Internet/e-Commerce

Macro in charts: Two negatives and one positive from SVB fallout; Prefer large cap.

Industry Overview

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Equity
United States

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Macro uncertainty grows following SVB headlines

We see three important macro considerations from SVB headlines and other financial institution volatility which we characterize as: 1) negative impact on economic activity and revenues, 2) negative impact on financial sector ad spend, and 3) positive valuation impact from lower interest rate outlook. Overall, we think financial uncertainty favors larger cap stocks which, in general, have stronger balance sheets, could benefit from customer spend consolidation (advertising and cloud), have more ability to grow earnings through cost cuts, and have opportunity for bigger capital returns. AMZN, GOOG and META (up 1.1% on avg) slightly outperformed the NASDAQ (up 0.5%) on 3/13.

Potential pressure on GDP growth and sector revenues

Consumer Internet sector revenues (advertising and eCommerce) are fueled by consumer spend, and economic uncertainty and tighter credit availability could accelerate a spending recession, lowering '23 estimates for the sector. There has been a strong historical correlation of Online ad spend to GDP growth, while Internet sector performance has reflected future GDP growth expectations (see Exhibits 1 and 2). Stock ideas: While we don't see lower GDP as a positive for any stocks in the Internet group, we continue to see large cap media stocks with self-help cost cutting, Google and Meta, as best positioned to cut costs to help maintain EPS. A silver lining is that recession concerns have already impacted stock performance and valuations vs history (see our Internet year-ahead report), and any signs of an economic bottom could help sentiment.

Expect an impact on financial services advertising spend

According to eMarketer, financial services and banking sector US digital ad spending in 2023 is estimated to account for 18% of the total digital industry spend (see Exhibit 3). Search exposure for financial services is estimated at $15bn, or 42% of the financial services total (see Exhibit 5). Stock ideas: Few positives here, but perhaps a reduction in digital ad competition from financial services could aid subscription services (BMBL), gaming (TTWO), and even travel (BKNG, EXPE) advertising, which is 1st half weighted. Within advertising, we think Alphabet and Meta have more exposure to the financial vertical than Snap (top categories incl. apps, entertainment, QSR) and Pinterest (top categories incl. home goods, CPG, beauty), but also think larger platforms have higher potential to offset with spend in other verticals and could see a benefit from ad spend consolidation.

Lower inflation and interest rates favor growth sectors

Inflation and interest rate expectations are important drivers of stock valuations in the Internet sector, with sector underperformance in 2022 driven, in part, by higher interest rates (see Exhibit 7 within this report). Stock ideas: Our top large cap stock idea for lower inflation and lower interest rate scenarios is Amazon, which has built out its retail distribution advantage during the pandemic, is working through a negative impact on eCommerce sales from higher inflation and shift to leisure spend, and has longer-duration cash flow that could benefit from lower discount rates.

GDP: Gross domestic product

SVB: Silicon Valley Bank

QSR: Quick Service Restaurant

CPG: Consumer Packaged Goods

FS: Financial Sector

EPS: Earnings per share

AMZN: Amazon.com

GOOG: Alphabet

META: Meta Platforms

BMBL: Bumble

TTWO: Take-Two

BKNG: Booking Holdings

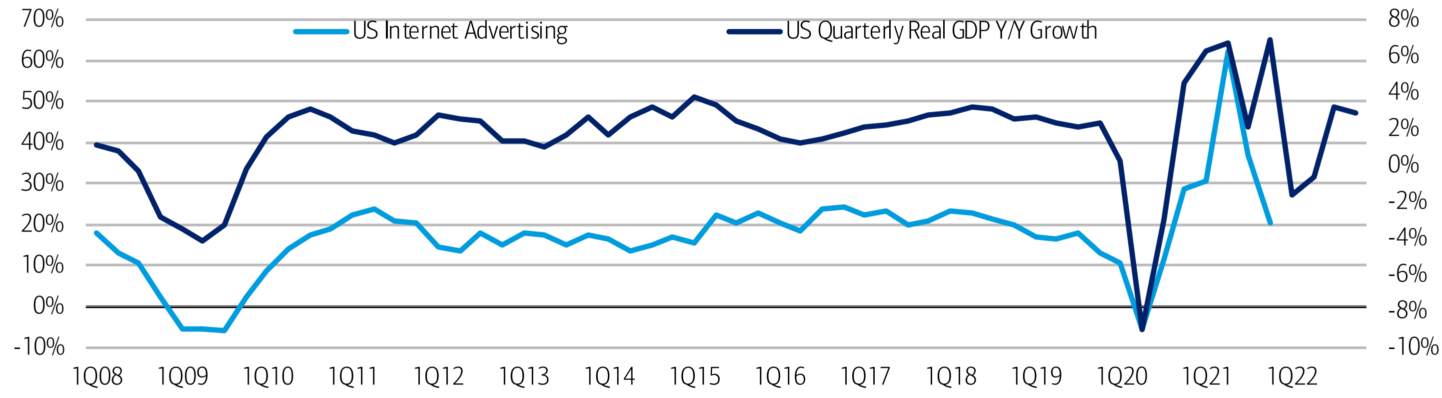
EXPE: Expedia

Refer to important disclosures on page 9 to 11. Analyst Certification on page 7. Price Objective Basis/Risk on page 5. 12529632

US GDP vs Ad Spend

Historical data suggests Online advertising industry growth and GDP have a high correlation.

Exhibit 1: US quarterly GDP growth (y/y) vs US internet advertising
Strong historical correlation between US GDP growth and digital ad spend.



Source: BofA Global Research, IAB

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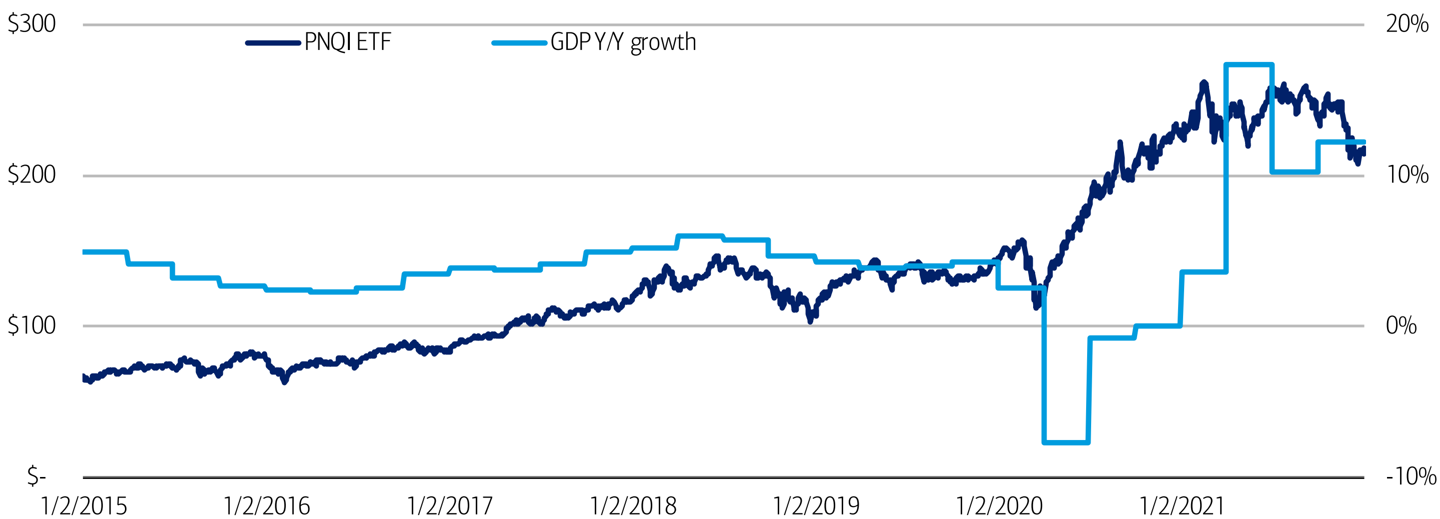
US GDP vs Internet ETF performance

While Internet sector returns have reflected (moved in anticipation) of futures changes in GDP growth rates.

Exhibit 2: Invesco Nasdaq Internet ETF vs. US GDP Y/Y growth
The performance of the Invesco Nasdaq Internet ETF vs Y/Y changes in US GDP



Source: BofA Global Research, St. Louis FED

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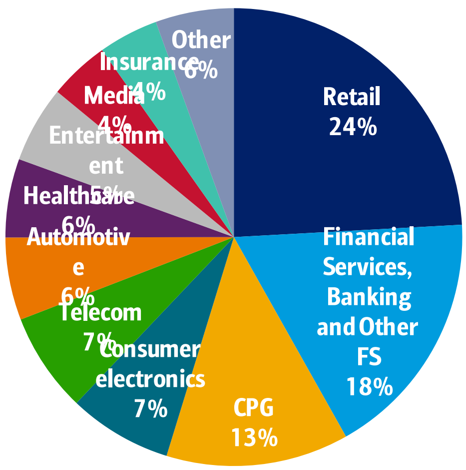
US Online Media Ad Spending by Sector

According to eMarketer, financial services and banking sector US digital ad spending in 2023 is estimated at $57bn, accounting for 18% of the total industry spend. This spend was estimated to grow 13% in 2023.

Exhibit 3: 2023E US Digital Ad Spending by Sector (% of Total)
FS and banking accounts for ~18% of US digital ad spend.



Source: eMarketer, July 2022

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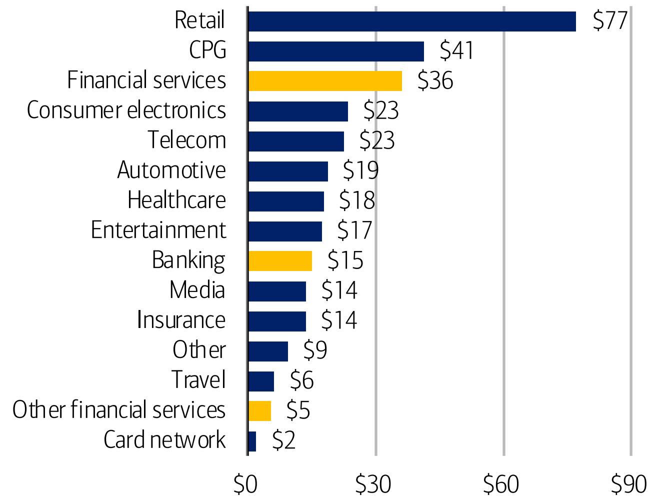
Exhibit 4: 2023E US Digital Ad Spending by Sector ($ bn)
FS and banking ad spend in 2023 is estimated at $57bn.



Source: eMarketer, July 2022

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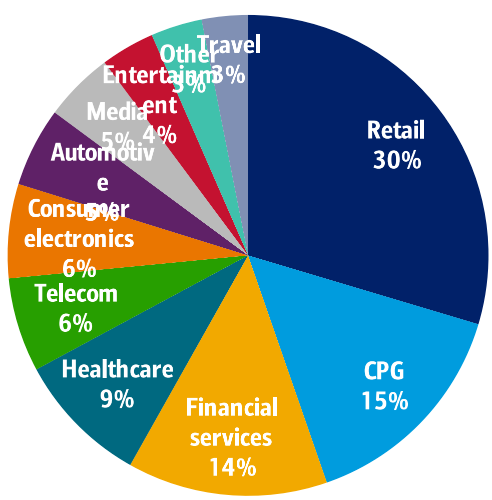
US Search Ad Spending by Sector

According to eMarketer, financial services search ad spending in 2023 is estimated at $15bn, accounting for 14% of the total US search ad spend. Financial sector search ad spending is estimated to grow at 11% y/y in 2023.

Exhibit 5: 2023E US Search Ad Spending by Sector (% of Total)
Financial services accounts for ~14% of US search ad spend.



Source: eMarketer, July 2022

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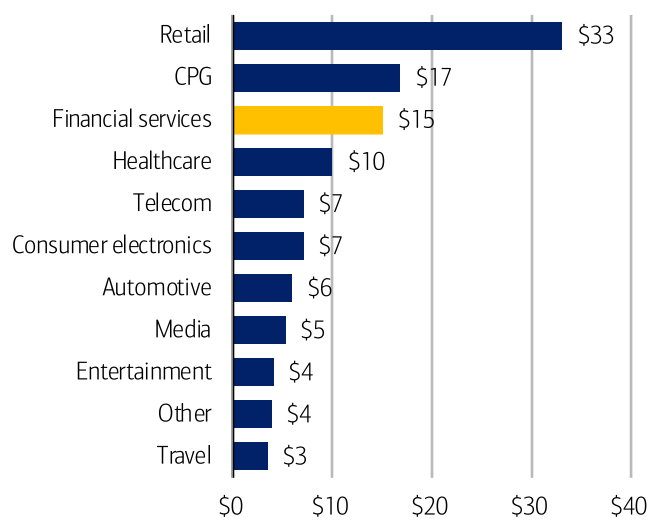
Exhibit 6: 2023E US Search Ad Spending by Sector ($ bn)
Financial services search ad spend in 2023 is estimated at $15bn.



Source: eMarketer, July 2022

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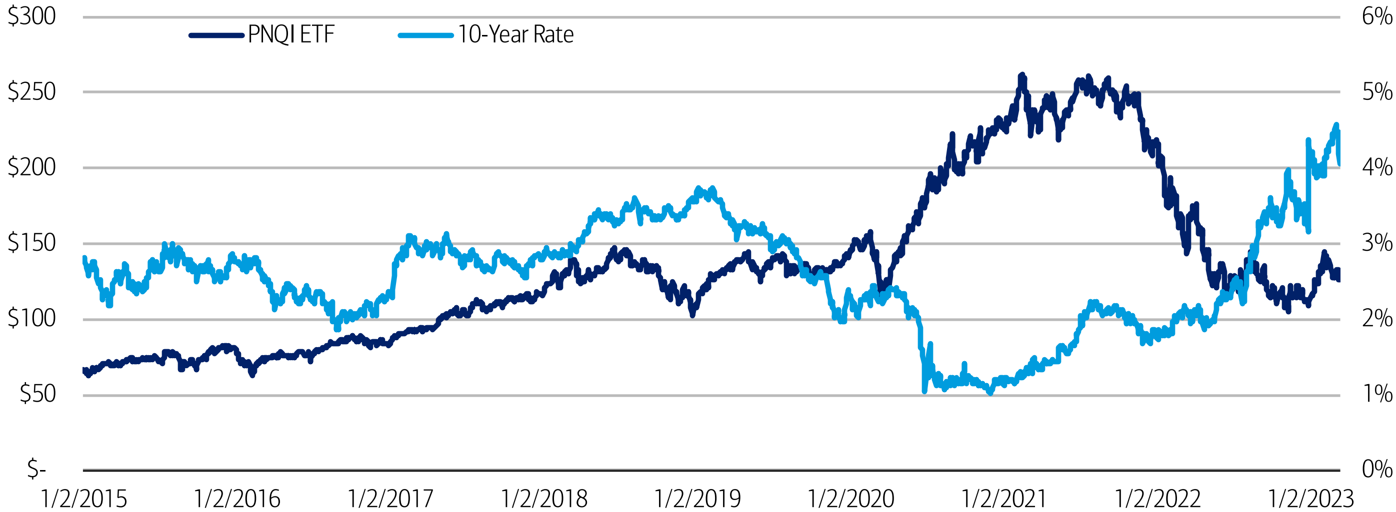
10-year rates vs US Internet ETF performance

Higher risk-free rates can raise the cost of capital, pressuring sector valuations. The Invesco Internet ETF exhibits a significant negative correlation to the 10-Yr rate.

Exhibit 7: Invesco Nasdaq Internet ETF vs. 10-Year Treasury Rate

The Invesco Internet ETF performance vs 10-Yr rate



Source: BofA Global Research, St. Louis FED

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Exhibit 8: Companies mentioned
Companies mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
GOOGL	GOOGL US	Alphabet A	US$ 91.11	B-1-9
GOOG	GOOG US	Alphabet C	US$ 91.66	B-1-9
BKNG	BKNG US	Booking Holdings	US$ 2438.89	B-2-9
BMBL	BMBL US	Bumble	US$ 19.63	C-1-9
EXPE	EXPE US	Expedia	US$ 95	B-1-8
META	META US	Meta Platforms	US$ 180.9	B-1-9
PINS	PINS US	Pinterest	US$ 23.69	C-2-9
SNAP	SNAP US	Snap Inc	US$ 10.23	C-2-9
TTWO	TTWO US	Take-Tw o	US$ 111.33	B-1-9

Source: BofA Global Research

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Price objective basis & risk

Alphabet (GOOGL / GOOG)

Our price objective of $125/$125 is based on 18x 2024E core Google GAAP EPS plus cash. Alphabet has traded at an average multiple of 23x GAAP P/E over the last ten years and we think our multiple is reasonable vs. history given expectations for slower, but still 7%+ revenue growth in future years.

Downside risks to our PO are 1) search revenue growth decelerates faster than anticipated due to a recession or market maturity, 2) mobile transition drives negative search behavior changes, 3) revenue growth pressure from competitor initiatives, such as TikTok and ChatGPT, 4) margins disappoint due to revenue mix and investment initiatives, and 5) negative regulatory changes, including DMA implementation in Europe and antitrust in the US. The stock has been subject to heavy volatility in the past based on revenue growth and margin trends and this volatility could increase if economic conditions deteriorate.

Booking Holdings Inc (BKNG)

Our price objective is $2,850, based on 18x our 2024E EPS + Cash. The 18x multiple is near the average of Booking Holdings' historical multiple range of 10-24x. We think a forward P/E multiple premium to some travel peers is appropriate given higher quality of non-GAAP earnings that includes SBC expense, and strong FCF generation.

Risks to estimates and PO are: 1) a global economic downturn or Global conflicts that reduce travel activity, 2) competition for traffic from Google lowering growth or margins, 3) hotels favoring their own distribution channels, 4) FX volatility, and 5) increased competition from Expedia, TripAdvisor, Trip.com, Airbnb and potentially Google. The stock has been subject to heavy volatility in the past based on travel disruptions and this volatility could increase due to greater economic uncertainty.

Bumble, Inc. (BMBL)

Our PO of $30 is based on 17x 2024E EV/EBITDA, which represents a premium to our valuation of direct peers, owing to our belief that BMBL has ability to grow off a lower base.

Upside risks to our PO are: better-than-expected domestic (or international) share gains in the near term, a viral adoption of the brand or successful launch of a previously unannounced product, additive M&A, or better-than-expected improvements in macro/operating conditions.

Downside risks to our PO are: tougher-than-expected competition from industry leaders and/or disruption from the tail, concentration risks (should Bumble or another app in the ecosystem fall out of favor), an overall slowdown in online dating spending, a complicated capital structure compressing valuations, or execution risks from further expansion or product development.

Expedia (EXPE)

Our $150 PO is based on a 50-50 blend of P/E and sum-of-the-parts valuations based on 2024 estimates. Our sum-of-the-parts valuation is based on a 8x EBITDA , and separate values for Trivago and assets. Our P/E valuation is based on 14x EPS. Our P/E multiple is within Expedia's historical ranges of forward EPS and a discount compared to Booking valuation given use of non-GAAP EPS.

Downside risks to our PO are: 1) economic downturn or prolonged new wave virus outbreak leading to fewer travel bookings, 2) competition traffic lowering the company's growth or margin opportunity, 3) more aggressive hotel direct booking initiatives 4) Google disintermediation, and 5) slowdown in VRBO growth post-pandemic.

Meta Platforms Inc (META)

Our $220 price objective is based on 18x 2024E GAAP EPS. On a total company basis, including Metaverse investments, our valuation is in line with S&P 500 (over the past five years Meta has had a 2pt average premium to S&P). We think accelerating revenue growth and conservative expense management can lead to 3-year EPS growth above the S&P 500.

Revenue drivers are a recovery in Online advertising markets, an acceleration in Reels or messaging monetization, and AI/ML benefits driving better content engagement and incremental ad spend.

Downside risks are decline in user activity from competition (such as TikTok, SVOD), privacy or date issues impact revenue generation, potential for Street to assign a negative value for Metaverse (e.g., Reality Labs) given massive investments, and new regulations that impact monetization

Pinterest (PINS)

Our $30 price objective is based on 5x 2024E EV/Revenue, within Pinterest's historical EV/Revenue valuation range. Our valuation reflects a modest premium to mid-cap peer group multiples given early stage of monetization and long-term shopping opportunity.

Risks to our PO are: 1) US user growth below peers, 2) seemingly high ad loads, 3) heavy competition for both general usage and shopping activity, and 4) less proven monetization of video content.

Snap (SNAP)

Our $11 price objective is based on 3x 2024E EV/Revenue, within Snap's historical EV/Revenue valuation range. Our valuation reflects a modest discount to mid-cap Online media peer group multiples given usage pressure, revenue volatility and low FCF including SBC expense.

Risks to our PO are: 1) deceleration in user growth that would raise concerns on long-term revenue opportunity, 2) pressure on usage due to competing services, and 3) valuation that has less earnings based support than peers when including SBC.

Take-Two Interactive (TTWO)

Our price objective of $120, is based on 14x the average of our FY24E & FY25E EPS estimates, which we think more accurately reflects TTWO's long-term earnings power. Our target P/E multiple is in line with the average valuation of our comp set of diversified game publishers.

Upside risks to our price objective include (1) sooner than expected announcement of Grand Theft Auto VI, (2) acquisition by a private equity firm or strategic acquirer. Downside risks to our price objective include (1) failing to meet revenue guidance indicated the S-4 and 22FQ4 press release by virtue of a recession or delays in game development, (2) failure to meet the operating income projections because of increasing costs of development.

Analyst Certification

We, Justin Post and Nat Schindler, hereby certify that the views each of us has expressed in this research report accurately reflect each of our respective personal views about the subject securities and issuers. We also certify that no part of our respective compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Internet Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	ACV Auctions	ACVA	ACVA US	Nat Schindler
	Alphabet	GOOGL	GOOGL US	Justin Post
	Alphabet	GOOG	GOOG US	Justin Post
	Amazon.com	AMZN	AMZN US	Justin Post
	Arhaus, Inc	ARHS	ARHS US	Curtis Nagle, CFA
	Bumble, Inc.	BMBL	BMBL US	Nat Schindler
	Chewy Inc	CHWY	CHWY US	Nat Schindler
	Digital Turbine, Inc	APPS	APPS US	Omar Dessouky, CFA
	DoorDash	DASH	DASH US	Michael McGovern
	Duolingo	DUOL	DUOL US	Nat Schindler
	Expedia	EXPE	EXPE US	Justin Post
	Fiverr	FVRR	FVRR US	Nat Schindler
	LendingTree	TREE	TREE US	Nat Schindler
	Match Group	MTCH	MTCH US	Nat Schindler
	Meta Platforms Inc	META	META US	Justin Post
	NerdWallet Inc	NRDS	NRDS US	Nat Schindler
	Peloton	PTON	PTON US	Justin Post
	RH	RH	RH US	Curtis Nagle, CFA
	Roblox Corp. Class A	RBLX	RBLX US	Omar Dessouky, CFA
	Shutterstock	SSTK	SSTK US	Nat Schindler
	Squarespace Inc	SQSP	SQSP US	Nat Schindler
	Take-Two Interactive	TTWO	TTWO US	Omar Dessouky, CFA
	Tempur Sealy International Inc.	TPX	TPX US	Curtis Nagle, CFA
	TripAdvisor	TRIP	TRIP US	Nat Schindler
	Uber	UBER	UBER US	Justin Post
	Udemy Inc	UDMY	UDMY US	Nat Schindler
	Upwork Inc	UPWK	UPWK US	Nat Schindler
	Wayfair	W	W US	Curtis Nagle, CFA
	Wix.com	WIX	WIX US	Nat Schindler
	Xometry	XMTR	XMTR US	Nat Schindler
	Zillow	ZG	ZG US	Curtis Nagle, CFA
	Zillow	Z	Z US	Curtis Nagle, CFA
NEUTRAL				
	1stDibs.com	DIBS	DIBS US	Curtis Nagle, CFA
	Airbnb	ABNB	ABNB US	Justin Post
	AppLovin	APP	APP US	Omar Dessouky, CFA
	Beachbody	BODY	BODY US	Joanna Zhao
	Booking Holdings Inc	BKNG	BKNG US	Justin Post
	Carvana Co	CVNA	CVNA US	Nat Schindler
	eBay	EBAY	EBAY US	Curtis Nagle, CFA
	Electronic Arts	EA	EA US	Omar Dessouky, CFA
	Etsy, Inc.	ETSY	ETSY US	Curtis Nagle, CFA
	LegalZoom	LZ	LZ US	Nat Schindler
	Overstock.com Inc	OSTK	OSTK US	Curtis Nagle, CFA
	Pinterest	PINS	PINS US	Justin Post
	Playtika	PLTK	PLTK US	Omar Dessouky, CFA
	Snap	SNAP	SNAP US	Justin Post
	Viant	DSP	DSP US	Nat Schindler
UNDERPERFORM				
	AdTheorent	ADTH	ADTH US	Nat Schindler
	Cardlytics	CDLX	CDLX US	Nat Schindler
	Lyft, Inc.	LYFT	LYFT US	Michael McGovern
	Opendoor Technologies	OPEN	OPEN US	Curtis Nagle, CFA
	PLAYSTUDIOS, Inc. Class A	MYPS	MYPS US	Omar Dessouky, CFA
	Purple Innovation	PRPL	PRPL US	Curtis Nagle, CFA
	Redfin Corp	RDFN	RDFN US	Curtis Nagle, CFA
	SciPlay	SCPL	SCPL US	Omar Dessouky, CFA
	System1	SST	SST US	Nat Schindler
	The RealReal	REAL	REAL US	Michael McGovern
	Trivago NV	TRVG	TRVG US	Nat Schindler
	Upstart	UPST	UPST US	Nat Schindler
	Wish	WISH	WISH US	Michael McGovern

US - Internet Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst

Disclosures

Important Disclosures

Equity Investment Rating Distribution: Media & Entertainment Group (as of 31 Dec 2022)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	24	37.50%	Buy	13	54.17%
Hold	21	32.81%	Hold	8	38.10%
Sell	19	29.69%	Sell	8	42.11%

Equity Investment Rating Distribution: Technology Group (as of 31 Dec 2022)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	216	50.35%	Buy	113	52.31%
Hold	119	27.74%	Hold	58	48.74%
Sell	94	21.91%	Sell	31	32.98%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2022)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	1853	52.58%	Buy	1040	56.13%
Hold	840	23.84%	Hold	493	58.69%
Sell	831	23.58%	Sell	404	48.62%

[R1] Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster[R2]
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

[R2] Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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BofAS or an affiliate has received compensation from the issuer for non-investment banking services or products within the past 12 months: Alphabet, Booking Holdings, Expedia Inc, Meta Platforms, Pinterest, Snap Inc, Take-Two.
The issuer is or was, within the last 12 months, a non-securities business client of BofAS and/or one or more of its affiliates: Alphabet, Booking Holdings, Expedia Inc, Meta Platforms, Pinterest, Snap Inc, Take-Two.
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