

# Internet Industry Initiation

## INTERNET SECTOR

- > **TAG LINE** – Leveraging our extensive knowledge of the consumer sector, we are initiating coverage of the Internet sector. In this report, we offer estimates on the future mix of US retail sales and the drivers behind those forecasts. In addition, we analyze three important trends: mergers and acquisitions, international expansion, and shipping and online sales tax collection, including their implications for sales, margins, and earnings.
- > Commerce Moving Online
- > Move to Digital & Mobile E-Commerce
- > Mergers & Acquisitions
- > International Expansion
- > Shipping as Marketing Spending & Sales Tax Collection
- > Long-Term Vision
- > TAG's Unique Perspective
- > Accompanying Company Profiles
  - Amazon.com Inc. (AMZN)
  - Apple Inc. (AAPL)
  - eBay Inc. (EBAY)
  - HSN, Inc. (HSNI)
  - Liberty Interactive Group (LINTA)

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*Please see our company profiles on Amazon, Apple, eBay, HSN, and Liberty Interactive, which are being published simultaneously.*

## TAG LINE

We are launching coverage of the Internet sector with the following five companies:

## INTERNET COVERAGE INITIATION

Company	Ticker	Market Cap (\$B)	Price	TAG Price Target		TAG EPS			Consensus EPS	
				Low	High	2010	2011E	2012E	2011E	2012E
Amazon.com Inc.	AMZN	100.2	\$218.28	\$230	\$240	\$2.53	\$2.46	\$3.79	\$2.46	\$3.79
Apple Inc.	AAPL	336.7	359.71	440	450	\$15.15	\$25.10	\$29.14	\$24.81	\$28.86
eBay Inc.	EBAY	44.1	32.42	44	46	\$1.73	\$1.98	\$2.35	\$1.96	\$2.24
HSN, Inc.	HSNI	2.1	34.57	42	44	\$1.66	\$1.90	\$2.25	\$1.88	\$2.22
Liberty Interactive Group	LINTA	10.7	17.74	22	24	\$1.49	\$0.79	\$1.00	\$0.77	\$0.95

Source: FactSet and TAG Research estimates.

### > Investment Theses

- At current levels, we believe the shares of **eBay** have the most upside to our 12-month price target range. The company is built on a strong growth foundation, including PayPal (40.0% of 2012 sales and 30.3% of segment operating income). An improving Marketplaces segment (51.4% of sales and 65.1% of earnings) and the addition of GSI Commerce (8.6% of sales and 4.5% of earnings) should benefit the company's efforts to drive both online and offline commerce.
- With retail powerhouse QVC at its core (87.4% of its 2010 revenue and 95.7% of its adjusted EBITDA), we see several catalysts for **Liberty Interactive Group** shares, including a growing proportion of online sales (45.7% of 2013 revenue at its US QVC unit, versus 33.1% in 2010), conversion to an asset-backed stock from a tracking stock, and conversion of minority investments into operating assets (could add as much as 12.2% to 2012 sales).
- Led by retail veteran, CEO Mindy Grossman, **HSNI** is elevating the merchandise offered by HSN and increasing its proportion of online sales, which we believe will result in margin expansion (an adjusted EBITDA margin at 9.8% in 2013 versus 8.6% in 2010, with every 25-basis-point change worth \$0.12–\$0.13 in EPS). The company is also a leading multi-channel innovator, with a growing digital presence (with online sales at HSN reaching 36% in 2013, compared with 32% in 2010).
- We consider **Apple** best positioned to leverage the opportunity to sell digital merchandise by offering consumers both the device (iPhone, iPad, and iPod) and the media to consume on it (music, movies/TV shows, and books) resulting in sales and EPS CAGR's of 29.8% and 30.1%, respectively, during FY10–FY13.
- We forecast that **Amazon.com**, the leading e-commerce company, will increase its share of US online e-commerce to 16.8% in 2013 from 9.6% in 2010. Amazon is a powerful retail brand and is the pricing leader, offering consumers merchandise at the lowest total cost (when including shipping and sales tax).

**Conclusion.** Forrester Research projects that Internet sales will increase to 11% of total US retail sales in 2015 from 8% in 2010. Catalysts include:

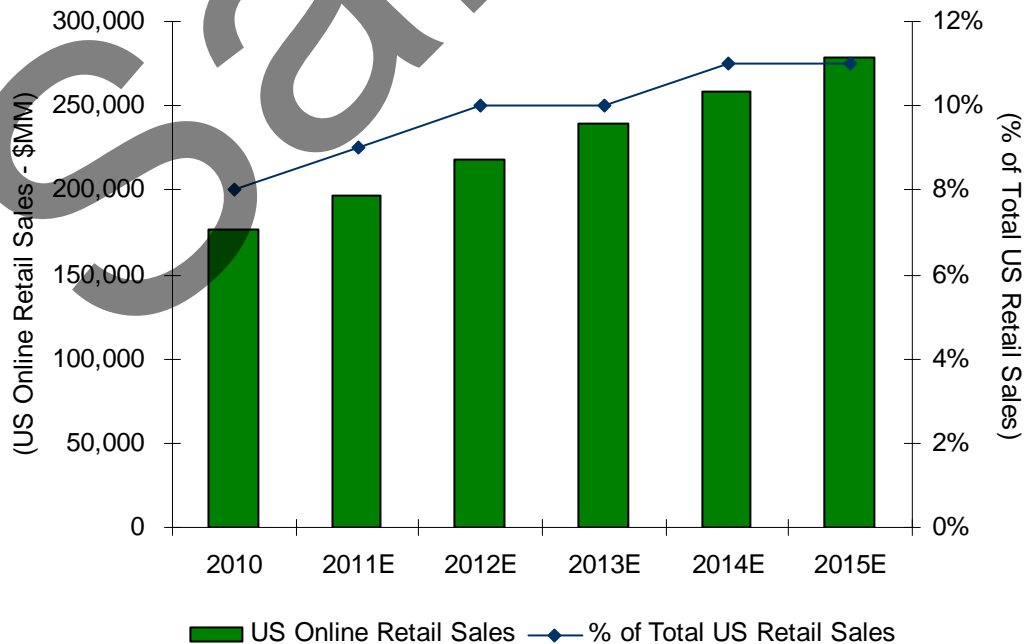
- Conversion of physical merchandise to digital format.
- The emergence of mobile e-commerce.
- Multi-channel retailers ramping up their online efforts.

- > **M&A Outlook.** Between 2011 and 2013, we foresee a significant number of mergers and acquisitions in the Internet sector both between industry veterans and between industry veterans and start-ups. Recent examples include eBay's acquisition of GSI Commerce, Oracle's purchase of Art Technology Group, and the pending Microsoft deal for Skype. We believe companies are well armed for M&A, with strong stock prices and ample net cash balances. As of March 2011, Amazon.com, Apple, and eBay all had approximately \$5B, or more, in net cash balances. The companies are also motivated to protect their businesses from an increasing number of potentially disruptive technologies and business models, including those employed by Facebook, Gilt Groupe, Groupon, and Twitter.

- > **International Expansion.** Growth overseas is once again relevant, with Amazon and Liberty Interactive Group’s QVC having expanded into Italy in 2010 and more new markets to follow for all five of the Internet companies we cover. We have analyzed the international sales and operating profit mixes for our five covered Internet companies, along with GDP per Internet user for the 15 largest global economies. For example, we estimate that Apple’s international sales and operating profits could approach 66% and 77% of total in FY13, compared with 56% and 64%, respectively, in FY10.
- > **Pressure Points.** There could be pressure on the companies’ sales and margins from a growing number of free shipping offers (aimed at driving sales) and from a slow but steady movement to require e-commerce companies to collect sales tax. In the most extreme scenario, a complete adoption of free shipping could wipe away Amazon’s profitability. The average tax rate for the 41 states where Wal-Mart collects online sales tax and Amazon does not is a little more than 7.0%. We estimate that if Amazon were required to collect online sales tax on a par with Wal-Mart, it could penalize its 2012 EPS by as much as \$0.35 or 9.1%.
- > **Unique Perspective.** We believe we have a unique perspective on e-commerce thanks to:
  - TAG’s extensive knowledge of the retail sector—encompassing several subsectors (broadlines, department stores, discounters, specialty retail, and media).
  - The TAG Metrics consumer database.
  - TAG’s relationships with the real estate community.
  - TAG’s monthly channel checking.
- > **Commerce Moving Online.** Forrester Research projects that online sales will grow to 11% of total US retail sales in 2015 from 8% in 2010. This reflects 9.6% compound annual growth in US online sales for 2010–2015.

As noted above, catalysts for the increase in US online retail sales include conversion of physical merchandise to a digital format (see page 4), the emergence of mobile e-commerce (see page 4), and multi-channel retailers ramping up their online efforts (see page 5).

US ONLINE RETAIL SALES, 2010-2015E



Source: Forrester Research and TAG Research.

**We believe Apple is best positioned among the five Internet companies we cover to exploit opportunities presented by commerce moving online** because of its ability to sell consumers both devices (iPhone, iPad, iPod, and Mac computers) and the digital media (music, movies, TV shows, and books) to consume on those devices. For FY13, we forecast Apple will generate \$63.8B of sales from iPhones, \$30.6B from iPads, \$6.5B from iPods, and \$8.4B from other music related products & services; compared with \$25.2B, \$5.0B, \$8.3B, and \$4.9B in FY10, respectively.

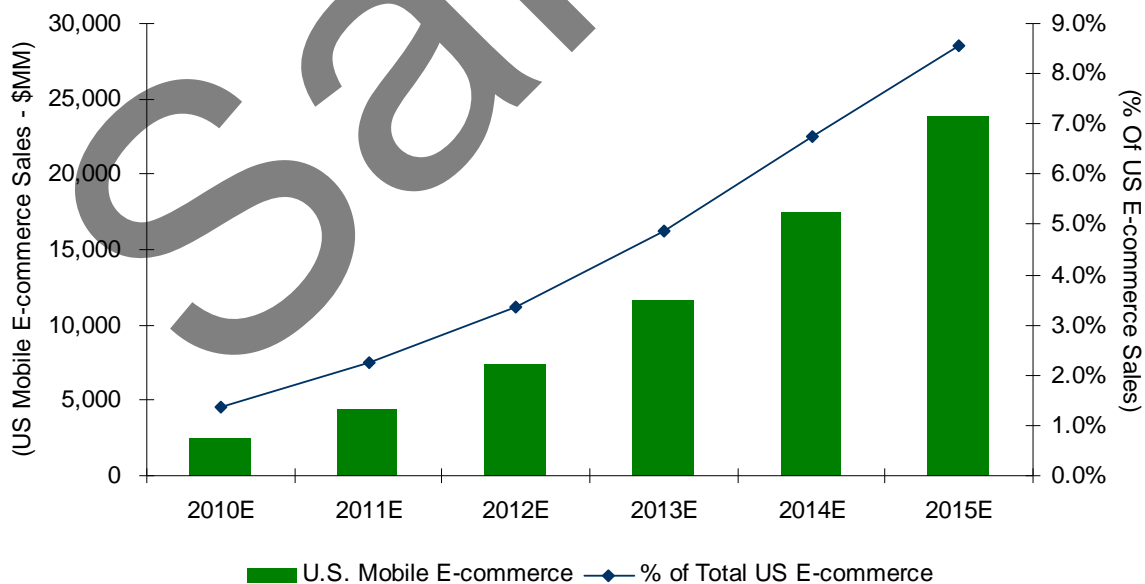
Second is eBay, with its three business units exploiting this opportunity from multiple vantage points—Marketplaces, via sales by from its large community of sellers; PayPal, through payments; and GSI Commerce with its e-commerce-enabling offerings. In 2013, we project \$7.5B of revenues for its Marketplace division, \$6.6B from PayPal, and \$1.3B for GSI Commerce; against \$5.7B, \$3.4B, and \$0.7B (pro-forma) in 2010, respectively.

In our judgment, large libraries of video content on products, the addition of brands to attract new customers (including younger women) to networks, and burgeoning adoption of mobile devices and social networking will enable both QVC and HSN to increase their proportion of Internet sales. As a result, we project that online sales at QVC (US) and HSN will increase to 46% and 36% of total sales in 2013 from 33% and 32%, respectively, in 2010.

We forecast that Amazon will increase its sales by continuing to implement its strategy of pricing merchandise aggressively to take market share when it enters new categories. However, we project that its operating margin will remain low because of its aggressive pricing, as well as the costs of international expansion. We project that Amazon’s sales will grow at a CAGR of 31.6% between 2010 and 2013, while its operating margin will remain roughly flat at 4.3% in 2013, versus 4.1% in 2010,

- **Move to Digital & Mobile E-Commerce.** We forecast that the percentage of total US e-commerce coming from mobile will increase to 8.5% in 2015 from 1.5% in 2010 (based on estimates from Coda Research and Forrester Research). We estimate that mobile e-commerce will expand at a 58.0% compound annual rate between FY10 and FY15. The emergence of devices (e.g., smartphones, tablets, and e-readers) is boosting demand for digital media content (music, movies, TV shows, and books).

US MOBILE E-COMMERCE SALES, 2010E-2015E



Source: Coda Research, US Census Bureau, and TAG Research estimates.  
 Note: 2010 US Mobile E-Commerce figure is an estimate.

We consider Apple the best positioned of the five Internet companies we cover to exploit opportunities as e-commerce becomes more digital and mobile because it sells both the mobile devices (especially its iPhone and iPad) and the digital media that can be consumed on those devices (e.g., music, movies, TV shows, and books). Also likely to benefit, in our view, is eBay, an early leader in driving mobile e-commerce through its Marketplaces segment and mobile payments via PayPal. Distribution over mobile devices could improve the operating margins of video retailers HSN and QVC by driving sales and lowering transaction costs (by eliminating revenue sharing with their cable and satellite distribution partners). For example, we estimate QVC's US online efforts could add 20 basis points to its 2012 adjusted EBITDA margin and \$0.03 of EPS (our 2012 EPS estimate is \$1.03). Amazon is also in a position to leverage this opportunity, including through its Kindle e-reader. We would be more excited about Amazon if it were to create another device to exploit the digital video opportunity, as Apple has done with Apple TV and the iPad. Published reports have suggested that Amazon is working on a smartphone and tablet using the Google Android operating system.

- **Multi-Channel Retailers Ramping Up Their Online Efforts.** In our judgment, multi-channel retailers, including several TAG-covered companies, will contribute to the increase in the proportion of online sales. In the following table, we compare our estimates for the retail categories' proportion of Internet sales in 2010 and 2013.

#### MULTI-CHANNEL RETAILERS' ONLINE SALES MIX, 2010 AND 2015

Sector	2010	2015E
Department Stores	7%	11%
Discounters	1%	2%
Footwear	6%	9%
Hardlines	2%	4%
Luxury	5%	8%
Off-price Retailers	0%	1%
Specialty Apparel	9%	14%
Supermarkets	<1%	<1%
<b>Total US Retail Sales</b>	<b>8%</b>	<b>11%</b>

Source: Company reports, Forrester Research, and TAG Research estimates.

Of the five Internet companies we cover, eBay appears likely to benefit the most from multi-channel retailers increasing their proportion of online sales because of its June 2011 acquisition of e-commerce-enabling company GSI Commerce, which brought with it an impressive list of large retailer clients, such as Aeropostale, Bath & Body Works, Dick's Sporting Goods, Ralph Lauren, Sports Authority, and Toys 'R Us. In addition, eBay's Milo technology enables consumers to find out what products are in stock both online and at nearby offline retail locations, which should drive local commerce.

Conversely, we believe Amazon will face the most competitive pressure from multi-channel retailers increasing their focus online. Later this year, Target will begin running its e-commerce website on its own, without Amazon's assistance. We believe this competitive pressure is one reason Amazon's operating margin will remain in the single digits over the long term. The situation is far from dire for Amazon, however, as many merchants will continue to find Amazon the most effective way to sell merchandise by leveraging its large online audience and, in some instances, its tremendous fulfillment capabilities, as 31.5% of the units sold on Amazon.com in 2010 were from third-party merchants.

- > **Mergers & Acquisitions.** Between 2011 and 2013, we foresee a significant number of mergers and acquisitions in the Internet sector both between industry veterans and between industry veterans and start-ups. Recent examples include eBay's acquisition of GSI Commerce (\$2.4B), Oracle's purchase of Art Technology Group (\$1B), and the pending Microsoft deal for Skype (\$8.5B). We believe companies are well armed for M&A, with strong stock prices and ample net cash balances. As of March 2011, among our covered companies, Amazon.com, Apple, and eBay all had approximately \$5B, or more, in net cash balances (see the following table). They are also motivated to protect their businesses from an increasing number of potentially disruptive technologies and business models, including those employed by Facebook, Gilt Groupe, Groupon, and Twitter.

**INTERNET AND OTHER TECHNOLOGY COMPANIES' STRONG BALANCE SHEETS, 1Q11**

Company	Ticker	1Q11 (\$MM)		
		Cash	Debt	Net Cash
<b>TAG Covered Internet Companies</b>				
Amazon.com Inc.	AMZN	6,881	184	6,697
Apple Inc.	AAPL	29,234	0	29,234
eBay Inc.	EBAY	6,765	1,794	4,970
HSN, Inc.	HSNI	344	309	35
Liberty Interactive Group	LINTA	1,350	6,619	(5,269)
<b>Other Internet Companies</b>				
AOL Inc.	AOL	382	99	283
Digital River Inc.	DRIV	719	354	365
IAC/InterActiveCorp.	IACI	1,317	96	1,222
Google Inc.	GOOG	36,675	3,216	33,459
Yahoo! Inc.	YHOO	2,789	139	2,650
<b>Other Technology Companies</b>				
Microsoft Corp.	MSFT	50,150	11,915	38,235
Oracle Corp.	ORCL	24,355	14,752	9,603

Source: Company reports and TAG Research.

Note: Apple also has \$36,533MM in long-term marketable securities.

In addition to strong net cash positions, a number of these companies have strong stocks, which could be used to make acquisitions. In the following table, we measure the strength of the stocks by comparing their current prices with their 52-week highs and by comparing their current forward P/E multiples with their average forward P/E multiples for the prior one-, three-, and five-year periods.

The five companies we cover are, on average, trading within 3.3% of their 52-week highs, at 8.2%, 15.7%, and 1.8% respective premiums to their average forward P/E multiples for the trailing one-, three-, and five-year periods. The stocks of the other Internet and technology companies included in the following tables are not quite as strong, suggesting that they may prefer cash transactions, such as Microsoft's pending deal for Skype. A number of these companies also may be motivated to use cash that is currently held overseas to avoid paying taxes when they bring the cash back to the US, which also factored in the Microsoft/Skype deal.

## INTERNET AND OTHER TECHNOLOGY COMPANIES' STRONG STOCKS, AS OF 7/8/11

Company	Ticker	Current		52-Week High	Discount to 52 Week High	Average Forward P/E Multiple					
		Price	Forward P/E Multiple			Discount/Premium	1-Year	3-Year	5-Year	Discount/Premium	
<b>TAG Covered Internet Companies</b>											
Amazon.com Inc.	AMZN	218.28	57.6x	218.32	(0.0%)	45.2x	27.5%	40.0x	44.1%	41.3x	39.5%
Apple Inc.	AAPL	359.71	12.4x	364.90	(1.4%)	13.8x	(9.8%)	17.8x	(30.1%)	21.4x	(42.1%)
eBay Inc.	EBAY	33.42	14.9x	35.35	(5.5%)	14.3x	4.2%	12.7x	17.8%	16.4x	(9.1%)
HSN, Inc.	HSNI	34.57	15.6x	36.36	(4.9%)	13.4x	15.8%	13.1x	19.3%	13.1x	19.3%
Liberty Interactive Group	LINTA	17.74	18.7x	18.65	(4.9%)	18.1x	3.4%	14.7x	27.3%	18.4x	1.4%
<b>Average</b>					<b>(3.3%)</b>		<b>8.2%</b>		<b>15.7%</b>		<b>1.8%</b>
<b>Other Internet Companies</b>											
AOL Inc.	AOL	20.53	20.5x	27.65	(25.8%)	15.5x	32.3%	13.9x	47.9%	13.9x	47.9%
Digital River Inc.	DRIV	33.46	22.0x	39.85	(16.0%)	23.7x	(7.3%)	19.8x	11.4%	20.1x	9.8%
IAC/InterActiveCorp.	IACI	38.55	18.4x	39.39	(2.1%)	63.4x	(71.1%)	82.3x	(77.7%)	62.6x	(70.7%)
Google Inc.	GOOG	531.99	13.5x	642.96	(17.3%)	14.3x	(5.5%)	12.7x	6.9%	16.4x	(17.5%)
Netflix, Inc.	NFLX	295.14	45.2x	297.35	(0.7%)	39.2x	15.2%	27.7x	63.3%	27.0x	67.7%
Yahoo! Inc.	YHOO	15.61	17.2x	18.84	(17.1%)	19.3x	(11.2%)	27.1x	(36.7%)	33.8x	(49.3%)
<b>Average</b>					<b>(13.2%)</b>		<b>(7.9%)</b>		<b>2.5%</b>		<b>(2.0%)</b>
<b>Other Technology Companies</b>											
Microsoft Corp.	MSFT	26.92	9.7x	29.46	(8.6%)	9.6x	1.0%	11.0x	(11.5%)	12.9x	(24.7%)
Oracle Corp.	ORCL	33.94	12.7x	36.50	(7.0%)	13.1x	(3.0%)	12.7x	0.5%	13.8x	(8.2%)
<b>Average</b>					<b>(7.8%)</b>		<b>(1.0%)</b>		<b>(5.5%)</b>		<b>(16.4%)</b>
<b>Average - Total</b>					<b>(8.6%)</b>		<b>(0.6%)</b>		<b>6.3%</b>		<b>(2.8%)</b>

Source: Company reports and TAG Research.

Of the five Internet companies we cover, we believe eBay is most likely to engage in M&A activity to improve its position. This opinion is based on our favorable view of eBay's recent M&A activity, including its June 2011 purchase of GSI Commerce and recent transactions that added the Red Laser smartphone price comparison and Milo local inventory information technologies. Of the companies we cover, eBay is the most willing to engage in large-scale deals that have the potential to transform its business; examples include its 2002 acquisition of PayPal and 2005 purchase of Skype.

Amazon has picked up two emerging e-commerce brands—Zappos (in 2009) and Diapers.com (in 2010). We believe the company will continue to pursue this strategy to maintain its leadership in e-commerce sales with a bias toward companies that are strong in customer service.

Liberty Interactive Group's strategy is unique in this area: It is willing to make minority investments in other companies as a way to acquire operating assets (as it did in December 2010 by converting its IAC/InterActiveCorp holdings for ownership of Gifts.com, eVites.com, and \$220MM in cash). Liberty Interactive Group still has minority interests in AOL, Expedia, HSNi, Interval Leisure Group, LendingTree, Time Warner, and Time Warner Cable. We believe this stance is one reason to invest in the shares of Liberty Interactive Group, and we also think it could convert its minority interest in HSNi to a controlling one if the price is accretive to adjusted EBITDA.

With \$29.0B in cash on its balance sheet (\$65.8B including long-term marketable securities), Apple has the firepower and operating momentum to add technologies to accelerate its efforts. We expect Apple's M&A strategy to remain focused on tuck-in acquisitions, but we would not be surprised if it were to add a unique Internet asset, such as Netflix (\$15.5B market cap) if the opportunity was right.

HSNi's primary focus is on turning around its HSN asset and on converting its Cornerstone catalog brands into greater e-commerce plays. In April 2011, the company named Mitchell Hara SVP of corporate strategy/M&A, suggesting that it may be active in deals as well.

- > **International Expansion.** International expansion is a growth opportunity for e-commerce companies. In the following two tables, we outline our forecasts for domestic and international sales and operating profit mix for our five covered Internet companies and the 2010 GDP per Internet user for the 15 largest economies, based on data from the CIA World Factbook. Note that our estimates for the covered companies assume expansion in existing markets; therefore, there could be upside to our international mix estimates if these companies enter new markets.

**INTERNATIONAL MIX OF SALES AND OPERATING PROFITS, 2010–2013E**

	Amazon.com (AMZN)		Apple (AAPL)		eBay (EBAY)		HSNi (HSNI)		Liberty Interactive Group (LINTA)	
	FY10	FY13E	FY10	FY13E	FY10	FY13E	FY10	FY13E	FY10	FY13E
<b>Sales Mix</b>										
<b>US</b>	55%	57%	44%	34%	46%	51%	100%	100%	71%	72%
<b>International</b>	45%	43%	56%	66%	54%	49%	0%	0%	29%	28%
<b>Operating Profits Mix</b>										
<b>US</b>	49%	57%	36%	27%	44%	48%	100%	100%	73%	73%
<b>International</b>	51%	43%	64%	73%	56%	52%	0%	0%	27%	27%

Source: Company reports and TAG Research estimates.  
 Notes: Amazon.com US data is for its North American division.  
 For operating profits at Liberty Interactive Group we used adjusted EBITDA.

**THE E-COMMERCE OPPORTUNITY, BY COUNTRY, 2010**

Rank	Country	2010 GDP (\$MM)	2010 Internet Users (MM)	2010 Fixed Broadband Subs. (MM)	2010 E-Commerce Sales (\$MM)	2010 E-Commerce Sales/ Internet User	2010 GDP/ Internet User
1	U.S.	14,660	261	86	176,200	\$675	\$56
2	China	5,878	500	130	NA	NA	\$12
3	Japan	5,459	102	33	NA	NA	\$53
4	Germany	3,316	66	28	21,500	\$325	\$50
5	France	2,583	45	22	NA	NA	\$57
6	U.K.	2,247	55	19	78,200	\$1,418	\$41
7	Brazil	2,090	89	13	NA	NA	\$24
8	Italy	2,055	32	13	NA	NA	\$64
9	Canada	1,574	28	11	16,000	\$562	\$55
10	India	1,538	73	11	NA	NA	\$21
11	Russia	1,465	44	18	NA	NA	\$33
12	Spain	1,410	30	10	NA	NA	\$47
13	Australia	1,236	17	5	NA	NA	\$75
14	Mexico	1,039	38	12	NA	NA	\$28
15	South Korea	1,007	40	18	NA	NA	\$25

Source: Company reports, CIA World Factbook, Forrester Research, International Telecommunication Union, and TAG Research estimates.

**We consider Apple best positioned for international expansion**, thanks to its overseas retail stores (led by the addition of high-volume retail stores in China) and the global success of many of its products, including the iPhone, iPad, and Mac computers.

Second, in our view, is eBay, owing to the opportunity to expand PayPal, eBay Marketplace, and GSI Commerce into new markets. The acquisition of GSI Commerce (approximately 7.5% of eBay's pro forma sales) will cause the proportion of international sales to decrease between 2010 and 2013, as most of its sales are domestic.

We believe Amazon is well positioned to expand overseas, but we forecast that its operating margin will continue to lag eBay's because of its aggressive pricing strategy.

We believe it will be more difficult for Amazon and eBay than it was for Apple to penetrate mainland China because of entrenched local competitors, such as Alibaba Group's Taobao. We forecast that both companies will continue to pursue the opportunity to tap the Chinese Internet market because of that country's large and rapidly expanding GDP and Internet user base.

It appears that by 2013, Liberty Interactive Group's QVC could expand to additional countries beyond Italy, which it entered in October 2010.

HSN—which is focused primarily on the US market today, having closed its UK operations in 2009 and discontinued its efforts in Belgium and Mexico—will in all likelihood be the least affected by expansion outside the US.

> **Shipping as Marketing Spending & Sales Tax Collection.** We believe an increasing amount of promotional activity across the e-commerce sector, including free shipping, could put pressure on operating margins for e-commerce companies. We also think more states will attempt to require e-commerce companies to collect online sales tax, which could hurt sales.

– **Shipping.** We consider shipping expenses a part of marketing expenditures in the e-commerce sector because more companies use shipping promotions to drive sales. This is especially evident during the holiday shopping season. Wal-Mart's holiday 2010 promotion covered free shipping on more than 60,000 products through December 20 and did not require a minimum purchase. Target and J.C. Penney also offered free shipping, but Target required at least \$50 of purchases and J.C. Penney required \$69. According to comScore, as many as 45% of e-commerce companies offered free shipping during the 2010 holidays.

There also has been an increase in the number of companies offering free two-day shipping to drive sales, usually in return for an annual fee, such as Amazon Prime or ShopRunner (which was launched by GSI Commerce in October 2010).

In the following table, we compare Amazon's shipping and marketing expenses with those of TAG-covered traditional retailers that operate stores. From this vantage point, we forecast that Amazon's pro-forma marketing spending will average 6.3% of sales for 2008–2012, ranking 52nd lowest of the 55 companies included (i.e., the third highest).

**COMPARISON OF MARKETING SPENDING AS A % OF SALES, FY08–FY12E:  
AMAZON.COM VS. TRADITIONAL RETAILERS**

Company	Ticker	FY08	FY09	FY10	FY11E	FY12E	FY08-FY12E	
							Average	Rank
<b>DEPARTMENT STORES</b>								
Bon-Ton Stores Inc.	BONT	4.4%	4.3%	4.6%	4.6%	4.6%	4.5%	44
J. C. Penney Company, Inc.	JCP	7.1%	6.7%	6.6%	6.6%	6.6%	6.7%	54
Kohl's Corp.	KSS	5.4%	4.9%	4.7%	4.7%	4.7%	4.9%	50
Macy's, Inc.	M	5.0%	4.6%	4.3%	4.3%	4.3%	4.5%	45
Nordstrom Inc.	JWN	1.1%	1.0%	1.2%	1.2%	1.2%	1.1%	18
Saks Incorporated	SKS	1.3%	1.4%	1.6%	1.6%	1.6%	1.5%	25
<b>Average</b>		<b>4.1%</b>	<b>3.8%</b>	<b>3.8%</b>	<b>3.8%</b>	<b>3.8%</b>	<b>3.9%</b>	
<b>DISCOUNTERS</b>								
Big Lots Inc.	BIG	2.2%	2.0%	1.9%	1.9%	1.9%	2.0%	31
BJ's Wholesale Club Inc.	BJ	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	6
Costco Wholesale Corporation	COST	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	1
Dollar General Corp.	DG	0.3%	0.4%	0.4%	0.4%	0.4%	0.3%	4
Dollar Tree Inc.	DLTR	0.1%	0.2%	0.2%	0.2%	0.2%	0.2%	3
Family Dollar Stores Inc.	FDO	0.2%	0.1%	0.2%	0.2%	0.2%	0.2%	2
Target Corp.	TGT	1.9%	1.8%	1.9%	1.9%	1.9%	1.9%	30
Wal-Mart Stores Inc.	WMT	0.5%	0.6%	0.6%	0.6%	0.6%	0.6%	9
<b>Average</b>		<b>0.7%</b>	<b>0.7%</b>	<b>0.7%</b>	<b>0.7%</b>	<b>0.7%</b>	<b>0.7%</b>	
<b>FOOTWEAR</b>								
Collective Brands, Inc.	PSS	4.8%	4.4%	4.7%	4.7%	4.7%	4.7%	46
Deckers Outdoor Corp.	DECK	NA	NA	NA	NA	NA	NA	NA
K-Swiss Inc.	KSWI	NA	NA	NA	NA	NA	NA	NA
Nike Inc.	NKE	NA	NA	NA	NA	NA	NA	NA
Steve Madden Ltd.	SHOO	1.1%	0.9%	0.9%	0.9%	0.9%	0.9%	14
Wolverine World Wide Inc.	WWW	NA	NA	NA	NA	NA	NA	NA
<b>Average</b>		<b>2.9%</b>	<b>2.7%</b>	<b>2.8%</b>	<b>2.8%</b>	<b>2.8%</b>	<b>2.8%</b>	
<b>HARDLINES</b>								
Bed Bath & Beyond, Inc.	BBBY	3.7%	2.9%	2.3%	2.3%	2.3%	3.0%	36
Best Buy Co. Inc.	BBY	1.7%	1.5%	1.8%	1.8%	1.8%	1.7%	27
Dick's Sporting Goods Inc.	DKS	3.7%	3.6%	3.8%	3.8%	3.8%	3.7%	40
Ethan Allen Interiors Inc.	ETH	4.0%	3.7%	3.4%	3.1%	3.1%	3.6%	39
GameStop Corp.	GME	0.5%	0.6%	0.9%	0.9%	0.9%	0.7%	12
The Home Depot, Inc.	HD	1.3%	1.2%	1.1%	1.1%	1.1%	1.2%	20
Low's Companies Inc.	LOW	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%	26
Office Depot, Inc.	ODP	3.6%	3.7%	4.0%	4.0%	4.0%	3.8%	41
Petsmart Inc.	PETM	1.6%	1.3%	1.5%	1.5%	1.5%	1.4%	23
Staples, Inc.	SPLS	2.9%	2.3%	2.3%	2.3%	2.3%	2.5%	34
Williams-Sonoma Inc.	WSM	9.8%	8.5%	8.4%	8.4%	8.4%	8.9%	55
<b>Average</b>		<b>3.1%</b>	<b>2.8%</b>	<b>2.8%</b>	<b>2.8%</b>	<b>2.8%</b>	<b>2.9%</b>	
<b>LUXURY</b>								
Blue Nile Inc.	NILE	NA	NA	NA	NA	NA	NA	NA
Bulgari SpA	BUL-MI	NA	NA	NA	NA	NA	NA	NA
Burberry Group plc	BRBY-L	NA	NA	NA	NA	NA	NA	NA
Coach Inc.	COH	1.8%	1.6%	1.7%	1.7%	1.7%	1.7%	28
Hermes International	RMS-PA	NA	NA	NA	NA	NA	NA	NA
LVMH Moët-Hennessy Louis Vuitton	MC-PAI	NA	NA	NA	NA	NA	NA	NA
Compagnie Financière Richemont	CFR-VT	NA	NA	NA	NA	NA	NA	NA
Signet Jewelers Limited	SIG	5.1%	4.6%	4.7%	4.7%	4.7%	4.8%	49
Tiffany & Co.	TIF	7.1%	5.9%	6.4%	6.4%	6.4%	6.5%	53
Tod's Group SpA	TOD-MI	NA	NA	NA	NA	NA	NA	NA
Zale Corporation	ZLC	4.5%	4.9%	4.7%	4.7%	4.7%	4.7%	48
<b>Average</b>		<b>4.6%</b>	<b>4.2%</b>	<b>4.4%</b>	<b>4.4%</b>	<b>4.4%</b>	<b>4.4%</b>	
<b>OFF-PRICE RETAILERS</b>								
Ross Stores Inc.	ROST	0.8%	0.7%	0.7%	0.7%	0.7%	0.8%	13
The TJX Companies, Inc.	TJX	1.3%	1.1%	1.2%	1.2%	1.2%	1.2%	21
<b>Average</b>		<b>1.1%</b>	<b>0.9%</b>	<b>0.9%</b>	<b>0.9%</b>	<b>0.9%</b>	<b>1.0%</b>	
<b>SPECIALTY APPAREL</b>								
Abercrombie & Fitch Co.	ANF	0.8%	0.6%	0.6%	0.6%	0.6%	0.7%	10
Aeropostale Inc.	ARO	0.5%	0.4%	0.4%	0.4%	0.4%	0.4%	7
American Eagle Outfitters Inc.	AEO	2.1%	2.1%	2.2%	2.2%	2.2%	2.2%	32
AnnTaylor Stores Corp.	ANN	2.8%	3.3%	4.0%	4.0%	4.0%	3.4%	37
Bebe Stores, Inc.	BEBE	4.5%	4.6%	4.9%	4.9%	4.9%	4.7%	47
Buckle Inc.	BKE	1.0%	0.9%	1.0%	1.0%	1.0%	1.0%	15
Chico's FAS Inc.	CHS	4.3%	3.8%	4.6%	4.6%	4.6%	4.2%	43
The Children's Place Retail Store	PLCE	3.0%	2.8%	2.2%	2.2%	2.2%	2.7%	35
Gap Inc.	GPS	3.0%	3.6%	3.5%	3.5%	3.5%	3.4%	38
Guess Inc.	GES	1.7%	1.0%	1.3%	1.3%	1.3%	1.3%	22
Hot Topic Inc.	HOTT	1.2%	1.0%	1.2%	1.2%	1.2%	1.1%	17
Limited Brands Inc.	LTD	5.6%	5.3%	4.9%	4.9%	4.9%	5.3%	51
Lululemon Athletica Inc.	LULU	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	16
Pacific Sunwear of California Inc.	PSUN	1.3%	1.4%	1.8%	1.8%	1.8%	1.5%	24
The Talbots Inc.	TLB	4.0%	3.6%	4.9%	4.9%	4.9%	4.2%	42
True Religion Apparel Inc.	TRLG	1.4%	1.7%	2.2%	2.2%	2.2%	1.8%	29
Urban Outfitters Inc.	URBN	2.2%	2.4%	2.1%	2.3%	2.3%	2.2%	33
Vera Bradley	VRA	NA	NA	NA	NA	NA	NA	NA
<b>Average</b>		<b>2.4%</b>	<b>2.3%</b>	<b>2.5%</b>	<b>2.5%</b>	<b>2.5%</b>	<b>2.4%</b>	
<b>SUPERMARKETS</b>								
Kroger Co.	KR	0.7%	0.7%	0.6%	0.6%	0.6%	0.7%	11
Safeway Inc.	SWY	1.1%	1.2%	1.2%	1.2%	1.2%	1.2%	19
Supervalu Inc.	SVU	0.4%	0.3%	0.3%	0.3%	0.3%	0.3%	5
Whole Foods Market Inc.	WFMI	0.5%	0.4%	0.4%	0.4%	0.4%	0.4%	8
<b>Average</b>		<b>0.7%</b>	<b>0.7%</b>	<b>0.7%</b>	<b>0.7%</b>	<b>0.7%</b>	<b>0.7%</b>	
<b>Total Average</b>		<b>2.5%</b>	<b>2.3%</b>	<b>2.4%</b>	<b>2.4%</b>	<b>2.4%</b>	<b>2.4%</b>	
<b>Total Median</b>		<b>1.7%</b>	<b>1.6%</b>	<b>1.8%</b>	<b>1.8%</b>	<b>1.8%</b>	<b>1.7%</b>	
Amazon.com Inc.	AMZN	5.5%	5.9%	6.7%	7.0%	6.6%	6.3%	52

Source: Company reports and TAG Research estimates.

Note: Advertising expenses estimates for FY11 and FY12 are based on increasing advertising expense at the same rate as sales growth.

**Among the five Internet companies we cover, we believe that Amazon could be most affected by the move toward free shipping.** In our view, shipping represents both an opportunity and threat. The opportunity is for Amazon to adopt a membership model for Amazon Prime similar to those employed by the warehouse clubs (BJs, Costco, and Sam's Club). The threat is the elimination of all of its profits if, in the admittedly most extreme scenario, free shipping becomes the standard for e-commerce.

To a large extent, video retailers HSN and QVC pass on the cost of shipping and handling fees to their loyal consumers and are therefore vulnerable to margin pressure, in our view, if the movement toward free shipping accelerates. We believe both companies may be able to offset some of that pressure by increasing the price of their merchandise because 70% (at HSN) and 75% (QVC) of the merchandise it sells is exclusive.

Although eBay is making strides to motivate its sellers to offer free shipping to drive sales, it still lags Amazon because of Amazon's shipping promotions, including Amazon Prime and Free Super Saver Shipping (on purchases of \$25 or more on eligible products). However, eBay does risk a direct impact on its expenses from a sector-wide change in shipping policies because it could motivate consumers to opt for the merchant that offers free shipping, as only 33% of the merchandise offered on eBay included free shipping in 4Q10.

In our judgment, Apple would be least affected by changes in shipping as its relatively higher-margin products would offset margin pressure from free shipping to a greater degree than would be the case at the other Internet companies we cover.

– **Online Sales Tax Collection.** Over the long term, we believe that all of the states that require retailers with physical stores to collect sales tax will also require that Internet retailers collect taxes on merchandise purchased online, eliminating the competitive advantage for several e-commerce companies, with federal legislation as the mechanism for the change.

For the near term, we do not foresee significant problems for e-commerce companies that do not collect sales tax in all 50 states, such as Amazon, which appears to have avoided collecting sales tax by terminating its affiliate arrangements in the affected states and because federal legislation does not seem eminent. Previous attempts at federal legislation, led by Wyoming Senator Enzi and Massachusetts Congressman Bill Delahunt (who retired in late 2010), have failed. In 2011, Illinois Senator Dick Durbin has vowed to attempt a federal resolution; however, we believe that the legislation will not be passed because Republicans are controlling the House of Representatives.

In the following table, we illustrate the competitive advantage that Amazon has over Wal-Mart, from not collecting sales tax in all of the same states. Note, Delaware, Montana, New Hampshire, and Oregon do not have sales tax. Amazon.com collects sales tax for items it sells to consumers who reside in five states: Kansas (started in 2004), Kentucky (1999), New York (2008), North Dakota (2001), and Washington (1994). Collectively, as shown in the second table, those states accounted for 12.2% of US GDP (from the 50 states and Washington D.C.) in 2010. For the remaining 41 states, Amazon has an advantage on total price (item cost plus taxes and shipping) over Wal-Mart, and other retailers with physical locations in many of those states. The average sales tax rate in those 41 states is a little more than 7.0%.

**CURRENT SALES TAX RATES, BY STATE,  
AND CHARGED BY AMAZON.COM AND WALMART.COM, JUNE 2011**

City	State	Tax	Amazon.com	Walmart.com
Montgomery	Alabama	10.0000%	0.0000%	10.0000%
Juneau	Alaska	5.0000%	0.0000%	5.0000%
Phoenix	Arizona	9.3000%	0.0000%	9.3000%
Little Rock	Arkansas	7.5000%	0.0000%	7.5000%
Sacramento	California	8.7500%	0.0000%	8.7500%
Denver	Colorado	7.7200%	0.0000%	7.7200%
Hartford	Connecticut	6.0000%	0.0000%	6.0000%
<b>Dover</b>	<b>Delaware</b>	<b>0.0000%</b>	<b>0.0000%</b>	<b>0.0000%</b>
Tallahassee	Florida	7.5000%	0.0000%	7.5000%
Atlanta	Georgia	8.0000%	0.0000%	8.0000%
Honolulu	Hawaii	4.7120%	0.0000%	4.7120%
Boise	Idaho	6.0000%	0.0000%	6.0000%
Springfield	Illinois	8.0000%	0.0000%	8.0000%
Indianapolis	Indiana	7.0000%	0.0000%	7.0000%
Des Moines	Iowa	6.0000%	0.0000%	6.0000%
<b>Topeka</b>	<b>Kansas</b>	<b>8.9500%</b>	<b>8.9500%</b>	<b>8.9500%</b>
<b>Frankfort</b>	<b>Kentucky</b>	<b>6.0000%</b>	<b>6.0000%</b>	<b>6.0000%</b>
Baton Rouge	Louisiana	9.0000%	0.0000%	9.0000%
Augusta	Maine	5.0000%	0.0000%	5.0000%
Annapolis	Maryland	6.0000%	0.0000%	6.0000%
Boston	Massachusetts	6.2500%	0.0000%	6.2500%
Lansing	Michigan	6.0000%	0.0000%	6.0000%
St. Paul	Minnesota	7.6250%	0.0000%	7.6250%
Jackson	Mississippi	7.0000%	0.0000%	7.0000%
Jefferson City	Missouri	7.7250%	0.0000%	7.7250%
<b>Helena</b>	<b>Montana</b>	<b>0.0000%</b>	<b>0.0000%</b>	<b>0.0000%</b>
Lincoln	Nebraska	7.0000%	0.0000%	7.0000%
Carson City	Nevada	7.4750%	0.0000%	7.4750%
<b>Concord</b>	<b>New Hampshire</b>	<b>0.0000%</b>	<b>0.0000%</b>	<b>0.0000%</b>
Trenton	New Jersey	7.0000%	0.0000%	7.0000%
Santa Fe	New Mexico	8.1875%	0.0000%	8.1875%
<b>Albany</b>	<b>New York</b>	<b>8.0000%</b>	<b>8.0000%</b>	<b>8.0000%</b>
Raleigh	North Carolina	7.7500%	0.0000%	7.7500%
<b>Bismarck</b>	<b>North Dakota</b>	<b>6.0000%</b>	<b>6.0000%</b>	<b>6.0000%</b>
Columbus	Ohio	6.7500%	0.0000%	6.7500%
Oklahoma City	Oklahoma	8.3750%	0.0000%	8.3750%
<b>Salem</b>	<b>Oregon</b>	<b>0.0000%</b>	<b>0.0000%</b>	<b>0.0000%</b>
Harrisburg	Pennsylvania	6.0000%	0.0000%	6.0000%
Providence	Rhode Island	7.0000%	0.0000%	7.0000%
Columbia	South Carolina	7.0000%	0.0000%	7.0000%
Pierre	South Dakota	6.0000%	0.0000%	6.0000%
Nashville	Tennessee	9.2500%	0.0000%	9.2500%
Austin	Texas	8.2500%	0.0000%	8.2500%
Salt Lake City	Utah	6.8500%	0.0000%	6.8500%
Montpellier	Vermont	6.0000%	0.0000%	6.0000%
Richmond	Virginia	5.0000%	0.0000%	5.0000%
<b>Olympia</b>	<b>Washington</b>	<b>8.7000%</b>	<b>8.7000%</b>	<b>8.7000%</b>
Charleston	West Virginia	6.0000%	0.0000%	6.0000%
Madison	Wisconsin	5.5000%	0.0000%	5.5000%
Cheyenne	Wyoming	6.0000%	0.0000%	6.0000%

<b>41 States Where Walmart.com Collects Sales Tax and Amazon.com Does Not:</b>				
<b>Average Tax Rate</b>		<b>7.0115%</b>		<b>7.0115%</b>
<b>Median Tax Rate</b>		<b>7.0000%</b>		<b>7.0000%</b>

Source: Zip2tax.com and TAG Research.

Note: Bolding represents states where Amazon.com collects sales tax or that do not have sales tax.

STATE GDP AND AFFILIATE SALES TAX LEGISLATION, JUNE 2011

State	2010 GDP (\$MM)	% of Total	Rank	Passed Affiliate Tax Legislation
Alabama	154,124	1.2%	26	
Alaska	45,046	0.3%	45	
Arizona	228,486	1.7%	20	
Arkansas	91,828	0.7%	34	•
California	1,731,848	13.2%	1	•
Colorado	235,152	1.8%	18	•
Connecticut	211,345	1.6%	23	•
Delaware	56,199	0.4%	40	
District of Columbia	90,716	0.7%	35	
Florida	673,375	5.1%	4	
Georgia	361,993	2.8%	11	
Hawaii	59,329	0.5%	39	
Idaho	50,702	0.4%	43	
Illinois	581,259	4.4%	5	•
Indiana	245,442	1.9%	16	
Iowa	127,666	1.0%	30	
Kansas	114,021	0.9%	31	
Kentucky	144,612	1.1%	28	
Louisiana	195,171	1.5%	24	
Maine	45,950	0.4%	44	
Maryland	264,882	2.0%	15	
Massachusetts	342,123	2.6%	13	
Michigan	344,871	2.6%	12	
Minnesota	243,404	1.9%	17	
Mississippi	87,075	0.7%	36	
Missouri	217,320	1.7%	22	
Montana	31,809	0.2%	49	
Nebraska	79,674	0.6%	37	
Nevada	111,590	0.9%	32	
New Hampshire	54,587	0.4%	42	
New Jersey	438,721	3.3%	7	
New Mexico	72,802	0.6%	38	
New York	1,034,339	7.9%	3	•
North Carolina	380,631	2.9%	9	•
North Dakota	31,254	0.2%	50	
Ohio	426,116	3.3%	8	
Oklahoma	133,464	1.0%	29	
Oregon	166,725	1.3%	25	
Pennsylvania	505,935	3.9%	6	
Rhode Island	44,014	0.3%	46	•
South Carolina	145,134	1.1%	27	
South Dakota	36,272	0.3%	47	
Tennessee	228,716	1.7%	19	
Texas	1,106,236	8.4%	2	
Utah	102,801	0.8%	33	
Vermont	23,140	0.2%	51	•
Virginia	380,609	2.9%	10	
Washington	306,633	2.3%	14	
West Virginia	55,992	0.4%	41	
Wisconsin	221,293	1.7%	21	
Wyoming	34,409	0.3%	48	

Source: U.S. Bureau of Economic Analysis, State Legislatures, and TAG Research.

Among the five Internet companies we cover, we believe Amazon could be most affected by online sales tax collection. Should Amazon be required to collect sales tax from customers in more states, it would lose one of its competitive advantages over brick-and-mortar retailers and some of its e-commerce peers. Although it is difficult to quantify, we believe this could negatively affect the company's sales growth. For example, if Amazon were to collect sales tax on the roughly 50% of sales on which it currently collects no sales tax, and if this were to dampen sales by 5%, the earnings impact for 2012 would amount to \$0.17 or 4.6% of our EPS forecast; if the sales hit amounted to 10%, 2011 EPS would be penalized by \$0.35 or 9.1%. In our opinion, if Amazon were required to collect sales tax more widely, customers could opt to purchase goods from a brick-and-mortar store, even if they must pay a higher price in return for immediate gratification.

In our estimation, eBay would be the next most affected company if the sellers on its Marketplace were required to collect online sales tax for all transactions, which could negatively impact demand, similar to Amazon. Unlike Amazon, because eBay does not sell merchandise directly and instead collects fees from others that sell through its Marketplace, it would likely be less impacted.

HSNi comes in third on this list, as HSN and its online sites for its Cornerstone brands only collect in states where it has a nexus, or physical presence.

Liberty Interactive Group's QVC, for its part, already collects online sales tax and therefore would not be impacted and could potentially benefit from a level playing field with its online peers. The company's other e-commerce operations (including Provide Commerce, Backcountry.com, Bodybuilding.com, and Celebrate Interactive), which accounted for 12.6% of its revenue and 5.9% of adjusted EBITDA in 2010, only collect sales tax in states where they have a physical presence, primarily their respective headquarters. Using the same analysis as Amazon, we estimate Liberty Interactive Group's sales could be dampened by as much as 1.3%.

Apple already collects online sales tax in all the state with sales tax and, therefore, would be the least negatively impacted of our five covered Internet companies and potentially could benefit from a level playing field with their online peers, as could Liberty Interactive Group's QVC.

> **Long-Term Vision.** In the following table, we present our long-term vision for the Internet companies we cover, including long-term operating margin and EPS forecasts, as well as potential stock price appreciation.

**INTERNET: TAG LONG-TERM VISION**

		52 Week Range		Steady State Annual Sales Growth Rate	Operating Margin FY06-FY10		LT Potential Operating Margin		LT EPS	2010 EPS	Normalized P/E Multiple Range	LT Price Target Range	Current Price 7/8/11	Premium/(Discount) to Current Price		
		Trough	Peak		Trough	Peak	Trough	Peak						Trough	Peak	
Amazon.com Inc.	AMZN	\$105.80	\$217.80	17%	26.2%	39.6%	3.6%	4.6%	6%	\$10.93	\$2.53	34.7x - 36.7x	\$379 - \$401	\$218.28	74%	- 84%
Apple Inc.	AAPL	\$235.56	\$364.90	12%	14.4%	52.5%	12.7%	28.2%	30%	\$43.15	\$15.15	13.5x - 15.5x	\$583 - \$669	\$359.71	62%	- 86%
eBay Inc.	EBAY	\$19.16	\$35.35	11%	2.2%	31.1%	29.3%	33.1%	30%	\$3.54	\$1.73	16.0x - 18.0x	\$57 - \$64	\$33.42	69%	- 91%
HSN, Inc.	HSNI	\$25.35	\$36.36	4%	(2.9%)	9.0%	(109.9%)	7.4%	10%	\$3.55	\$1.65	16.5x - 18.5x	\$59 - \$66	\$34.57	70%	- 90%
Liberty Interactive Group	LINTA	\$10.10	\$18.65	5%	2.7%	7.6%	11.2%	14.3%	15%	\$1.75	\$1.46	16.5x - 18.5x	\$29 - \$32	\$17.74	63%	- 83%
<b>Average</b>				<b>10%</b>					<b>18%</b>			<b>19.4x - 21.4x</b>			<b>68%</b>	<b>- 87%</b>
<b>Median</b>				<b>11%</b>					<b>15%</b>			<b>16.5x - 18.5x</b>			<b>69%</b>	<b>- 86%</b>

Source: FactSet and TAG Research estimates.

- > **TAG's Unique Perspective.** We believe we have a unique perspective on the e-commerce sector thanks to TAG's extensive knowledge of the retail sector, which encompasses coverage of online and offline companies in several subsectors—such as broadlines, department stores, discounters, and specialty retail—as well as the TAG Metrics retail database, TAG's relationships with the real estate community, and TAG's monthly channel checking.

To expand on this overview of the e-commerce sector, we are also publishing profiles on five Internet companies on which we are initiating coverage. Our company reports contain our views of the elements that are important to the individual stocks and the sector, including the following:

- The potential for Amazon.com to adopt the warehouse clubs' membership model for Amazon Prime.
- Revenue and operating margin comparisons, including our estimates, for Amazon, Liberty Interactive's QVC, and TAG-covered offline retailers.
- Analysis of the number of TAG-covered companies, by sector, that offer mobile apps on Apple versus Google.
- A comparison of sales per square foot and operating margins for Apple and TAG-covered offline retailers.
- Our view of the long-term unit potential for Apple's retail stores.
- Our earnings model for Apple's retail effort.
- A breakdown of Apple's retail stores by state and by country.
- Insights on TAG-covered companies that are clients of GSI Commerce, which has been acquired by eBay.
- A deep dive on the video retailing subsector, including an analysis of programming adjacencies, hosts, pricing, and brands.
- Sum-of-the-parts valuations for shares of eBay and Liberty Interactive Group.

## ADDENDUM

### Important Disclosures:

Valuation Method for Target Price: Price-to-Earnings, price-to-EBITDA, P/E to growth, price to free cash flow, and discounted cash flow analysis.

Investment Risks: Slower consumer spending, rising interest rates, weaker consumer confidence, rising unemployment, supply chain disruptions, fashion misses, and excessive markdowns.

### Analyst Certification

The Research Analyst(s) who prepared the research report hereby certify that the views expressed in this report accurately reflect the Analyst(s) personal views about the subject companies and their securities. The Research Analyst(s) also certify that the Analyst(s) have not been, are not, and will not be receiving direct or indirect compensation for expressing the specific recommendation(s) or view(s) in this report.

Tom Forte

### Historical Price Targets

To see price charts and TAG's historical price targets please click the following link: <http://www.telseygroup.com/files/historicalprices.pdf>

### Company-Specific Disclosures

None

### Disclosures required by United States laws and regulations

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