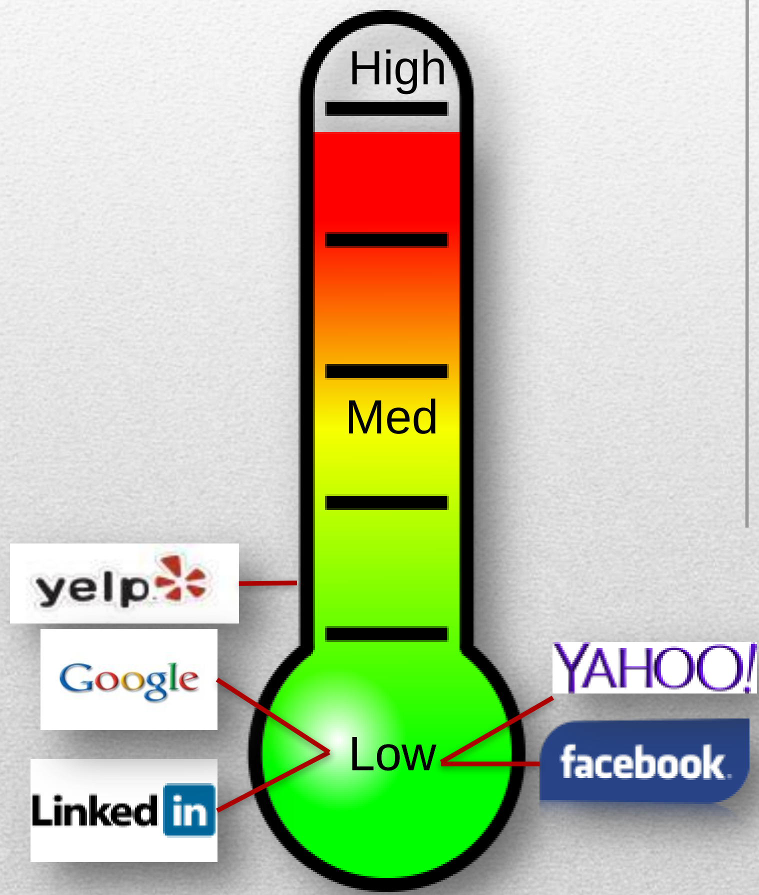
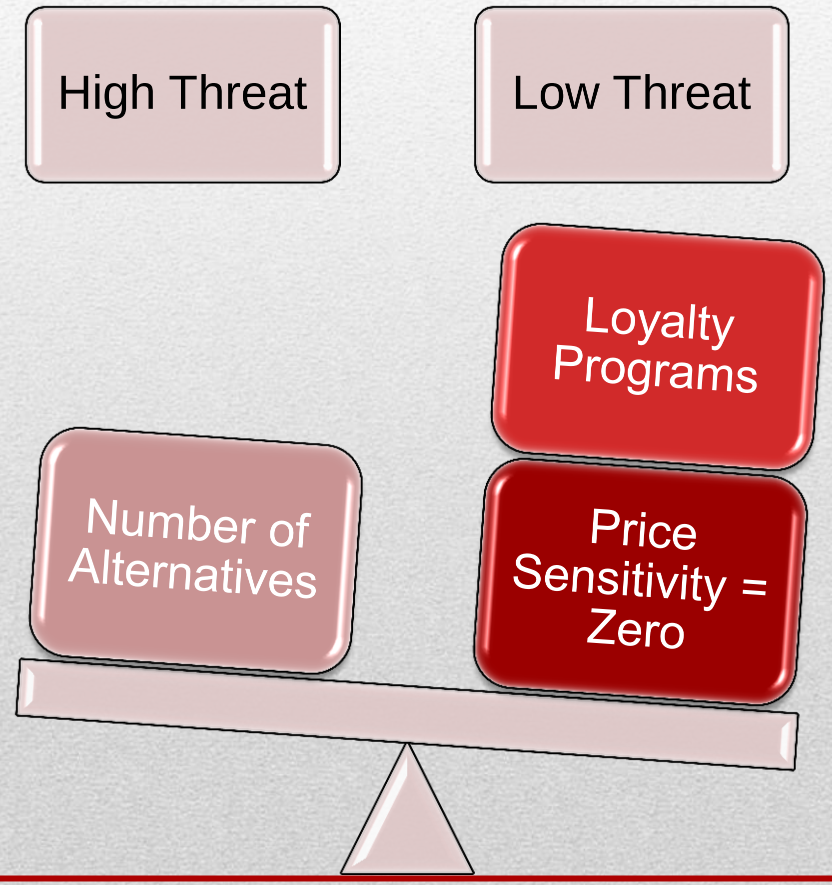
Internet Information Providers

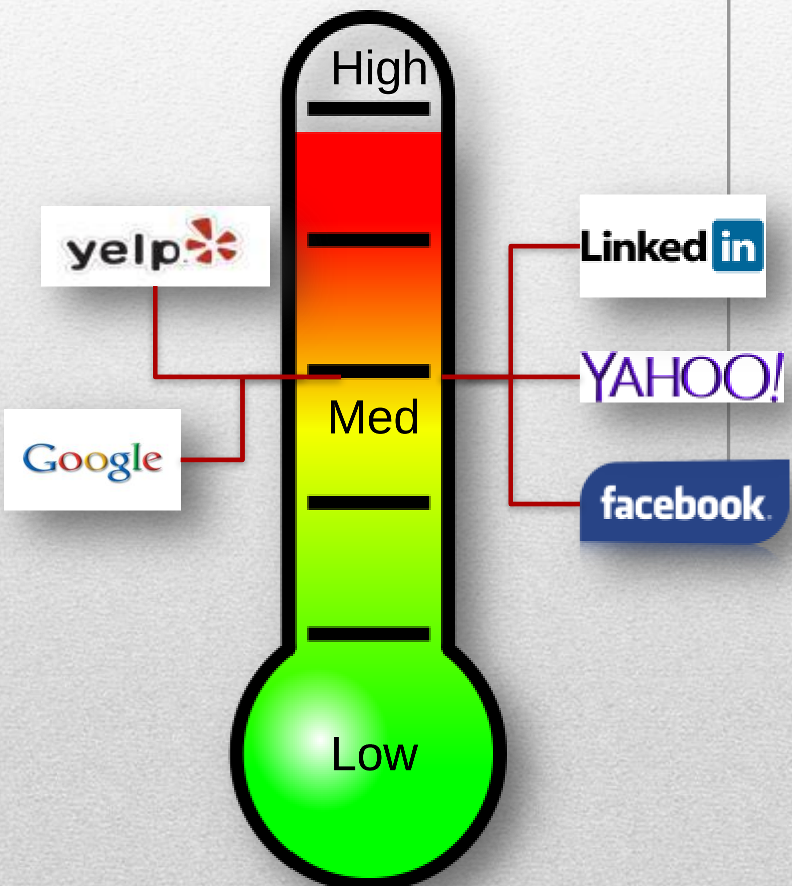
Porter’s 5 Forces

Bargaining Power of *Free* Users

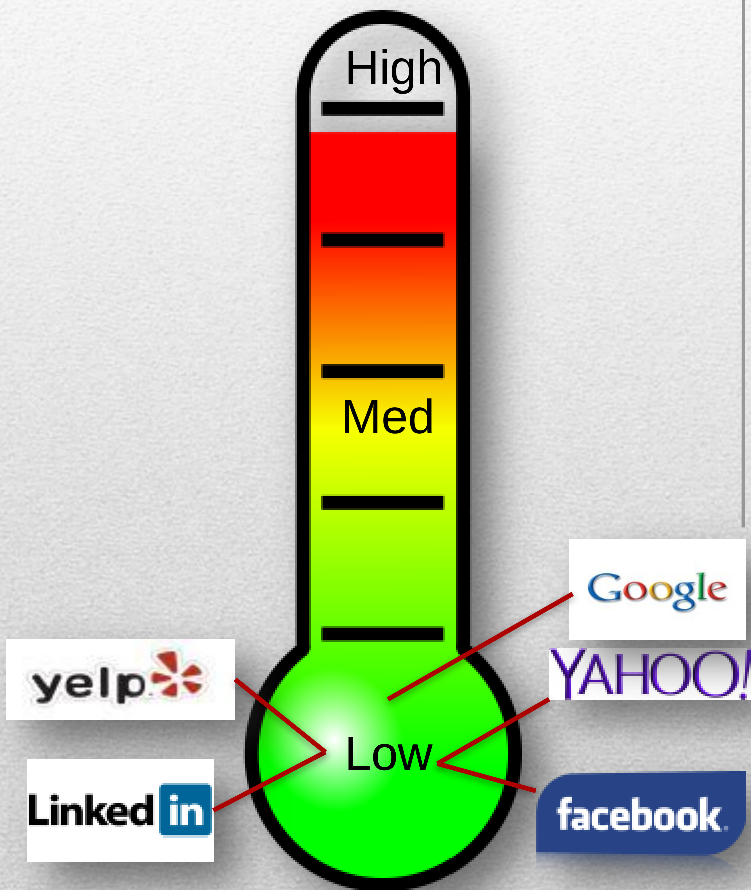


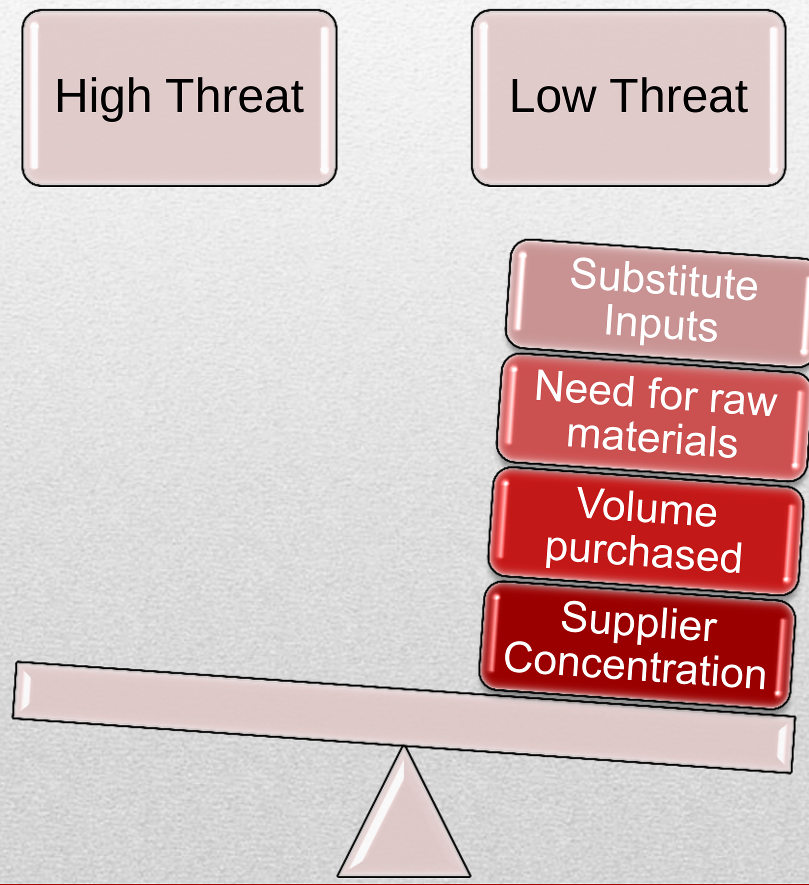


Bargaining Power of Paid Users

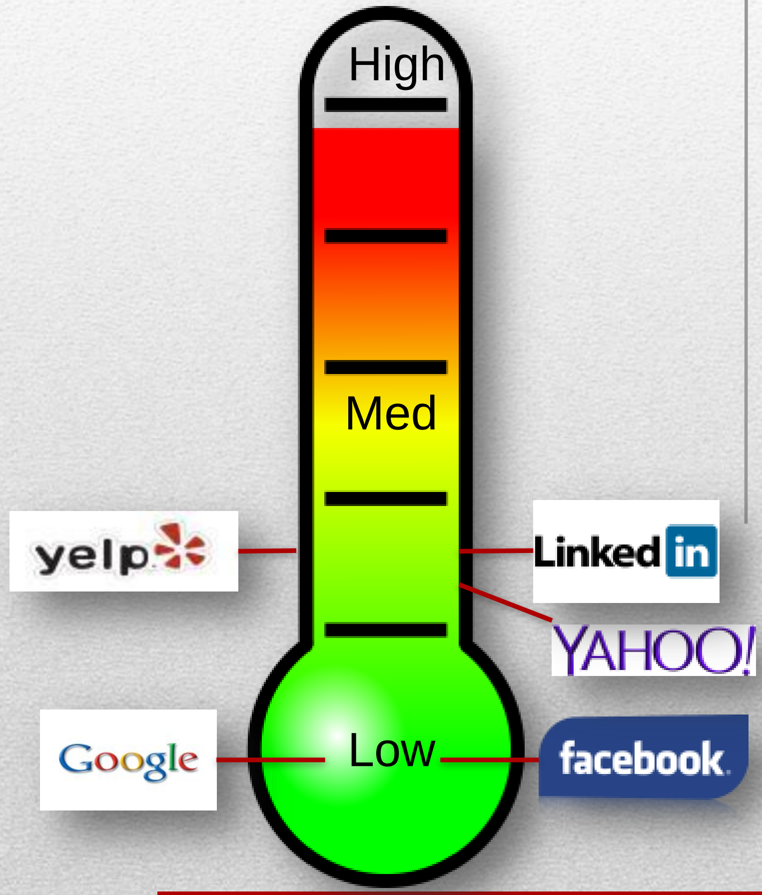


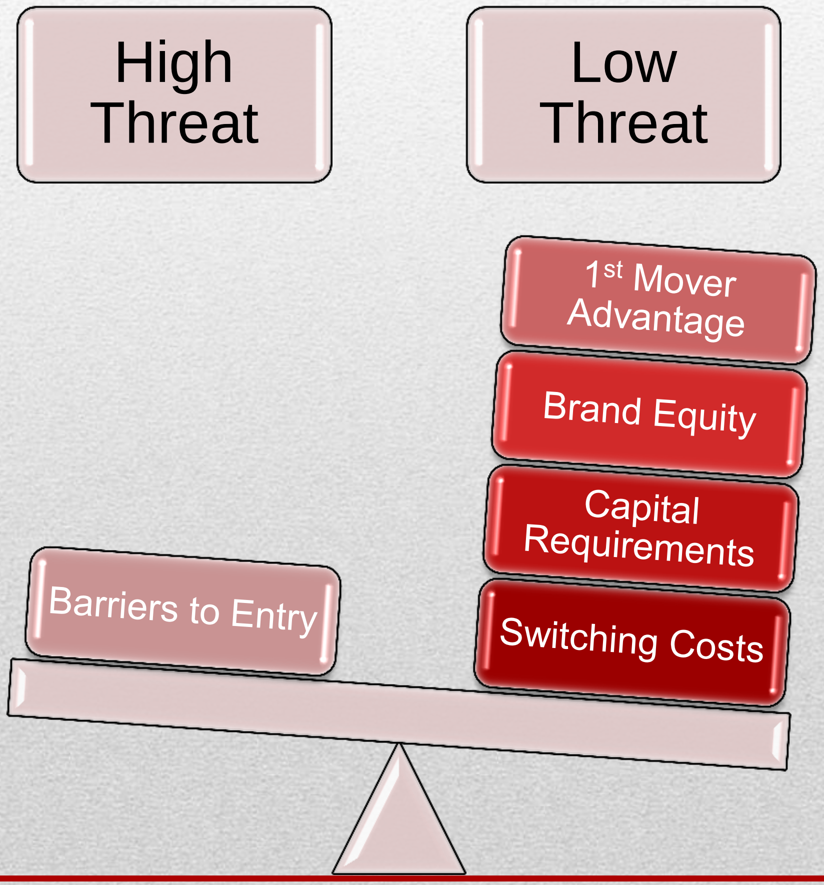
Bargaining Power of Suppliers



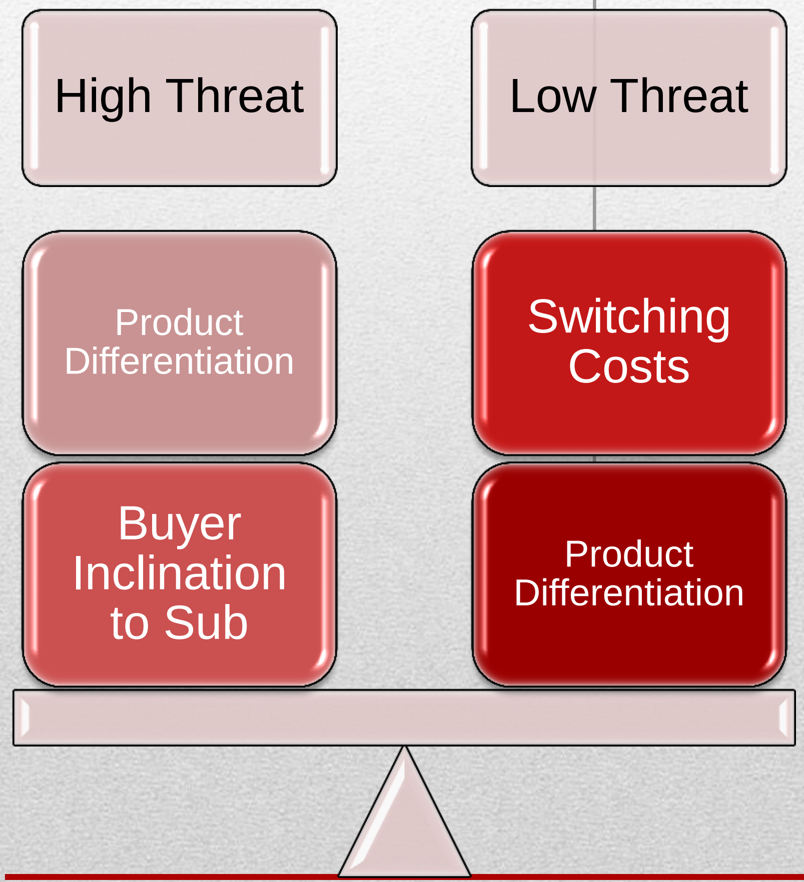


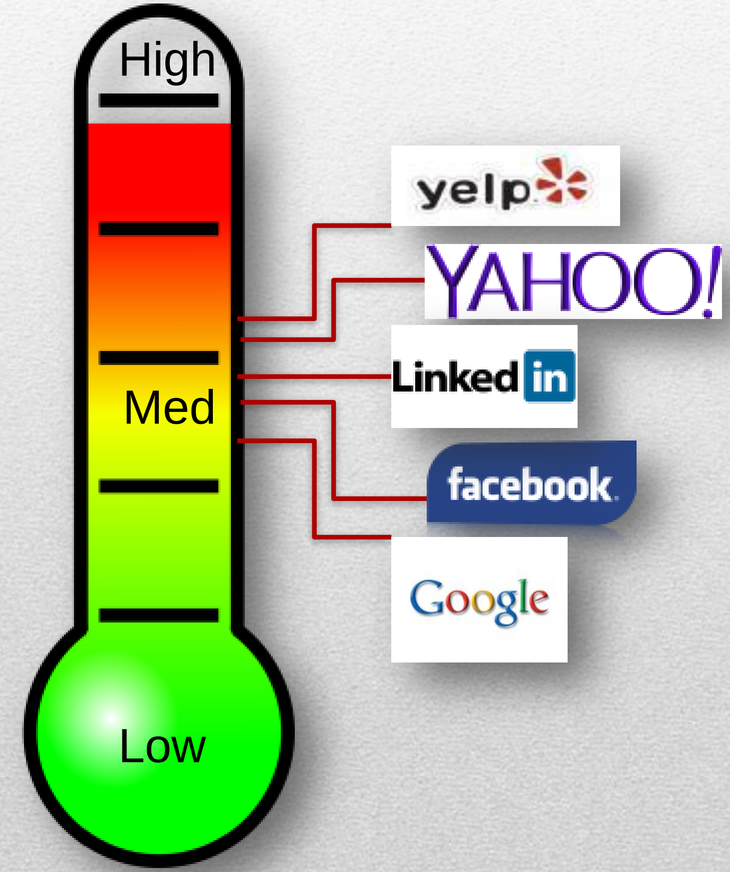
Threat of New Entrants



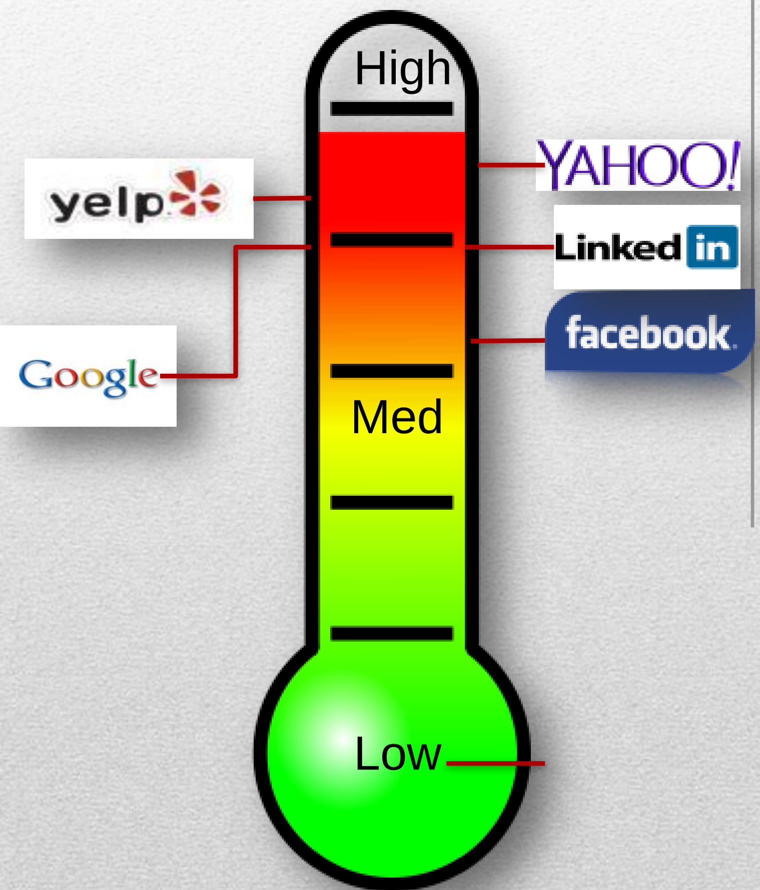


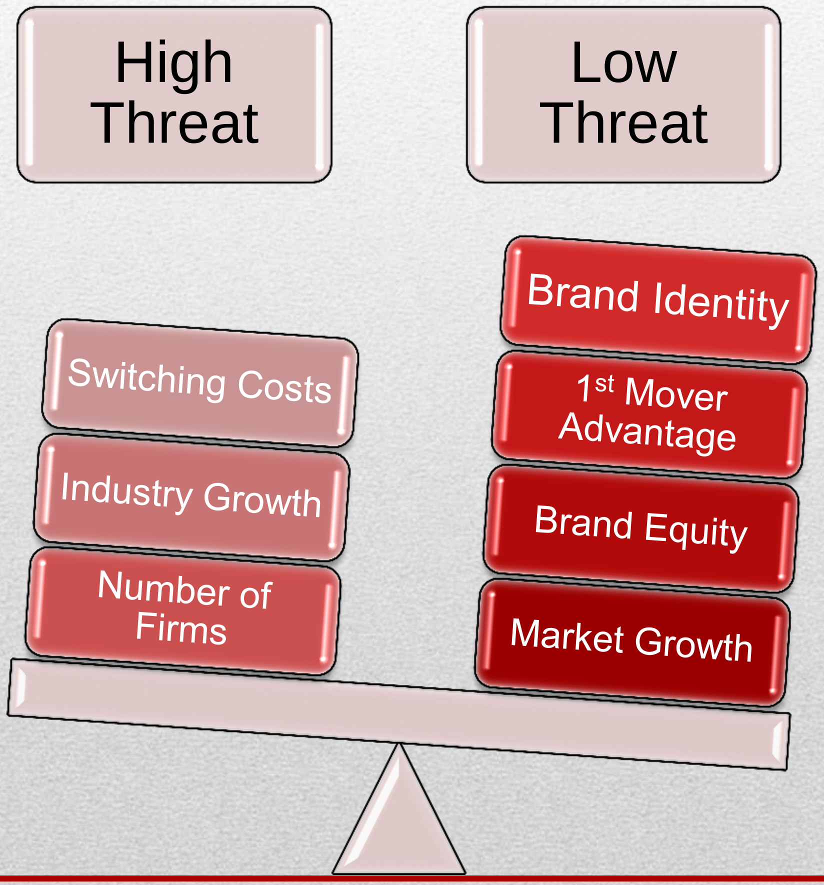
Threat of Substitutes



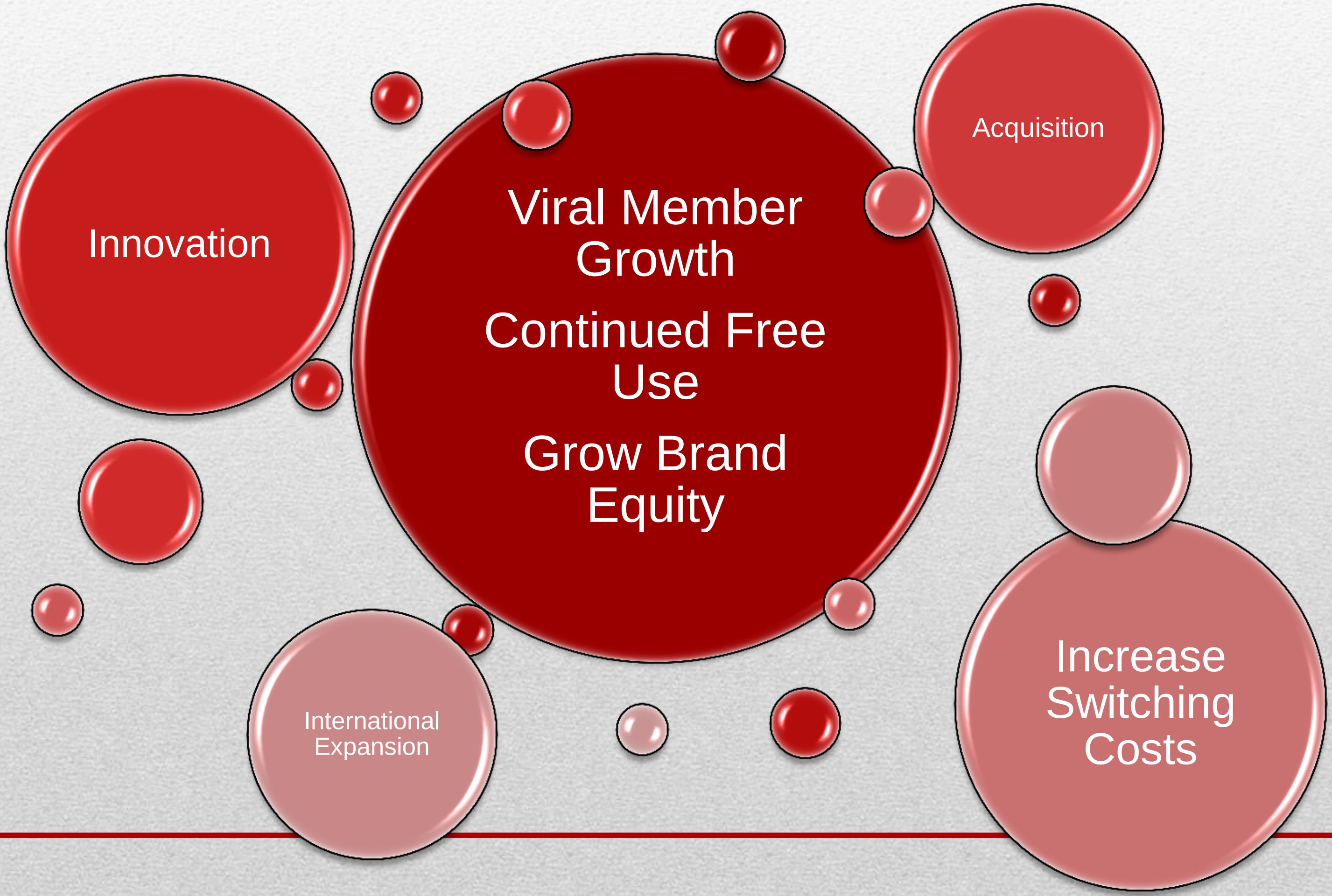


Rivalry Among Existing Firms



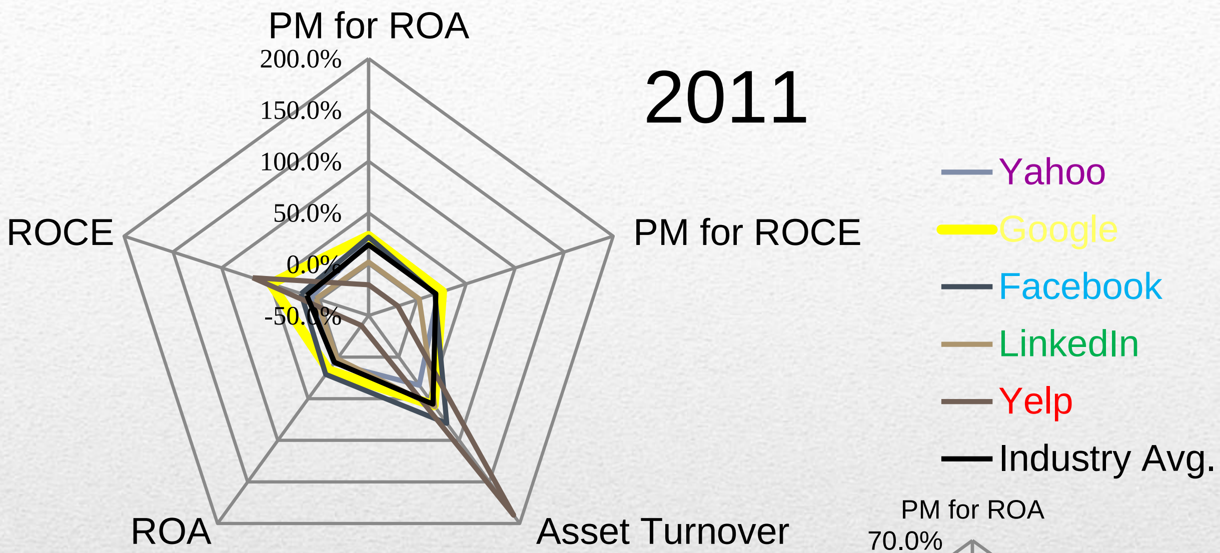


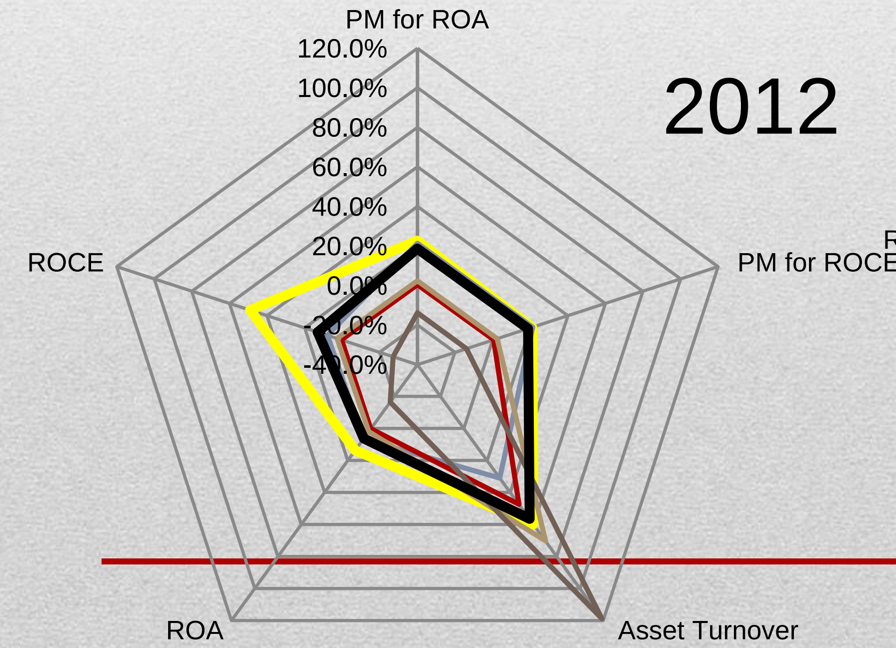
Common Strategies to Reduce Threats

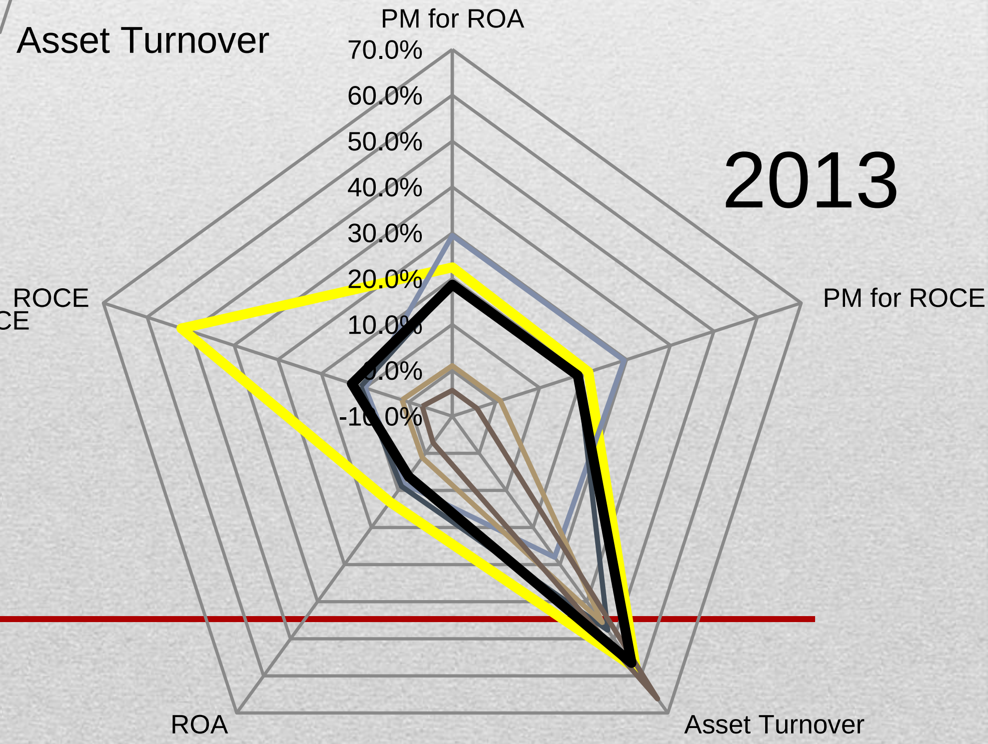


Profitability

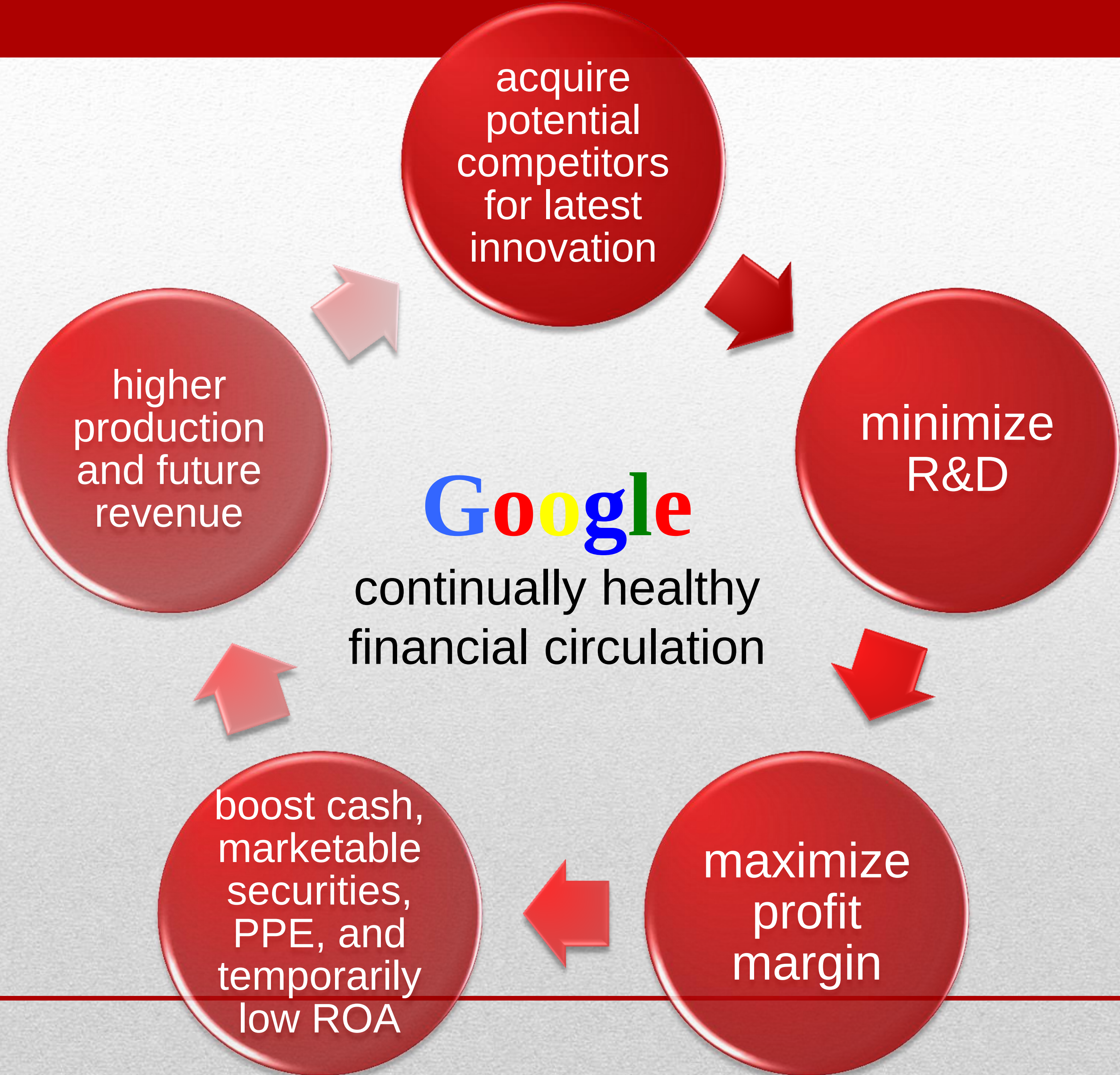
Profitability Analysis for 2011 - 2013



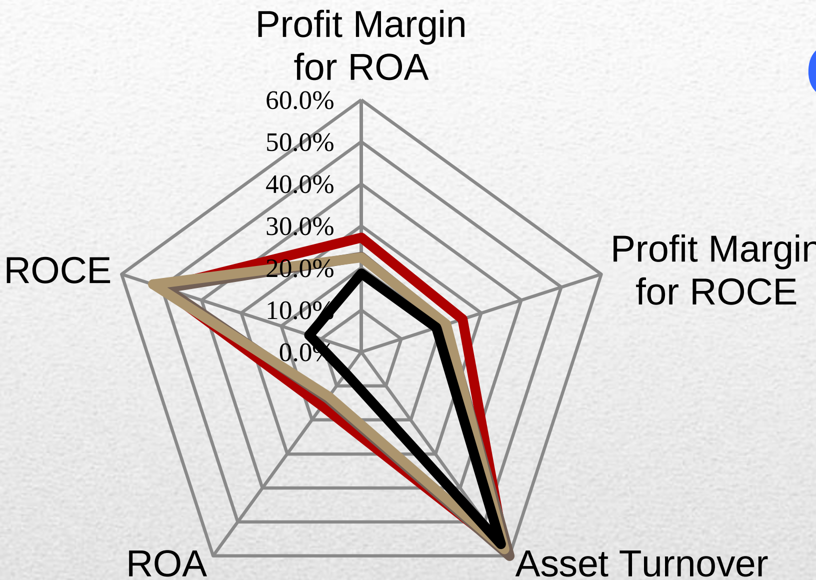




Profitability Ranking

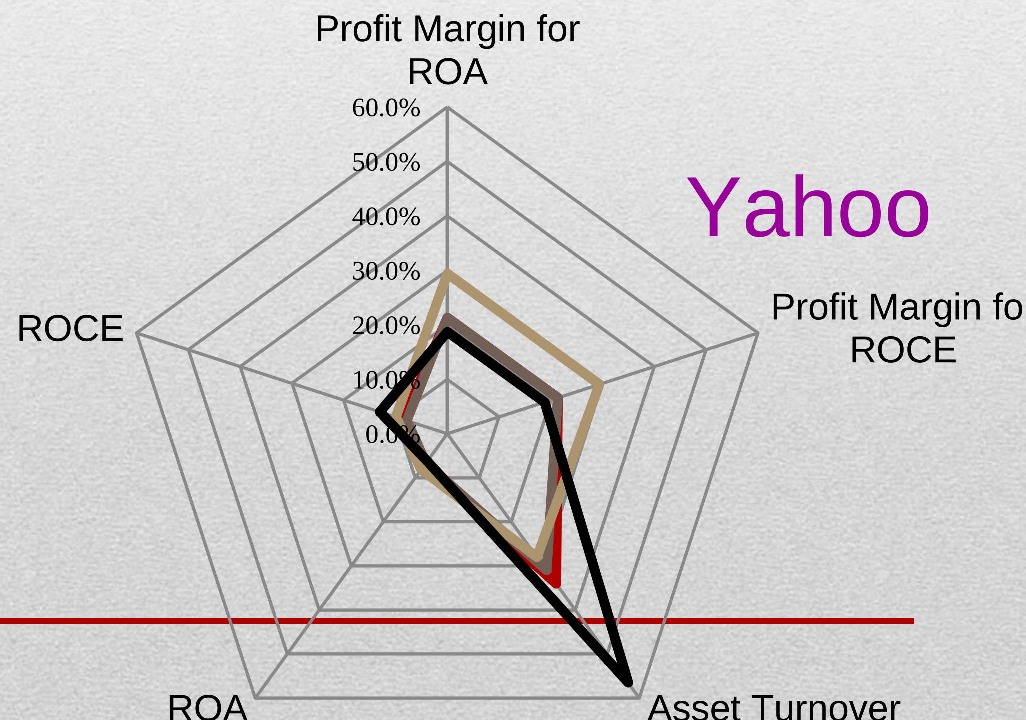

acquire potential competitors for latest innovation
minimize R&D
maximize profit margin
boost cash, marketable securities, PPE, and temporarily low ROA
higher production and future revenue
Google
continually healthy financial circulation

Profitability Comparisons

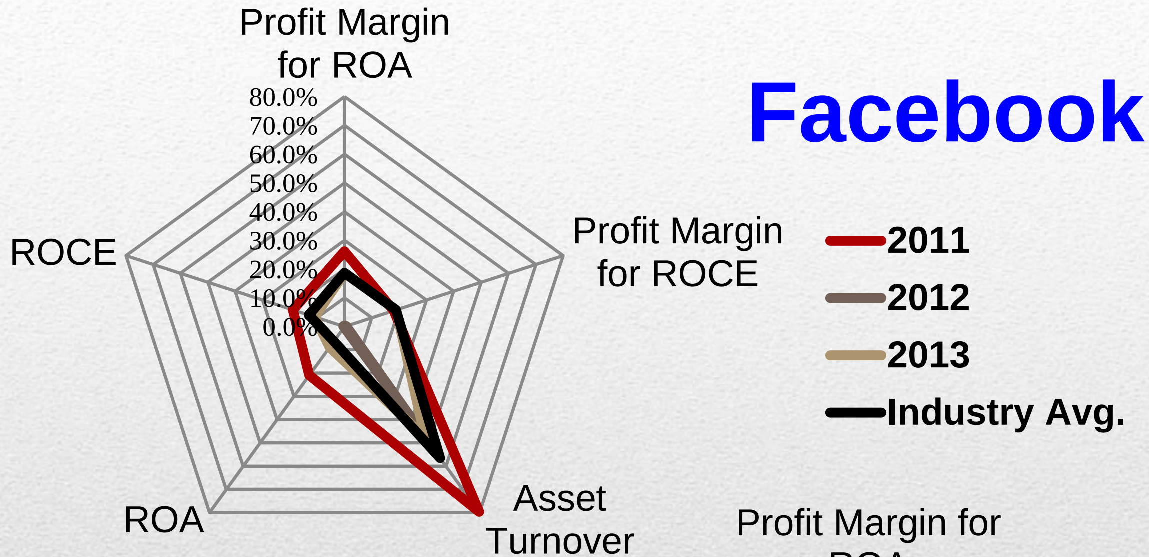


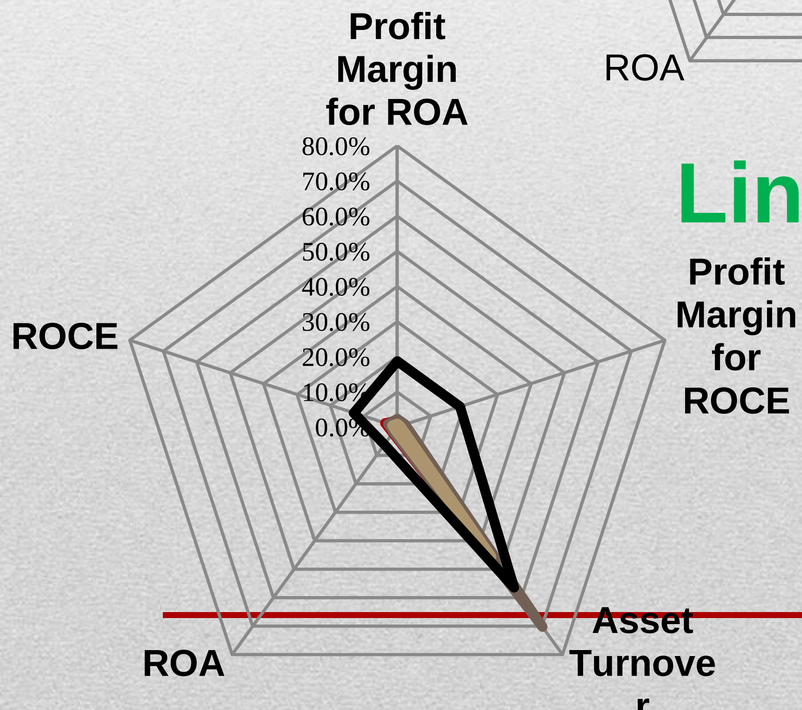
Google

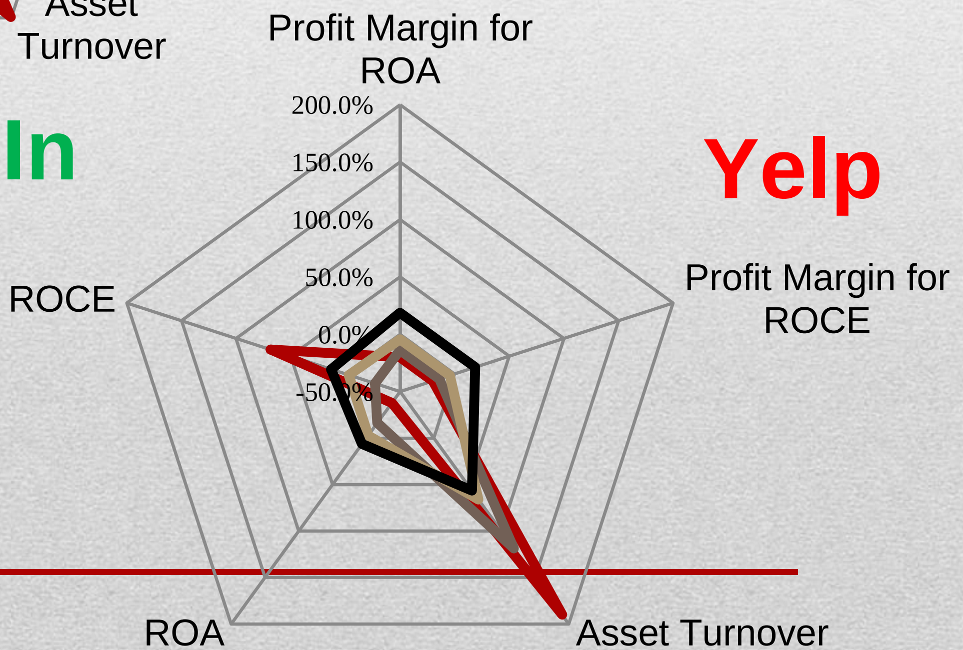
Yahoo



Profitability Comparisons







Profitability Comparisons

Asset Turnover - Oriented: Yahoo, Facebook, LinkedIn

- Profitability ratios close to the industry average
- Much higher assets turnover ratios than other ratios
- Large portion of cash and cash equivalents
- Much less PPE than

Yahoo:

- Increasing trend in profitability ratios
- Outstanding profit margin in 2013
- Improved efficiency in production with less cost of revenue
- Invests in restructuring plan to reduce cost structure, align resources with product strategy, and improve efficiency
- More efficient in controlling operating expenses
- Led to sustained profit even though sales decreased significantly

Facebook:

- Profitability performed above the industry average
- 2012 profit margin for ROA and ROCE dropped dramatically

Profitability Comparisons

LinkedIn:

- Underperformed
- Profit margin for ROA and ROCE were much lower than industry average

Yelp:

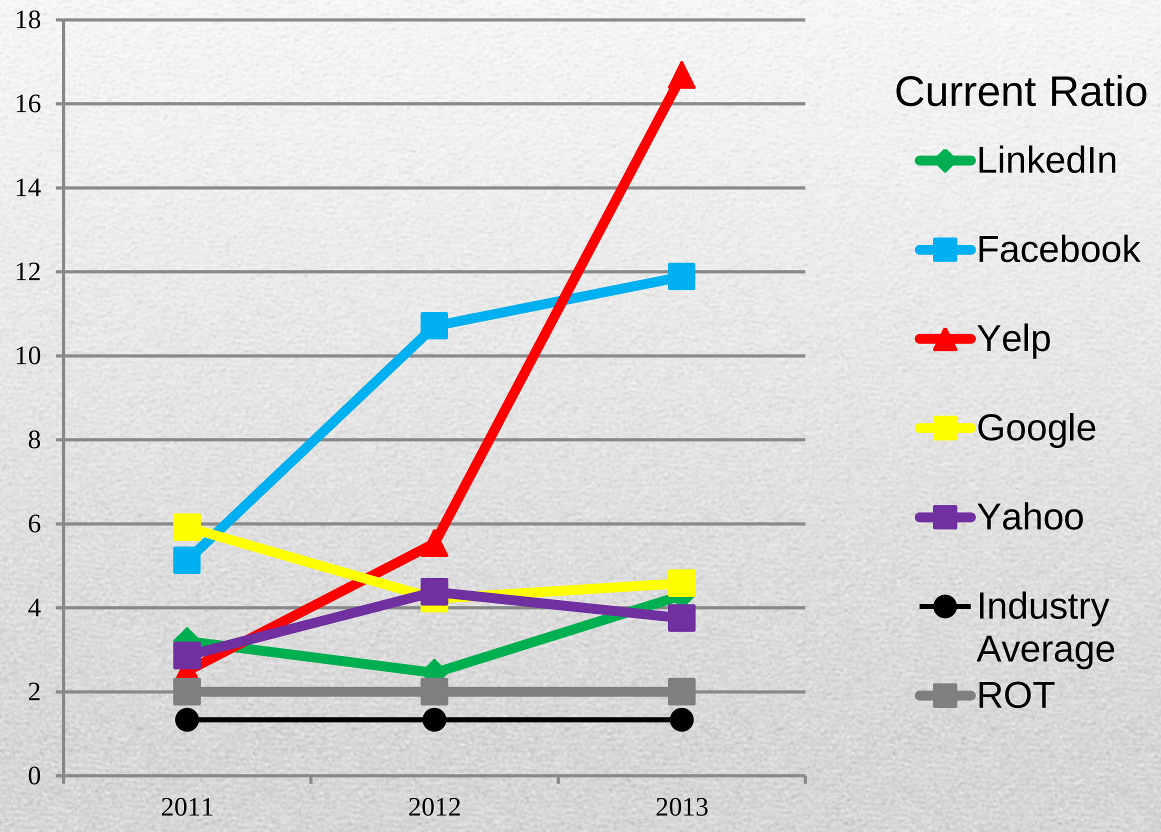
- An early growth company
- Not yet profitable
- Revenue increased substantially
- ROA and ROCE were under the industry average
- Upward trend of ROA due to increasing profit margin and decrease in SA&G expenses
- Downward trend of ROCE
- IPO: shares issued and outstanding in 2012 and 2013
- Temporarily low asset turnover may signal the investment in fixed assets for higher revenue the future

Risk

Current Ratio

Activities & Observations

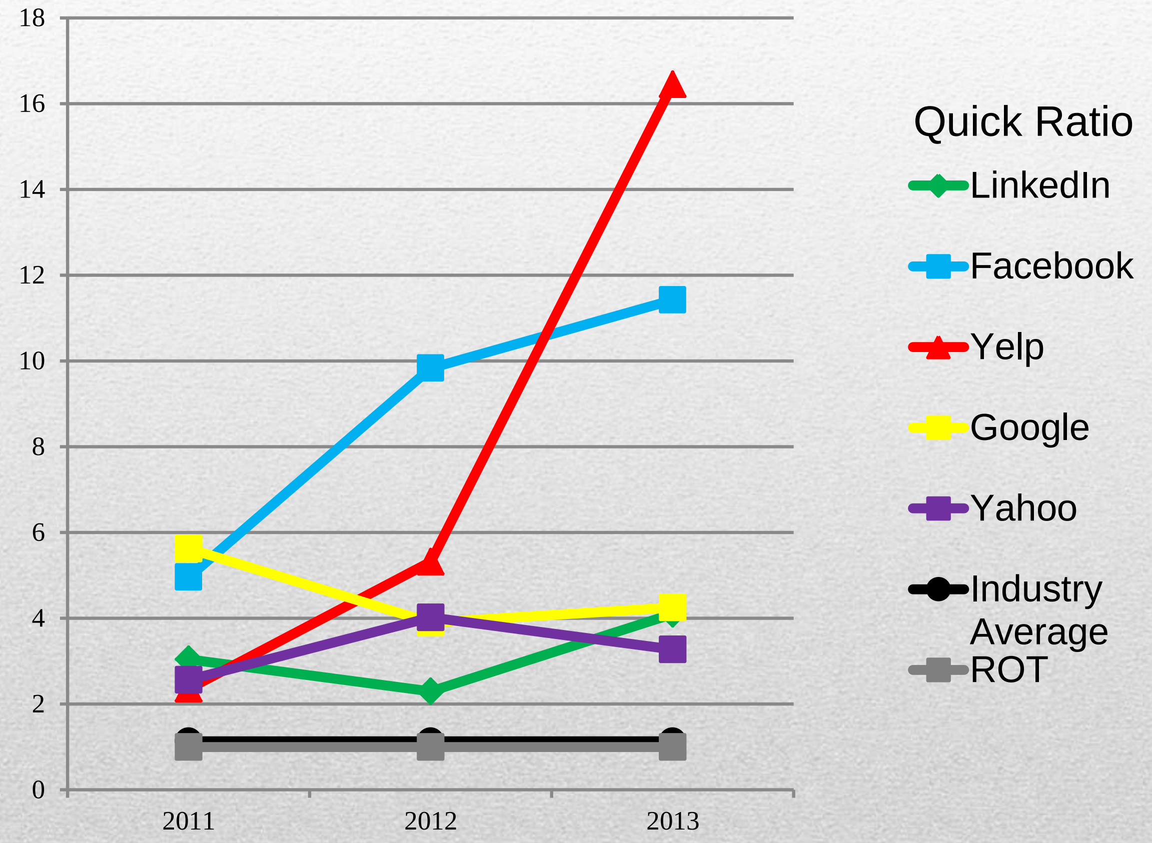
- Facebook IPO 2012
- Yelp IPO 2012
- Google had short-term debt and accounts payable increase leading to a drop in the current ratio
- All companies were above both standards for all three years



Quick Ratio

Activities & Observations

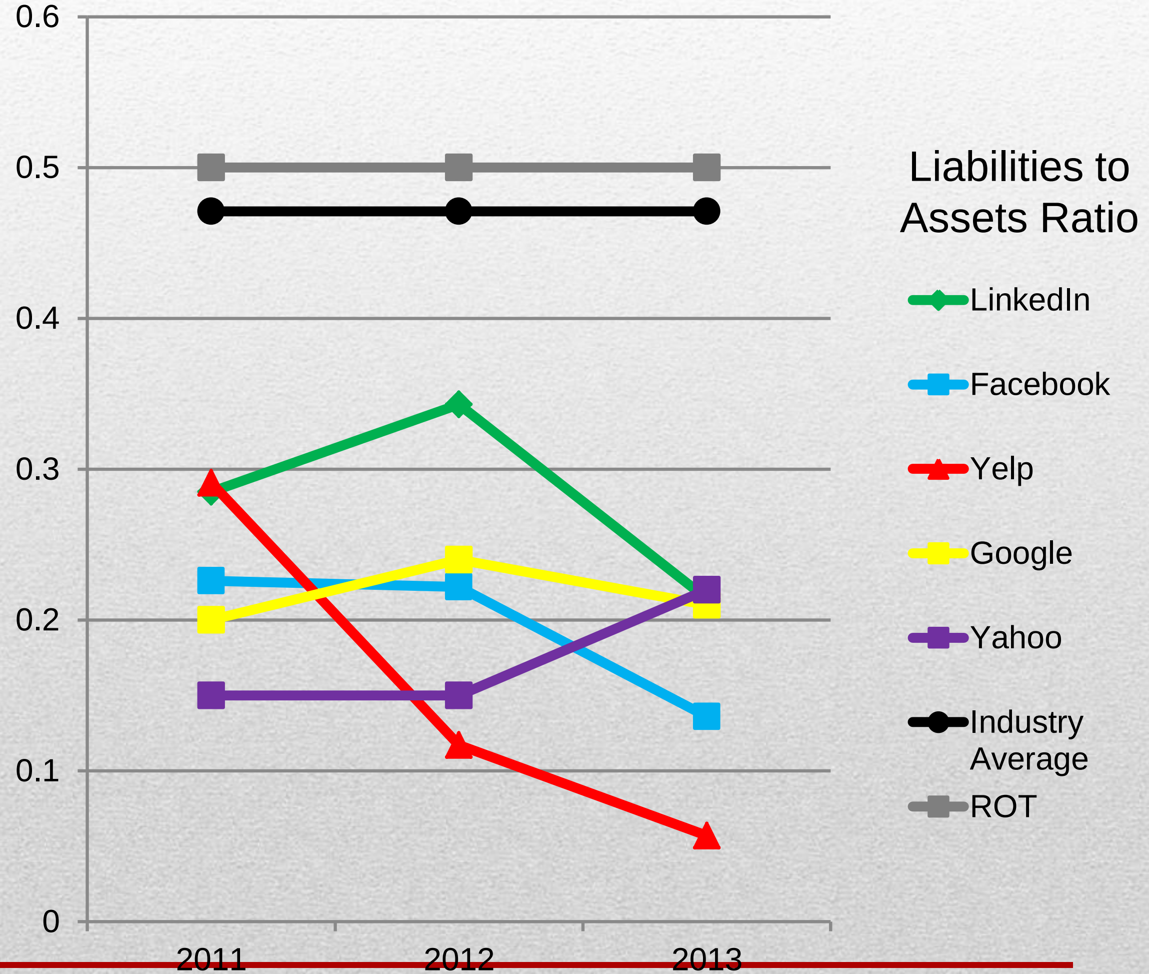
•Yelp still has the best ratio
• Yahoo had the greatest amount of current assets outside of cash, marketable securities, and accounts receivable
• Facebook's and Yelp's ratio are much higher than the rest of the firms
• All companies were above the standards for all three years



Liabilities to Assets Ratio

Activities & Observations

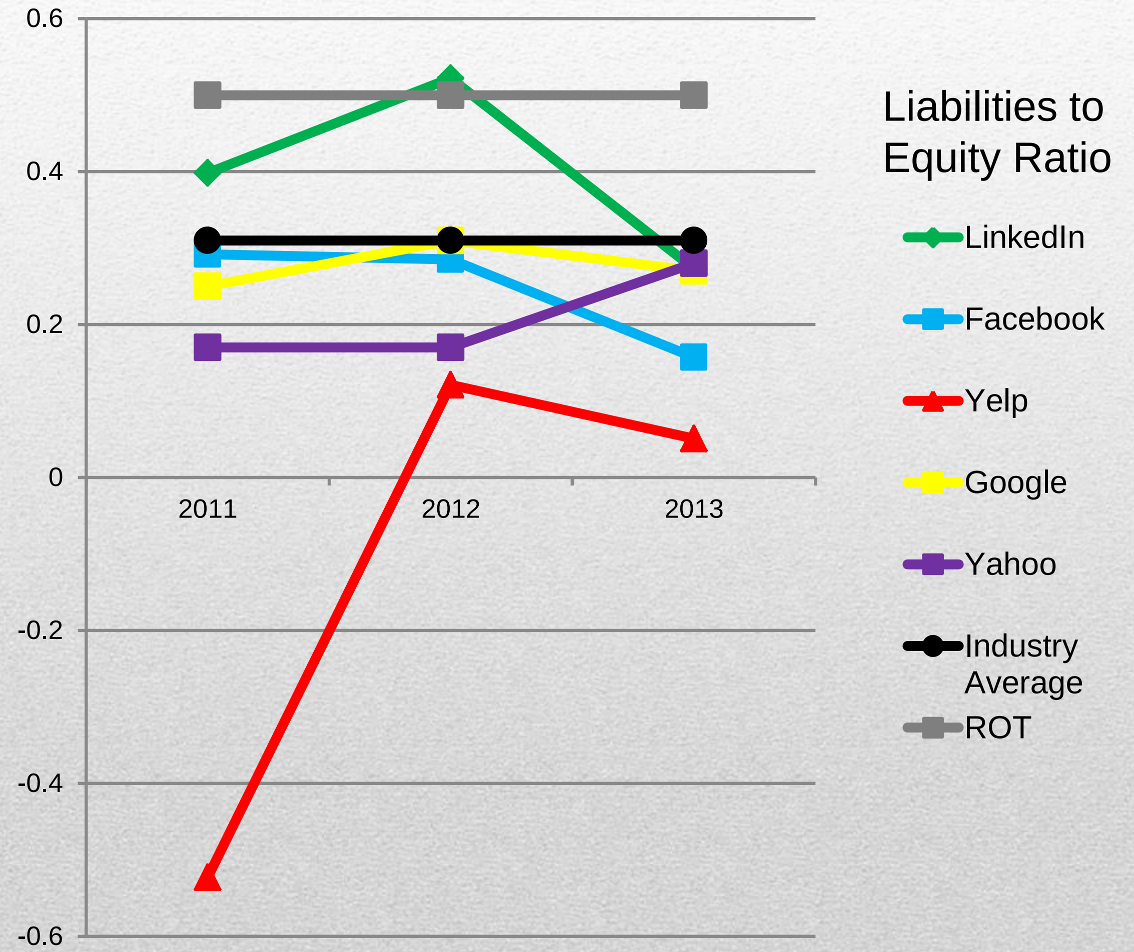
- LinkedIn in 2012 had deferred revenue and accrued liabilities increase
- Yelp and Facebook continue to have the best ratios
- Yahoo is the only company whose ratio went up due to a decrease in almost all major assets
- All companies continued to be above the standards for all three years



Liabilities to Equity Ratio

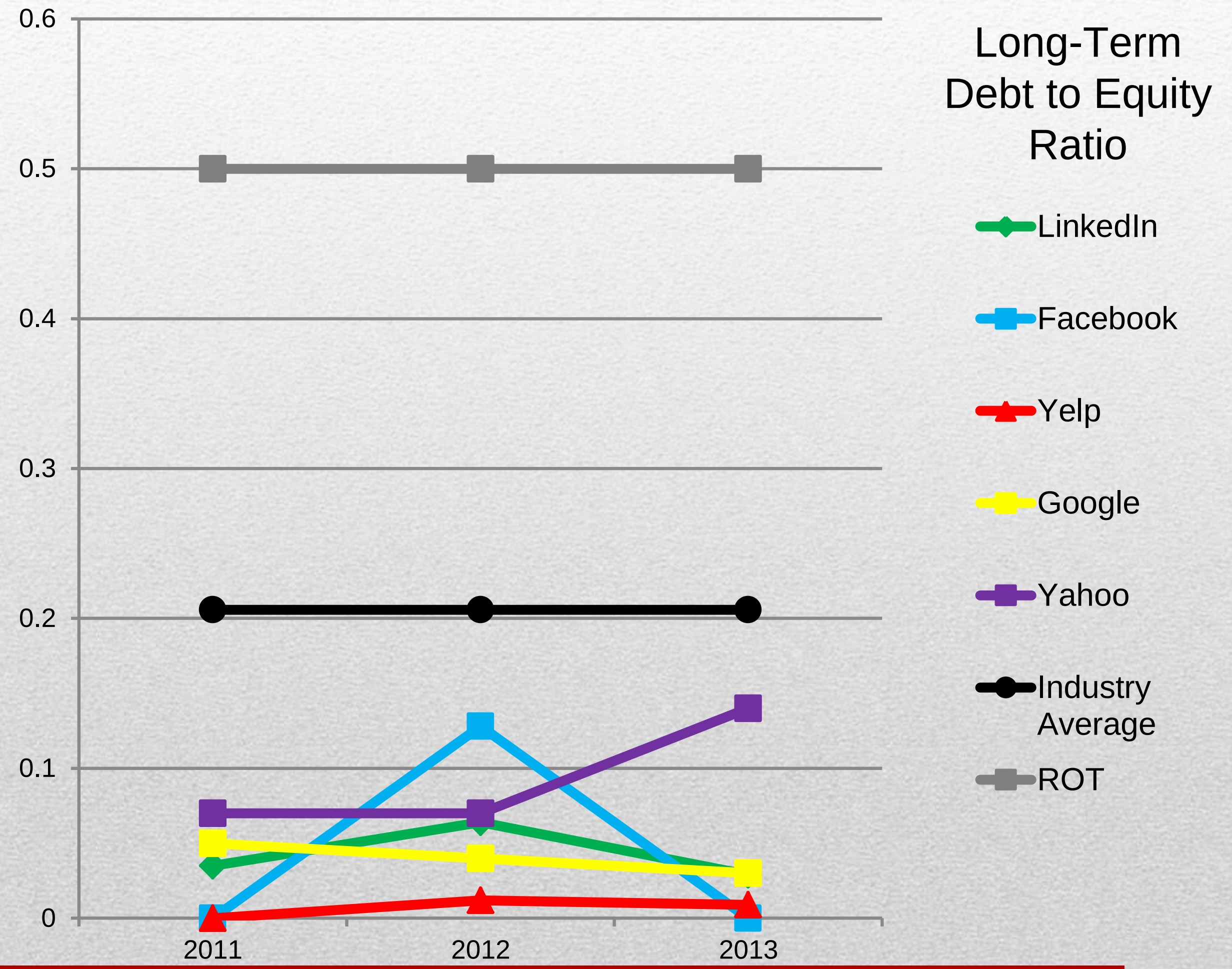
Activities & Observations

- LinkedIn in 2012 saw its ratio fall below both standards
- Google's ratio was effected by increasing deferred income taxes
- Yelp had an accumulated deficit prior to its IPO
- Facebook's ratio fell due to its marginally increasing liabilities



Long-Term Debt to Equity Ratio

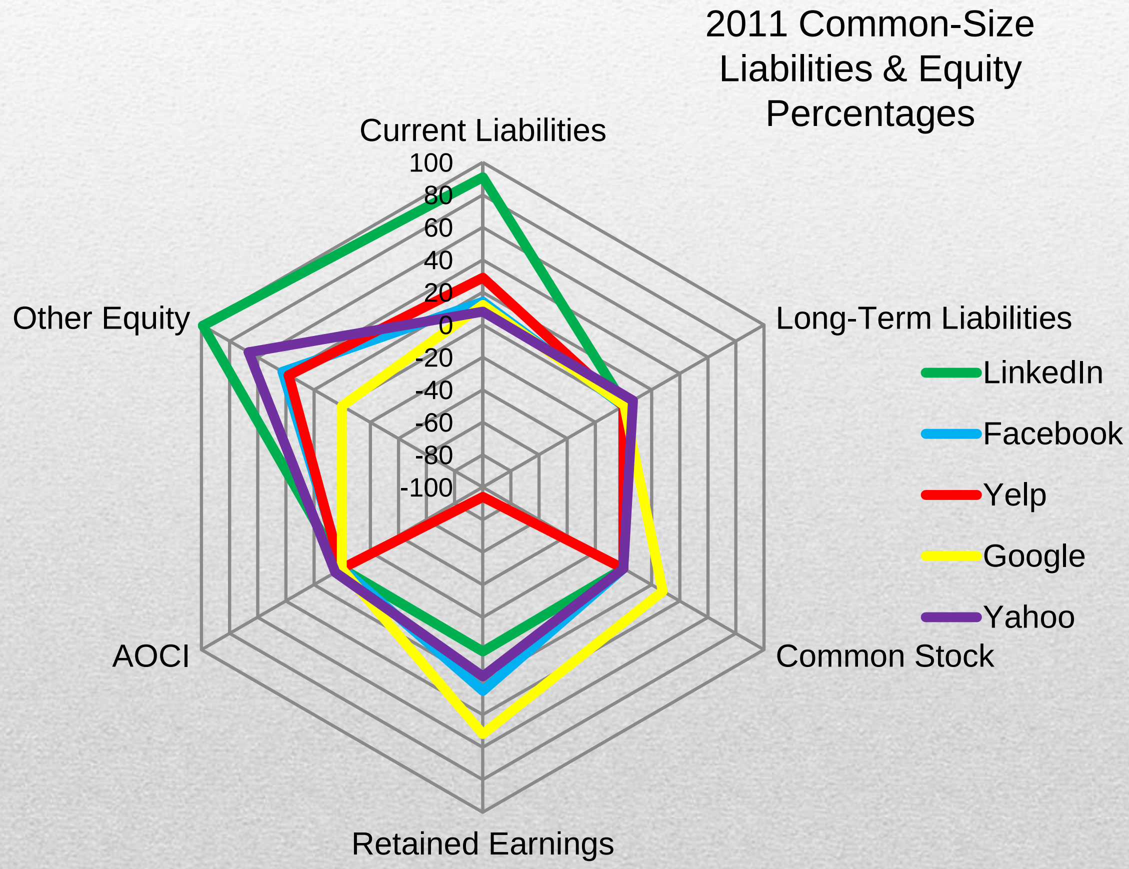
- Facebook faced the biggest increase when it took on $1.5 billion in debt
- Yelp continued its strategy of taking on very little debt
- Yahoo’s debt constantly fell but bought back stock causing the increase in the ratio
- All companies continued to be above the standards for all three years



2011 Common-Size Liabilities and Equity Percentages

Activities & Observations

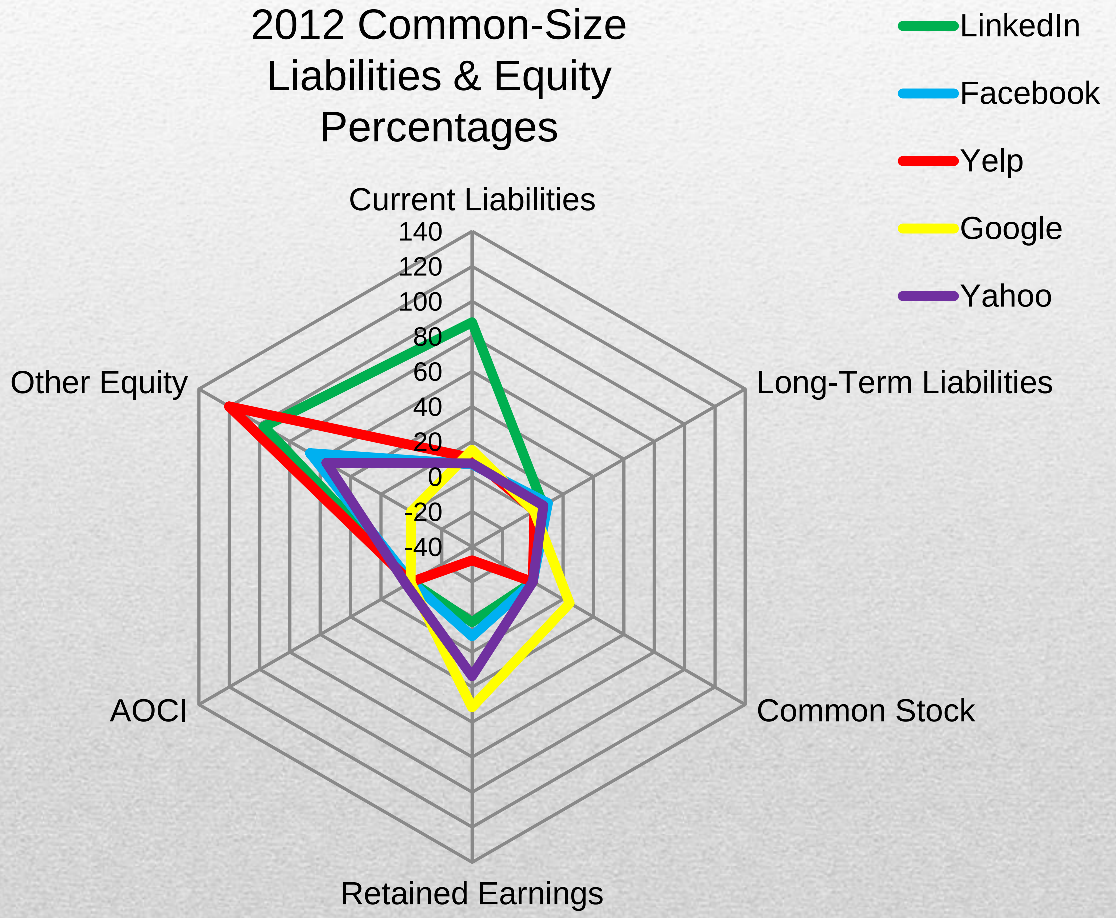
- LinkedIn had the highest percentage of current liabilities and other equity from the additional paid-in capital
- Yelp ran a deficit in retained earnings
- Facebook and Yahoo have the most similar percentages



2012 Common-Size Liabilities and Equity Percentages

Activities & Observations

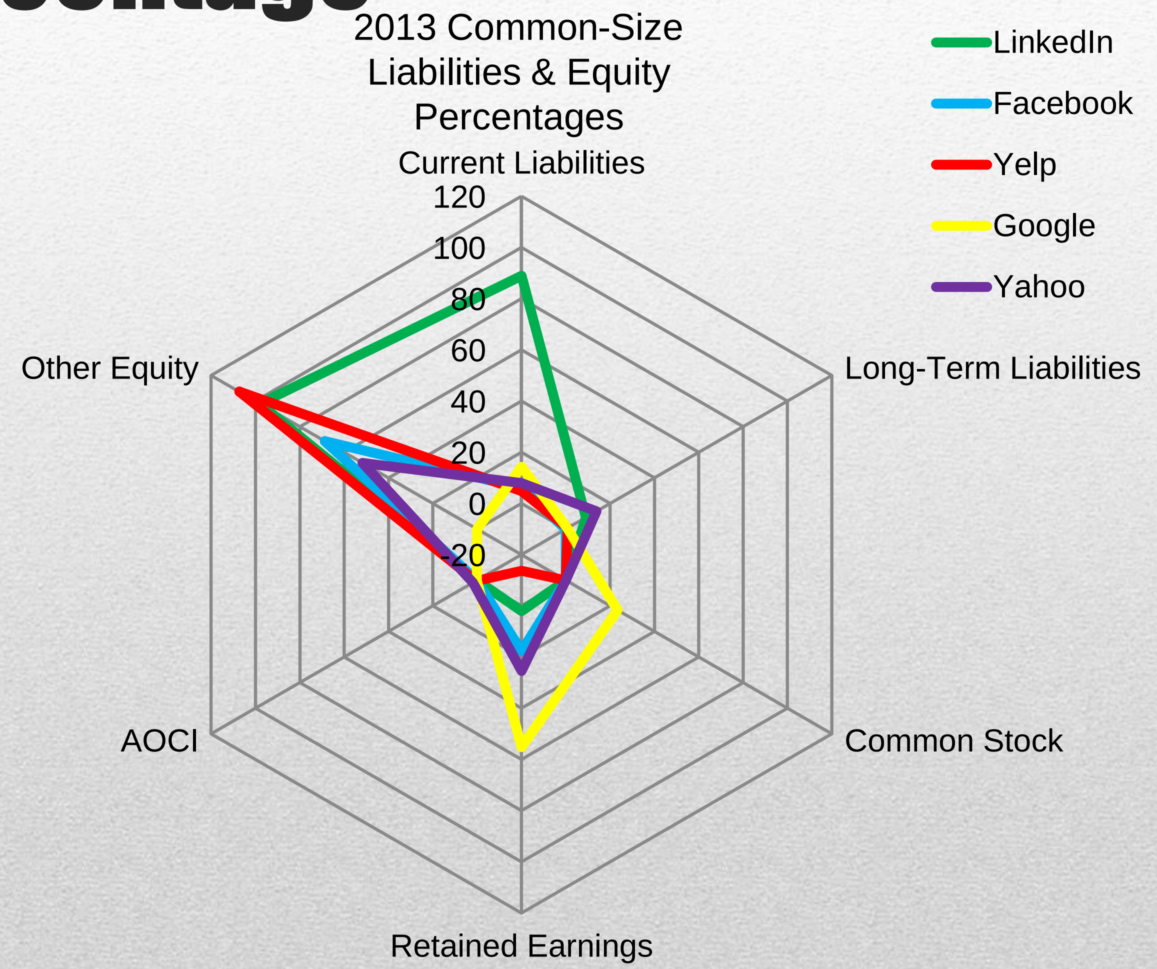
- Yelp's other equity grew from 2011 due to addition paid in capital
- Facebook and Yahoo continued to mimic each other
- Facebook's long term liabilities rose the greatest



2013 Common-Size Liabilities and Equity Percentage

Activities & Observations

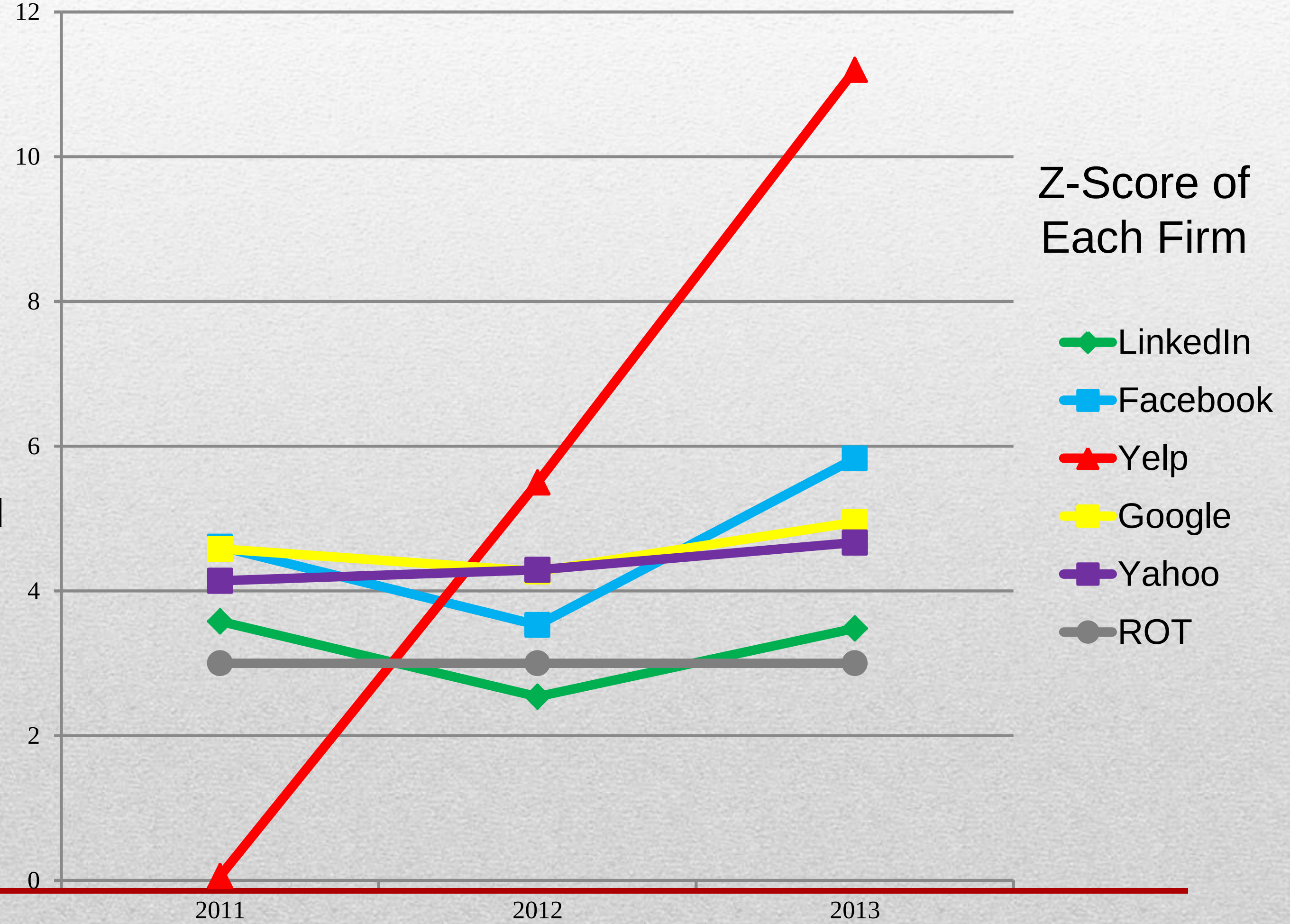
- Yelp's AOCI jumped significantly as it tries to become profitable
- Yahoo's retained earnings came closer to Google's
- LinkedIn continued to have a high percentage of current liabilities and other equity



Z-Score Analysis

Activities & Observations

- Yelp initially was in danger of bankruptcy but their z-score now is the strongest
- LinkedIn in 2012 saw its z-score drop into the “grey area”
- Yahoo has maintained the most consistent z-score
- Outside of Yelp, Facebook saw the greatest increase in its z-score



Risk Conclusion

- Yelp has reported losses in all three years but has the strongest ratios and highest z-score
- LinkedIn has the highest percentage of liabilities on its balance sheet
- All firms have low risk moving forward in the next years
- None of the firms are highly leveraged

Cash Flows

Cash Realization Ratio= CFO/NI

Measurement: Earning Quality, how close a company's net income is to being realized in cash

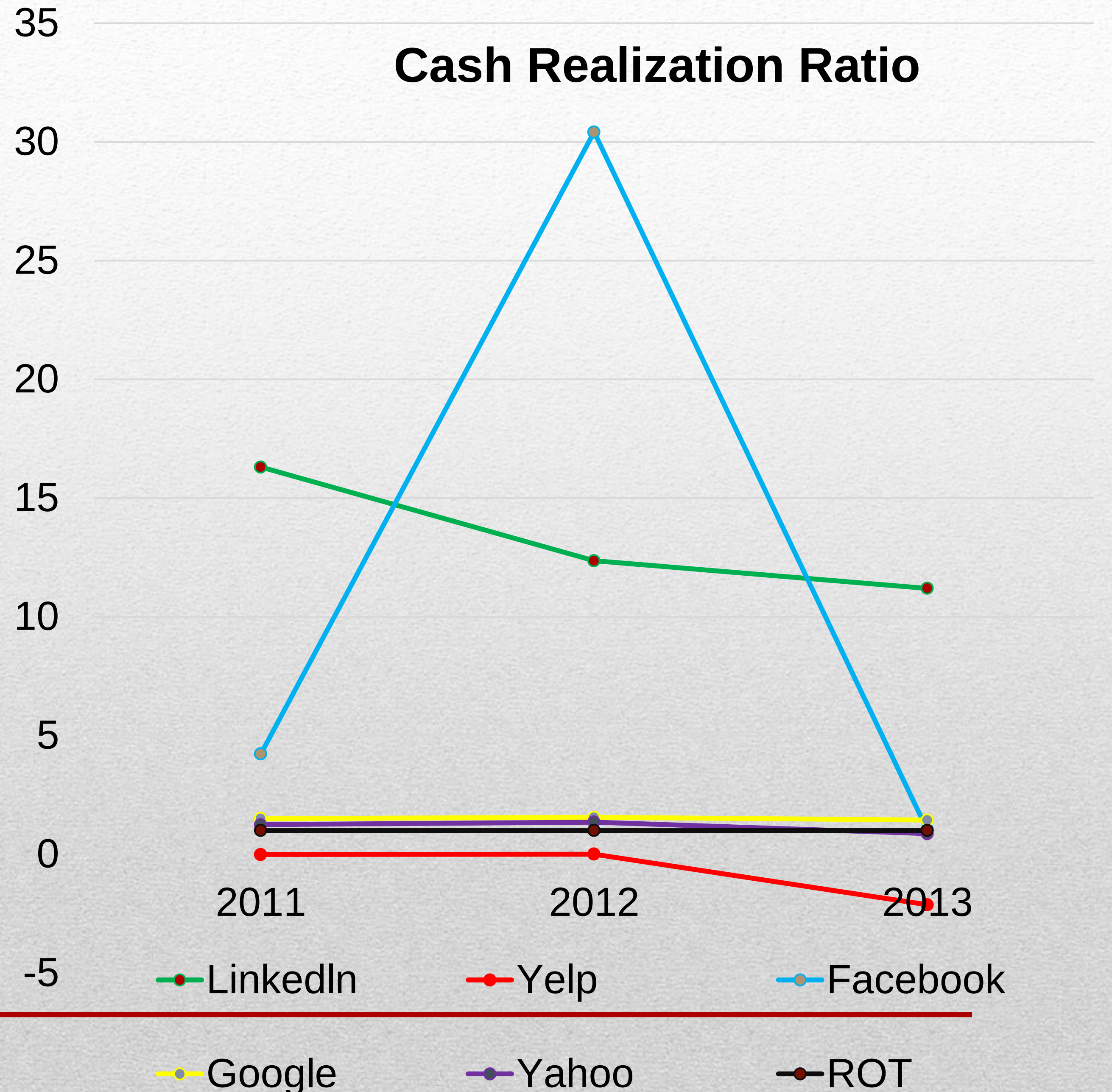
ROT: >1

Yelp(Low):
non-working capital adjustment(depreciation and amortization and stock-compensation Expense)

Net loss

Facebook(2012 boom):
Non-working capital adjustment(stock compensation and tax benefit)

Net income decrease(R&D cost)



Capital Expenditure Ratio

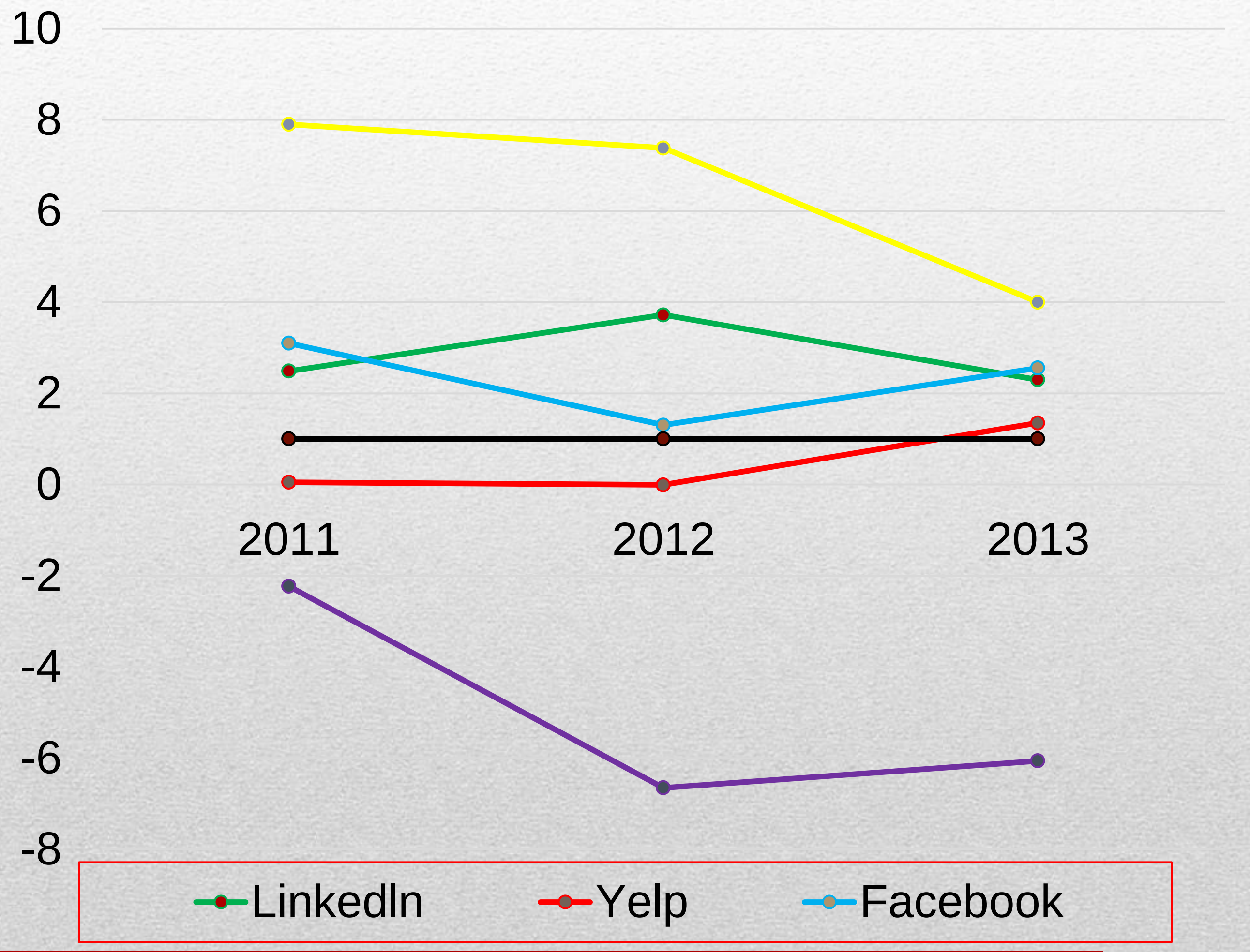
1. Capital Expenditure Ratio= CFO/CPAEX

Measurement:
Cash from operations is sufficient to the expansion of company

ROT:>1

Yelp: the ratio is increasing and overpass ROT in 2013 (start company, and the CFO is gradually become positive and larger)

Yahoo: negative ratios in all three years
(mature company, net negative capital expenditure in all three years)



Cash Return on Sales

Cash Return on Sales= CFO/ Sales

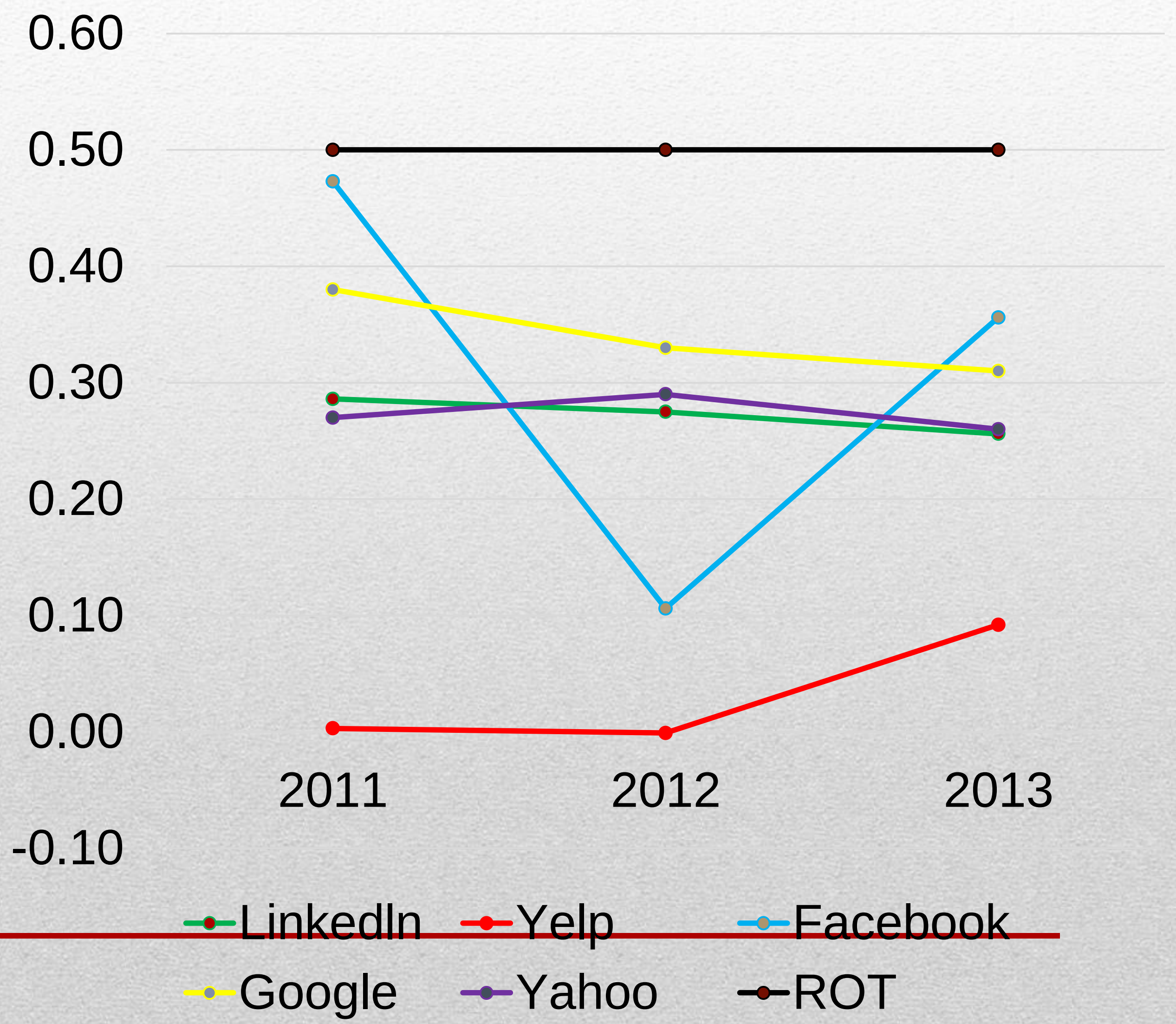
Measurement:
Profitability on cash basis excluding all accrued factors

ROT: >0.5

Decomposition:
Cash Return on Sales= Profit Margin*Cash Realization Ratio

Yahoo and Google: relatively high profitability ratios, but relative low cash realization ratio

LinkedIn and Facebook: relatively low profitability, high cash realization ratios
Yelp: low on both sides as a company in the introduction stage



Cash Debt Coverage Ratio

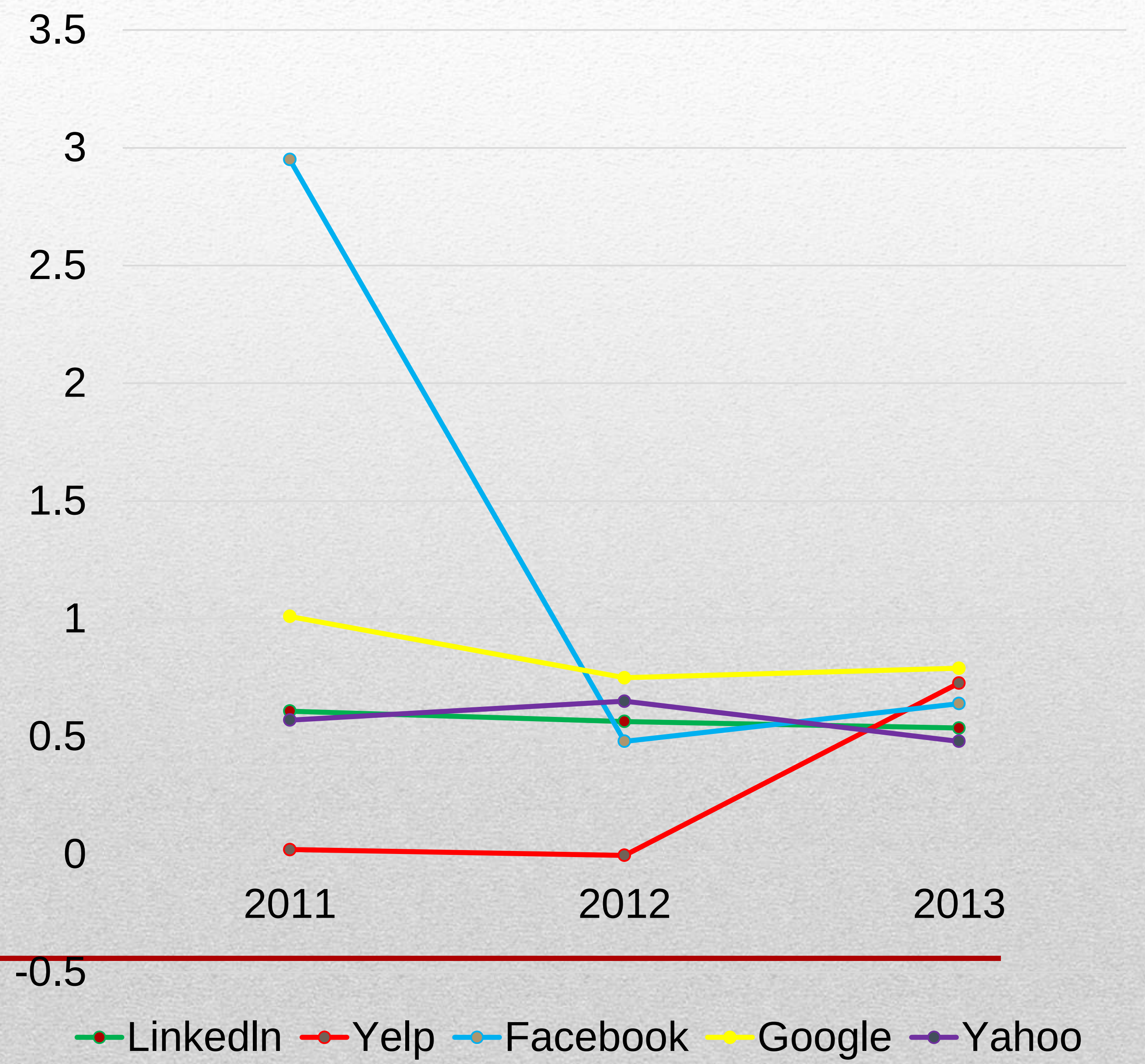
Cash Debt Coverage=
CFO/ Total liabilities

Measurement:
ability to pay its debt from the cash generated from its operations

ROT: the higher the better

Facebook (bust in 2012, 3 to 0.48):
increased its long term debt by 1500 million.

Yelp (a big jump in 2013):
CFO Increased from -99 thousand to 21,432 thousand



Cash Flows Conclusions

Cash Flows Conclusions:

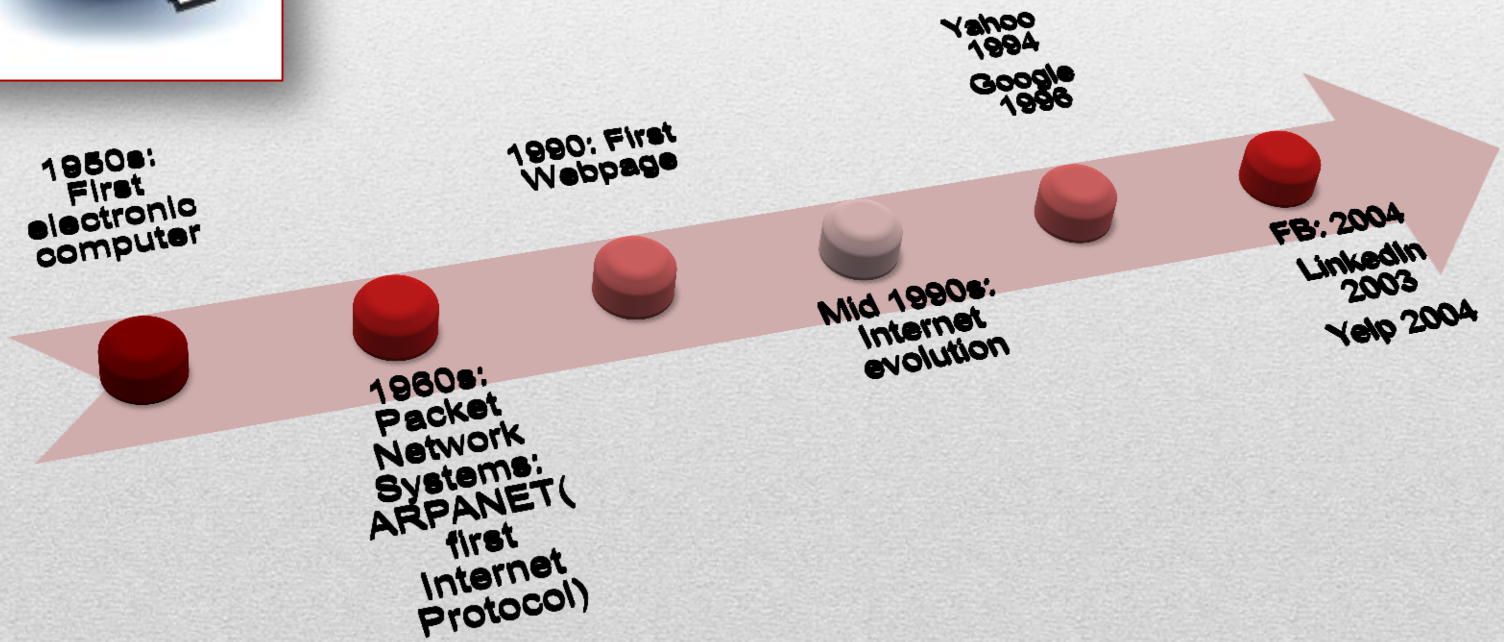
1.All the 5 firms have good cash flow conditions, even though Yelp has the negative cash realization and Facebook has the negative Capital Expenditure ratios.

2. Google has the best cash flow situations. (Stale, high ratios)

3. The cash return on sales is lower than ROT in all 5 firms.

Concluding Remarks

Industry History

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