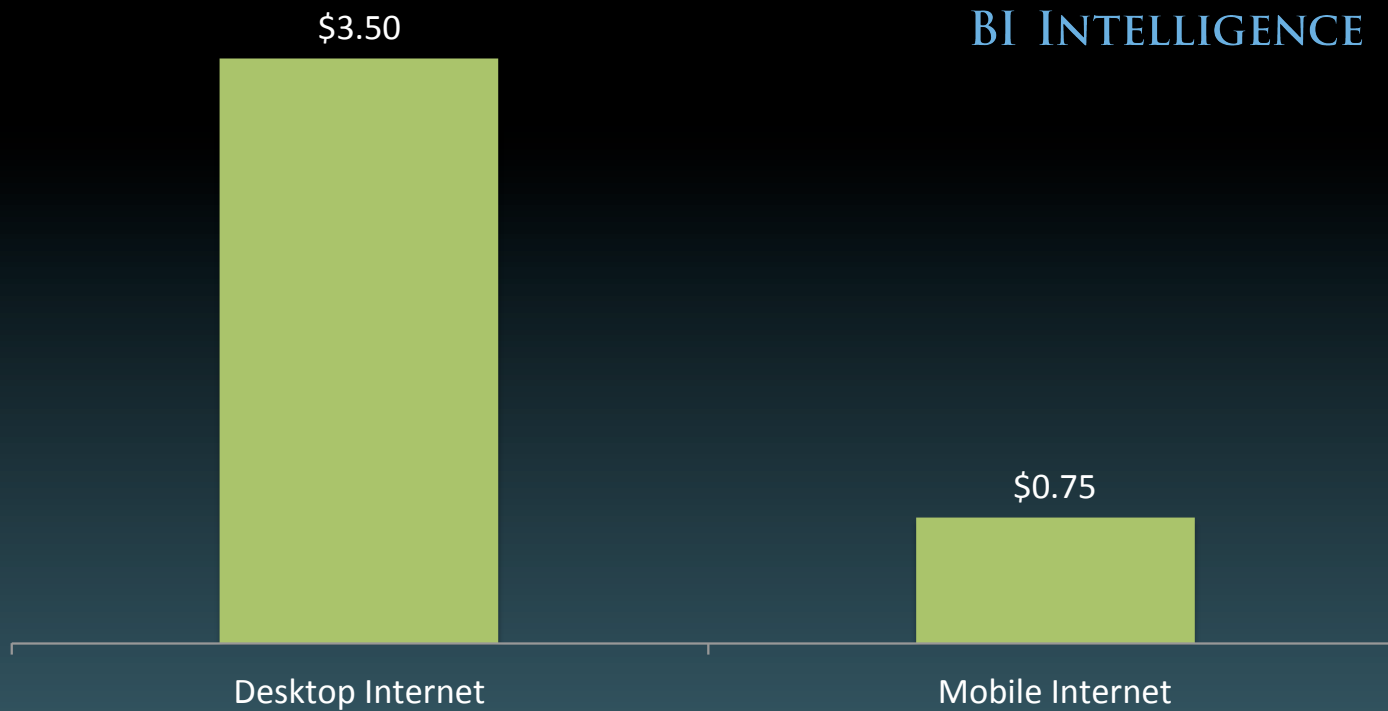
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Source: Pandora, Zynga, Tencent

Mobile CPMs are much lower

Effective CPM, Desktop vs. Mobile

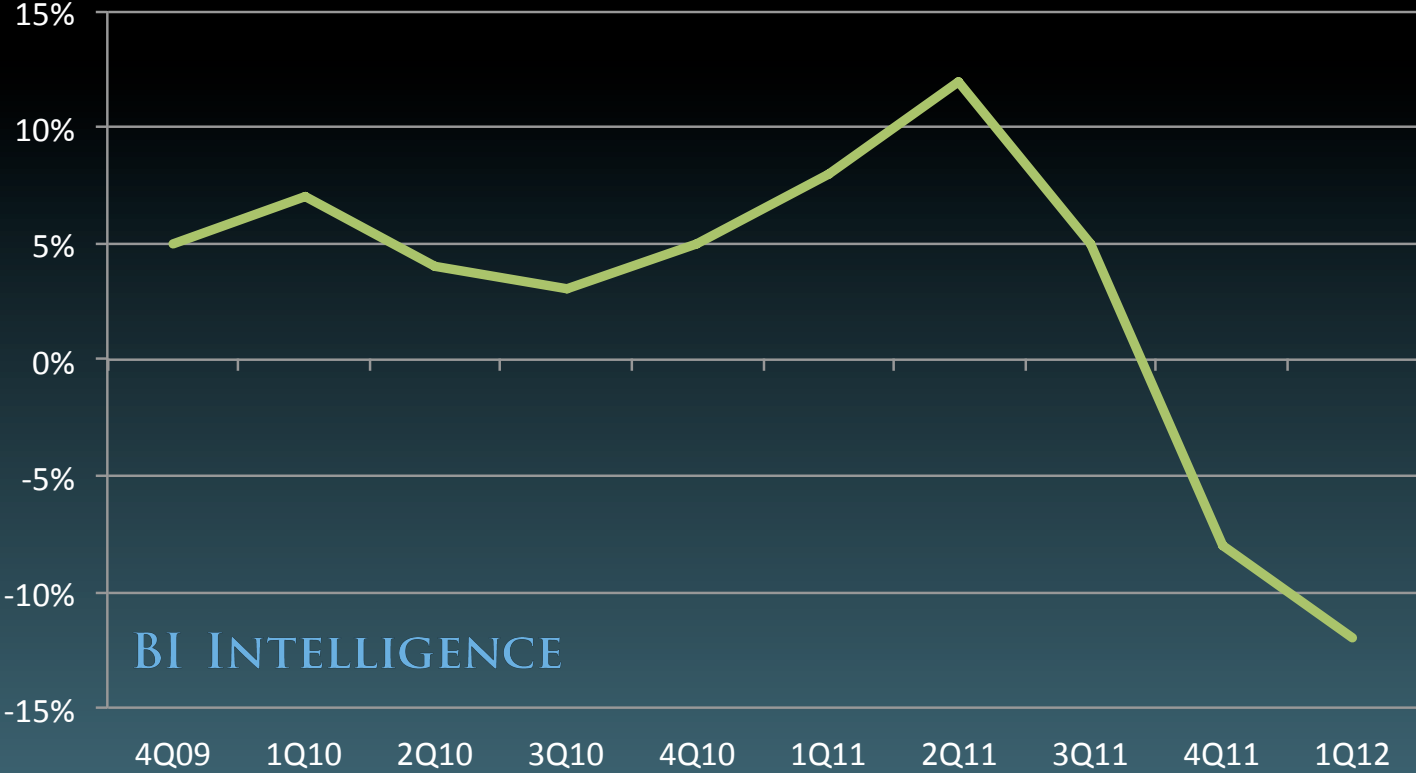


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Source: comScore, Vivaki, Mobclix Exchange

Including for companies like Google and Facebook.

Google CPC Growth

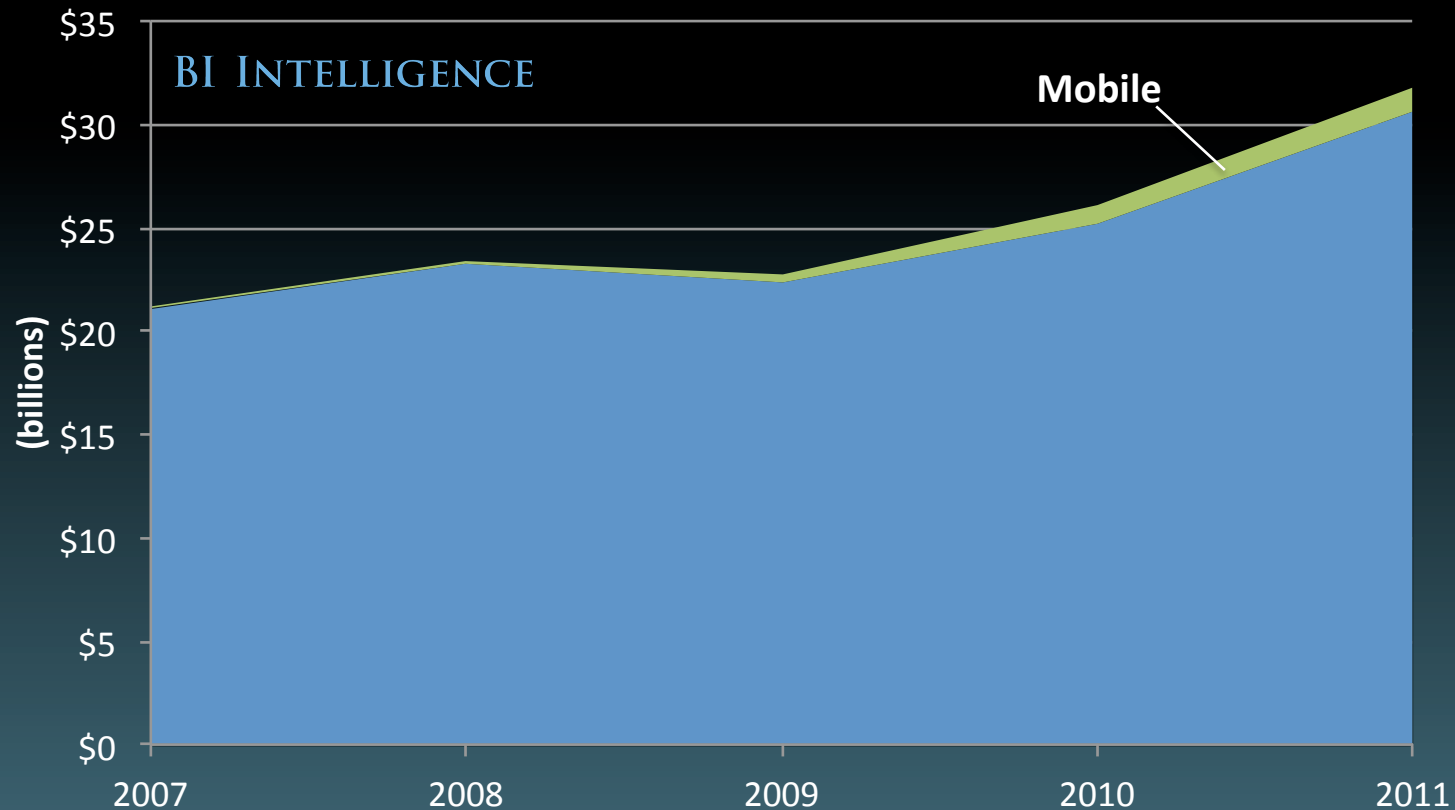


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Source: Company data, Evercore Group LLC Research

Overall, mobile is still a tiny fraction of digital ad spending.

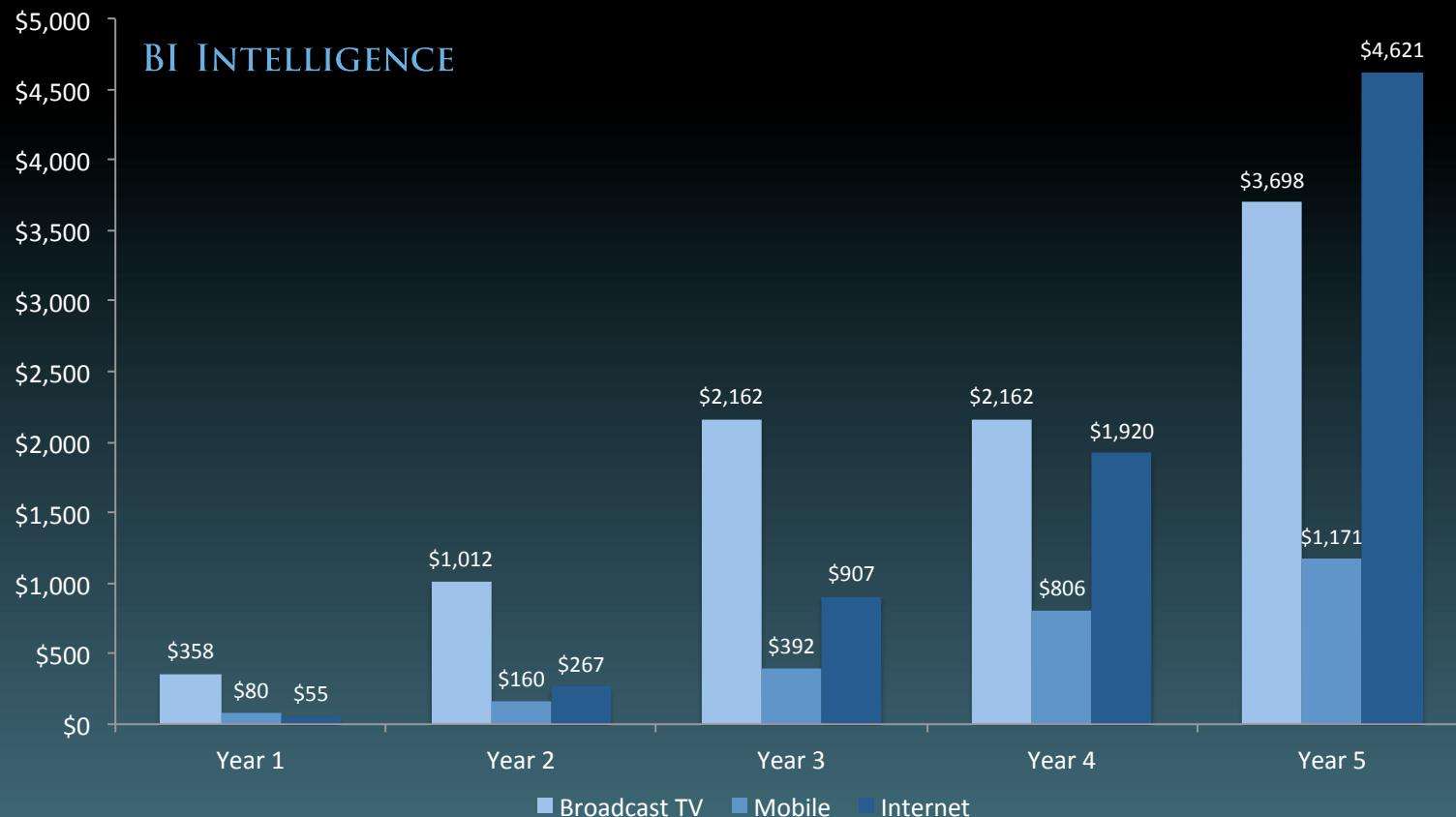
U.S. Digital Advertising Revenues



Source: IAB, BIA-Kelsey, BII estimates

And it's growing much slower than TV + Internet in the first 5 years

Comparative U.S. Advertising Media
Annual \$ Revenue Growth (First 5 Years)

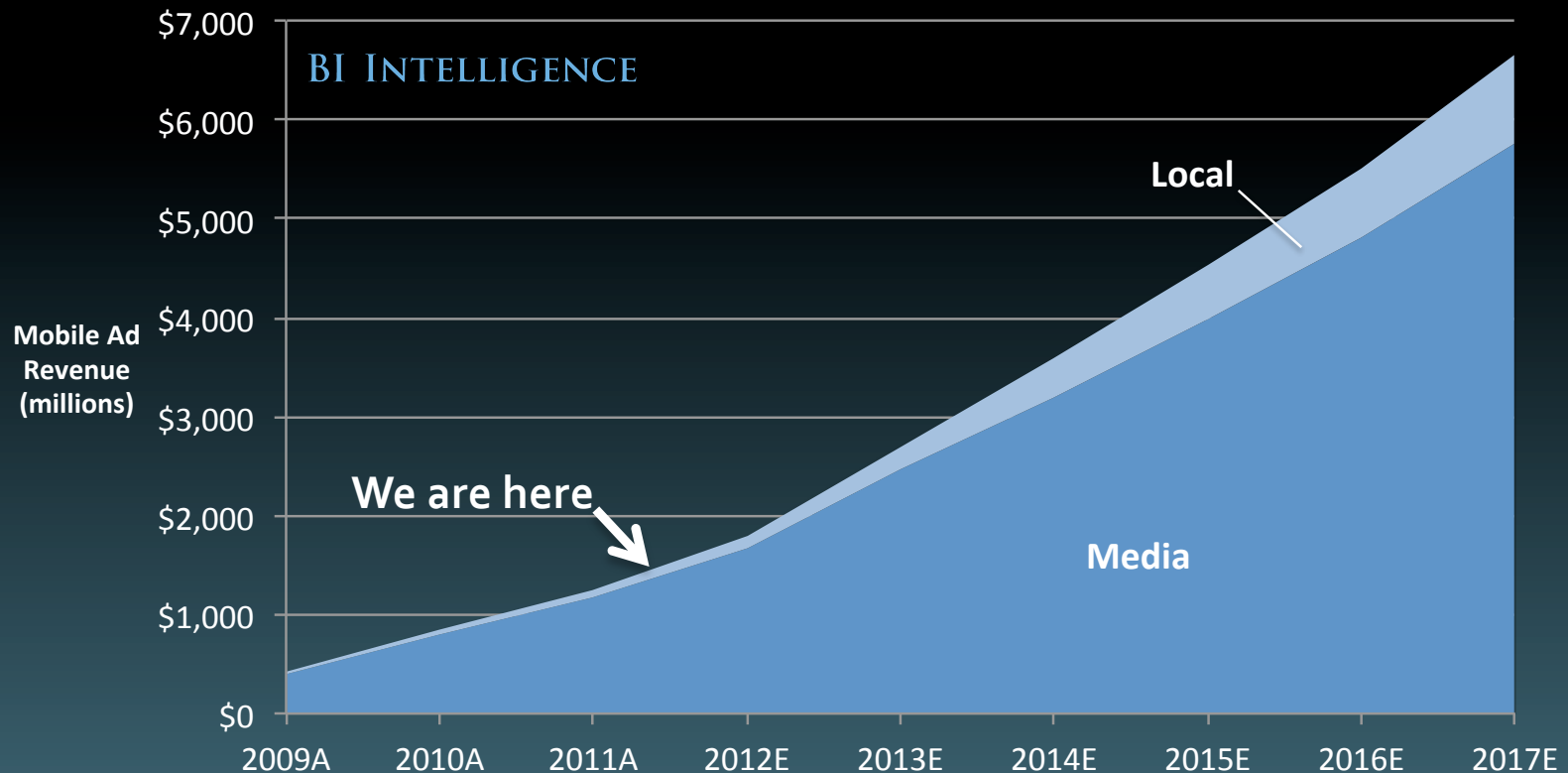


Source: IAB, McCann-Erickson, BIA-Kelsey, BII estimates

Note: Adjusted for inflation

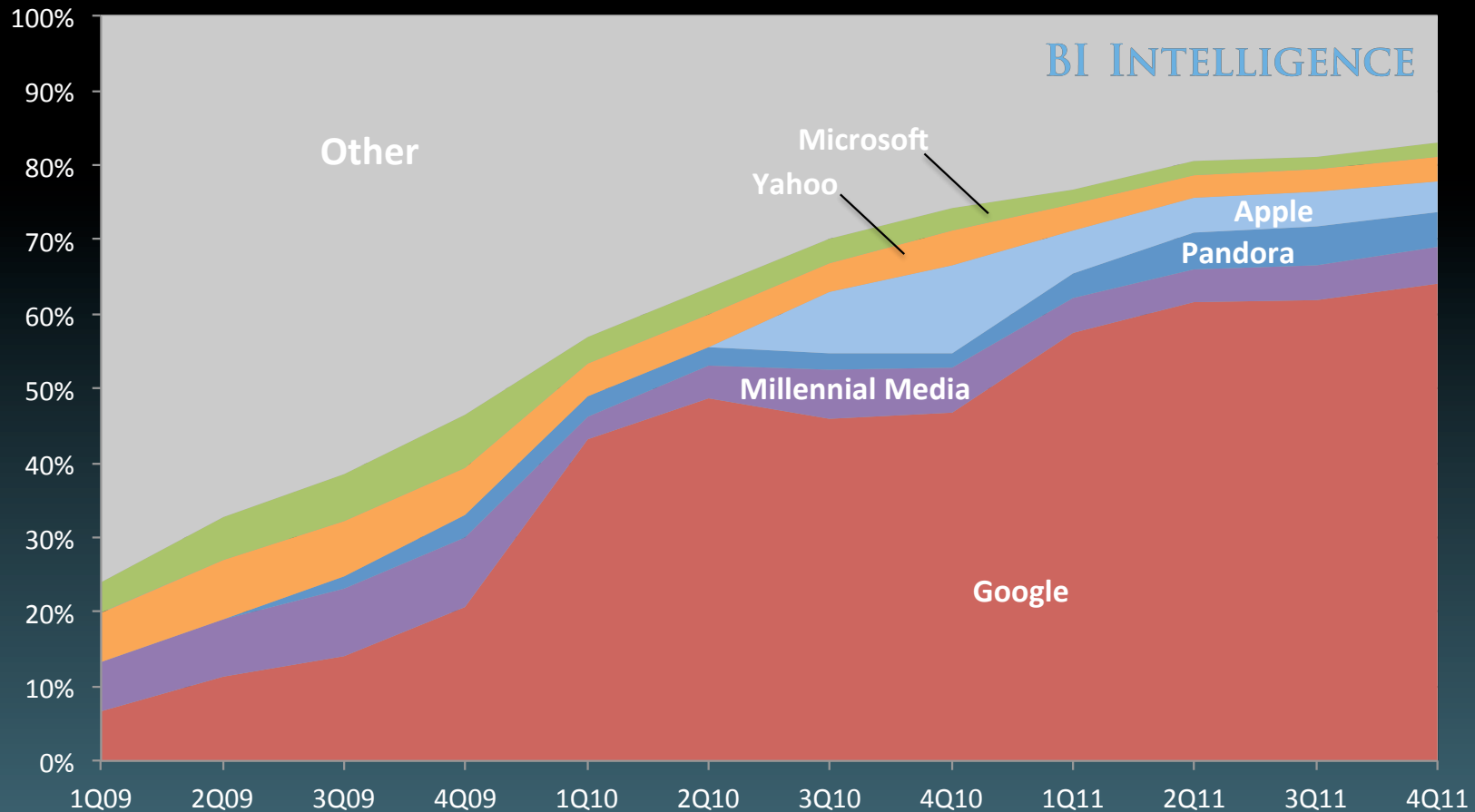
But okay, yes, mobile ads are just getting started (about ~\$1.25 B last year)

U.S. Mobile Ad Forecast



By the way, Google owns mobile, too

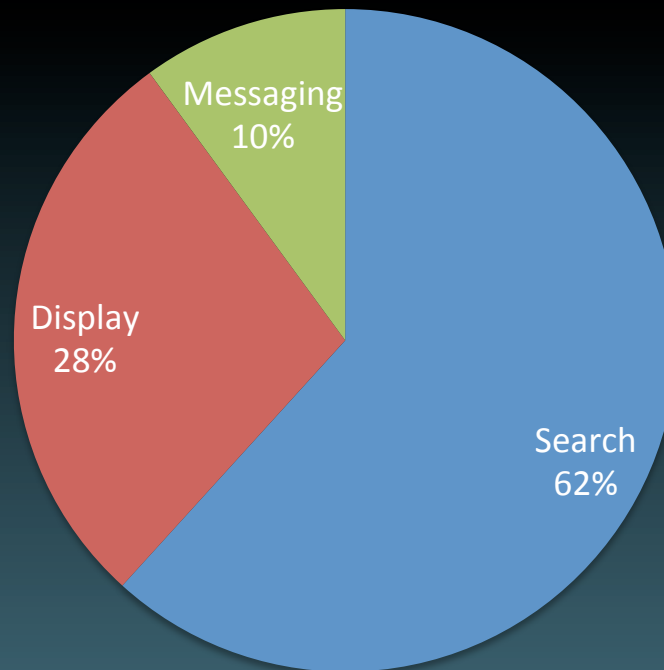
Mobile Ad Market Share



Source: news reports, company releases, BI estimates

Because "mobile" ads are mainly just web search + display ads viewed on mobile

2011 Global Mobile Ad Spend By Category



Source: IAB

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But “native” mobile ads are finally beginning to appear



British Airways @British_Airways

Our ad shows our plane in London. But it can go all over the UK. Enter FY14BJ & see where we are now taxi.ba.com #HomeAdvantage

 Promoted by British Airways

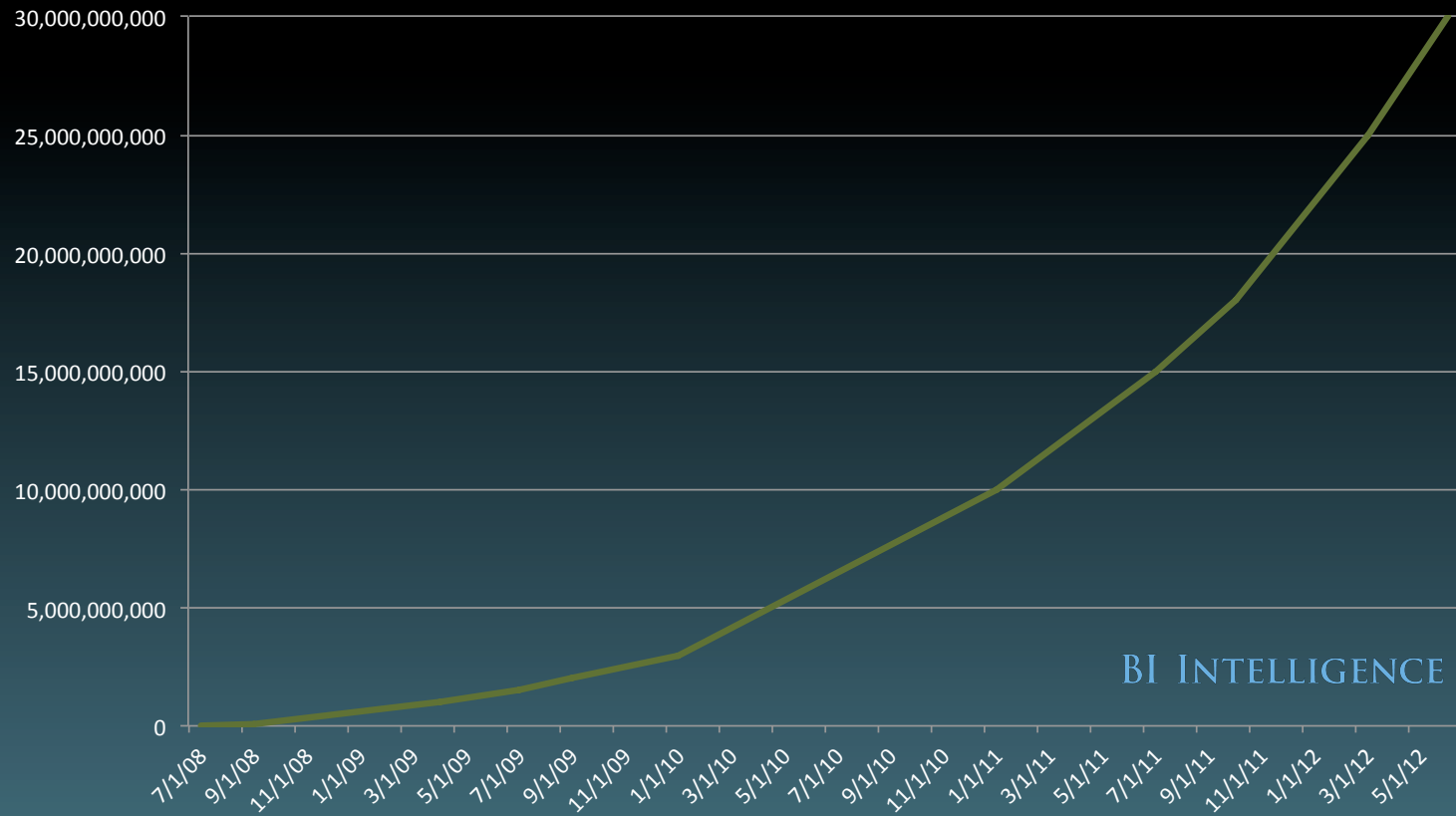
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- Ads in timelines (Twitter / Facebook)
- Geo-located ads
- Shareable ads

APPS

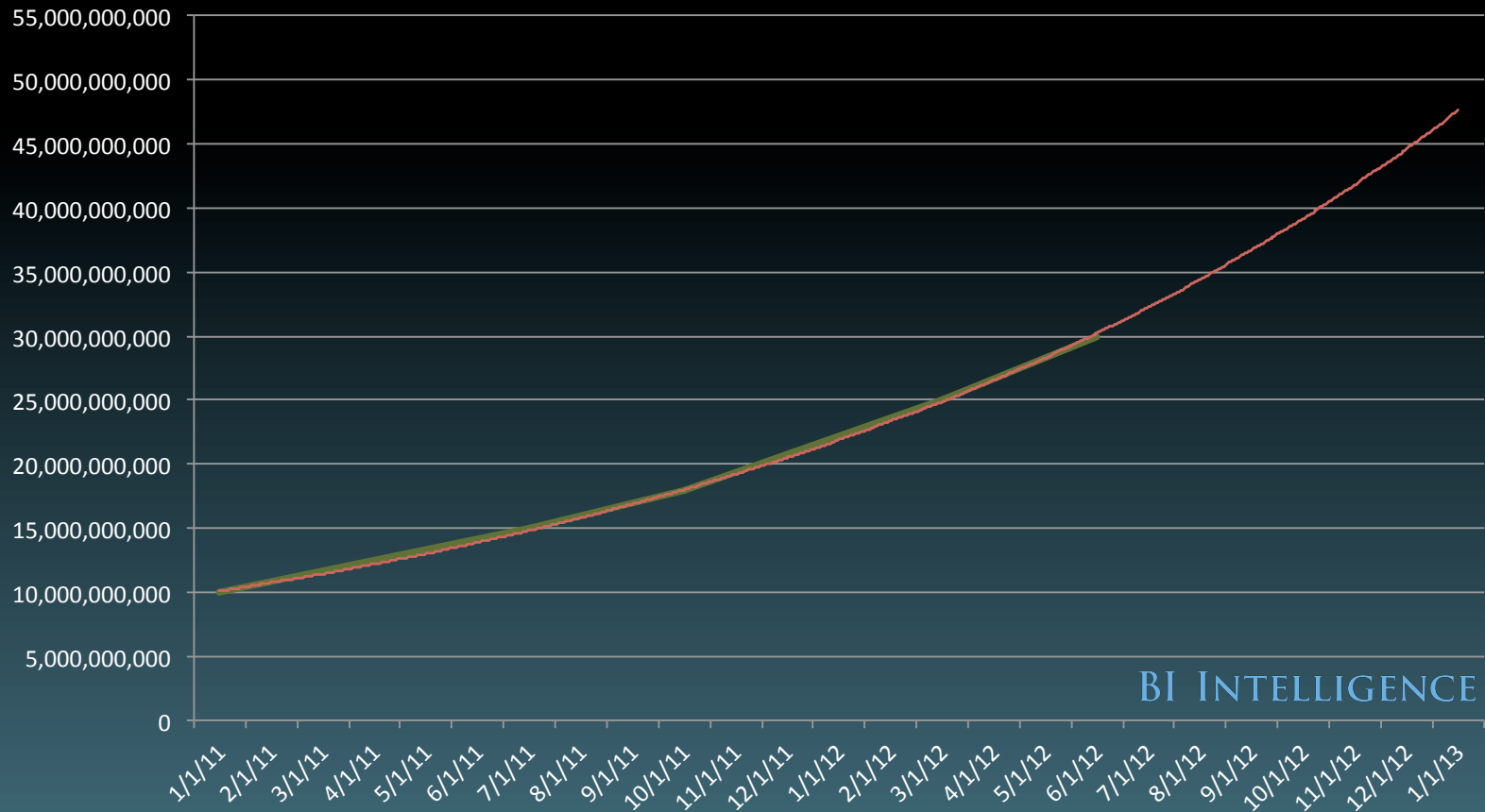
App downloads are growing frantically

Apple App Store Downloads



On pace to hit 45 billion by the end of the year

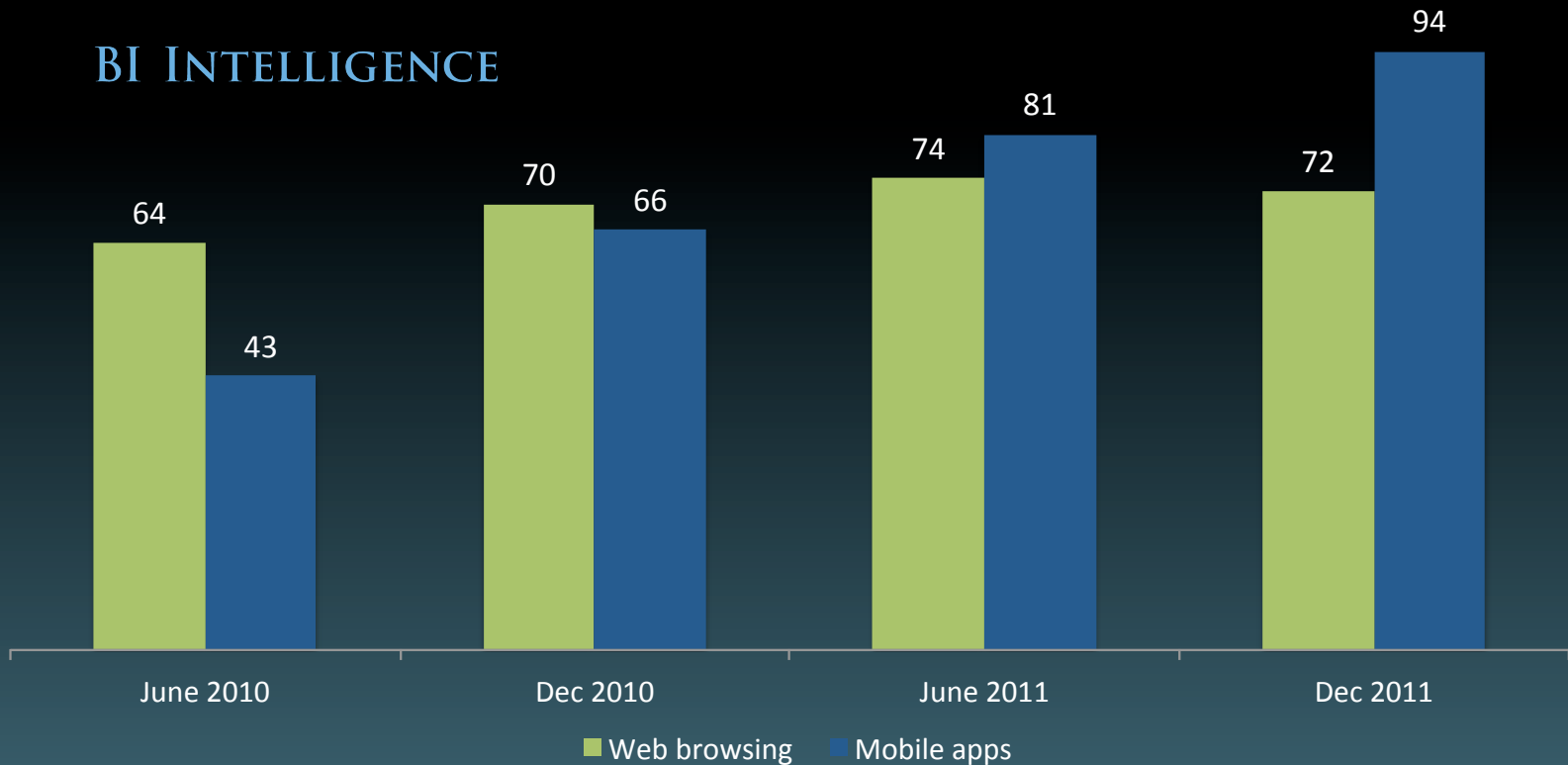
Apple App Store Downloads



People now spend more time on apps than they do browsing the web

U.S. Mobile Apps vs. Web Consumption, Minutes Per Day

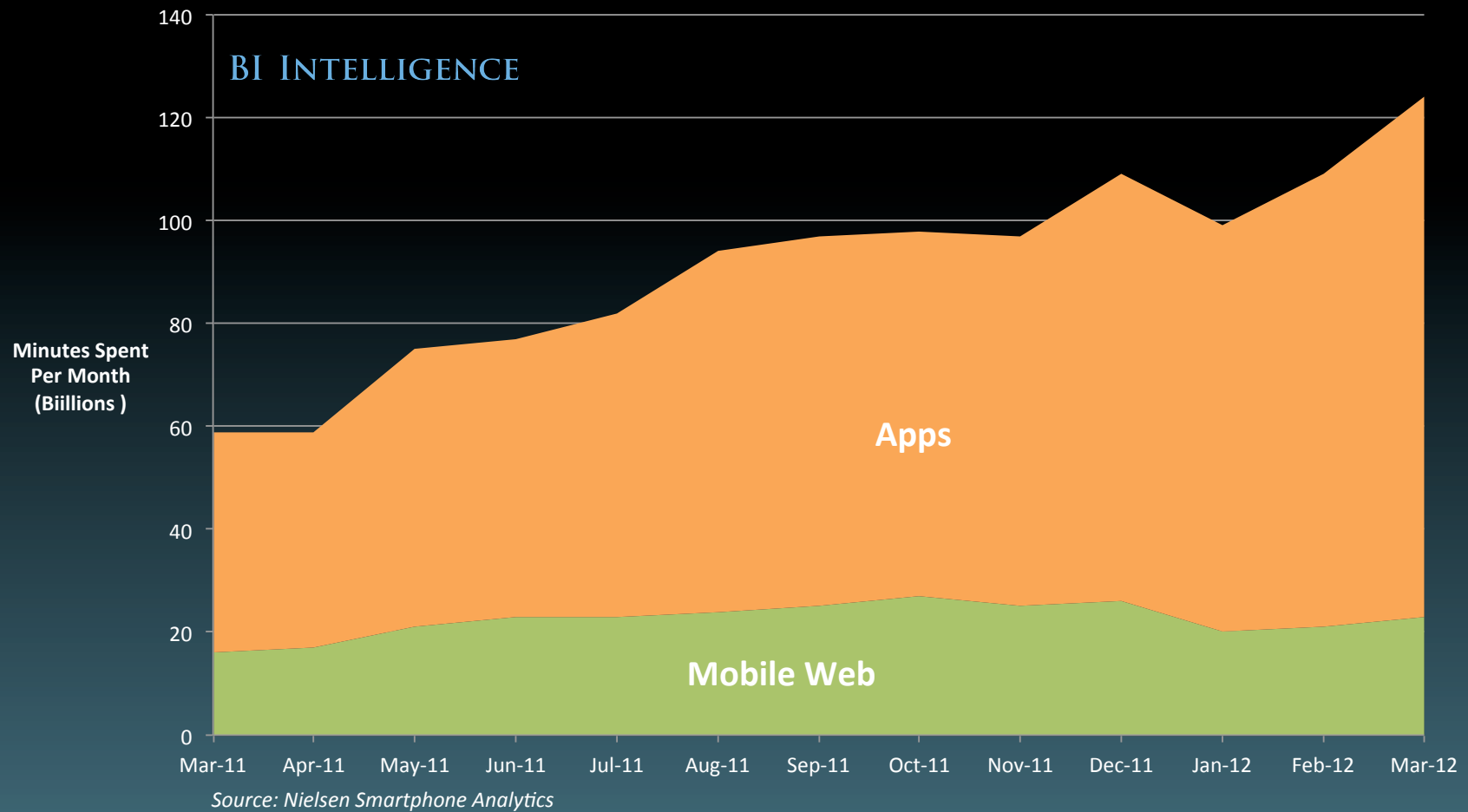
BI INTELLIGENCE



Source: Flurry Analytics, Alexa, comScore

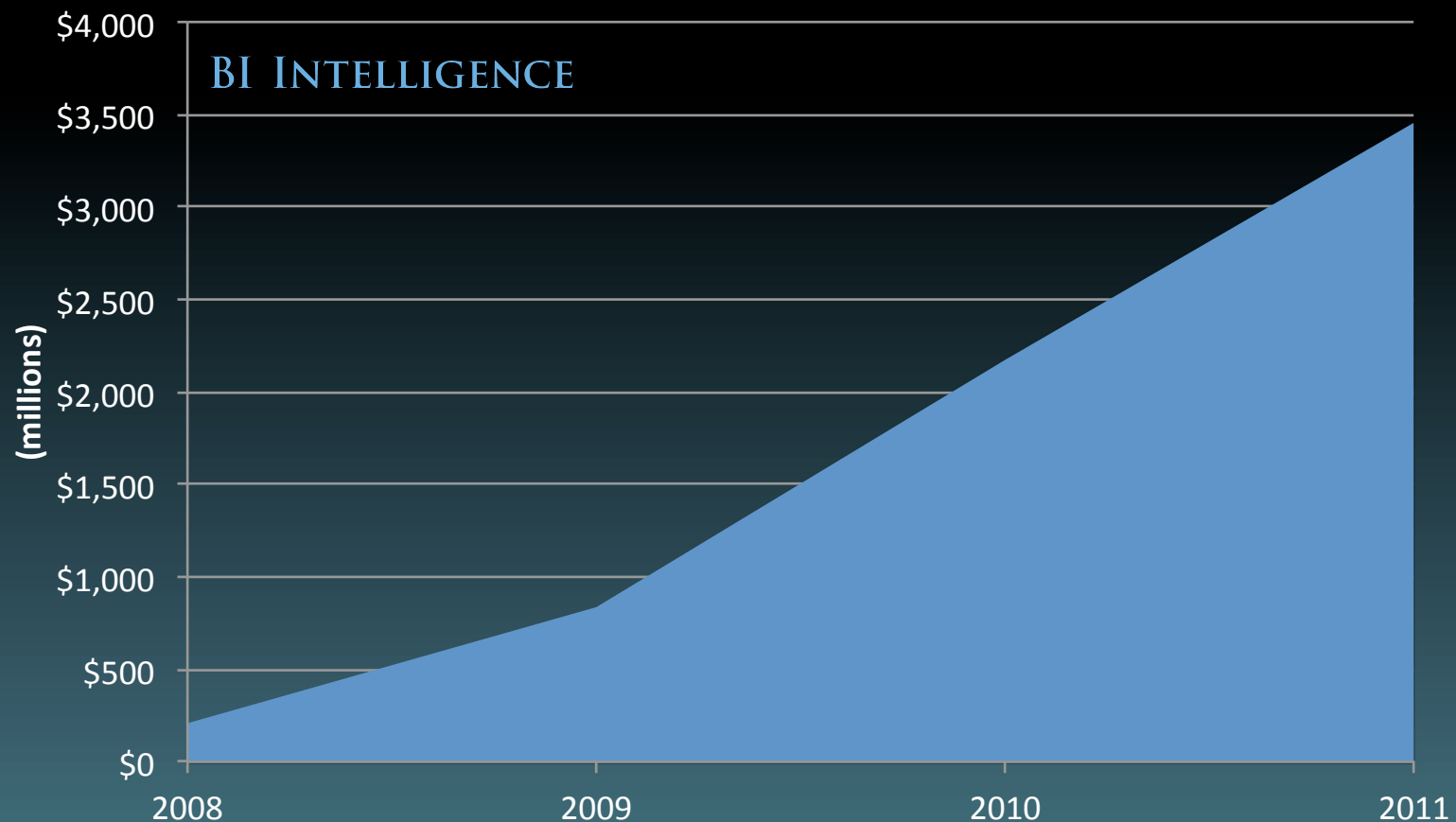
And the disparity is growing.

Total Time Spent Using Mobile Web vs. Apps



Mobile app revenue is growing fast, but still relatively small.

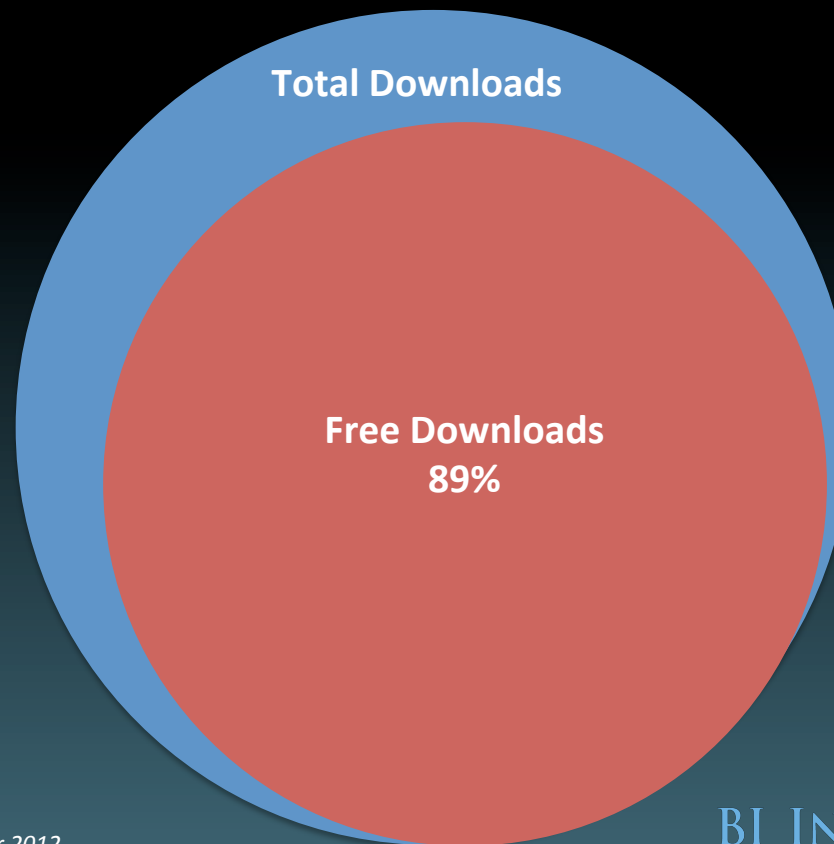
Mobile App Revenue



Source: iSuppli, Forrester Research, company releases, BI estimates

Because most downloads are free

Mobile App Store Downloads, Free vs. Paid: 2011



Source: Garner, September 2012

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BUSINESS
INSIDER

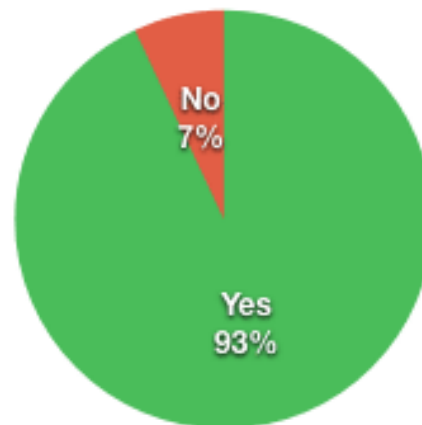
“Freemium” is the dominant business model

Two-thirds of the 100 iPhone apps that make the most money are free to download and generate 100% of their iTunes revenue through In-App Commerce.

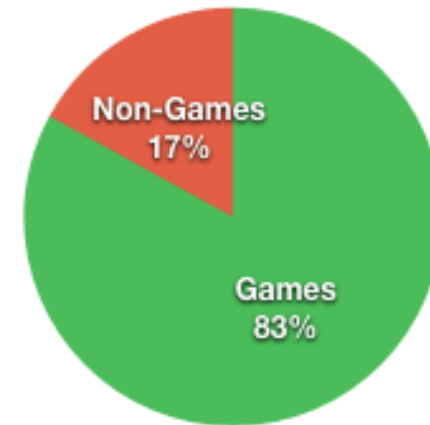
% of Free and Paid Apps in iPhone Top 100 Grossing



% of Top 100 Grossing iPhone Apps That Use In-App Commerce



% of Top 100 Grossing iPhone Apps That Are Games

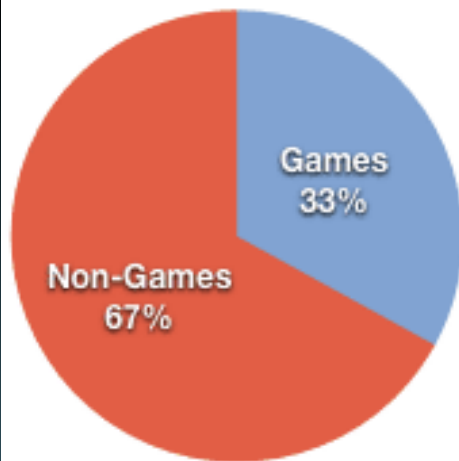


Source: BI Intelligence analysis of App Store data, Jul. 2012

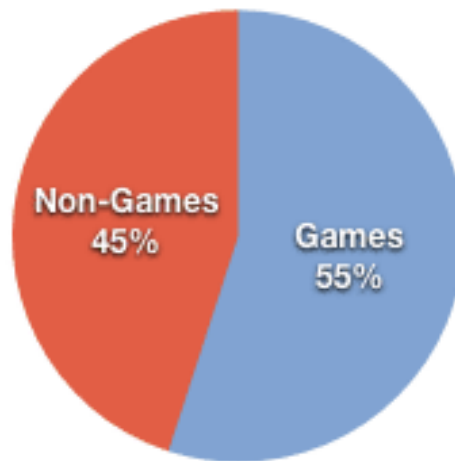
Games are the biggest money makers

Games Represent ~70% Of Highest-Grossing iPhone Apps

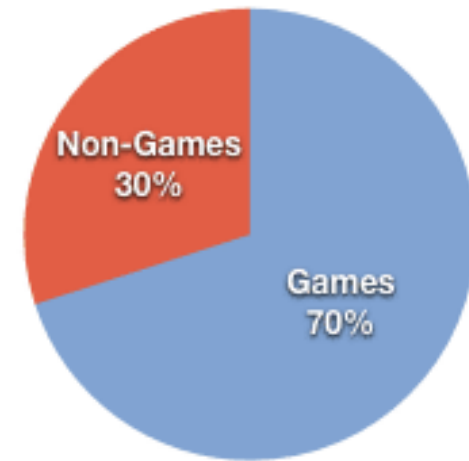
Top 200 Free iPhone Apps



Top 200 Paid iPhone Apps



Top 200 Grossing iPhone Apps



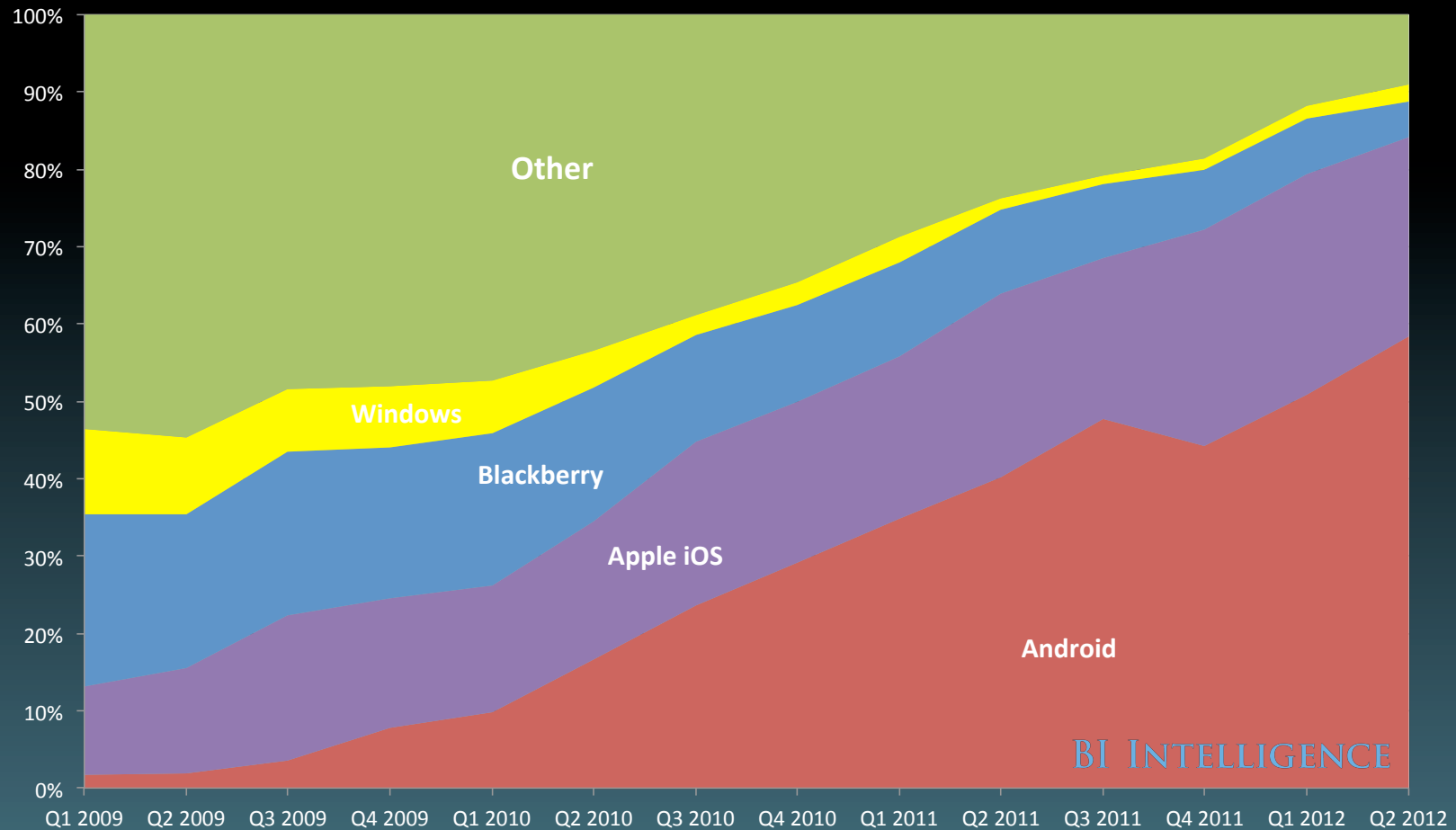
Source: iTunes data, BII analysis, Aug. 2012

**Mobile has become a
platform game.**

**Platform markets tend to
standardize around one or two
platforms.**

Right now, mobile is a two-horse race.

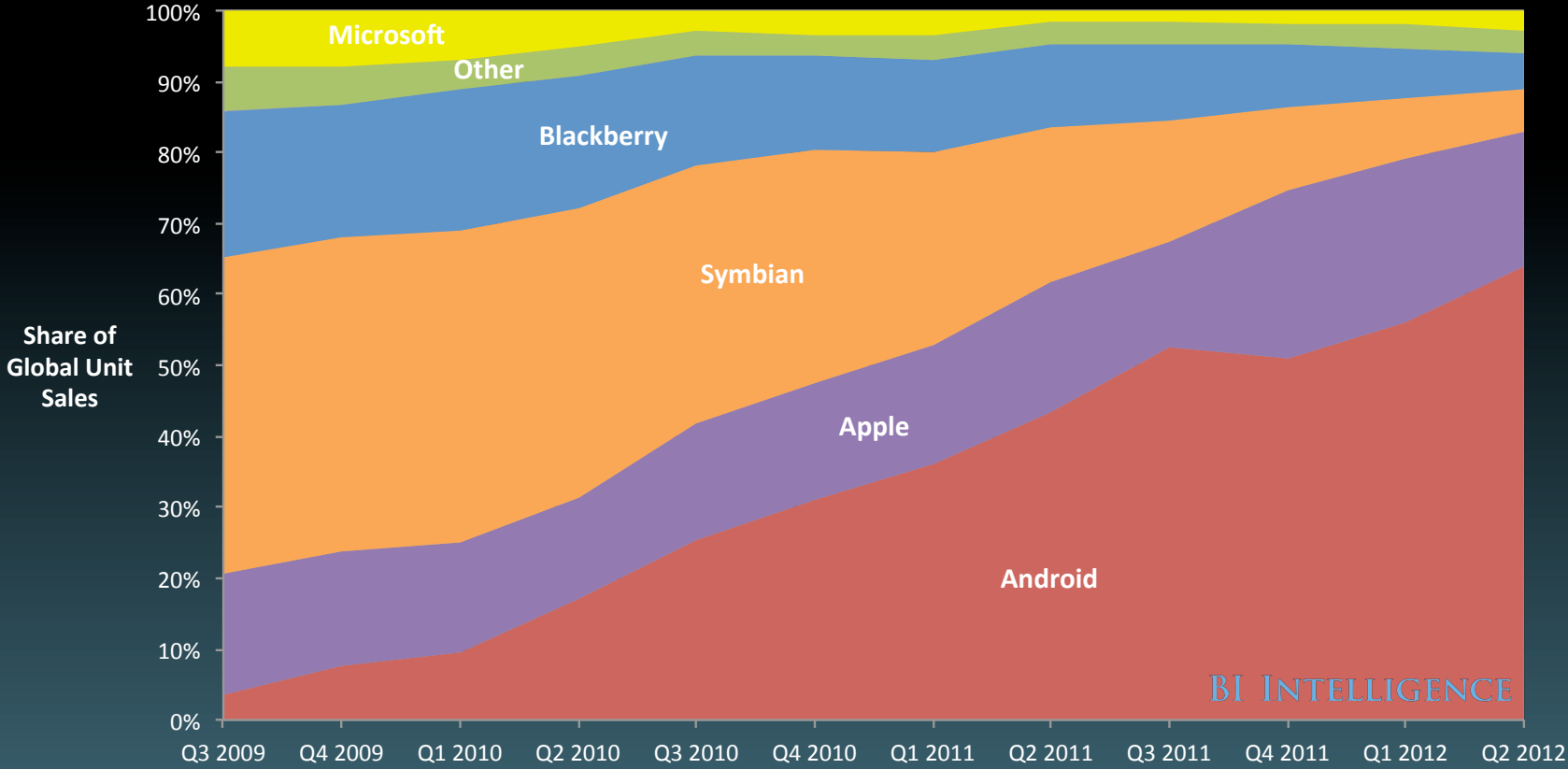
Mobile Platform Market Share



Source: Gartner, IDC, Strategy Analytics, BI Intelligence estimates, and company filings

Android has the largest platform globally.

Smartphone Market Share By OS (Global)

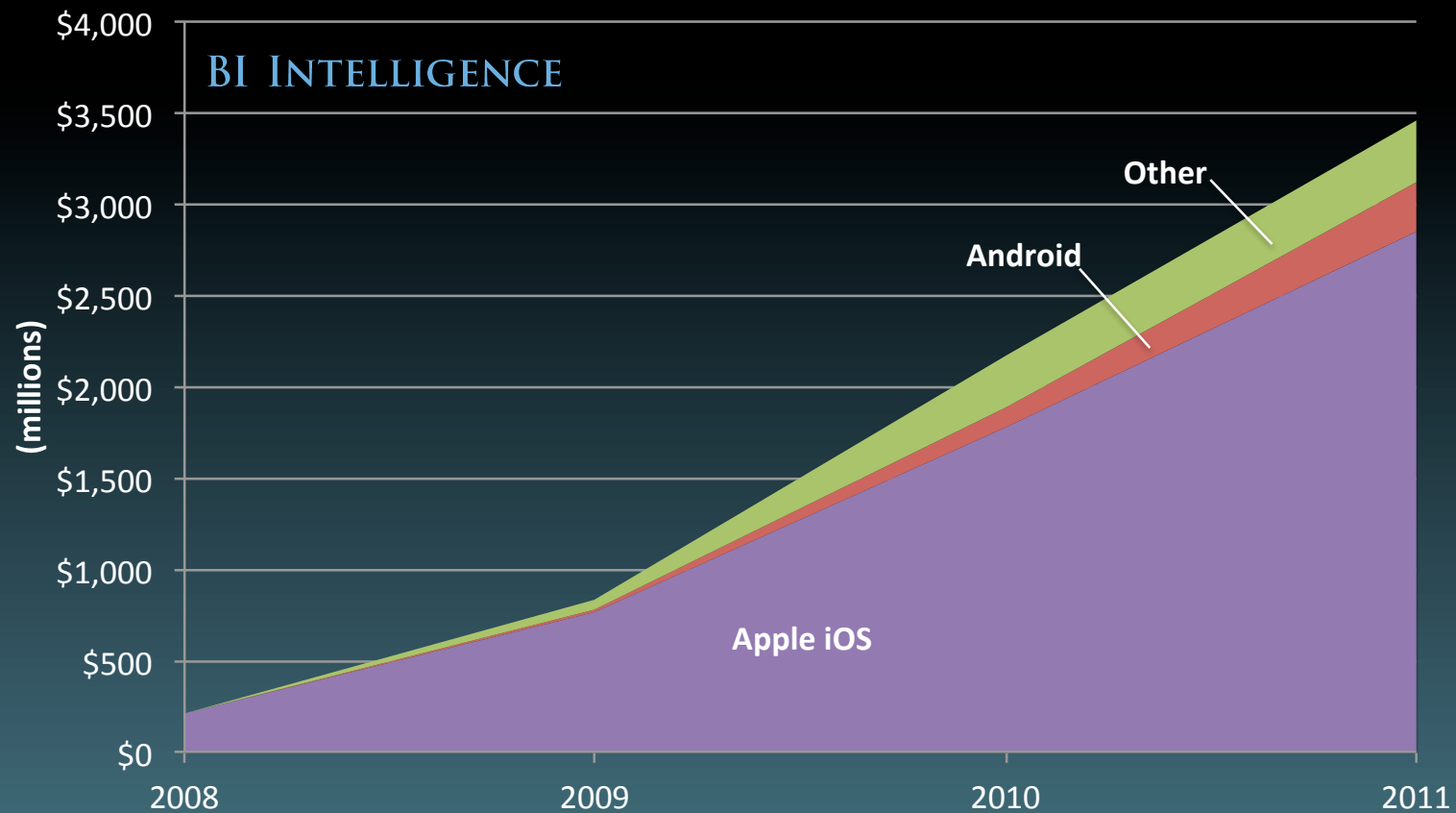


Source: Gartner

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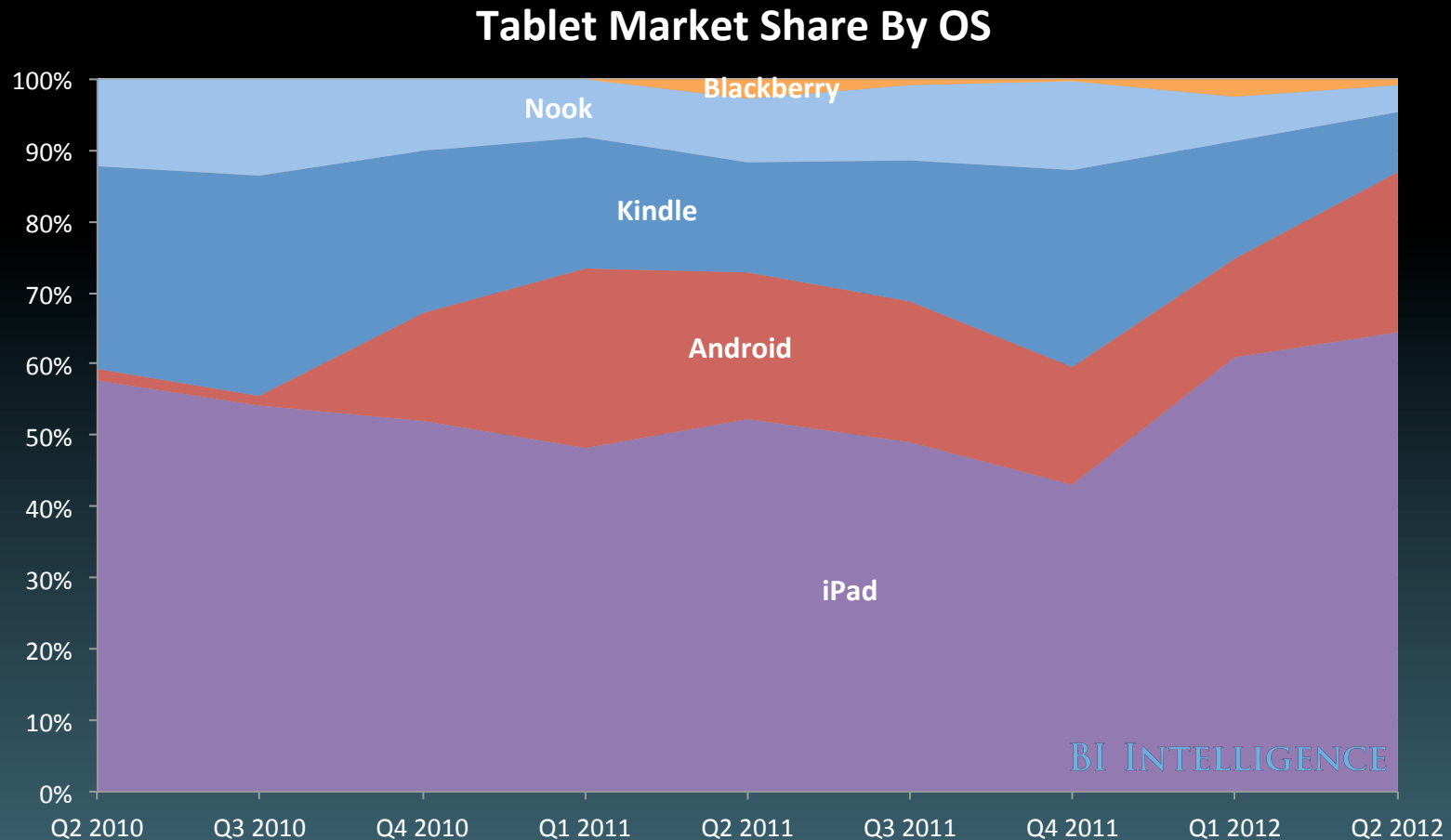
But Apple is dominating app revenue.

Mobile App Revenue By Platform



Source: iSuppli, Forrester Research, company releases, BII estimates

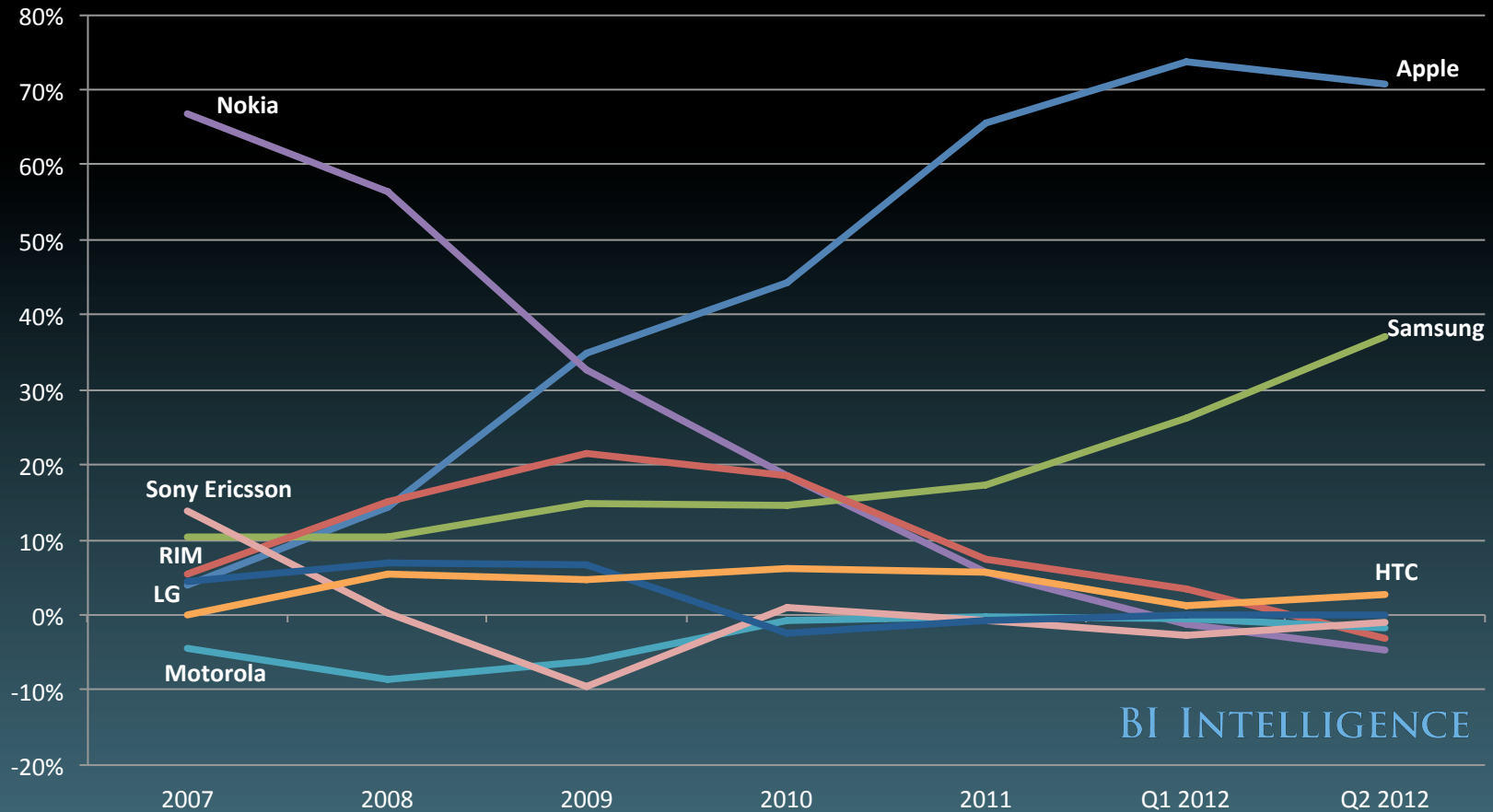
Tablet market is early, but almost totally dominated by Apple



Source: Estimates based on information from IDC, Strategy Analytics, and company filings

Mobile profits are going mainly to two players.

Operating Profit Share By Vendor



Source: Company releases, Canaccord Genuity estimates

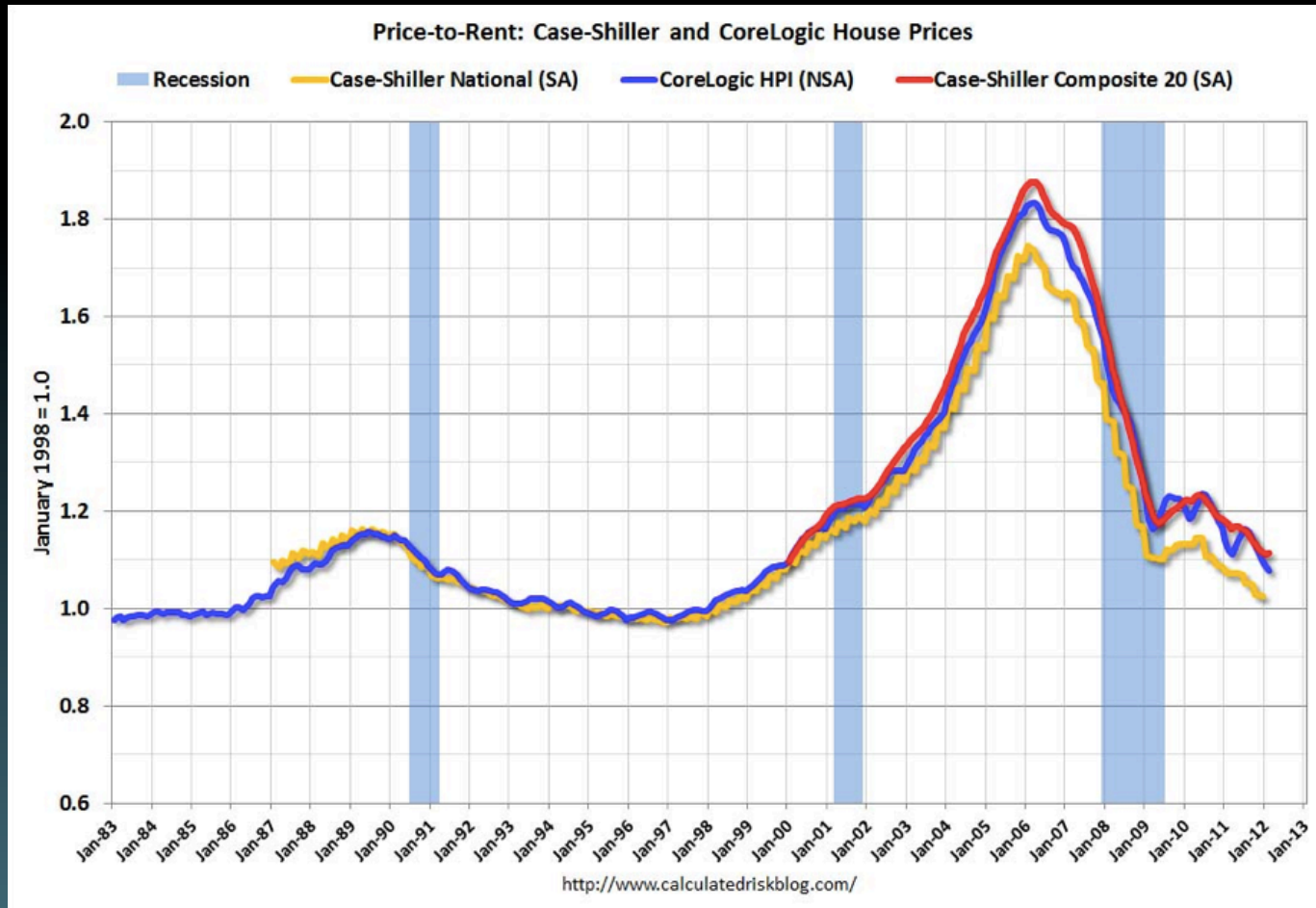
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BONUS:
**So, are we in a new tech
bubble?**

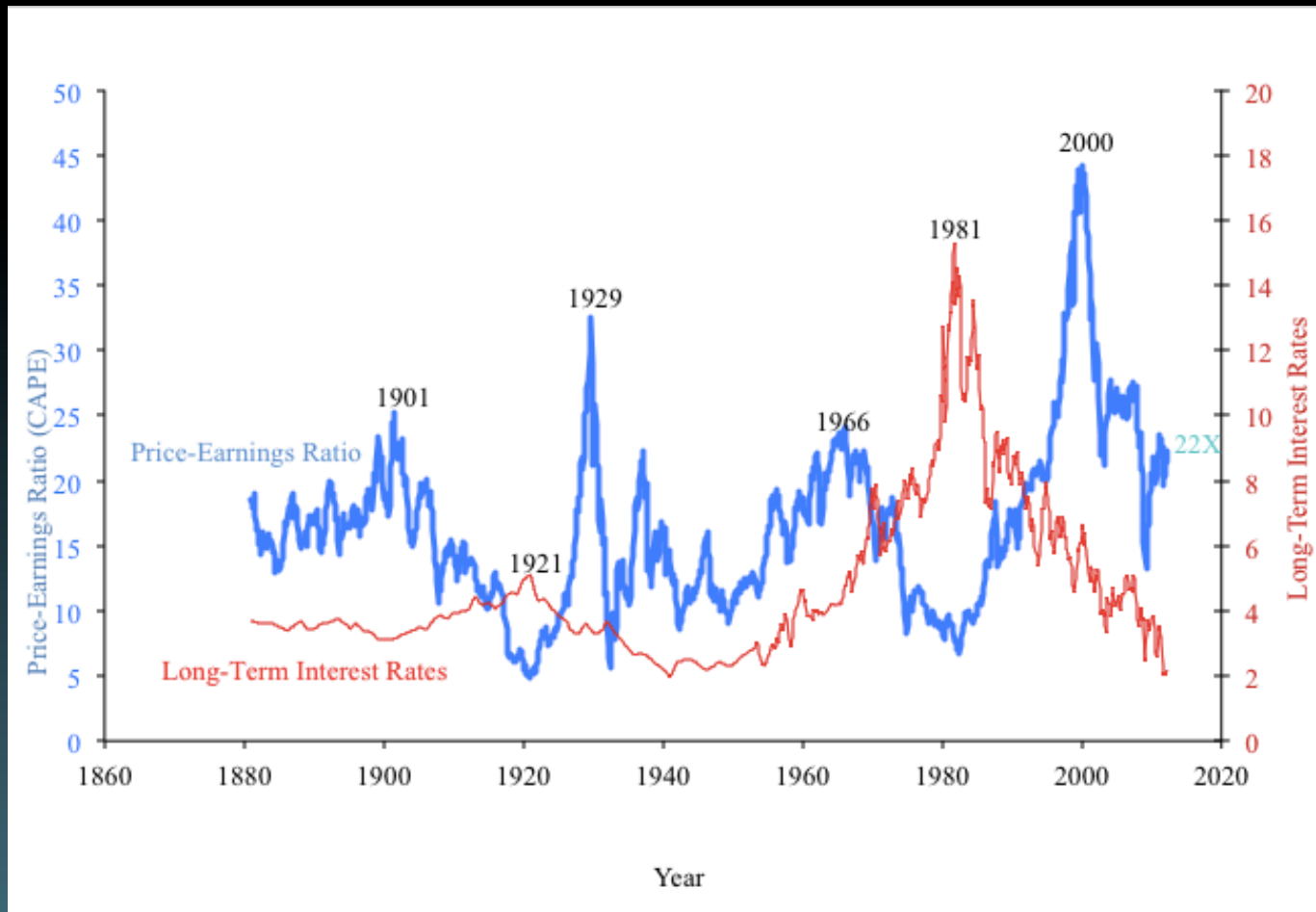
No.

Bubbles feature sky-high prices...
relative to fundamentals.

HOUSING BUBBLE: Price ratios spiked off the charts...



STOCK BUBBLES: Price ratios spiked off the charts...



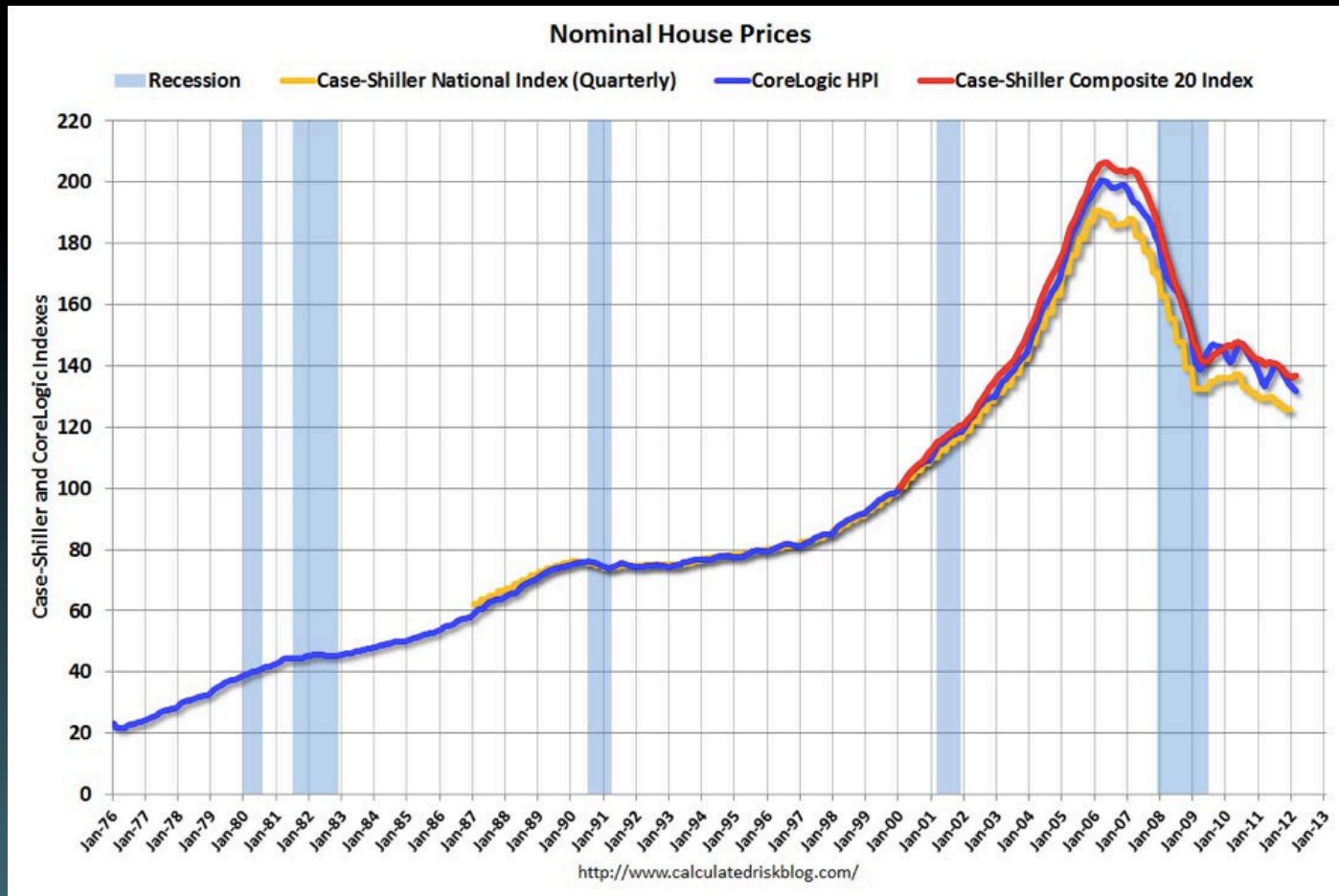
THIS Is A Bubble...

NASDAQ, 1991-2004



THIS Is A Bubble...

House Prices: 1976-2012



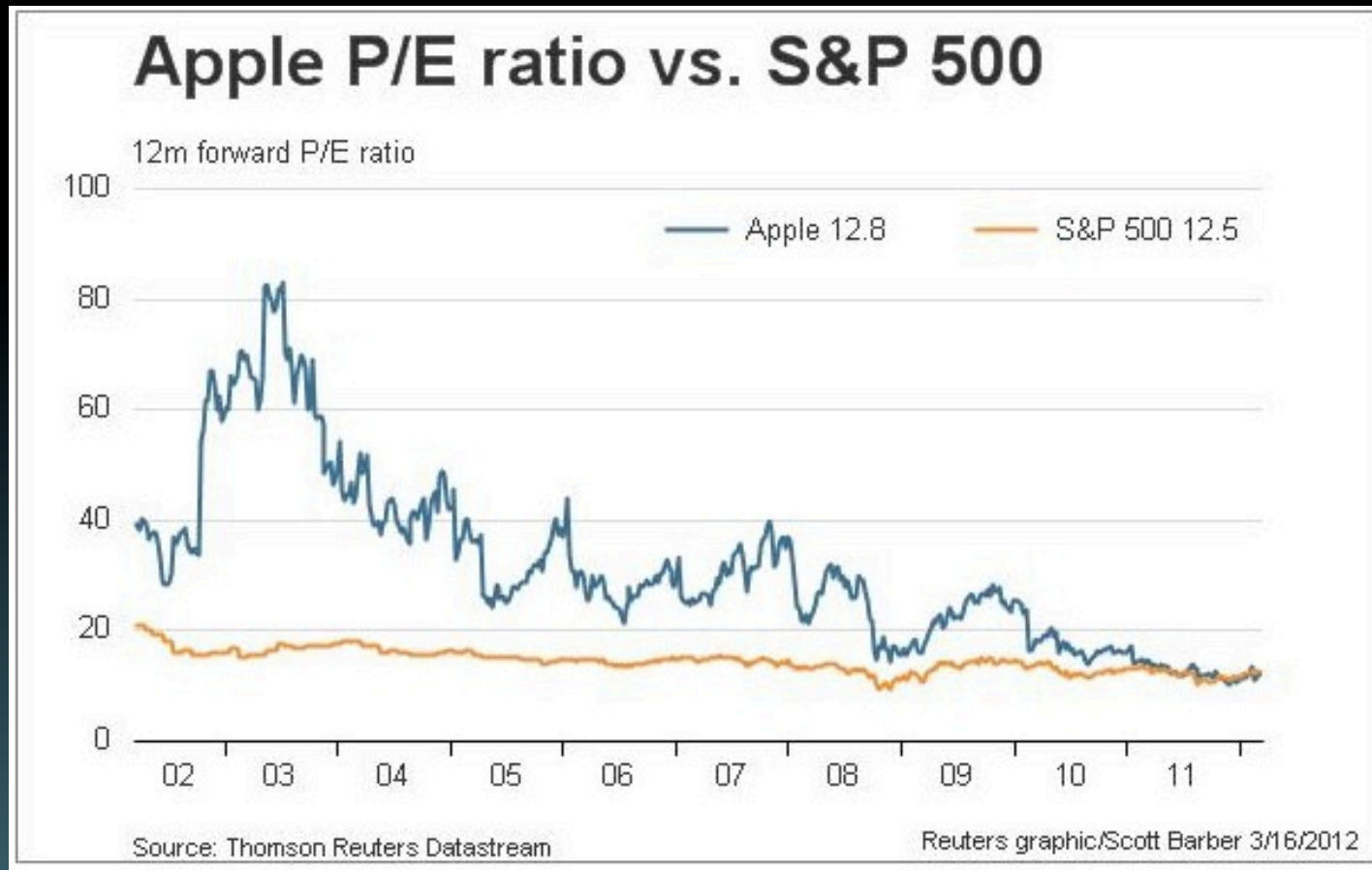
Do you see that pattern yoday?

NASDAQ: 1971-2012



Are tech-company price ratios off the charts?"

No. Apple's PE ratio has been declining for years



Recent hot IPOs are downright reasonable.



GROUPON[®]

1.4X 2012E Revenue



zynga[®]

2X Revenue



4X Revenue



14X Revenue

What about Facebook?

**Facebook went public at an
extremely high price...
75X EPS**

Why?

**Because everyone thought
“IPO” meant “free money.”**

Oops.

Investors learned a painful lesson.



**But Facebook still has an
excellent valuation...
45X EPS.**

**So don't let anyone tell
you it's "cheap."**

**What's happening to Facebook
stock, by the way, is likely a
common transition...**

High-growth stocks usually go through a “momentum” phase, in which they’re blowing away estimates.

**Then growth slows, and
expectations come in line with
reality.**

**That's followed by years of
"multiple compression."**

Microsoft has been in this transition since 2000.

Microsoft Corporation (MSFT) - NasdaqGS

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Sep 2012: ■ MSFT 31.19



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1986

1990

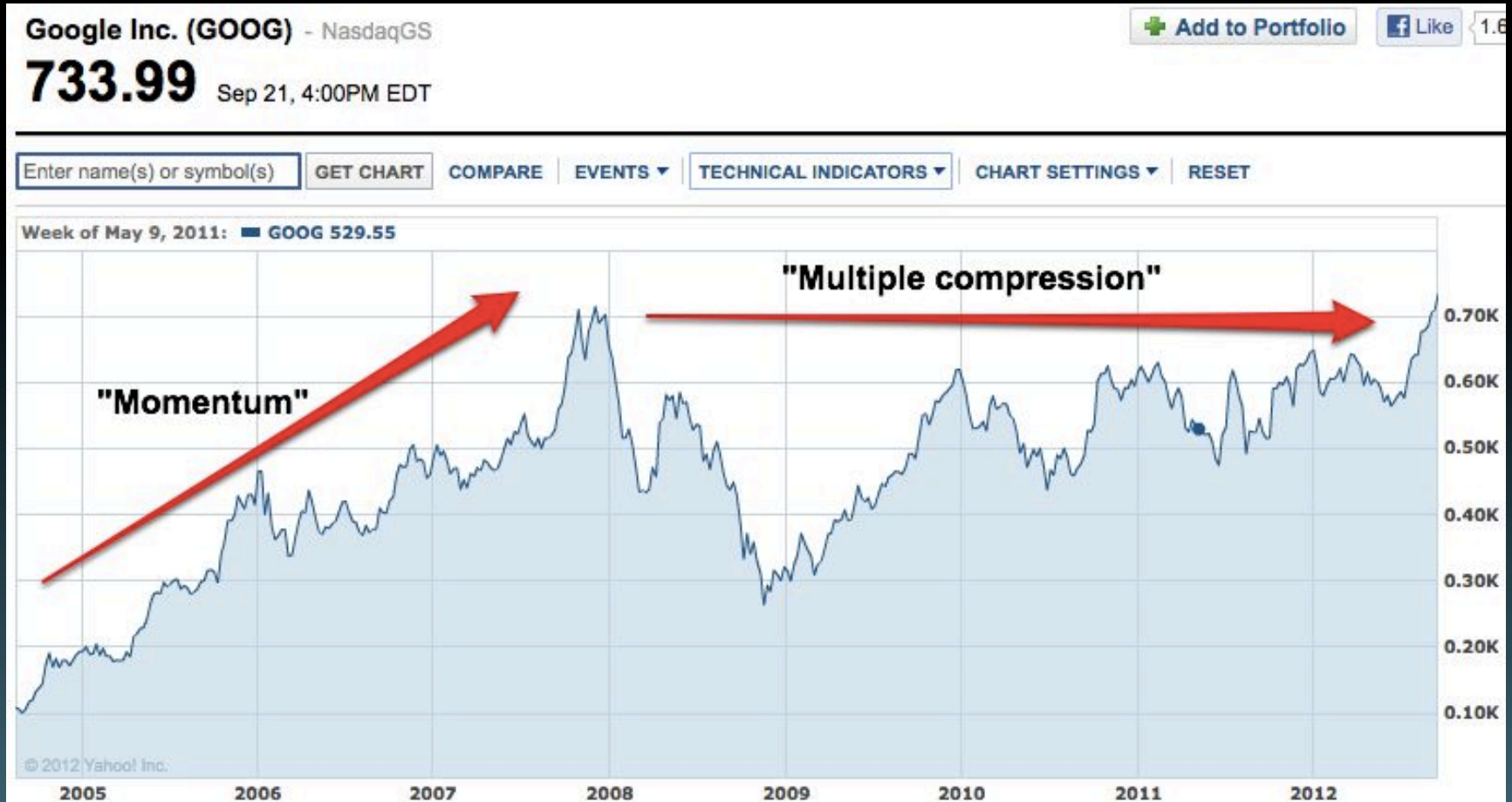
1995

2000

2005

2010

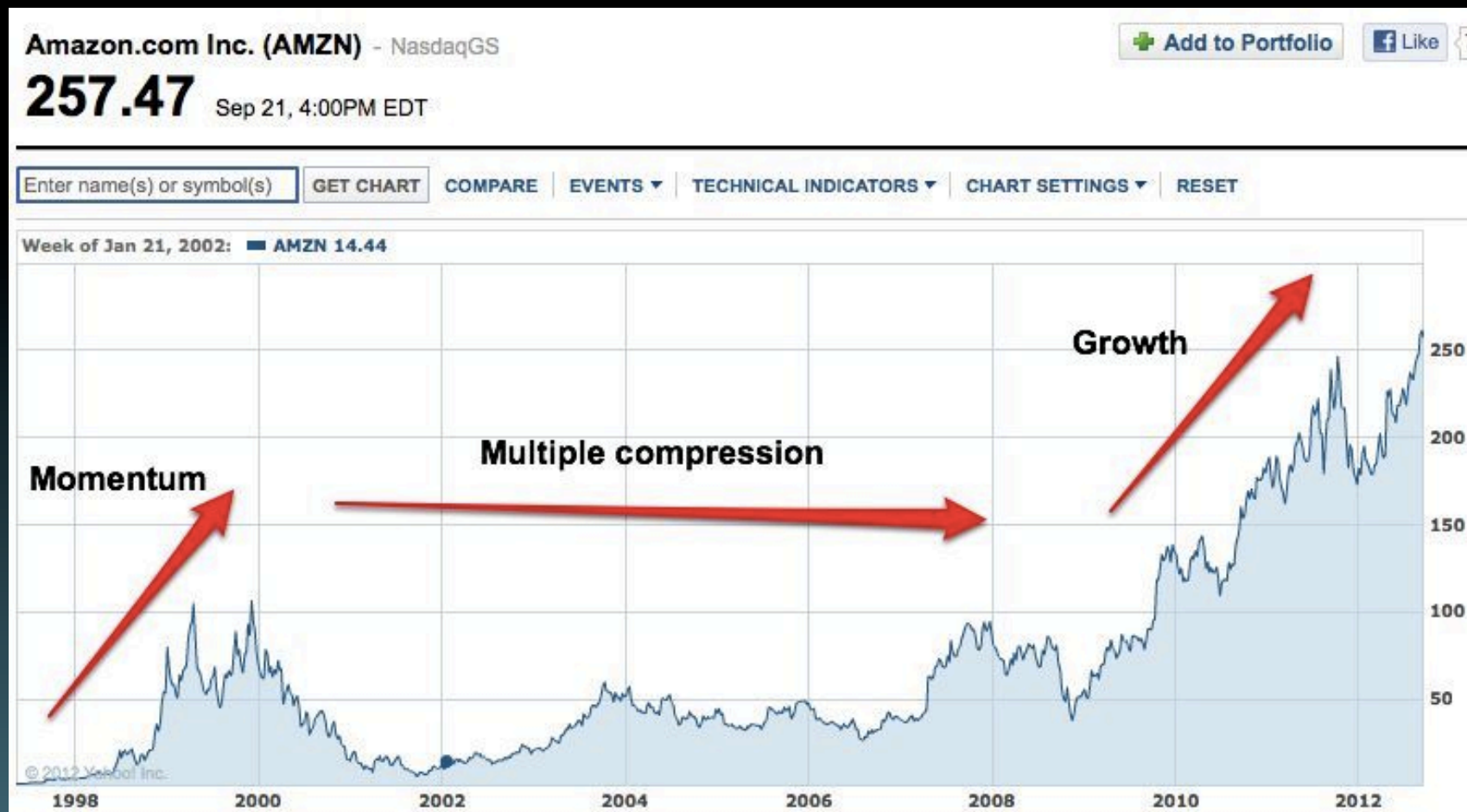
Google since 2008...



“Multiple compression” can be followed by steady growth...

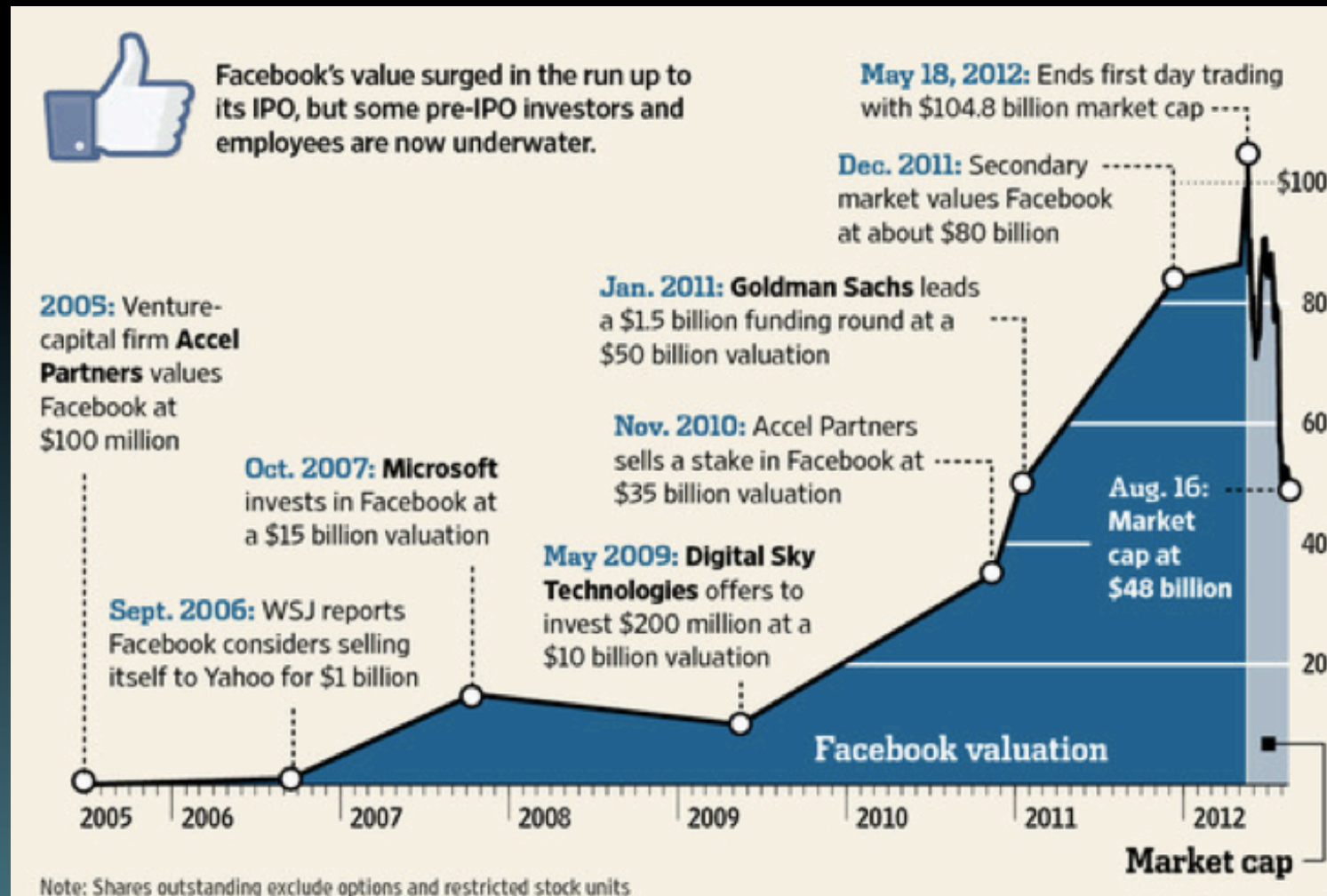
...or death.

Amazon stock is back on the march.



**Facebook's future is uncertain,
but it's a great company, and
stock could return to "growth."**

But, for now – “multiple compression.”



**One area in which investors
have been too exuberant:**

The private market.

Facebook's IPO will probably dampen that enthusiasm.

Thank you very much.

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Henry Blodget

Founder, CEO & Editor-in-Chief,
Business Insider



Alex Cocotas, Analyst

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