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Internet Services & Digital Media / Consumer

Yahoo! Inc. (YHOO) – Buy

YHOO: Reinstating Coverage with a BUY Rating, $19 TP

We are reinstating coverage of Yahoo (YHOO) with a BUY rating. Our target price is $19, approximately 25% above current price levels. Our BUY rating is based on the recognition that YHOO is well-positioned to solve several of the biggest issues slowing monetization of the web such as the difficulty of discovery, the commoditization of niche audiences, and engagement challenges. More granularly, we believe that YHOO is the premium content company for the Internet age. YHOO has some of the best content on the Internet with twelve #1 online content sites in the US and 9 of the top 10 original video programs on the web. Premium content rises above the clutter and aggregates audiences that can be monetized via advertising, commerce and subscription services.

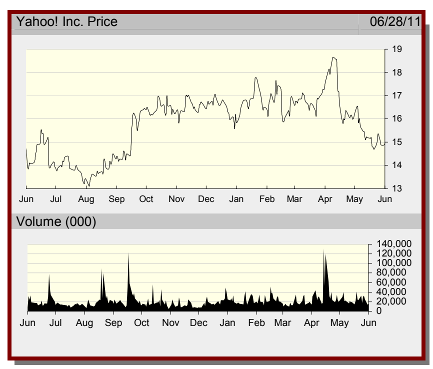
Valuation. Given YHOO's current strategic position, we think the shares are undervalued. YHOO's current share price embeds a 10-year EBITDA CAGR of *negative 6.9%*. In addition, YHOO trades at an EV/EBITDA of 4.3x and a P/E of 16.6x. Our Free Cash Flow analysis shows that YHOO is currently valued at about 6.5x 2011E Free Cash flow and it has a 6% free cash flow yield. We believe YHOO's Asian assets (Yahoo! Japan, Alibaba.com and Alibaba Group) are worth approximately $6 per YHOO share and YHOO will have $2 per share in cash by 12/31/11.

Reinstating Coverage

Market Data	
Price (06/28/11)	$14.95
12-Month Price Target	$19.00
52-Week range	$18.65-13.11
Shares Out. (MM)	1,327.5
Market cap (MM)	$19,846.8
Avg. daily volume (000)	26,694.5
Financial Data	
Total Debt/Cap.	0.0%
Price/LTM Rev.	4.4x
Tangible BVPS	$6.73
Net Cash Per Share	$5.28

	FY 12/31/10 A	FY 12/31/11 E		FY 12/31/12 E	
		Old	New	Old	New
Rev. (MM)	$4,588.3	$4,548.5	$4,571.8	$4,763.3	
Growth	*(2.0%)*	*(0.9%)*	*(0.4%)*	*4.7%*	*0.0%*
Op. Mar.	*18.1%*		19.9%		
EPS: 1Q	0.15	0.19	0.19A		
EPS: 2Q	0.16	0.18	0.21		
EPS: 3Q	0.17	0.20	0.23		
EPS: 4Q	0.26	0.23	0.27		
EPS: Year	0.73	0.80	0.90	0.93	
Growth	*69.2%*	*8.4%*	*22.6%*	*17.3%*	*0.0%*
P/E Ratio	21.2x	18.8x	16.6x	16.0x	0.0x

Note: Pro forma earnings estimates displayed above do not include one-time items or any stock compensation expenses.



Disclosures applicable to this security: B, G.
Disclosure explanation on the inside back cover of this report.

YHOO Solves Several of the Biggest Challenges of the Internet

We are reinstating coverage of Yahoo (YHOO) with a BUY rating. Our target price is $19, approximately 25% above current price levels. At the highest level, our BUY rating is based on a recognition that YHOO is well-positioned to solve some of the biggest issues slowing monetization of the web, including:

1. **Discovery is Difficult**. For consumers, the quantity of content and numbers of choices are overwhelming on the Internet. Also, quality is uneven. Search engines, social networks, recommendation engines, Hulu and Netflix work to solve this "discovery" problem. With an online audience of 187mm users in the US and 680mm users globally, YHOO solves this problem for both content and advertisers because virtually anything on its pages becomes "discovered".
2. **Commoditization of Niche Audiences.** Historically, advertising has been a key monetization driver of content, but the Internet fragments audiences into ever-smaller pieces making it hard for the largest advertisers to transition their $30B/year of branded advertising dollars to the web. In fact, comScore has published that over 30% of performance advertising has moved online but only 6% of branded advertising. Closing this gap is a key monetization opportunity for only a handful of sites and YHOO is at the top of this list. YHOO aggregates audiences for advertisers and YHOO's salesforce caters to branded advertisers. According to comScore, in April of 2011 YHOO was the #1 site in the US, and nearly 9 out of 10 Internet users in the US and half of the global Internet population used YHOO's content sites.
3. **Time Spent/Engagement** drives higher monetization. The longer users are on a website, the more likely a website can generate revenue from them. Yahoo captured 9% of total time spent on-line in the US in May 2011, according to comScore. In 1Q11, YHOO's media page views grew 8%, minutes on its global media sites grew 17%, and search page views grew 3%. YHOO is driving longer engagement through personalizing its homepage and news sites. YHOO will extend this strategy to its other sites over the next 4 quarters.

YHOO is the Largest Digital Content Company

We believe that YHOO is the ad-driven media company of the Internet age. We believe that YHOO has some of the best content on the Internet. YHOO has twelve #1 online content sites in the US (3x as many as anyone else). The 12 are Yahoo! News, Finance, Sports, TV, Autos, Messenger, Green, Real Estate, Shopping, Mail, My Yahoo!, and omg! In addition, YHOO has 9 of the top 10 original video programs on the web. A summary of a few of YHOO's largest online sites includes:

- YHOO's **News** site is the category leader with over 88mm US unique visitors per month (256mm globally). YHOO's News has been #1 in the US for 10 consecutive months (comScore, April 2011) and #1 on a global basis since 2007. In the US alone, 57mm users read YHOO's blogs each month.
- YHOO's **Finance** site is the #1 online finance site with 43 million uniques per month in the US, according to comScore (April 2011) and 77mm globally.
- YHOO's **Sports** site is the category leader with approximately 46mm unique US visitors each month. It has been #1 in the category in the US for 37 consecutive months (comScore April 2011). Globally, YHOO's sports site is the top online sports site with approximately 100mm monthly unique users, and it has held its leadership position since 2007.
- YHOO's **omg!** is the #1 online entertainment site with about 29mm monthly US uniques. It has been #1 in the category for 36 consecutive months, according to comScore (April 2011).

Precedents that Predict YHOO's Progress

YHOO has important similarities to classic ad-driven media silos (radio, TV, newspapers, etc):

- **Technology Enabled.** Just like Broadcast TV in the 1950-1960s and cable television networks in the 1980-1990s, YHOO delivers content consumers want in the 2010s, facilitated by new technologies. The consumer is indifferent as to which technology enables Yahoo's services: What they care about is the content. YHOO is focused on providing differentiated premium content over the Internet.
- **Aggregation.** One of the jobs that classic content companies do best is aggregating audiences that can be resold to advertisers. TV, Newspapers, Magazines, Radio, Outdoor, and YHOO's content sites organize information into a coherent story for consumers and aggregate enormous audiences. Yahoo has the biggest audience in the US, reaching 87% of visitors to the web in 2010, according to comScore. Figure 1 includes comScore's ranking of the Top 5 online properties in the US in May 2011.

Figure 1
Top 5 Online Properties, May 2011

Rank	Site Name	US Monthly Unique Users (mms)
1	Yahoo! Sites	189
2	Google	180
3	MSFT	180
4	FaceBook	157
5	AOL	115

Source: comScore, May 2011

- **Business Model.** Approximately 80% of Yahoo's revenue in 2011E will be advertising driven, by our estimates. Most classic media companies have advertising as their primary revenue stream, with the balance coming from consumer subscription (eg, cable TV, magazines) or pay per play (eg, films, music).

Monetizing Content on the Web

So what? The "so what" of this analysis is that it gives us a flight path to predict YHOO's progress over time because there are several classic media silos to use as models. Prior to the Internet, the most recent ecosystem created in the media space was the cable network business. Over time, the advent of cable TV channels organized the TV space into content specializations such as news (CNN), sports (ESPN), kids (Nickelodeon), teens (MTV), etc. YHOO is having success with these types of verticals on the Internet.

For large events and breaking news, the Internet is increasingly where consumers turn for constant updates. YHOO sits in the crosshairs of this consumer adoption trend. This is similar to the old media space where the first all-news cable network, CNN, dramatically grew its audience during the first Iraq war. Remember the scud missiles zooming overhead?

We see this tailwind in YHOO visitation (and monetization) with several recent news examples, including:

- **The Royal Wedding** was the largest one-day event in Yahoo!'s history, with 26 million video streams. The Royal Wedding micro-site was the top Royal Wedding site by a large margin with over 20 million users in April (source: comScore). In total, 300 million users globally turned to YHOO for wedding coverage before and after the event itself.

- **Osama bin Laden's death** triggered a record week for YHOO's news sites, with 50mm video streams, 65mm blog page views, 1B page views on YHOO News and 500mm photos viewed. According to YHOO, 4 in 10 online users turned to YHOO for news about bin Laden's death.

- **Japanese Tsunami** was the highest click event in YHOO's history. Yahoo! News served nearly 1B page views in the first 3 days, including 20mm users in the first few hours. In total, over 1B photos were viewed on YHOO's sites.

What YHOO Does Better

We would make two major distinctions between Internet Media versus Classic Media companies, putting the edge in favor of Internet media companies like YHOO. These are:

- **Global Scale.** Internet Media companies naturally generate revenue over a global footprint whereas classic media companies are typically limited by law to a specific nation or region. Most media companies have a high fixed cost structure which creates operating leverage. Because Internet Media companies have a larger potential revenue footprint than classic media industries, this implies higher long-term earnings upside than classic media industries. There are 680mm users of Yahoo! branded properties around the world every month, according to comScore, and YHOO was ranked #1 in 8 categories globally and in the top 3 in 22 categories. Global revenue upside should drive higher ROICs.

- **Barriers to Entry.** US media distribution companies are generally protected by government granted license rights. This gives them more money to pay for content. Internet Media companies are subject to greater competitive threats on the distribution side than classic media as there are no government barriers to entry. This impacts the amount of money that can go into content creation. YHOO has a competitive advantage because it has the money to make premium differentiated content. At the analyst day, YHOO reiterated its strategy of creating content that offers audiences deeper, more personally relevant content. This content is designed to help publishers reach audiences at scale. These audiences are then sold to advertisers that want to reach their clients online. This positive feedback loop should provide an effective barrier to entry for YHOO.

YHOO's Investment Positives

1. **Audience Reach has Value.** According to comScore, in May of 2011 YHOO! was the #1 site in the US reaching more than 189 million unique users (up 20% y/y) representing nearly 9 out of 10 Internet users in the US. YHOO reaches about half of the global Internet population each month. YHOO's enormous audience is aggregated across its Homepage and strong content verticals including news, sports, and entertainment. As audiences fragment, reach becomes more valuable to advertisers and YHOO is well positioned to benefit from this shift.

2. **Content Focus.** YHOO's focus on improving its content is beginning to get traction, as measured by higher usage in print and video.

    - **News.** In print, YHOO's US news site doubled page views to 400 million in 1Q11.

- **Video.** On the video side, YHOO is THE place for premium video. In fact, 9 of the 10 top TV shows online are YHOO's. For example, YHOO's "Primetime in No Time" online TV series was the most watched video program online with 500mm streams. In 1Q11, YHOO-produced online videos grew traffic by 80%. In May of 2011, YHOO's video sites were ranked third (behind YouTube and VEVO) and together had 55mm unique viewers at an average of 39 minutes per viewer and a total of 272mm viewing sessions, according to comScore. We think there is upside here because to date YHOO's online TV viewing numbers have far outstripped its monetization ranking.

3. **Positive Context.** Yahoo benefits from several secular trends:

   - **Broadband Penetrations Growing.** Today, approximately 75mm US homes have high speed internet (broadband) access. As broadband access grows, reach and use of Internet Media services like YHOO's grows. The rest of the world is growing its broadband penetrations faster than in the US, both wireless and fixed line.
   - **Measurability.** TV advertising is under siege by Digital Video Recorders (DVRs), which allow viewers to time shift and fast forward through commercials. This drives advertisers to demand more accountability for their ad spending. Internet Media companies like YHOO are well positioned for this trend as they can document each click.
   - **Demographics.** Young people (15-25 year olds) use the Internet more than older folks. As this demographic ages, become wealthier, and increases their spending, advertisers must follow them to the Internet to reach them.
   - **Online Ad Growth.** Online display advertising continues to grow. According to PricewaterhouseCoopers' (PwC), the Internet will be the second-largest advertising medium by 2014. There is a large gap between Internet advertising revenue and usage. According to eMarketer, about 18% of total US ad revenue is spent online compared with Internet total time spent of about 36%. The dollar disparity between these two numbers if the gap closed is $50B/year, according to YHOO. Over time, Internet Media sites such as YHOO should be able to close this gap, just as the cable networks did.

4. **Branded Advertising Upside.** The gap between the migration of direct response (performance) advertising vs branded advertising is enormous at 30% vs 6%, respectively. Closing this gap and bringing branded advertisers more aggressively to the web is a $30B annual opportunity. Display advertising is the best way to achieve scale on the web today. We believe that YHOO is the biggest online display advertising company in the world with an 18% share of the $12B display market in 2010.

5. **Return on Capital Trends.** YHOO has said that their capital spending will be elevated in 2011E at about $600mm. We believe that CapX will fall to more normalized levels of $450-500mm in 2012. Most of this investment on the balance sheet is related to bringing all of YHOO's datacenters in-house. This should cut their expenses over time. As YHOO invests in datacenters, YHOO's returns on invested capital should improve through both lower CapX and lower expenses, which should drive share price appreciation.

6. **Return of Capital.** In June of 2010, YHOO's board authorized a $3B share repurchase program. Between 2009 and 2011 to date, YHOO has repurchased about $2.1B worth of shares (10% of shares outstanding) under this plan at an average price of $14.90 per share. YHOO's repurchase activity puts a "floor" on the

share price as we believe that YHOO attempts to repurchase shares whenever the price approaches $15/share.

7. **Cyclical EPS Strength.** With 80% of its revenue coming from advertising, YHOO benefits from the current cyclical advertising recovery in U.S. advertising. The broadcast upfront TV market reported double-digit growth rates, suggesting that the largest advertisers believe that consumer spending and product sales will be strong for the next 12 months. Under the logic that a rising tide lifts all boats, YHOO's EPS should benefit from a growing advertising marketplace over the next 12 months.

8. **Margin Expansion Potential.** Between 2008 and 2010, YHOO grew its operating margin (ex-TAC) from 9% to 17%, driven largely by operating income growth of 55% over this period. YHOO's ROIC rose from 5% in 2008 to 13% in 2010. This strong margin expansion has been driven by $1.1B of cost cutting between 2008 and 2010, representing a 22% reduction in YHOO's total cost structure. Normalized EPS rose 2-fold between 2008 and 2010, in part because YHOO lowered its tax rate by 24 points (15 points structurally). Gong forward, YHOO sited several cost efficiency drivers at its analyst day including: 1) search alliance savings of $300mm in 2010 growing to $650mm by 2013; 2) 30% lower costs related to maintenance and support; 3) 90% of datacenters owned (more efficient) by 2013 compared with 30% owned today and only 5% in 2007. YHOO has been aggressively investing in its global content platform and launching new monetization tools for advertisers through its advertising platform (APT). Because most of these expenses are people, YHOO's income statement margins should expand as these initiatives are completed.

9. **Leadership.** It's been 2 1/2 years since the Board signed a 4-year contract (ends in Jan 2013) with the talented Silicon Valley veteran Carol Bartz to be the CEO tasked with the turn-around of YHOO. Bartz has been good at growing EPS through cost cutting but YHOO's revenue has steadily declined since her arrival despite a growing online ad environment. In fact, we estimate that YHOO will have a 10% share of the $30B US online advertising market in 2011, down from 16% in 2009 when she arrived. The YHOO turn-around has been frustrating for Bartz also. The bulk of her compensation is in the form of 5 million stock options granted to her at signing that are in the money at prices between $17.60 and $35.19. Since she took over, YHOO has surpassed only the lowest of these hurdles a mere handful of times. 2/12 years of mega-aggravation for almost no money: Does she really need this? In the next 12 months, we believe that fundamentals at YHOO will get better <u>or</u> that YHOO will be sold <u>or</u> that Bartz will get frustrated enough to leave <u>or</u> she'll be replaced by the Board.

10. **Event Upside.** Yahoo owns 34% of Yahoo! Japan, a public company listed on the Tokyo Stock Exchange. The value of Yahoo's ownership in Yahoo Japan is about $6.5 billion at current market prices. We use a 50% discount for taxes and illiquidity, which implies that this asset is worth approximately $2.80 per Yahoo share. If YHOO spins this asset off in a tax efficient way, this asset would be worth about $5.50 per YHOO share. At YHOO's analyst day, management suggested that it would like to divest its 35% interest in Yahoo! Japan via a spin-off, tracking stock, or other tax efficient solution. We expect this to happen by 4Q11, which might simplify YHOO's valuation and underscore the cheapness of the rest of YHOO's businesses although since it is publicly traded, there is strong valuation transparency already.

Risks to Our Target Price:

1. **Chinese Asset Values.** Jack Ma is the CEO of Alibaba Group, which owns about 70% of Alibaba.com, 100% of Taobao (the eBay of China) and several other private companies, Alibaba Group's ownership structure is 40% YHOO, 30% Softbank, and

30% outside investors and Alibaba Group management and employees. Jack Ma owns the largest individual portion within this 30% we believe. In August of 2010 Ma spun off Alipay (the approximate equivalent of PayPal) into a company he owns to comply with a Chinese regulatory change relating to online transaction processors that went into effect in Sept of 2010. There was no consideration paid to YHOO (40% owner) or Softbank (30% owner) at the time. Negotiations of value owed to YHOO by Ma are continuing. This event raises questions about whether YHOO shareholders will be able to realize full value of its Chinese investments, including Alipay, Taobao and Alibaba.

2. **Search Underdelivery.** About 1/3 of YHOO's revenue comes from search. In July of 2009 YHOO signed a deal with Microsoft to contribute 100% of its search advertising clients to Microsoft's (MSFT) AdCenter for service by Bing (MSFT's consumer-facing search product). By 4Q10, YHOO had migrated all of its US and Canadian search operations to Microsoft's AdCenter. Reported search results in 1Q11 were disappointing to everyone, including YHOO, with search volume up 9% but revenue-per-search (RPS) lower than pre-Panama levels. Because the alliance is underperforming, CEO Bartz stated on the earnings call that: 1) YHOO is closely working with Bing to correct this; 2) YHOO reiterated that it has an RPS guarantee from MSFT that runs through March of 2012, and 3) YHOO has halted any further transition of its search business to MSFT outside the US until these issues are resolved.

3. **Communications & Communities.** According to YHOO stats, over the past 4 quarters, YHOO has reported declines in its page views within Communications & Communities (mostly Email, Login page, Flick and Groups). Page views fell 6% y/y in 1Q11 after declining 2% in 4Q10, down 4% in 3Q10, and down 2% in 2Q10. We do not expect this trend to reverse itself as there is a secular shift away from mail usage, especially among the young who text and use Facebook far more than email. We note that mobile is not measured in these numbers or in the comScore numbers so the negative y/y comp is overstated as consumers move to mobile.

4. **Growing Competition.** In 2011, about 80% of YHOO's revenue will come from advertising. All aspects of YHOO's business are facing greater competition. In its core business, display advertising, YHOO has ever more competition from ad networks, exchanges, vertical sites, and social media platforms. In addition, YHOO is losing advertising share to its powerful Internet competitors. According to eMarketer, of the approximately $30B US online advertising market in 2011, Google's is projected to hit 40% in 2011 (up from 35% in 2009) and Facebook's is projected to hit 7% in 2011 (up from 2 percent in 2009). We believe that YHOO's market share will fall to 10% in 2011 (down from 16% in 2009). Looking at the comScore data, the story is similar. Of the 1.1 trillion display ads served in the US in March of 2011, Facebook was first at 31% and Yahoo was second at 10% of total.

5. **Regulation.** YHOO's key competitive advantage (and all online ad vehicles) is its ability to target users based on information about their online habits. There is growing concern about consumers' privacy rights. If the Congress or regulators require opt-in policies, this would slow the migration of advertising to the web. In addition, there is talk of creating a "Do-Not-Track" list that people can opt into.

6. **Talent Desertions.** Management turnover has been high both before and after Bartz's arrival. We believe that employees are *the* key value driver for Internet firms. If key talent continues to leave YHOO, this does not bode well for financial progress and shareholder value creation.

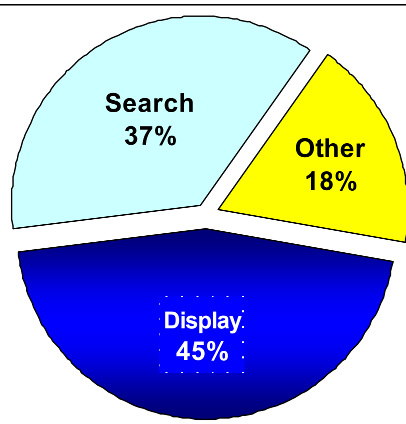
Business Description: What Does Yahoo Do?

Of YHOO's total revenue, about 80% is related to advertising. YHOO has three primary revenue streams:

- **Display Advertising** (45% of FY11E Gross Revenue): This segment is made up of brand advertisers spending money online, primarily through the sale of banner ads, sponsorship ads, etc. In the March quarter of 2011, we believe that Yahoo had relationships with approximately 90% of the top 100 branded advertisers that use the internet.
- **Search Advertising** (37% of FY11E Gross Revenue): This segment is primarily sponsored search including text ads, sponsored search advertising, etc. YHOO migrated all of its US and Canadian search operations to Microsoft's AdCenter by 4Q10. YHOO's accounting for search advertising now is bad for its revenue but great for margins. Essentially, YHOO now reports revenue net of TAC and net of a 12% fee to MSFT. Therefore, YHOO's reported search revenue falls compared with prior revenue. However, since MSFT is responsible for virtually all the expenses of the search product, YHOO's margins should expand dramatically compared to before the MSFT deal.
- **Other** (18% of FY11 Gross Revenue): There are many facets that make up the approximate $950mm of "Other Revenue" in FY11E. The largest of these by our estimates are small business fees ($150-200mm we estimate), Broadband provider fees (about $100mm we estimate), Royalties from Japan ($75mm we estimate), Mobile fees, Premium fees for certain sites, and revenue from various sites and services like Zillow, Match.com, etc. The most interesting thing about the Other line is that the Broadband fees are non-cash revenue. The revenue was received about 2 years ago and YHOO amortizes it through the income statement as it is earned but no cash changes hands for this $100mm of revenue in 2011E.

Figure 2 includes an illustration of Yahoo's revenue mix in FY11.

Figure 2
Yahoo's Revenue Mix, 2011E



Source: Company documents, Needham & Co, LLC research.

FINANCIAL OUTLOOK & EARNINGS ESTIMATES

Table 1 introduces our quarterly estimates for FY11 as well as estimates for FY2012E.

Table 1- Quarterly Estimates

FYE Dec 31:	2Q11E	3Q11E	4Q11E	2011E	2012E
Net Rev Cur ($mm)	**$1,101**	**$1,128**	**$1,278**	**$4,572**	**$4,798**
Previous ($mm)	-	-	-	-	-
Consensus	$1,110	$1,120	NA	$4,550	$4,830
EPS Operating	**$0.21**	**$0.23**	**$0.27**	**$0.90**	**$1.06**
Previous	-	-	-	-	-
P/E				16.6	14.0
Sources: Needham & Company estimates, Yahoo Finance					

COMPANY GUIDANCE

At the most recent analyst day presentation in May, 2011, YHOO management presented the following updated guidance

YHOO Management Guidance			
xTAC Revenue Objectives Update			
	2013 vs 2010 CAGR	**2011E**	**2012-2013E**
Display	13-16%	in range	in range
Search	3-6%	below range	in range
Other	2-4%	below range	below range
Source: Company Reports			

12-MONTH TARGET PRICE OF $19

We are reinstating coverage of YHOO with a BUY rating and $19 Target Price. Our target price of $19 is based on a DCF valuation. We use a WACC of 10% for YHOO and a long-term nominal GDP growth rate of 2%. The standard DCF is widely used on Wall Street because it is a rigorous bottom-up valuation of the enterprise based on discounting its long-term cash flows and removing the impact of non-cash accounting conventions. Positives and negatives of this valuation methodology are highlighted beside the calculation in Table 5.

Our $19 target price embeds a 10-year EBITDA growth rate of only 1% annually beginning in 2011 and represents a 7.3x multiple of forward year (2012E) EBITDA.

VALUATION INFORMATION

Our BUY rating is based on several forms of valuation, summarized in Table 2:

Table 2: YHOO Valuation Summary & Conclusions				
2011E Valuation Multiples			**Embedded Expectations Metrics**	
1	EV/Sales	1.7	7 **Breakeven DCF** (Calculated as the 10-Yr EBITDA CAGR required to justify current share price)	-6.9%
2	EV/OIDBA	4.3		
3	P/E	16.6		
4	FCF/Share	$0.88		
5	EV/FCF	6.5		
6	FCF Yield	6%		
Sources: Needham & Company research & estimates.				

1. The **"Breakeven DCF"** valuation methodology uses the current share price to calculate the market's growth expectations for the enterprise, including capital

efficiency trends. This valuation methodology concludes that YHOO must achieve a 10-year EBITDA compound annual growth rate of approximately ***negative 6.9%*** to justify its current share price. (Please see Table 6.)

2. In Table 7, we summarize several **valuation multiples** for YHOO. YHOO trades at an EV/Sales of 1.7x, an EV/EBITDA of 4.3x and a P/E of 16.6x.
3. In Table 8, we present **Free Cash Flow** valuation metrics. Our Free Cash Flow analysis shows that YHOO is currently valued at about 6.5x 2011E Free Cash flow and has a 6% free cash flow yield.
4. In Table 9, we include our **Sum-of-the Parts** valuation. We believe Yahoo!'s 40% ownership in Alibaba Group, which includes Taobao and Alibaba Cloud Computing, and its 35% ownership in Yahoo! Japan provide solid valuation support for YHOO's share price. We value those stakes at just under $6 per share, including $4B for Alibaba Group (although the outcome of the negotiations with Jack Ma over Alipay may impact our valuation estimates). We estimate that YHOO will have approximately $2 per share in cash by the end of 2011.
5. In Table 10, we present our Comparative Industry valuation metrics.

MANAGEMENT SUMMARY:

Carol Bartz, President and Chief Executive Officer, has been with Yahoo! since January, 2009. Prior to joining Yahoo!, she was CEO of Autodesk, Inc., a computer aided design software provider. She was employed by Autodesk, Inc. from April, 1992. Prior to Autodesk, Ms. Bartz worked at Sun Microsystems.

Timothy Morse, Chief Financial Officer. Mr. Morse is responsible for the company's finance, investor relations, and mergers and acquisitions groups and plays a key role in developing the company's business strategy. Prior to joining Yahoo!, Morse was the CFO of Altera Corporation, a semiconductor company specializing in programmable logic devices for communications, industrial, and consumer applications. Morse previously served as the CFO and general manager of business development for General Electric Plastics.

Jerry Yang, Co-Founder and Chief Yahoo. Mr. Yang was one of the founders of Yahoo! and served as its CEO from June 2007 to January 2009.

COMPANY DESCRIPTION

Yahoo! creates and delivers premium content over the Internet. It's goal is to deliver personalized digital content and experiences across devices and around the globe. Yahoo is the largest Internet Company in the world, as measured by total audience size. Yahoo reaches one of every two Internet users in the world and attracts over 187mm US unique visitors each month and 680mm globally. Yahoo provides users with premium content, generating 80 % of its revenue through advertising sales. Yahoo is the largest online display advertising company in the US, and the second largest search company (through it's alliance with MSFT/Bing) behind Google. YHOO also has significant asset value through its investments in Yahoo! Japan and Alibaba in China.

Table 3

Yahoo!: Quarterly Income Statement Projections, 2011E

in millions, except per share data

	3/31/11A	6/30/11E	9/30/11E	12/31/11E	2011E	Year/Year Change Q1	Q2	Q3	Q4	2011E
Revenue										
Display	$523	$573	$548	$712	$2,355	6%	12%	6%	12%	9%
Search	$455	$455	$503	$489	$1,902	-46%	-46%	-40%	-24%	-40%
Other	$237	$235	$233	$238	$943	-11%	-4%	-6%	-5%	-6%
Total Revenue	$1,214	$1,263	$1,284	$1,438	$5,200	-24%	-21%	-20%	-6%	-18%
Less: TAC	($150)	($162)	($156)	($160)	($628)	-68%	-66%	-67%	-50%	-64%
Net Revenue	**$1,064**	**$1,101**	**$1,128**	**$1,278**	**$4,572**	**-6%**	**-2%**	**0%**	**6%**	**0%**
Other Cost of Revenue	($227)	($235)	($223)	($265)	($950)	-5%	12%	9%	11%	7%
Gross Profit	**$837**	**$866**	**$905**	**$1,013**	**$3,621**	-6%	-6%	-2%	5%	-2%
Operating Expenses										
Sales & Marketing	($262)	($285)	($305)	($315)	($1,167)	-16%	-14%	-5%	6%	-8%
Product Development	($243)	($255)	($255)	($275)	($1,028)	-9%	-5%	-5%	-1%	-5%
G & A	($123)	($125)	($115)	($120)	($483)	12%	0%	-9%	-5%	-1%
Amortization of Intang & Severance Costs	($8)	($8)	($8)	($8)	($32)	-1%	2%	0%	5%	1%
Restructuring Charges, net	($11)	($10)	($10)	($11)	($42)	140%	-1%	74%	-71%	-28%
Goodwill Impairment	$0	$0	$0	$0	$0					
Total Operating Exp	($647)	($683)	($693)	($729)	($2,711)	-8%	-8%	-5%	-2%	-5%
Operating Income	**$190**	**$183**	**$212**	**$284**	**$911**	1%	5%	12%	29%	10%
Other Income, net	$5	$10	$10	$10	$35	-94%	-21%	-95%	32%	-88%
Income before Tax	$195	$193	$222	$294	$904	-29%	3%	-42%	29%	-16%
Income Tax Expense	($52)	($62)	($71)	($96)	($281)	5%	-10%	-18%	457%	27%
Earnings in Equity Ints	$82	$115	$120	$130	$447	-6%	19%	15%	21%	13%
Net Income	**$225**	**$246**	**$271**	**$328**	**$1,071**	-28%	14%	-32%	3%	-14%
Minority Interests	($2)	($2)	($2)	($2)	($7)	-12%	-41%	-19%	-66%	-44%
Net Income Reported	**$223**	**$245**	**$269**	**$326**	**$1,064**	-28%	15%	-32%	5%	-14%
EPS, Reported	**$0.17**	**$0.18**	**$0.20**	**$0.24**	**$0.80**	**-23%**	**20%**	**-31%**	**3%**	**-11%**
Gain from Eq. Earnings/Restruct. Chg, net	$0	$0	$0	$0	$0					
Diluted Shares Out.	1,320	1,325	1,330	1,335	1,328	-7%	-5%	-1%	2%	-3%
Calculation of Operating EPS:										
Plus: Aft-Tax Sk Option & Misc	$26	$40	$32	$33	$131	-128%	510%	-119%	16%	-157%
Net Income, Operating	**$249**	**$285**	**$301**	**$359**	**$1,194**	14%	30%	33%	6%	19%
EPS, Operating	**$0.19**	**$0.21**	**$0.23**	**$0.27**	**$0.90**	**22%**	**36%**	**35%**	**4%**	**23%**
Calculation of OIBDA:										
Operating Income	$190	$183	$212	$284	$911	1%	5%	12%	29%	10%
Depn & Amort	$169	$170	$180	$185	$704	2%	8%	11%	3%	6%
Stock Compensation	$34	$55	$55	$60	$204	-43%	-5%	8%	-40%	-24%
One Time Items	$11	$10	$10	$11	$42					
OIBDA	**$403**	**$418**	**$457**	**$540**	**$1,819**	**-3%**	**7%**	**14%**	**8%**	**3%**
OIBDA Margin, Net	37.9%	38.0%	40.5%	42.2%	39.8%					

Sources: Company Reports, Needham & Company estimates.

Table 4

Yahoo!: Segment Annual Financial Information, 2008A-2012E

$ and shares in millions, except per share data

	Annual					
FYE 12/31:	**2008A**	**2009A**	**2010A**	**2011E**	**2012E**	**'08-'12 CAGR**
Revenue						
Display	$2,043	$1,867	$2,155	$2,355	$2,520	5%
Search	$3,754	$3,396	$3,162	$1,902	$1,921	-15%
Other	$1,412	$1,197	$1,008	$943	$957	-9%
Total Revenue	$7,209	$6,460	$6,325	$5,200	$5,398	-7%
Less: TAC	($1,810)	($1,778)	($1,736)	($628)	($600)	-24%
Net Revenue, after TAC	**$5,399**	**$4,682**	**$4,588**	**$4,572**	**$4,798**	**-3%**
Other Cost of Revenue	($1,213)	($1,094)	($891)	($950)	($1,000)	-5%
Gross Profit	$4,185	$3,589	$3,697	$3,621	$3,798	-2%
Operating Expenses						
Sales & Marketing	($1,563)	($1,245)	($1,264)	($1,167)	($1,220)	-6%
Product Development	($1,222)	($1,210)	($1,082)	($1,028)	($1,070)	-3%
G & A	($705)	($580)	($488)	($483)	($510)	-8%
Amortization of Intang	($88)	($39)	($32)	($32)	($40)	-18%
Total Operating Expenses	($4,172)	($3,202)	($2,867)	($2,711)	($2,840)	-9%
Operating Income	**$13**	**$387**	**$831**	**$911**	**$958**	194%
Other Income, net	$74	$188	$298	$35	$100	8%
Income before Tax	$87	$574	$1,070	$904	$1,058	87%
Income Tax Expense	($259)	($219)	($222)	($281)	($339)	7%
Earnings in Equity Interests	$597	$250	$396	$447	$480	-5%
Minority Interests	($6)	($7)	($13)	($7)	($5)	-3%
Net Income Bef Extraordinary	**$419**	**$605**	**$1,232**	**$1,064**	**$1,194**	30%
Extraordinary Gains/(Losses)	$561	$0	$0	$0	$0	
Net Income, Non GAAP	**$980**	**$598**	**$1,001**	**$1,194**	**$1,194**	5%
EPS Reported	**$0.29**	**$0.42**	**$0.73**	**$0.80**	**$0.91**	**33%**
Diluted Shares Out.	1,391	1,416	1,365	1,328	1,310	-1%
Calculation of Operating EPS:						
Plus: Aft-Tax Sk Option & Extra Gains	$561	$16	($230)	$131	$350	-11%
Net Income, Operating	$980	$614	$1,001	$1,194	$1,414	10%
EPS, Non-GAAP	**$0.70**	**$0.43**	**$0.73**	**$0.90**	**$1.06**	**11%**
Calculation of OIBDA:						
Operating Income	$13	$387	$831	$911	$958	194%
Depn & Amort	$790	$747	$665	$704	$695	-3%
Stock Compensation Exp	$408	$449	$269	$204	$190	-17%
OIBDA	**$1,211**	**$1,583**	**$1,765**	**$1,819**	**$1,843**	**11%**
OIBDA Margin, Net	22%	34%	38%	40%	40%	

Sources: Company Reports, Needham & Company estimates.

Table 5

Yahoo!: Standard DCF Calculation, 2012E-2021E

$ and shares in millions, except per share data

Valuation Conclusions		% of Total
Sum of PV of Free Cash Flow [1]	$7,771	29%
PV of Terminal Value Discounted at WACC [1]	$5,877	22%
Value of Operations (WACC Method)	**$13,647**	**52%**
Plus: Excess Cash at 12/31/11E	$2,500	
Plus: Non-Consolidated Assets (From PMV)	$10,330	
Less: Minority Interest	$0	
Less: Unfunded Retirement Liabilities	$0	
Enterprise Value	**$26,477**	**100%**
Debt at 12/31/11E	$0	
Less: Lease Obligations	($850)	
Less: Preferred Stock Outstanding	$0	
Less: Value of Options & Restricted Sk, After-tax	($210)	
Common Equity Value	**$25,417**	**96%**
Fully Diluted Shares Out, 2011E	1,328	
DCF Value/Share	**$19.15**	
Current Share Price @ 6/28/11	$14.95	
Upside Potential (DCF-Current Price/Current Price)	**28%**	

Standard Discounted Cash Flow (DCF) Valuation

Why We Calculate: DCF is a rigorous bottoms-up valuation of the enterprise focusing on cash flows (not accounting)

Strengths

1 Focuses on operations. Removes financing
2 Focuses on FCF. Removes non-cash accounting
3 Explicitly forecasts capital needs (WC & CapX)
3 Uses a levered beta (widely available)
4 Ent value focus captures entire business model

Weaknesses

1 Many assumptions. Valuation can be manipulated
2 Terminal value big & based on low visiblity projections
3 Model assumes constant debt/equity ratio
4 Complex to calculate
5 Calculates the enterprise value first, then equity value

[1] **Calculation of the Value of Operations (WACC Method)**

FYE 12/31:	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	CAGR '11-20E
OIBDA (after sk comp exp & comp):	**$1,819**	**$1,843**	**$1,861**	**$1,880**	**$1,899**	**$1,918**	**$1,937**	**$1,956**	**$1,976**	**$1,996**	**$2,016**	**1.0%**
- Depreciation	($704)	($695)	($376)	($331)	($308)	($287)	($267)	($248)	($231)	($215)	($200)	
+ Option Exercise Proceed	$20	$20	$20	$20	$20	$20	$20	$20	$20	$20	$20	
+ Int & Inv Income only	$10	$10	$10	$10	$10	$10	$10	$10	$10	$10	$10	
EBIT	$1,145	$1,178	$1,515	$1,579	$1,621	$1,661	$1,700	$1,738	$1,775	$1,810	$1,845	
Cash Taxes (at 32%)	($229)	($377)	($485)	($505)	($519)	($532)	($544)	($556)	($568)	($579)	($590)	
Plus: Depreciation	$704	$695	$376	$331	$308	$287	$267	$248	$231	$215	$200	
Plus: Sk Based Comp Exp	$204	$190	$185	$180	$175	$170	$165	$160	$150	$140	$140	
Working Capital Change	($60)	($76)	($71)	($66)	($62)	($57)	($53)	($50)	($46)	($43)	($40)	
Less: Capital Spending	($600)	($449)	($418)	($389)	($362)	($337)	($314)	($292)	($272)	($253)	($236)	
FCF from Operations	**$1,164**	**$1,161**	**$1,103**	**$1,129**	**$1,161**	**$1,192**	**$1,221**	**$1,248**	**$1,270**	**$1,290**	**$1,319**	**1.4%**
PV Discounted at WACC [2]		$1,118	$965	$899	$841	$785	$731	$680	$629	$581	$541	
Sum of PV of Free Cash Flow											$7,771	
Terminal Value of 2020E FCF [3]											$14,340	
PV of Terminal Value at WACC [2]											$5,877	
Discount Period		0	1	2	3	4	5	6	7	8	9	

[2] **Calculation of WACC:**

10-Year Risk Free Rate ("RFR")	2.0%
Equity Risk Premium (Ibbotson-Arithmetic)	6.5%
Levered Beta (Bloomberg)	1.30
Target Equity/(Debt + Equity)	90%
Theoretical Debt Rating	A-
Debt Spread	6.0%
Marginal Tax Rate ("T")	40.0%
WACC	**10.0%**

(RFR+(Equity Risk Premium x Beta)) x % Equity/Total Capital + ((RFR + Debt Spread) x (1-T) x % Debt/Total Capital).

[3] **Calculation of Terminal Multiple (WACC Method)**

WACC	10.0%
Long-term Nominal GDP Growth	2.0%
WACC-GDP Growth	8.0%
FCF Terminal Multiple [1/(WACC-Growth Rate)]	**10.9**
EBITDA Terminal Mutiple	**7.1**

Sources: Company Reports, Needham & Company estimates.

Table 6

Yahoo!: Breakeven Discounted Cash Flow (DCF) Valuation Calculation, 2012E - 2021E

$ and shares in millions, except per share data

Valuation Conclusions		12/31/11E
Sum of PV of Free Cash Flow [1]		$5,154
PV of Terminal Value Discounted at WACC [1]		$2,852
Value of Operations (WACC Method)		**$8,006**
Plus: Excess Cash at 12/31/11E		$2,500
Plus: Non-Consolidated Assets (From PMV)		$10,330
Less: Minority Interest		$0
Less: Unfunded Retirement Liabilities		$0
Enterprise Value		**$20,837**
Debt at 12/31/11E		$0
Less: Lease Obligations		($850)
Less: Preferred Stock Outstanding		$0
Less: Value of Options & Restricted Sk, After-tax		($210)
Common Equity Value		**$19,777**
Fully Diluted Shares Out, 2011E		1,328
Breakeven DCF Value/Share		**$14.90**
Current Share Price @	6/28/11	$14.95
Discount to DCF Value (DCF-Current Price/DCF)		0%

Breakeven Discounted Cash Flow Valuation

Why We Calculate: BE DCF uses the current share price to calculate the market's growth expectations for the enterprise.

Strengths

1 Makes no assumption about growth for first 10 years
2 Prevents over-optimism by working backwards
3 Data widely available and model well understood
4 Explicitly forecasts capital needs (WC & CapX)
5 Uses a levered beta (widely available)

Weaknesses

1 Terminal value big & based on low visiblity projections
2 Model assumes constant debt/equity ratio
3 Complex to calculate
4 Calculates the enterprise value first, then equity value

[1] **Calculation of the Value of Operations (WACC Method)**

FYE 12/31:	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	**Required LT Growth Rate**
OIBDA (after sk comp exp & corp):	**$1,819**	**$1,693**	**$1,577**	**$1,468**	**$1,366**	**$1,272**	**$1,184**	**$1,103**	**$1,027**	**$956**	**$890**	**-6.9%**
- Depreciation	($704)	($695)	($376)	($331)	($308)	($287)	($267)	($248)	($231)	($215)	($200)	
+ Option Exercise Proceec	$20	$20	$20	$20	$20	$20	$20	$20	$20	$20	$20	
+ Int & Inv Income only	$10	$10	$10	$10	$10	$10	$10	$10	$10	$10	$10	
EBIT	$1,145	$1,028	$1,231	$1,167	$1,089	$1,016	$948	$884	$825	$770	$719	
Cash Taxes (at 32%)	($229)	($329)	($394)	($373)	($348)	($325)	($303)	($283)	($264)	($247)	($230)	
Plus: Depreciation	$704	$695	$376	$331	$308	$287	$267	$248	$231	$215	$200	
Plus: Sk Based Comp Exp	$204	$190	$185	$180	$175	$170	$165	$160	$150	$140	$140	
Working Capital Change	($60)	($76)	($71)	($66)	($62)	($57)	($53)	($50)	($46)	($43)	($40)	
Less: Capital Spending	($600)	($449)	($418)	($389)	($362)	($337)	($314)	($292)	($272)	($253)	($236)	
FCF from Operations	**$1,164**	**$1,059**	**$909**	**$849**	**$799**	**$753**	**$709**	**$668**	**$624**	**$583**	**$554**	
PV Discounted at WACC [2]		$1,020	$796	$676	$579	$496	$425	$364	$309	$263	$227	
Sum of PV of Free Cash Flow											$5,154	
Terminal Value of 2021E FCF [3]											$6,960	
PV of Terminal Value at WACC [2]											$2,852	
Discount Period		0	1	2	3	4	5	6	7	8	9	

[2] **Calculation of WACC:**

10-Year Risk Free Rate ("RFR")	2.0%
Equity Risk Premium (Ibbotson-Arithmetic)	6.5%
Levered Beta (Bloomberg)	1.30
Target Equity/(Debt + Equity)	90%
Theoretical Debt Rating	A-
Debt Spread	6.0%
Marginal Tax Rate ("T")	40.0%
WACC	**10.0%**

(RFR+(Equity Risk Premium x Beta)) x % Equity/Total Capital + ((RFR + Debt Spread) x (1-T) x % Debt/Total Capital).

[3] **Calculation of Terminal Multiple (WACC Method)**

WACC	10.0%
Long-term Nominal GDP Growth	2.0%
WACC-GDP Growth	8.0%
FCF Terminal Multiple [1/(WACC-Growth Rate)]	**12.6**
EBITDA Terminal Mutiple	**7.8**

Sources: Company Reports, Needham & Company estimates.

Table 7

Yahoo!: Valuation Multiples (Sales, OIBDA, P/E)

$ and shares in millions, except per share data

Valuation Conclusions		2011E
Market-Based Enterprise Value [1]		$7,867
2011E Sales (From Annual Projections)		$4,572
EV/Sales		**1.7**
Market-Based Enterprise Value [1]		$7,867
2011E OIBDA (From Annual Projections)		$1,819
EV/2011E OIBDA		**4.3**
12-Month Target Price		$19.00
Target Price EV/2011E OIBDA		**7.3**
Current Price	6/28/11	$14.95
2011E EPS (From Annual Projections)		$0.90
P/E Ratio		**16.6**

[1] Calculation of Market-Based Enterprise Value		
Year End 12/31:		2011E
Current Share Price- After Hours	06/28/11	$14.95
Fully Diluted Shares Out		1,328
Market Capitalization		**$19,847**
Less: Excess Cash & Mktable Debt Sec		($2,500)
Less: Non-Consolidated Assets (See PMV)		($10,330)
Plus: Unfunded Retirement Liabilities		$0
Plus: Debt @ 12/31/11		$0
Plus: Lease Obligations		$850
Plus: Preferred Stock Outstanding		$0
Plus: Value of Options Restricted Sk		$210
Market-Based Enterprise Value		**$7,867**

Sources: Company Reports, Needham & Company estimates.

Table 8

Yahoo!: Free Cash Flow Valuation Metrics

$ and shares in millions, except per share data

Valuation Conclusions		2011E
FCF/Share [2]		$0.88
Current Price	6/28/11	$14.95
FCF Yield		**6%**
FCF [2]		$1,204
2011E OIBDA (From Annual Projections)		$1,819
FCF Conversion Rate (FCF/OIBDA)		**66%**
Market-Based Enterprise Value [1]		$7,867
FCF [2]		$1,204
EV/FCF		**6.5**
Net Debt + Unfunded Retirement Liabs		($2,500)
Net Debt/Market Cap		**-12.6%**

[2] Calculation of Free Cash Flow	
Year End 12/31:	2011E
OIBDA	$1,819
Plus: Option Exercise Proceeds	$20
Less: Cash Interest Expense	$0
Minority Interest	$7
Less: Preferred Dividends	$0
Less: Cash Taxes	($118)
Less: Change in Working Capital	($76)
Less: Capital Spending (PP&E)	($449)
Free Cash Flow	**$1,204**
Shares Outstanding	1,365
FCF/Share	**$0.88**

Sources: Company Reports, Needham & Company estimates.

Table 9

Yahoo!: Sum of the Parts Valuation, 2011E

$ and shares in millions, except per share data

Alibaba.com	
Price per share (HKD)	$12.02
Exchange Rate (HKD/USD)	7.805
Price per share (USD)	$1.54
Shares Outstanding	5,052
Total Alibaba Value	$7,795
% Yahoo Ownership	28.4%
Market Value of Yahoo's Value in Alibaba	$2,214
Market Value of Yahoo's Value in Alibaba, Less 30% Discount	$1,550
Value Assuming 20% Capital Gains Tax	$1,240
Market Value Per YHOO Share	$0.93
Alibaba Group Estimated Value	$11,000
Yahoo % Ownership	40.0%
Yahoo $ Ownership	$4,400
Market Value of Yahoo's Value in Alibaba Group, Less 20% Discount	$3,520
Value Assuming 20% Capital Gains Tax	$2,816
Market Value Per Share	$2.12
Total Value	$4,056
Total Value Per YHOO Share of Alibaba	**$3.06**

Sources: Company Reports, Needham & Company estimates.

Yahoo! Japan	
Price per share (Yen)	¥26,160
Exchange Rate (Yen/USD)	80.6
Price per share (USD)	$324.65
Shares Outstanding	58,123
Total Yahoo Japan Value	$18,869
Yahoo Stake	34.8%
Market Value of Yahoo's Value in Yahoo Japan	$6,567
Market Value, Less 30% Discount	$4,597
Value Assuming 20% Capital Gains Tax	$3,677
Market Value Per YHOO Share-Yahoo! Japan	**$2.77**

Sources: Company Reports, Needham & Company estimates.

Total Value of Alibaba and Yahoo! Japan	
Market Value-Alibaba	$5,734
Market Value-Yahoo! Japan	$4,597
Total Value	$10,330
Market Value Per Share-Alibaba	$3.06
Market Value Per Share-Yahoo! Japan	$2.77
Total Asian Asset Value Per YHOO Share	**$5.82**

Sources: Company Reports, Needham & Company estimates.

Table 10

Summary Comparative Financial & Valuation Information

$ and shares in millions, except per share data

Laura Martin's Coverage		Ticker	Market Cap ($B)	Rating	2011E Multiples: EV/ EBITDA	P/E	EV/ FCF	FCF Yield	Break-even DCF	6/28/11: Target Price	Current Price	Target/ Current	Conflicts Disclosure
1	AOL, Inc.	AOL	$2	BUY	4.1	28.7	5.1	14.8%	-21.0%	$35.00	$19.91	76%	B
2	CBS	CBS	$19	BUY	9.3	16.5	14.8	9.6%	2.0%	$28.00	$28.10	0%	B
3	Discovery Communications	DISCA	$17	HOLD	10.1	17.4	19.1	6.0%	1.0%	NA	$40.87		B, G
4	Disney	DIS	$73	HOLD	7.8	15.1	23.7	4.8%	3.9%	NA	$37.92		B
5	NewsCorp	NWS	$45	BUY	7.7	15.1	25.2	4.2%	1.0%	$20.00	$17.17	16%	B, G
6	Nielsen Company BV	NLSN	$11	BUY	12.0	30.7	29.7	5.7%	2.6%	$32.00	$29.93	7%	B
7	Scripps Networks Interactive	SNI	$8	BUY	8.1	17.7	14.8	6.6%	3.4%	$62.00	$48.54	28%	B
8	Time Warner Inc	TWX	$39	HOLD	7.9	12.9	21.1	6.5%	1.2%	NA	$35.72		B
9	Time Warner Cable	TWC	$27	BUY	6.5	17.6	18.8	9.3%	2.4%	$80.00	$77.66	3%	B
10	Viacom	VIAB	$30	BUY	9.3	14.3	20.6	5.9%	3.1%	$55.00	$50.22	10%	B
11	Warner Music	WMG	$1.2	HOLD	8.4	(8.3)	19.7	11.3%	-4.2%	NA	$8.24	NA	B
12	**Yahoo!**	**YHOO**	**$20**	**BUY**	**4.3**	**16.6**	**6.5**	**5.9%**	**-6.9%**	**$20.00**	**$14.95**	**34%**	B, G
Total/Average			**$292**		**8.0**	**16.2**	**18.3**	**7.6%**	**-1.0%**			**NM**	

		WACC	Revenue 2011E	OIBDA 2011E	EPS 2011E	EV	Net Debt	Debt/ OIBDA	Debt Rating	FCF	FCF/ Share	Dividend/ Share	Div. Yield
$ in millions, except per share data													
1	AOL, Inc.	10.5%	$2,170	$396	$0.69	$1,635	($1,000)	(2.5)	BBB	$323	$2.95	$0.00	NA
2	CBS	9.1%	$14,599	$2,921	$1.70	$27,174	$7,150	2.4	BBB-	$1,840	$2.70	$0.20	0.7%
3	Discovery Communications	9.5%	$4,081	$1,894	$2.35	$19,080	$2,930	1.5	BBB+	$999	$2.45	$0.00	NA
4	Disney	8.7%	$40,851	$10,631	$2.52	$83,358	$10,250	1.0	A	$3,517	$1.83	$0.40	1.1%
5	NewsCorp	8.8%	$32,822	$6,093	$1.14	$47,061	$3,300	0.5	BBB+	$1,865	$0.72	$0.15	0.9%
6	Nielsen Company BV	9.0%	$5,470	$1,531	$0.97	$18,374	$6,200	4.0	Ba3	$619	$1.70	$0.00	NA
7	Scripps Networks Interactive	9.1%	$2,093	$1,001	$2.75	$8,092	($15)	(0.0)	BBB+	$547	$3.22	$0.30	0.6%
8	Time Warner Inc	9.1%	$28,674	$6,809	$2.76	$53,948	$12,100	1.8	BBB	$2,562	$2.33	$0.85	2.4%
9	Time Warner Cable	9.1%	$19,533	$7,132	$4.50	$46,530	$20,500	2.9	BBB	$2,469	$7.21	$1.92	2.5%
10	Viacom	9.0%	$14,530	$3,922	$3.52	$36,370	$5,400	1.4	BBB	$1,765	$2.97	$0.60	1.2%
11	Warner Music	9.1%	$2,753	$327	($0.94)	$2,761	$1,420	4.3	BB-	$140	$0.93	$0.00	NA
12	**Yahoo!**	**10.0%**	**$4,572**	**$1,819**	**$0.90**	**$7,867**	**($2,500)**	**(0.1)**	**A-**	**$1,204**	**$0.88**	**$0.00**	**NA**

Sources: Needham & Co, LLC estimates, Company documents, FirstCall, Yahoo Finance.

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I, Laura Martin, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company (ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

I, Dan Medina, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company (ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Price, Rating, and Price Target History: Yahoo! Inc. (YHOO/NASDAQ) as of 6-28-11

Source: Factset (Prices) / Needham (ratings and target price)

Disclosures applicable to this security: B, G.

Price, Rating, and Price Target History: comScore Inc. (SCOR/NASDAQ) as of 6-28-11

Source: Factset (Prices) / Needham (ratings and target price)

Disclosures applicable to this security: B, G.

Price, Rating, and Price Target History: Netflix Inc. (NFLX/NASDAQ) as of 6-28-11

Source: Factset (Prices) / Needham (ratings)

Disclosures applicable to this security: B, G.

	% of companies under coverage with this rating	% for which investment banking services have been provided for in the past 12 months
Strong Buy	8	17
Buy	62	20
Hold	26	4
Under Perform	1	0
Rating Suspended	2	17
Restricted	<1	100
Under Review	<1	0

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