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Technology / Internet Trends

November 5, 2008

Web 2.0 Summit – San Francisco

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Outline

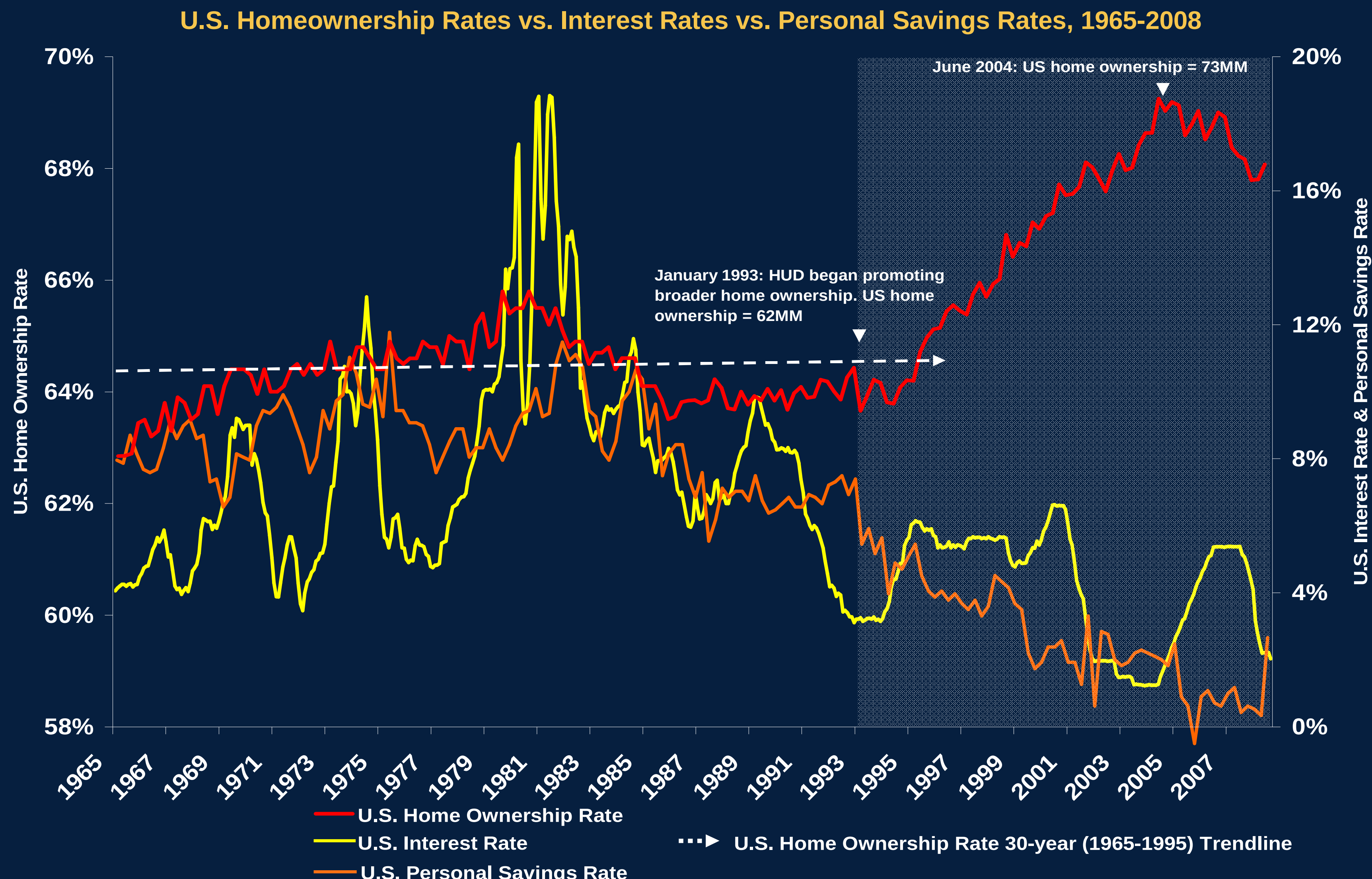
- Economy
  1. Recession – a long time coming, how long will it last?
  2. Technology & Advertising Spending – closely tied to GDP growth
- Technology / Internet
  1. Digital Consumer – Undermonetized social networks / video / VoIP driving powerful usage growth
  2. Mobile – Innovation in wireless products / services accelerating
  3. Emerging Markets – Pacing next wave of technology adoption
- Closing Thoughts
  1. Companies with cogent business models that provide consumer value should survive / thrive – consumers need value more than they have needed it in a long time…

Economy

1) Recession – a long time coming, how long will it last?
1 year? 5 years?

Roots of Economic Challenge?

10+ Years of Rising Home Ownership + Declining Interest / Savings Rates



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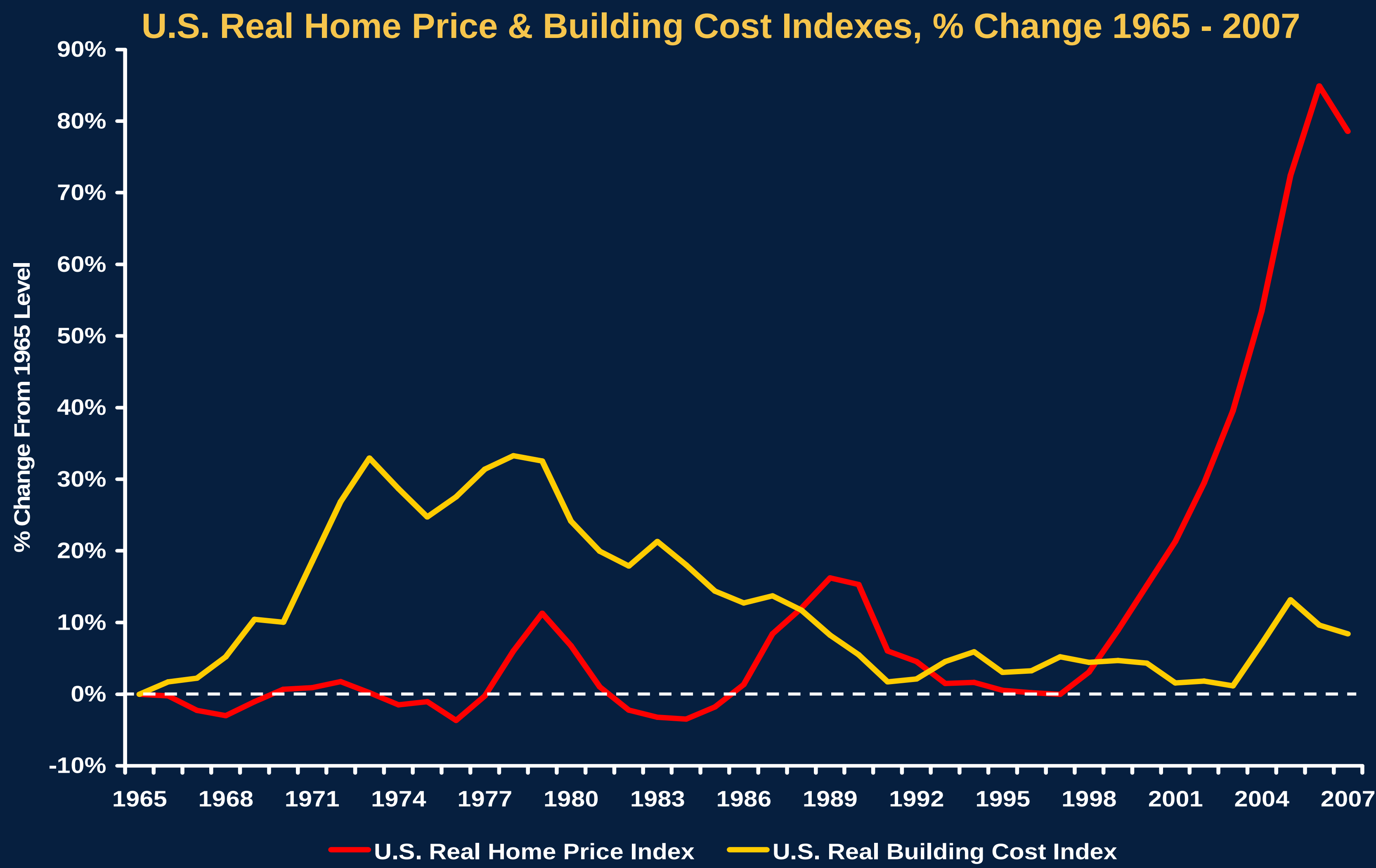
Note: HUD is Department of Housing & Urban Development.
Interest rate is the overnight federal funds rate.
Source: Federal Reserve, DOC Bureau of Economic Analysis (BEA), Morgan Stanley Research.

10 Years of Rising Home Prices – Up ~2x



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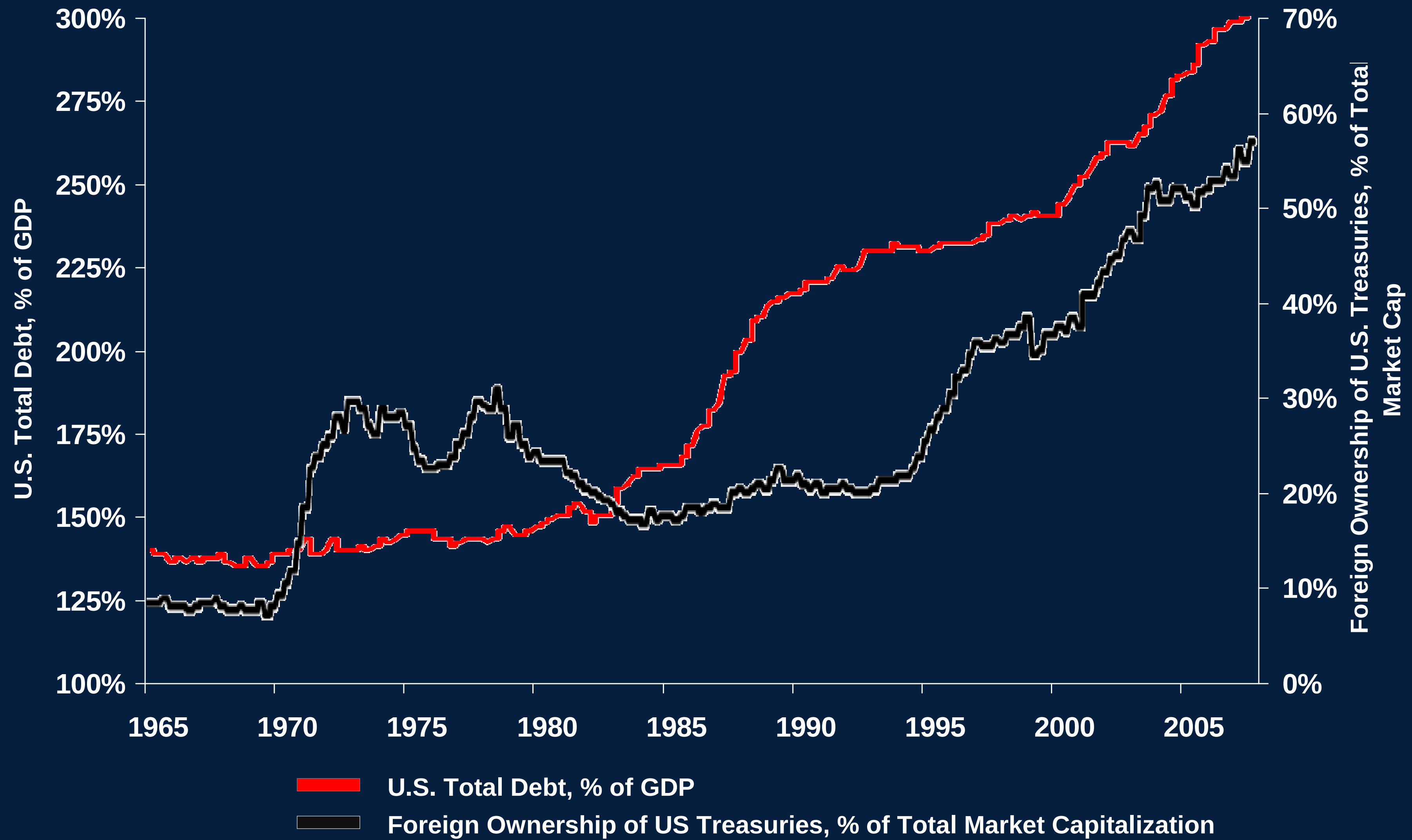
Note: Real home prices & building costs are adjusted for inflation; Source: Robert Shiller.

USA Total Debt = Up ~2x Over 30 Years to 3x GDP

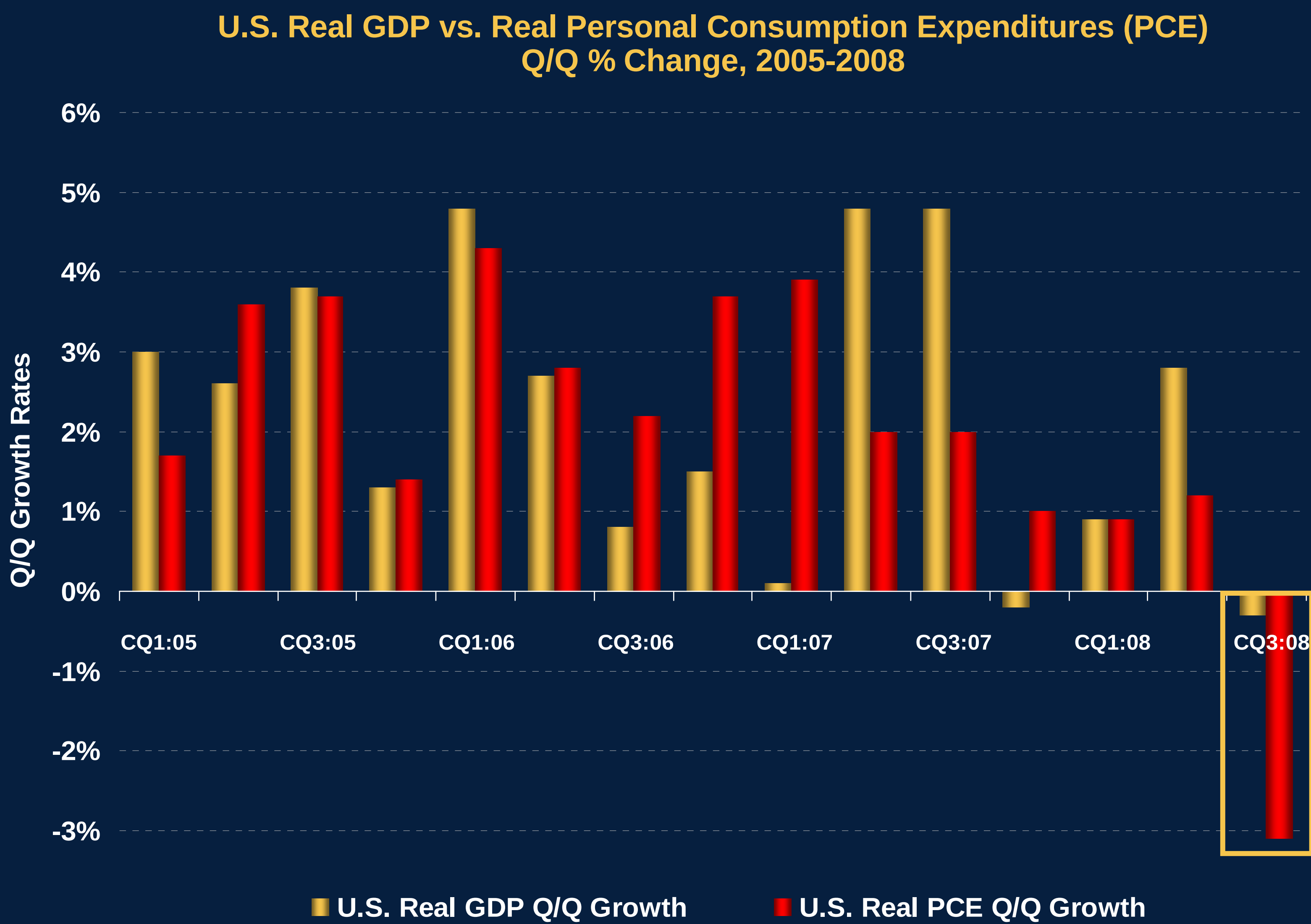
Foreign Ownership Ramped to ~60% US Treasuries – Helped Pace 'Easy Money' + Leverage



Morgan Stanley *Source: Bridgewater, total debt include both public and private debt, US government debt = ~65% GDP, Morgan Stanley Research.*

-0.3% Q/Q US GDP Growth in CQ3 / Consumer Spending Fell 3.1%

Biggest Q/Q Decline Since 1980 – October < September < August < July



Note, Real GDP and real PCE are inflation-adjusted, Real PCE is seasonally adjusted.
CQ3:08 data is "advanced," may differ from final reported #s.
Source: BEA, Morgan Stanley Research.

Global GDP Growth Forecasts Have Downward Bias – Decelerating / Negative Growth for 2008E + 2009E

			IMF Forecasts, 10/08		Difference from 7/08 IMF Forecasts	
Country / Region	**2006**	**2007**	**2008E**	**2009E**	**2008E**	**2009E**
USA	2.8%	2.0%	1.6%	0.1%	0.3%	-0.7%
Euro zone	2.8	2.6	1.3	0.2	-0.4	-1.0
UK	2.8	3.0	1.0	-0.1	-0.8	-1.8
China	11.6	11.9	9.7	9.3	--	-0.6
India	9.8	9.3	7.9	6.9	-0.1	-1.1
Russia	7.4	8.1	7.0	5.5	-0.7	-1.8
Brazil	3.8	5.4	5.2	3.5	0.3	-0.5
Developed Markets(1)	3.0	2.6	1.5	0.5	-0.2	-0.9
Emerging Markets(2)	7.9	8.0	6.9	6.1	--	-0.7
World	5.1	5.0	3.9	3.0	-0.2	-0.9

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Note: (1) IMF equivalent of "advanced economies"; (2) IMF equivalent of "emerging and developing economies"; Source: International Monetary Fund (IMF) World Economic Outlook (WEO) database, 10/08. Morgan Stanley Research.

Stock Market = Leading Indicator of Economic Growth

China off 71% vs. 12-Month Peak, Russia -67% / Japan -50% / Oil -53% / S&P500 -36%

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Note: all indices start at a value of 100 on 10/31/05; data as of 10/31/08; Source: FactSet.

S&P500 –
Your Customers Have Taken Big Hits

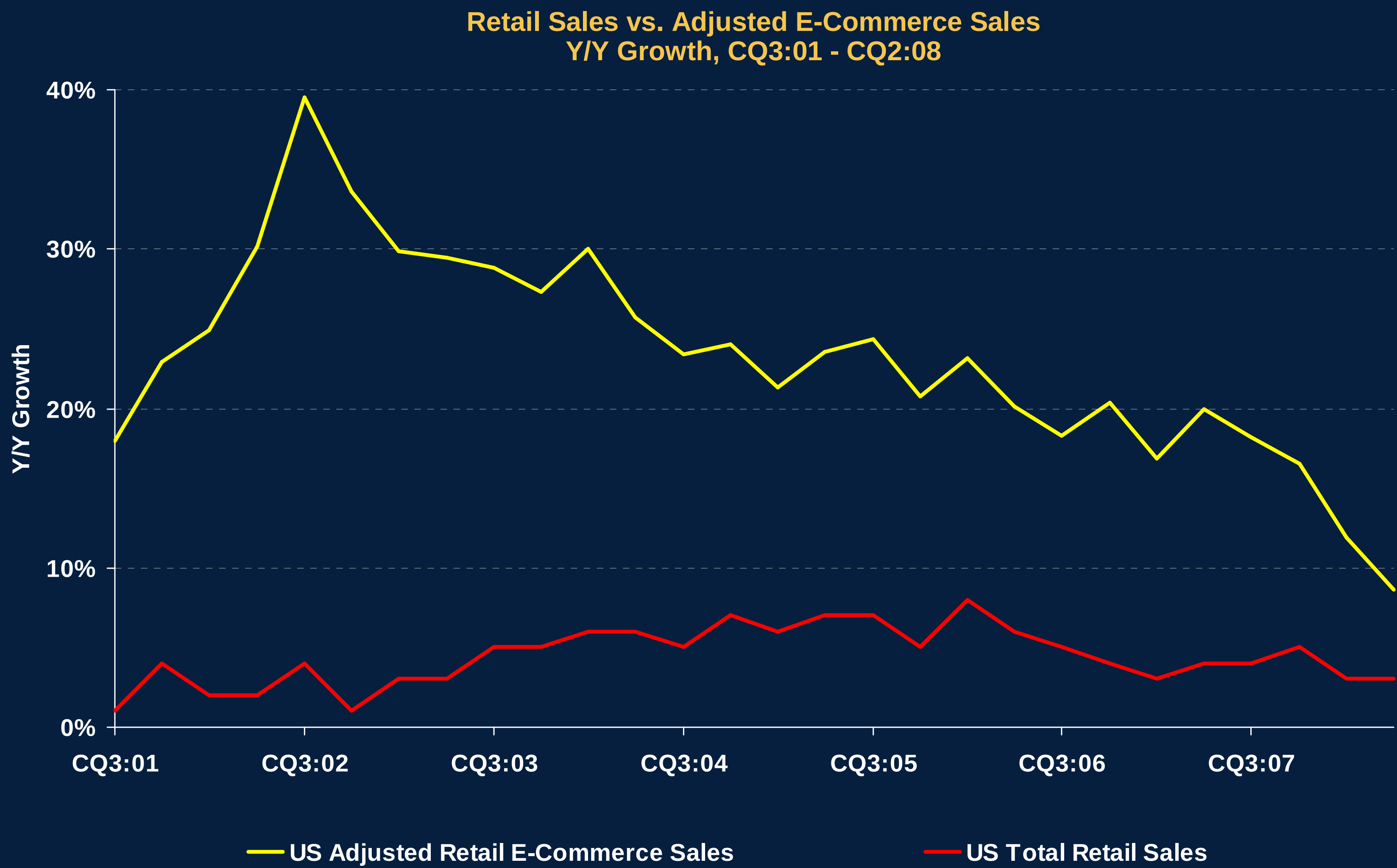
S&P Sector	Total Mkt Cap ($B) 10/31/08	% Change 2006	% Change 2007	% Change 2008 YTD	% Change Peak to Current [1]	Market Cap Leaders
Financials	1,314	16%	-20%	-41%	-53%	JPMorgan, Bank of America
Consumer Discretionary	722	9	-18	-35	-46	McDonald's, Walt Disney
Telecom Services	281	32	-12	-39	-44	AT&T, Verizon
Industrials	930	8	7	-36	-41	GE, United Technologies
Information Technology	1,393	11	12	-37	-40	Microsoft, IBM
Materials	274	10	14	-37	-40	Monsanto, DuPont
Utilities	325	17	6	-29	-33	Exelon, Southern
Energy	1,118	14	36	-33	-30	Exxon, Chevron
Health Care	1,192	1	1	-23	-27	Johnson & Johnson, Pfizer
Consumer Staples	1,218	8	10	-14	-13	Wal-Mart, Procter & Gamble
S&P 500 Total [2]	**8,767**	**11%**	**1%**	**-33%**	**-38%**	

Note: (1) % Change from S&P 500 peak of 10/9/07 to 10/31/08;
(2) S&P 500 total market cap and % change, different from SP50 index price & % change.
Source: Bloomberg, Morgan Stanley Research.

Economy

2) Technology + Advertising Spending –
closely tied to GDP growth…also, remembering 2000-2003

Retail Sales Growth Rates Slowing



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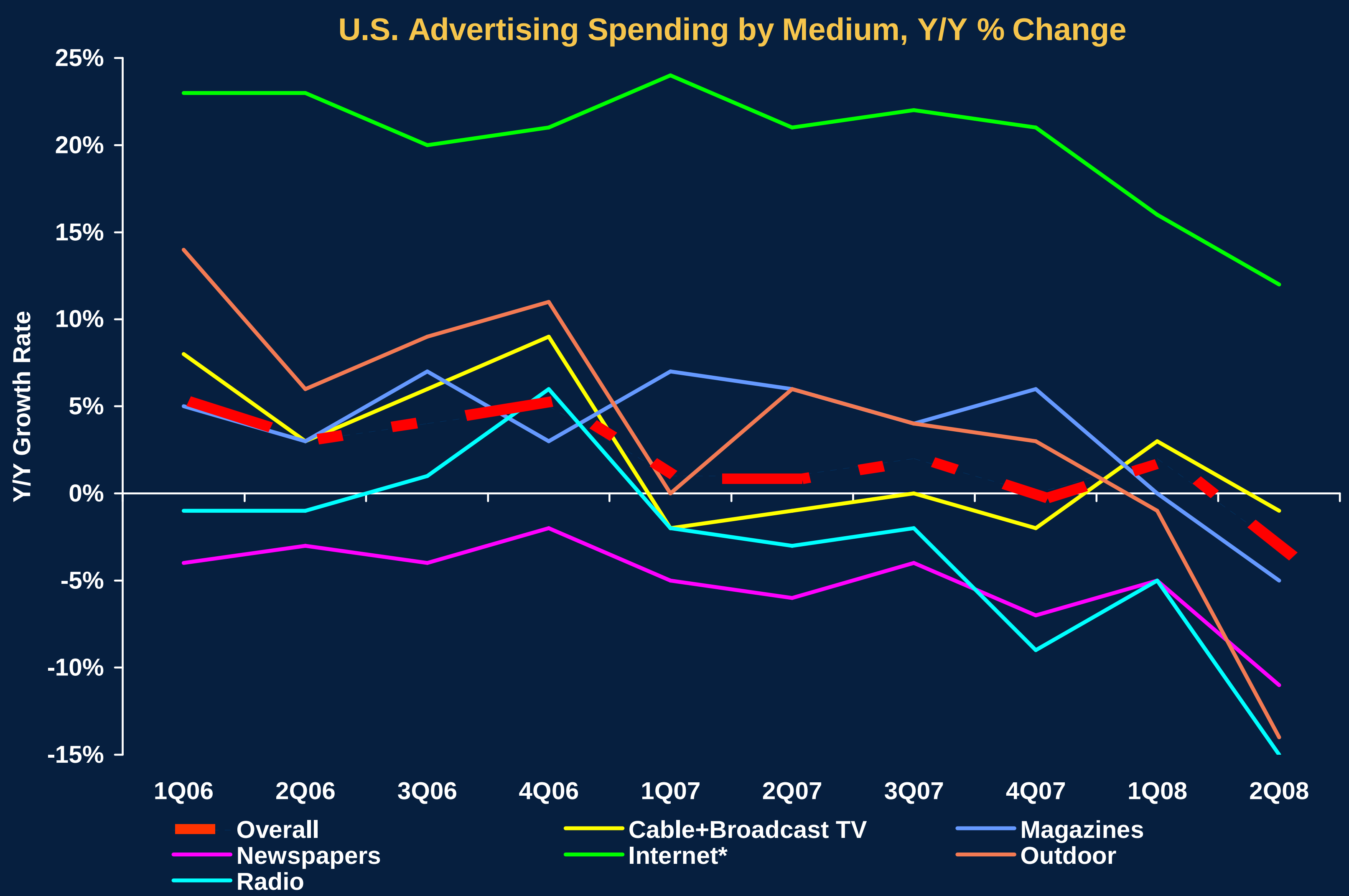
Note: E-Commerce adjusted for eBay by adding eBay US gross merchandise volume and subtracting eBay US transaction revenue; Source: US Dept. of Commerce (CQ2:08), Morgan Stanley Research.

Advertising Growth Rates Slowing



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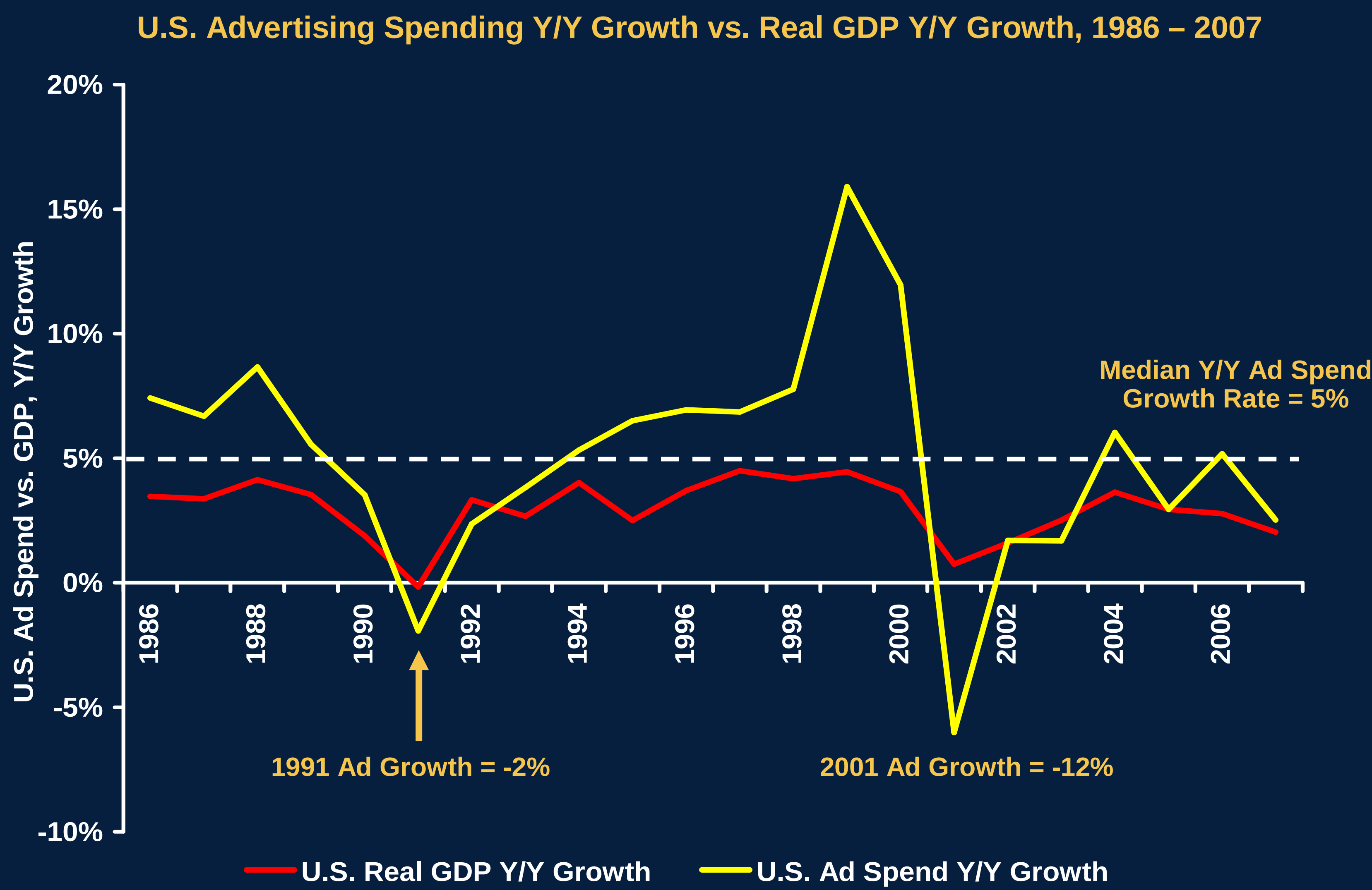
**Note: Internet is adjusted to include search ad spending - TNS excludes search revenue from Internet ad spending, thus unadjusted data may under-report online ad spending / growth. Source: TNS, IAB, Morgan Stanley Research.*

Advertising Spending & GDP Growth = High Correlation of 81%



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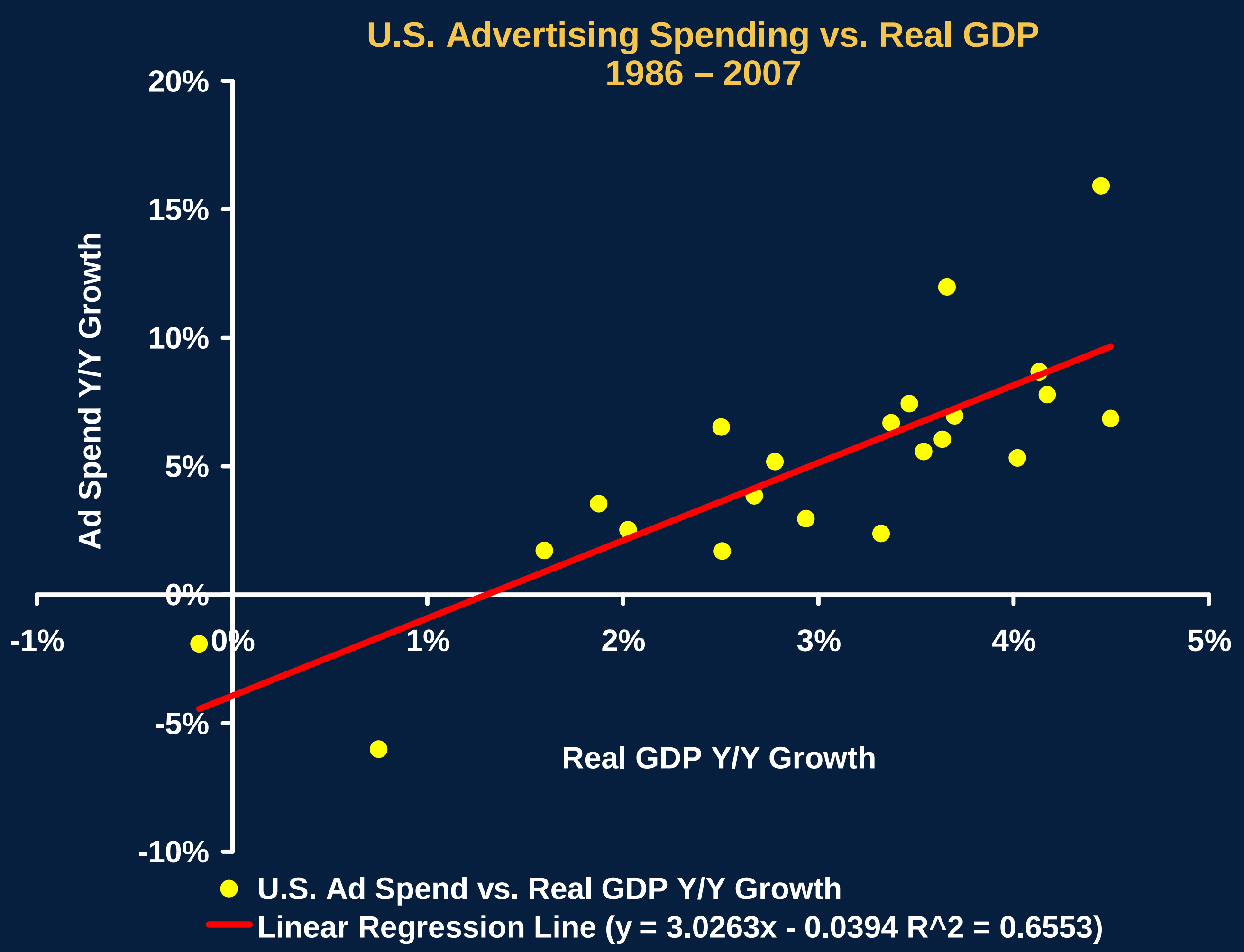
Source: Zenith Optimedia, IMF, Morgan Stanley Research.

Simple Regression Analysis:
1) Ad spend growth 3x sensitivity of real GDP growth
2) If GDP flat (current MS forecast), ad spend could decline ~4% Y/Y



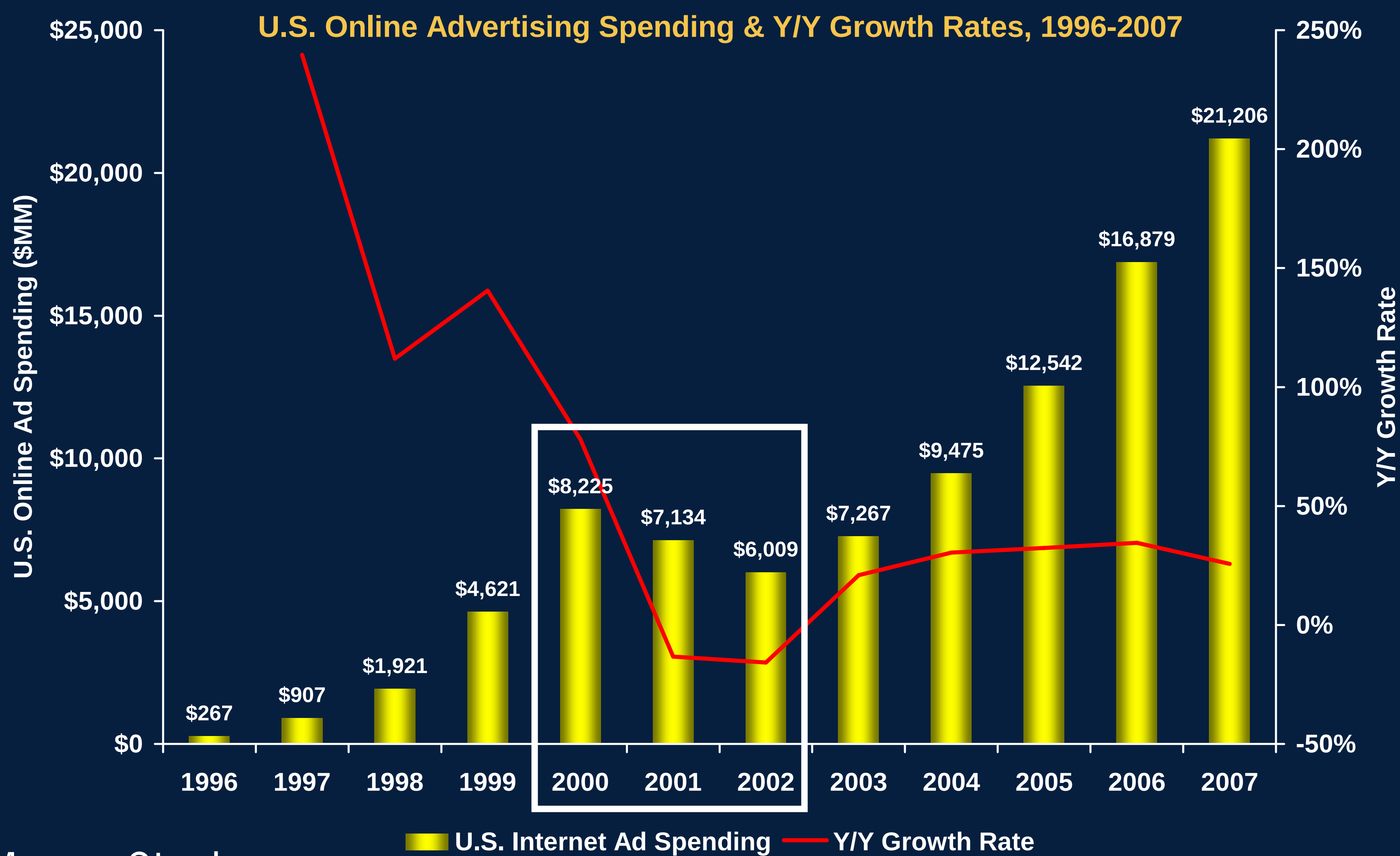
$y = 3.0263x – 0.0394$
$R^2 = 0.6553$

y – ad spend growth
x – real GDP growth

If real GDP Y/Y growth is…	Ad spend Y/Y growth could be…
5%	*11%*
4	*8*
3	*5*
2	*2*
1	*-1*
0	*-4*
-1	*-7*
-2	*-10*
-3	*-13*
-4	*-16*
-5	*-19*

Note: R^2 of 0.655 indicates that correlation is not perfect (n=22), and correlation does not equal causation.
Source: Zenith Optimedia, IMF, Morgan Stanley Research.

Online Ad Spending Bad News =
From 2000 to 2002, USA Spending Fell 27%



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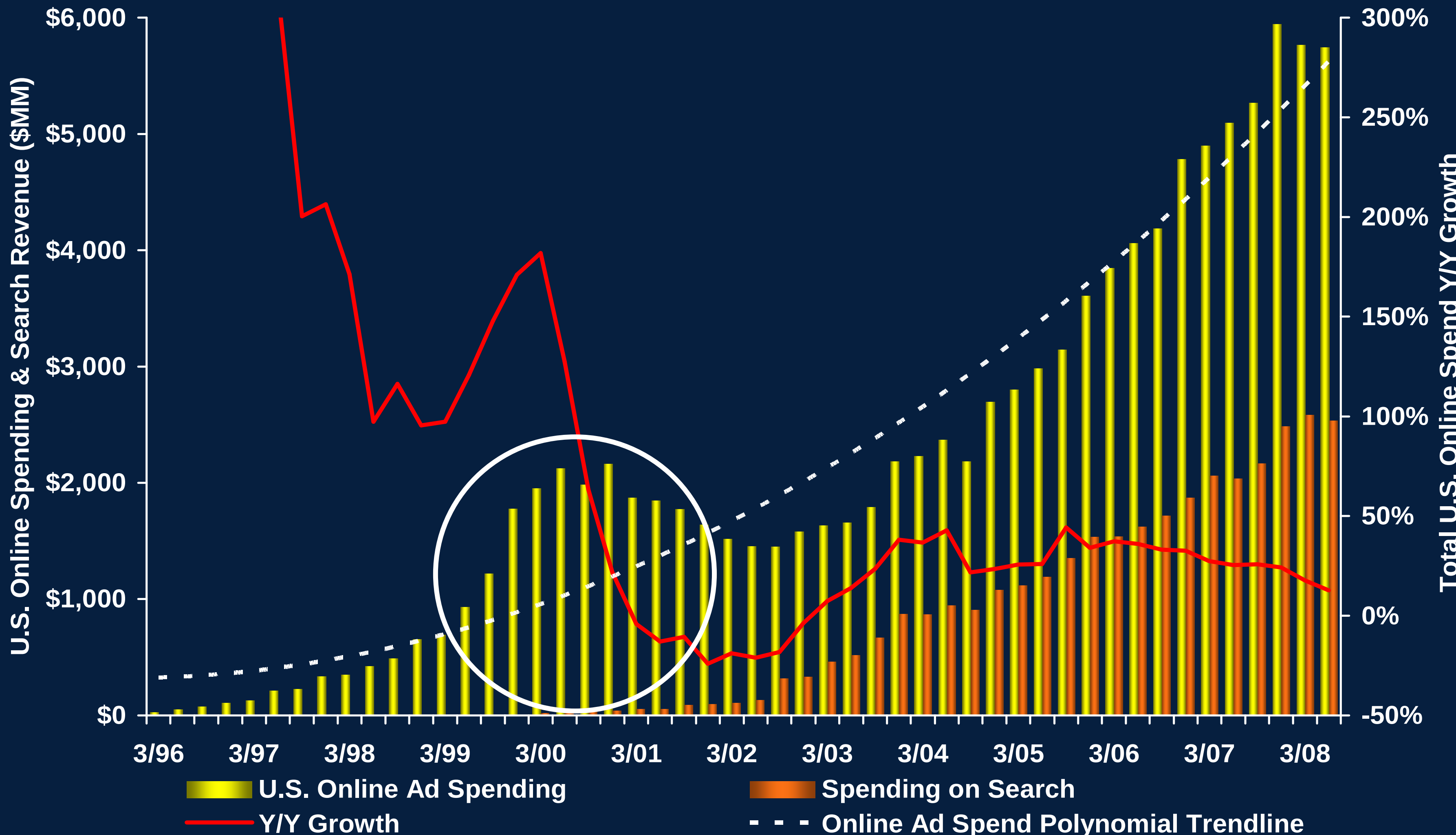
Source: IAB, Morgan Stanley Research.

Online Ad Spending Good News = Now, Less Ad 'Over Spending' vs. Trend Line However, Q/Q Pattern Looks a Bit Like Early 2001

U.S. Online Advertising Spending & Y/Y Growth Rates, CQ1:96-CQ2:08



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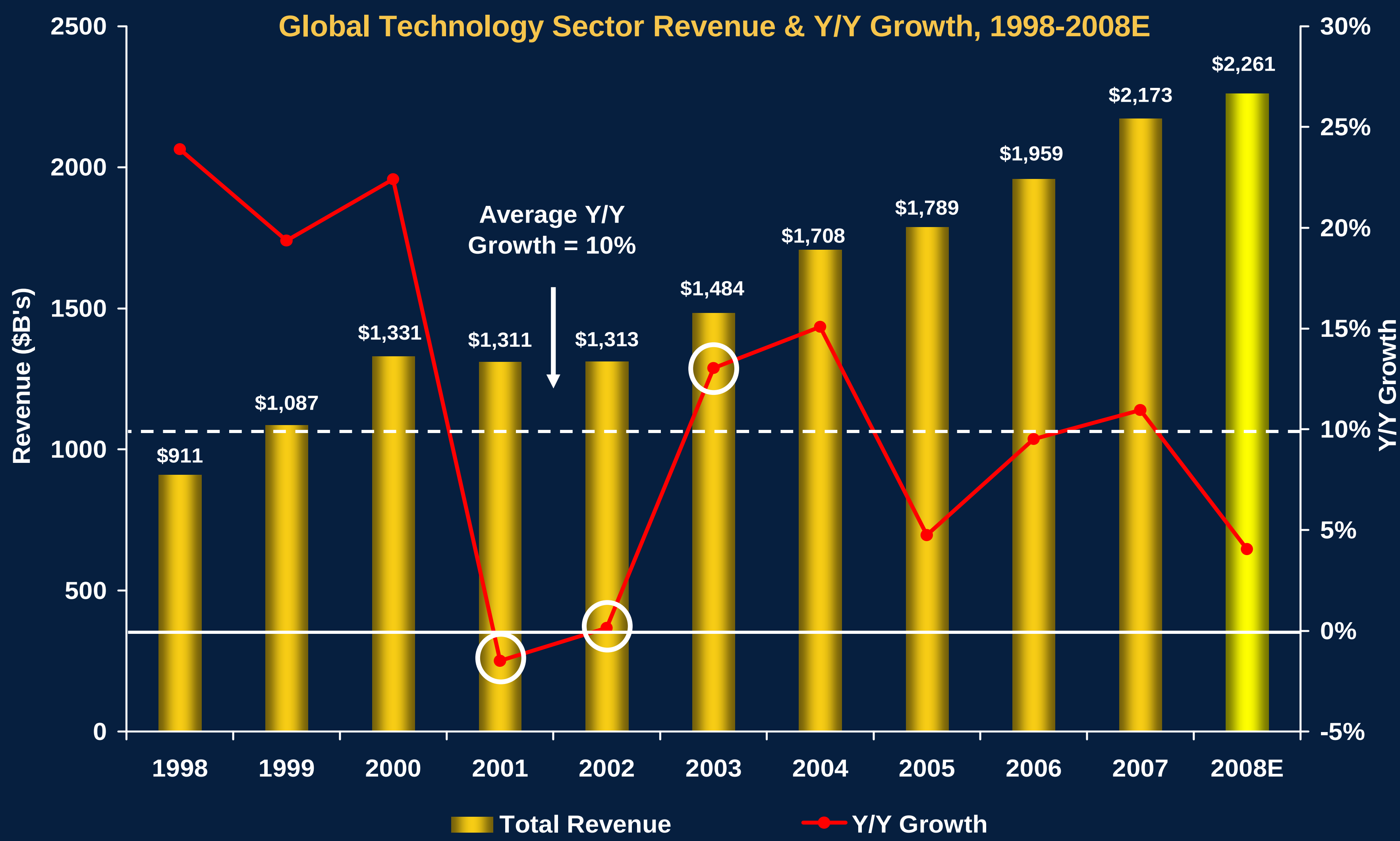
Source: IAB, Morgan Stanley Research.

Tech Spending 2000-2003 – 2 Years of Negative / Flat Growth – -1% in 2001 / 0% in 2002 / +13% in 2003



Note: Revenue and growth rates compiled from 570 publically traded global technology companies as of 10/30/08. Certain data points unavailable in earlier periods.
Source: FactSet, Morgan Stanley Research.

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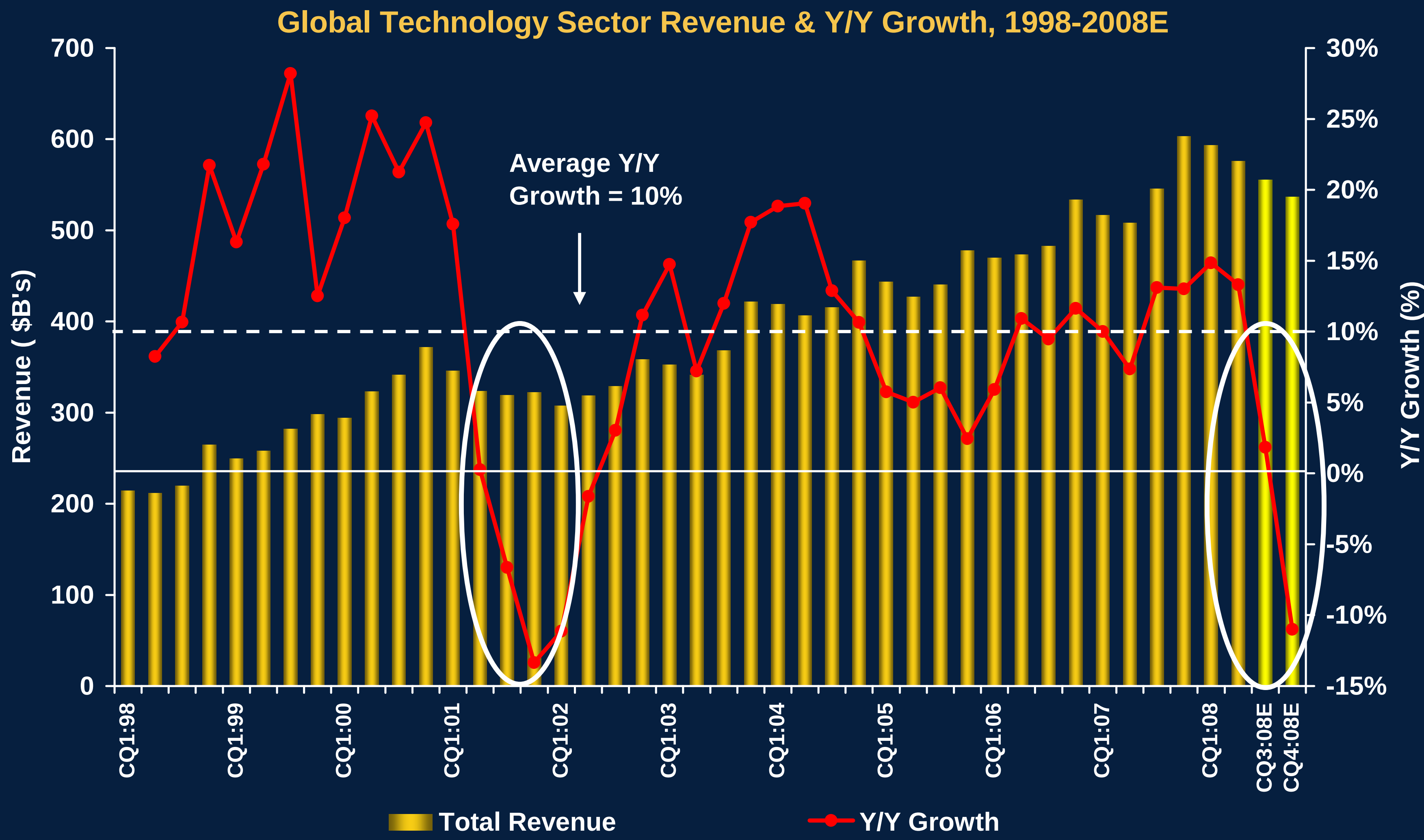
5 Quarters of Negative Q/Q Growth, Then 5 Quarters of Flat / Modest Growth – Trough Y/Y Decline of 13% in CQ4:01, Current CH2:08 Forecasts Show Faster Rate of Decline than CH2:01



Note: Revenue and growth rates compiled from 570 publically traded global technology companies as of 10/30/08. Certain data points unavailable in earlier periods.
Source: FactSet, Morgan Stanley Research.

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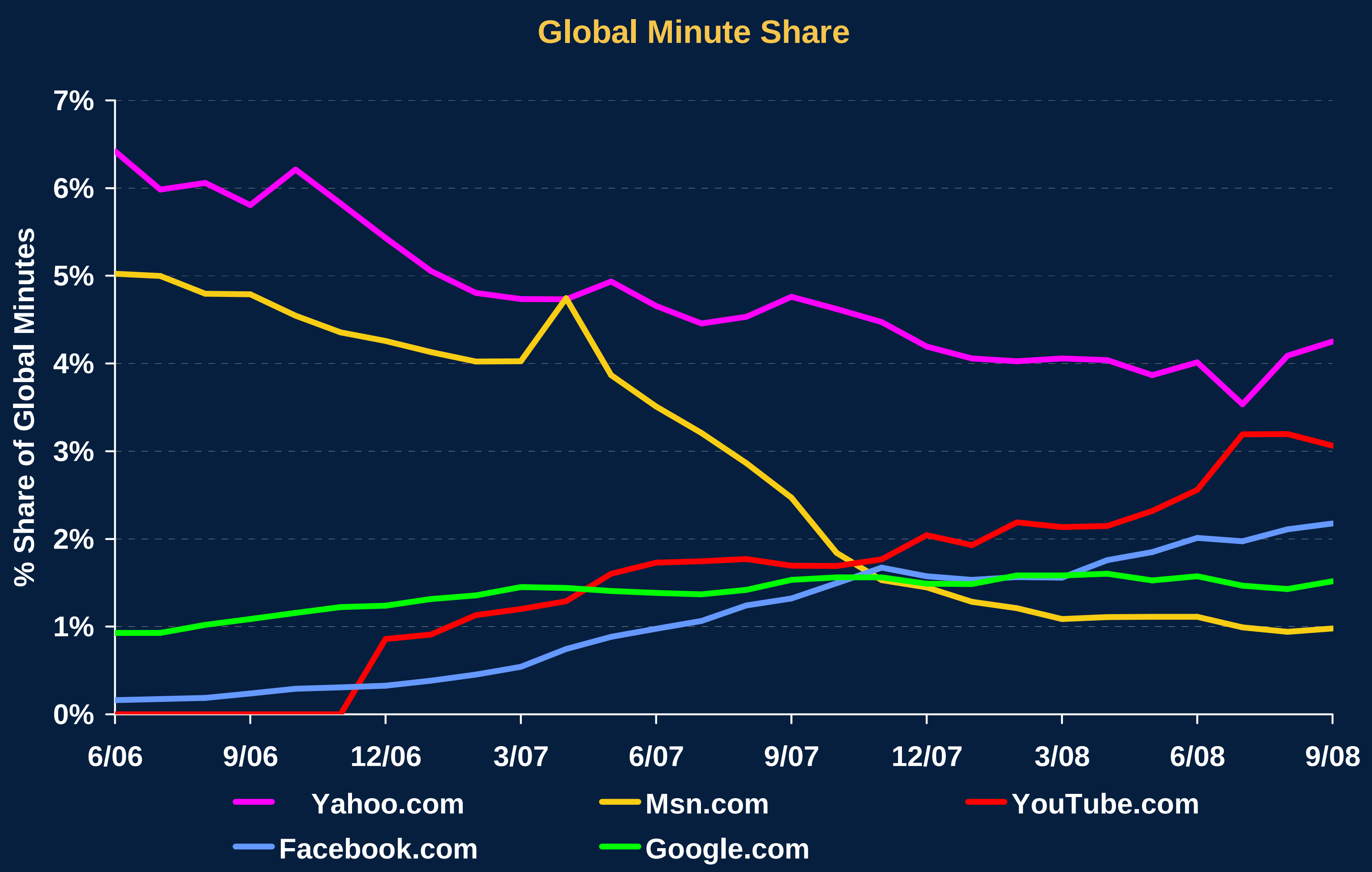
Technology / Internet

1) Digital Consumer –
Undermonetized social networks / video / VoIP
driving powerful usage growth – opportunity for innovative
marketers to capitalize on low CPMs

YouTube + Facebook Gained 500 Basis Points of Relative Share in Past 2+ Years While Yahoo! + MSN Lost Share



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Source: ComScore Global 9/08, Morgan Stanley Research.

Undermonetized Internet Usage Growth Drivers – Video + Social Networking + VoIP + Payments

	Users	Y/Y Growth	Comments
YouTube	329MM[1]	+52%	#3 site in global minutes; 5B views of online video in the US (Americans watched a total of 12.6B videos / 591MM hours online in 9/08); #2 global search engine – search queries on YouTube reached 9.2B in 8/08 (+123% Y/Y), surpassing Yahoo! sites with 8.5B searches (+2% Y/Y).[1,2,3,6]
facebook	161MM[1]	+119%	#5 site in global minutes; 120MM+ active users; 50%+ users outside of college; 24K+ applications + 95% of Facebook members have used at least one[1,4]
skype	370MM[5]	+51%	If 'carrier' then #2 behind China Mobile; $1.55 annualized revenue per registered user (-3% Y/Y); 2.2B Skype Out minutes (+54% Y/Y); 16.0B Skype-to-Skype minutes (+63% Y/Y)[5]
PayPal	65MM[5]	+19%	$15B total payment volume (TPV), +28% Y/Y, higher than eBay's global gross merchandise volume; Off-eBay payment volume +49% Y/Y to 51% of TPV[5]

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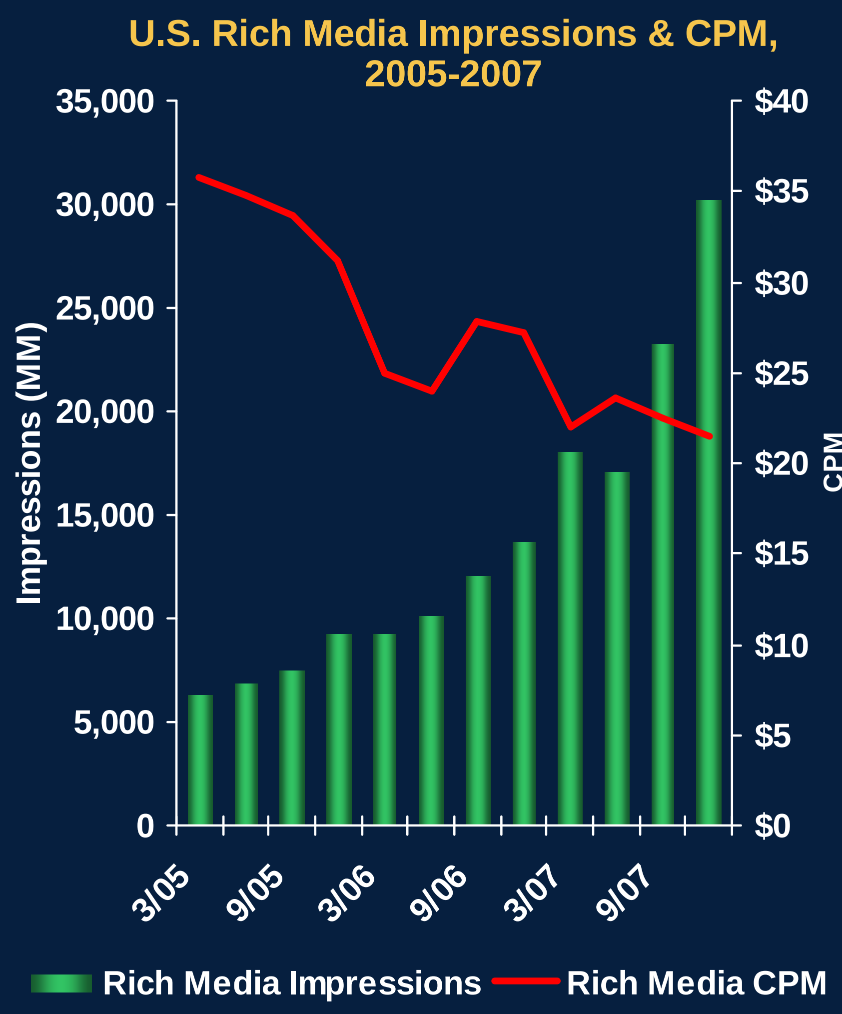
Source: (1) comScore global 9/08; (2) comScore Video Metrix 8/08; (3) YouTube; (4) Facebook; (5) eBay CQ3, (6) comScore qSearch, 8/08. Morgan Stanley Research.

Ad Supply > Ad Demand –
Ad Impressions Growing Rapidly…CPMs Declining



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Source: Internet Advertising Bureau (IAB), Nielsen NetRatings, Morgan Stanley Research.

Technology / Internet

2) Mobile –
Innovation in wireless products / services accelerating – changes should create + destroy significant wealth

Mobile –
A New Computing Cycle With Game Changer Products with Extraordinary Ease-of-Use

Nintendo Wii

30MM consoles since 11/06 launch – raised bar with motion sensors + playability

Apple iPhone 3G

1MM units sold in three days (10MM apps downloaded over the same period); mobile browser market share already 50% > Windows Mobile – raised bar with ease-of-use + functionality

Microsoft Xbox 360

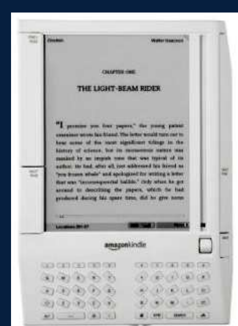
12MM Xbox Live members (+100% Y/Y) since 11/02 launch – raised bar with online playability

3 Skype Phone

500K+ units in < 200 days. Leverage large Skype user base of 370MM (+51%Y/Y) + create a low-cost web-enabled VoIP, social networking, digital presence phone. INQ1 next…

Amazon.com Kindle

With free EV-DO + 190K titles + newspaper / magazine / blog subscriptions. Amazon may do with books what Apple did with tunes. Kindle accounts for 12% of AMZN's sales for titles available on Kindle



Garmin + TomTom + Dash PND

18MM+ units sold in 2007 (+125% Y/Y) – lower price points + innovative features such as spoken street names have driven NA / Western Europe PND penetration of 11% in 2007

Source: Nintendo (CQ2:08), Microsoft, Amazon.com, Apple, TechCrunch estimates, eBay (CQ3), Garmin, TomTom, Net Applications 12/07, Morgan Stanley Research.

Notebooks Retrofitting to Cloud Via 3G – PCs Retrofitted to Internet Via Dial-Up ~1995 Deja Vu?!

- Global cellular modem to rise from 5MM in 2006E to 68MM+ shipments in 2012E (53% CAGR) - ABI Research, 5/07
- 64% of new Austrian broadband subs used cellular modems, CQ2:07
- 66MM global WiFi unit shipments, C2007E - Synergy Research
- 13MM cellular modem users in USA, CQ2:08E - Nielsen Mobile

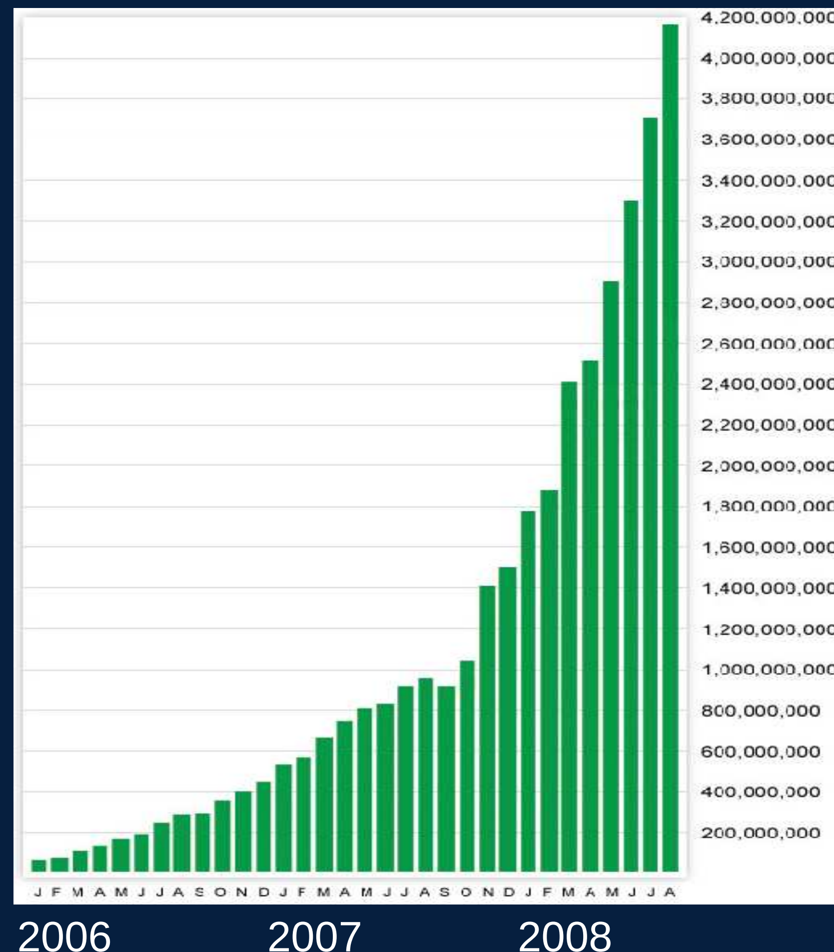
Source: ABI Research (Cellular modem shipments includes PC Cards / ExpressCards, USB modems, internal modems + 3G/Wi-Fi routers); Synergy Research Group (Access Points, Wireless Gateways / Routers, Wireless Client Adaptors, VoWLAN phones); Nielsen Mobile.

Opera Mobile Web Browser Illustrates Mobile Internet Growth - ~17MM Users (+357% Y/Y), 4.1B Page Views (+337% Y/Y), 8/08

A full web experience + 50% faster

- Remote Server first pre-processes requested web pages
- Web content is then compressed to reduce the size of data transfer
- Fully-rendered web pages sent to your phone
- Advantage: full web rendering and faster browsing on simpler phones

Pages transcoded per month



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Source: Opera Software, Morgan Stanley Research.

Mobile Internet Evolving Very Quickly

Date	Important Announcements in the Mobile Industry
10/01/08	AT&T announces reorganization to better align broadband, TV and mobile services for consumers.
10/01/08	Apple drops the non-disclosure agreement (NDA) for iPhone application developers.
9/30/08	Nokia to acquire leading consumer email and instant messaging provider OZ Communications.
9/29/08	Nokia's Chief Technology Officer Bob Iannucci resigns.
9/28/08	Motorola to build a 350-person Android team.
9/24/08	Google, T-Mobile and HTC launch G1, the first phone based on Google's Android open mobile platform.
8/04/08	Motorola hires Qualcomm's Sanjay Jha as co-chief executive to oversee the mobile devices division.
7/23/08	Nokia, Qualcomm settle patent dispute.
7/11/08	Apple and AT&T launch iPhone 3G in the U.S.
6/24/08	Nokia acquires Symbian Limited and establishes the Symbian Foundation.
5/12/08	RIM introduces the BlackBerry Bold smartphone.
5/12/08	RIM, RBC and Thomson Reuters to anchor a $150MM BlackBerry Partner Fund focused on developing mobile applications.
5/08/08	Apple, KPCB launches $100MM iFund venture capital pool to support iPhone / iPod Touch application development.

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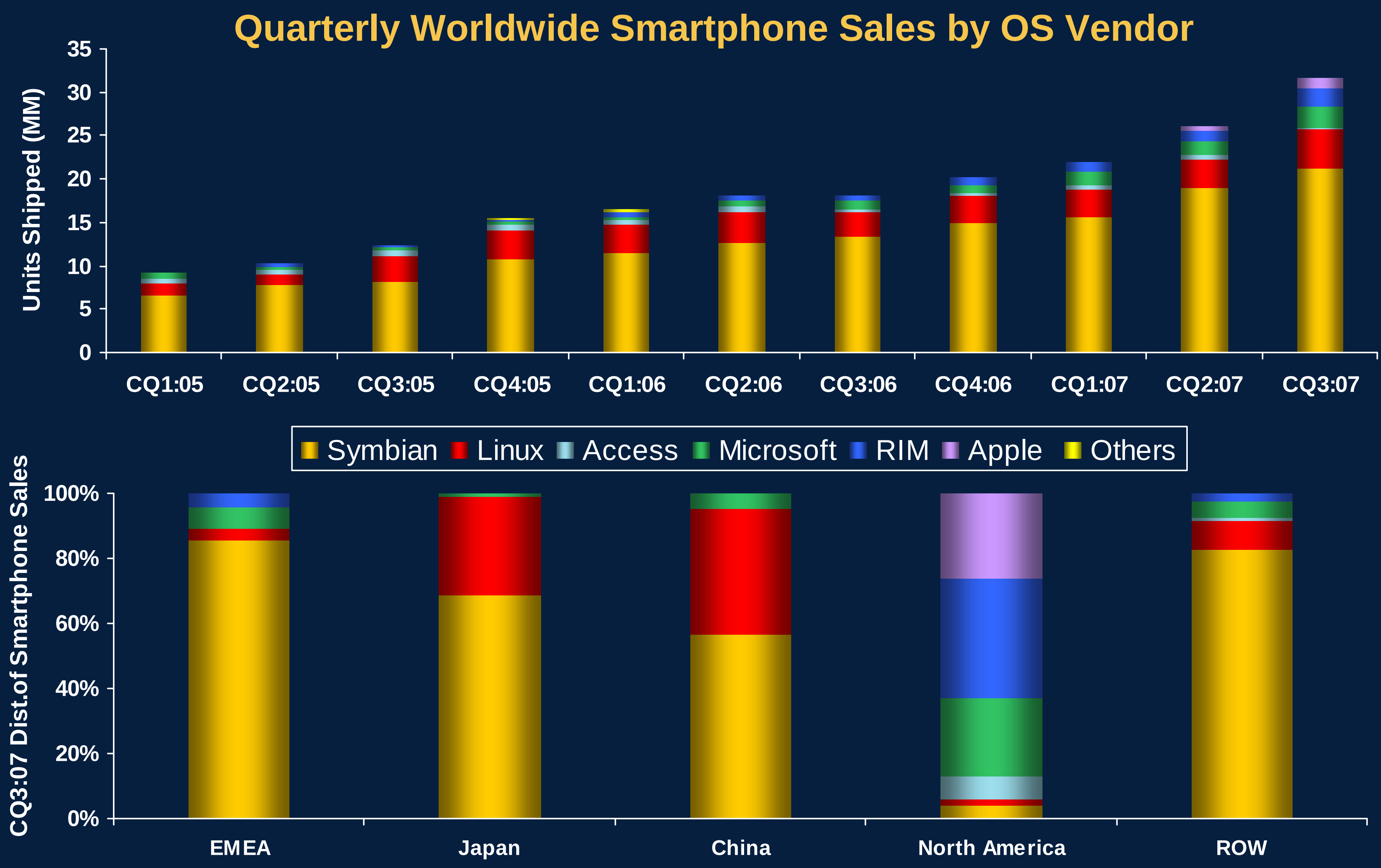
Source: Nokia, AT&T, Apple, Motorola, Google, T-Mobile, RIM, as of 10/01/08. Morgan Stanley Research.

Symbian Dominates Smartphones But Losing Share –
USA Could Gain Lead in Mobile Internet Innovation!?



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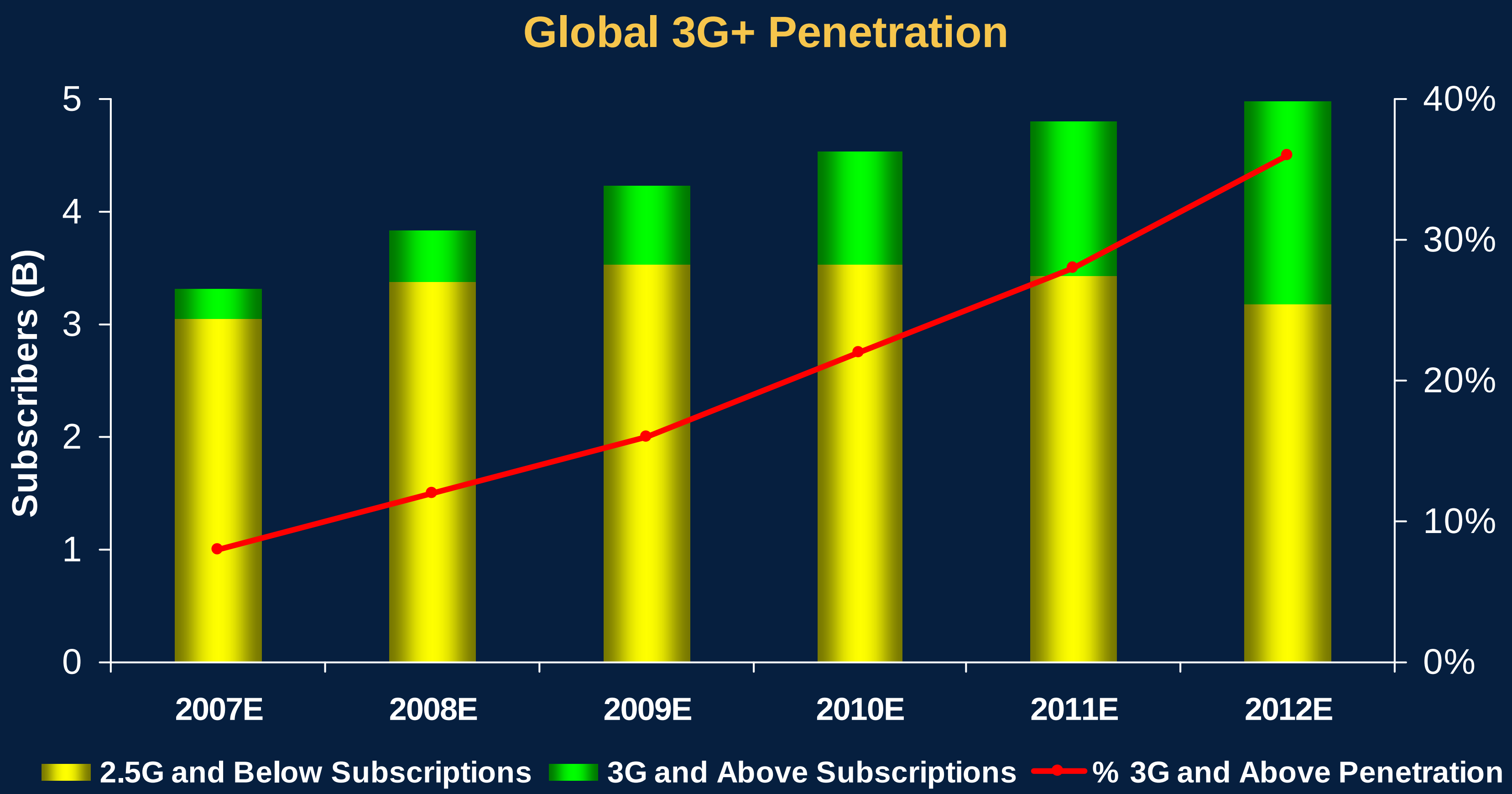
Source: Canalys, Symbian, 2007.

Still Early in 3G+ Ramp But…
2010 Should Be Inflection Point @ ~22% of Subscribers



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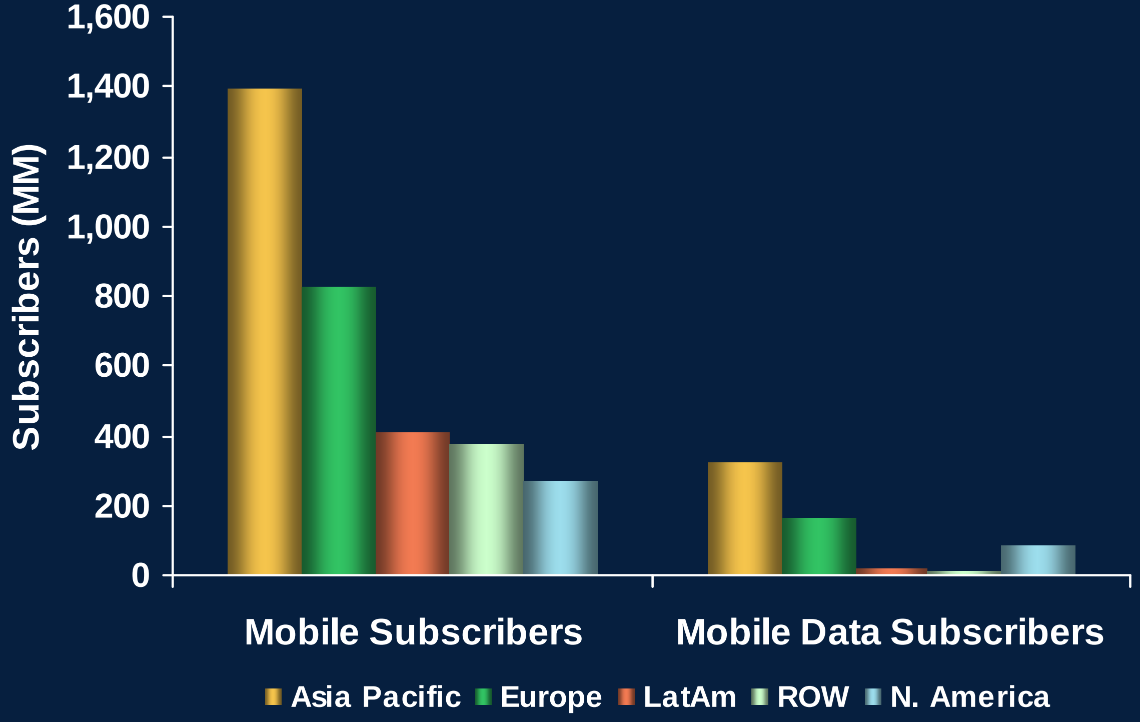
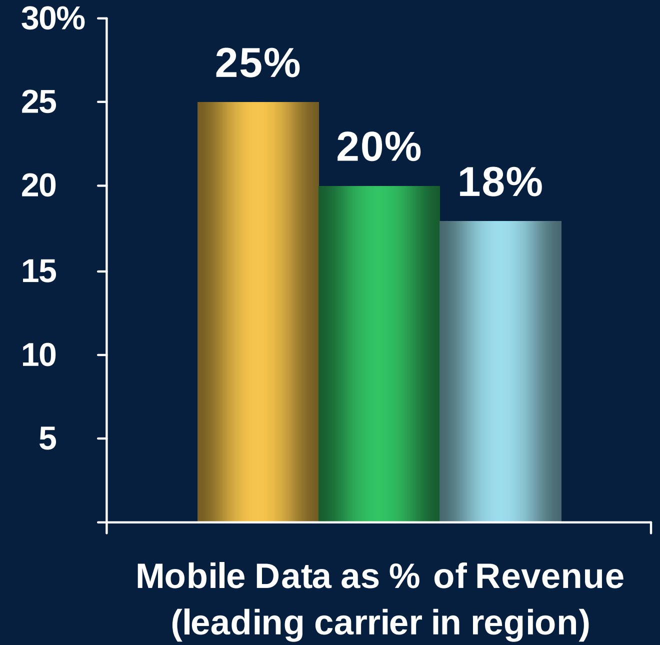
Note: 2.5G can be compared to 'narrowband' Internet access, while 3G can be compared to 'broadband ' Internet access.
Source: Ovum, Morgan Stanley Research.

Asia / Europe Lead in Mobile $s –
Mobile Data 25% of Carrier Revenue in Asia vs. 18% in US, 2007





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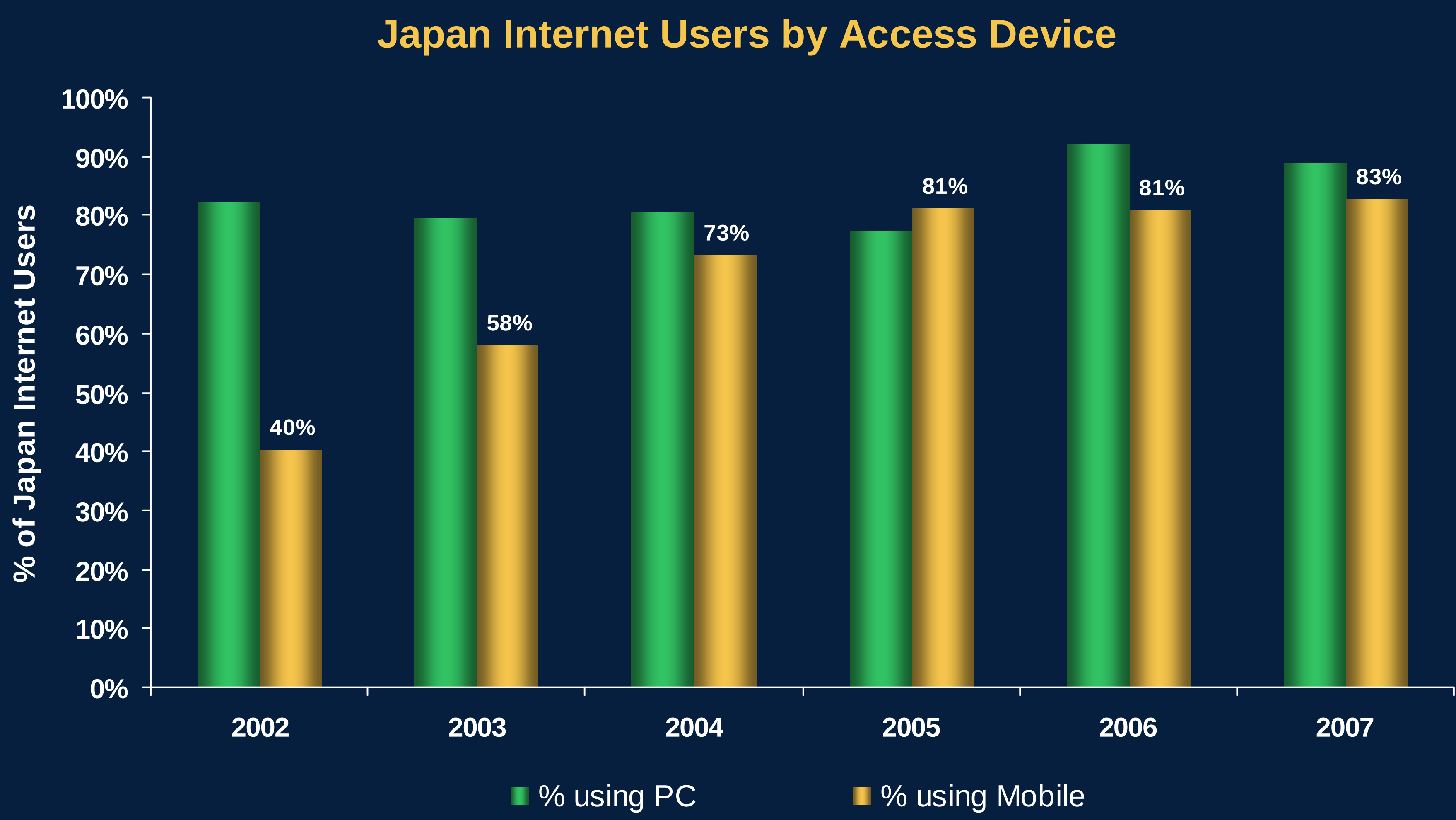
Source: ITU, Informa, Company Reports. Includes SMS; (1) Leading carriers by wireless subscribers in Asia Pacific, Europe, and North America are: China Mobile, Vodafone (Europe only), and AT&T, respectively.

Japan Leads in Mobile Internet Usage – Mobile Nearly Matches PC



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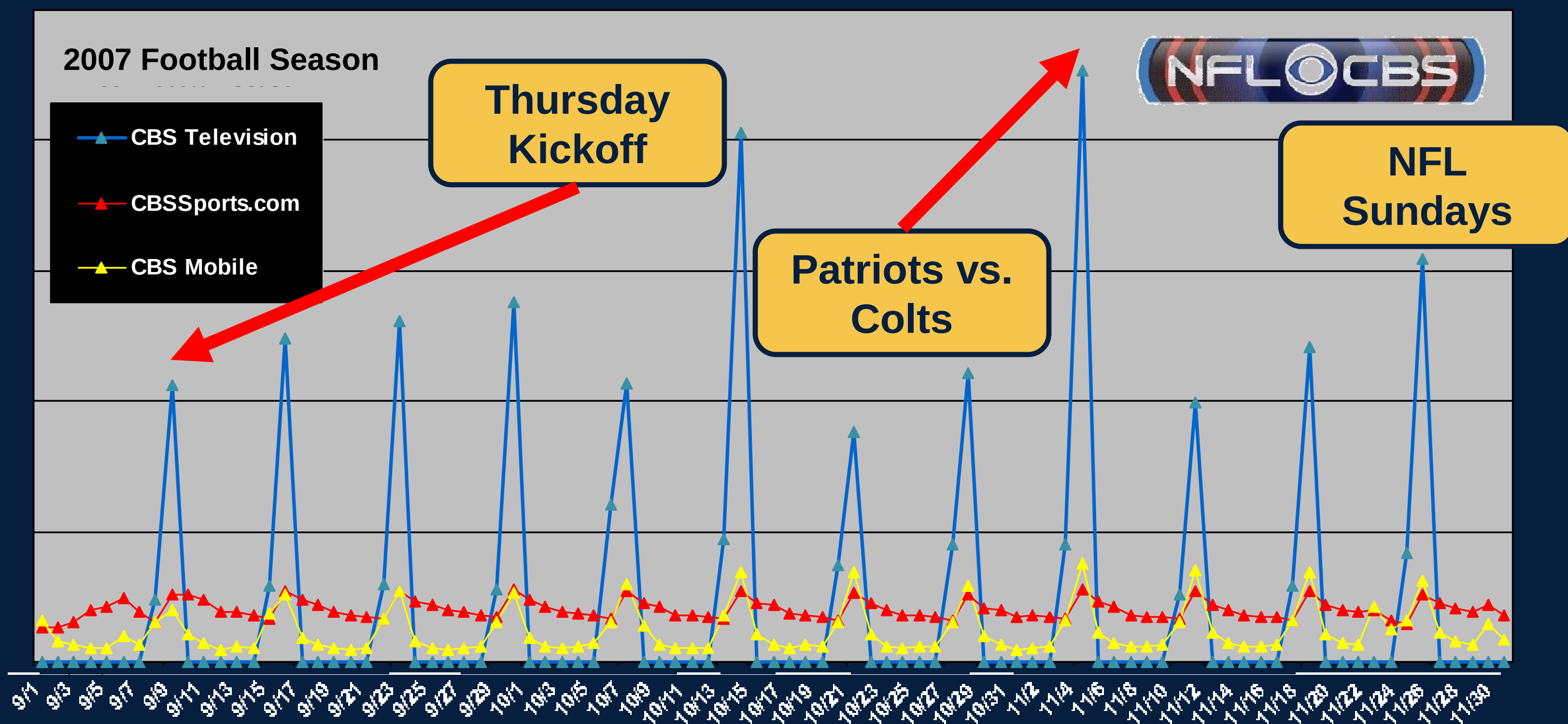
Source: Japan Ministry of Internal Affairs and Communication.

TV + Internet + Mobile (CBS) – Complementary Platforms



- **Plasma Screen TV** – HD Quality Event
- **PC Screen** – Fantasy, Stats, and Injury Reports
- **Mobile Screen** – Highlights, Scores

Source: CBS Sports Interactive.

Technology / Internet

3) Emerging Markets –
Pacing next wave of technology adoption – leading players in many emerging markets aren’t the usual suspects…

Broadband + Mobile + Internet = Especially High Global Growers

Category	2002 Y/Y Growth Rate	2007 Y/Y Growth Rate	Global Market Size	2007 Net Additions
Broadband Subscribers	78%	23%	349MM	64MM
Mobile Subscribers	20	20	3,319MM	563MM
Internet Users[1]	26	16	1,352MM	182MM
Financial Cards[2]	12	11	8,016MM	804MM
Installed PCs	12	8	900MM	66MM
Cable / Satellite TV Subscriptions	8	6	761MM	40MM
GDP per Capita	2	3	22K	1K
Population	2	1	6,501MM	77MM
Telephone Lines	5	-0	1,277MM	-4MM

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Note: (1) Include mobile Internet users, based on ITU's compilation of country reports, surveys and estimates; (2) Includes credit / debit / ATM / charge cards in circulation; Source: Morgan Stanley Research.

Top 10 Emerging Markets to Surpass Top 10 Developed Markets in Internet Users in 2008

Top 10 Emerging Markets vs. Top 10 Developed Markets – Internet Users

Note: Emerging / developed markets as defined by IMF; Top 10 chosen based on largest GDP.
Top 10 emerging markets: China, India, Russia, Brazil, Mexico, Turkey, Indonesia, Iran, Poland, and Saudi Arabia;
Top 10 developed markets: U.S., Japan, Germany, U.K., France, Italy, Spain, Canada, South Korea, and Australia;
Source: IMF, ITU, Morgan Stanley Research.

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Internet User Net Additions –
China, Brazil, Pakistan, Columbia, India, Iran, Russia Impressive

Rank	Country	2007 Net Internet Users Added (000's)	2007 Y/Y Growth	Penetration Level
1	China	73,000	53%	16%
2	United States	9,800	5	73
3	Brazil	7,400	17	26
4	Pakistan	5,500	46	11
5	Colombia	5,395	80	25
6	India	5,000	7	7
7	Iran	5,000	28	32
8	Russia	4,311	17	21
9	Germany	3,900	10	52
10	France	3,553	12	55
11	Vietnam	3,188	22	21
12	Canada	3,000	12	85
13	Egypt	2,620	44	12
14	Indonesia	2,424	23	6
15	United Kingdom	2,400	6	66
16	Mexico	2,248	11	22
17	Thailand	2,003	18	20
18	Nigeria	2,000	25	7
19	Poland	1,915	14	42
20	Venezuela	1,580	38	21

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Note: Penetration is per person. Source: ITU, Morgan Stanley Research.

Mobile Subscriber Net Additions –

Pakistan = 226% more than USA, Indonesia = 33% more than USA, Iran just 5% less than USA

Rank	Country	2007 Net Mobile Subs Added (000's)	2007 Y/Y Growth	Penetration Level[1]
1	China	86,228	19%	41%
2	India	67,570	41	21
3	Pakistan	44,346	129	50
4	Brazil	21,062	21	64
5	Russia	19,326	13	120
6	Indonesia	18,032	28	36
7	United States	13,596	6	85
8	Iran	12,910	77	42
9	Egypt	12,046	67	41
10	Germany	11,499	13	118
11	Mexico	11,237	20	65
12	Thailand	10,654	26	78
13	Turkey	9,313	18	90
14	Argentina	8,891	28	103
15	Saudi Arabia	8,718	44	117
16	Vietnam	8,225	53	28
17	Nigeria	8,073	25	28
18	Philippines	7,306	17	57
19	Peru	6,645	76	55
20	Algeria	6,565	31	80

Note: (1) Penetration is per person; mobile subscribers include all active SIM card subscriptions; people in many countries outside of the US use more than one SIM cards on a regular basis, which may results in greater than 100% penetration levels.
Source: Morgan Stanley Research.

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Closing Thoughts

1) Companies with cogent business models that provide consumer value should survive / thrive – consumers need value more than they have needed it in a long time…and the Internet should be the best place to find it…

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Lots of Retail Share to Gain
USA Online Penetration = 6% and Rising

Categories' Online Penetration of US Retail Market, 2007

>20%		10 - 20%		<10%	
Computer products	45%	Toys / video games	19%	Home furnishings	9%
Other event tickets	27%	Baby products	19%	Cosmetics / fragrances	9%
Books	24%	Consumer electronics	18%	Sporting goods / apparel	8%
Music / video	24%	Office supplies	13%	OTC meds / personal care	6%
Gift cards / certificates	21%	Flowers / cards	12%	Appliances / tools	5%
		Jewelry	11%	Pet supplies	4%
		Apparel / footwear	10%	Auto / auto parts	2%
		Movie tickets	10%	Food / beverage / grocery	1%

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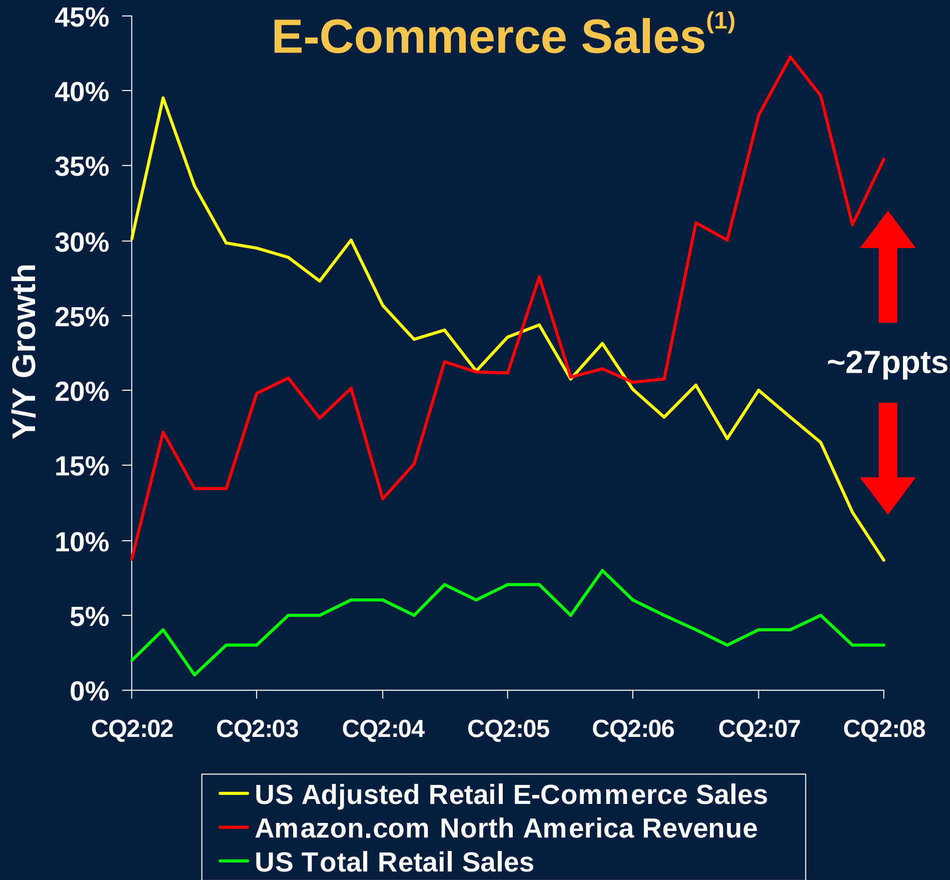
Source: The State of Retailing Online 2008 (Forrester Research).

Amazon.com Should Continue to Gain Share

High Customer Satisfaction / Recommendation Engine / Impressive Metrics

Amazon.com vs. US Retail E-Commerce Sales(1)



Amazon.com Key Operating Metrics

	CQ4:07	CQ1:08	CQ2:08	CQ3:08
Revenue	**$5,673**	**$4,135**	**$4,063**	**$4,264**
Y/Y Growth	***42%***	***37%***	***41%***	***31%***
Active Customers	**76**	**79**	**82**	**85**
Y/Y Growth	***19%***	***19%***	***18%***	***17%***
TTM Revenue per Active Customer	**$195**	**$202**	**$210**	**$215**
Y/Y Growth	***17%***	***17%***	***19%***	***18%***
Total Units	**241**	**196**	**190**	**203**
Y/Y Growth	***33%***	***31%***	***32%***	***30%***

(All metrics in MMs, except for TTM Revenue per Active Customer)

Morgan Stanley

(1) Adjusted for eBay by adding eBay US gross merchandise volume and subtracting eBay US transaction revenue; Source: Amazon.com (CQ2:08), US Dept. of Commerce (CQ2:08), Morgan Stanley Research.

Lots of Ad Share to Gain

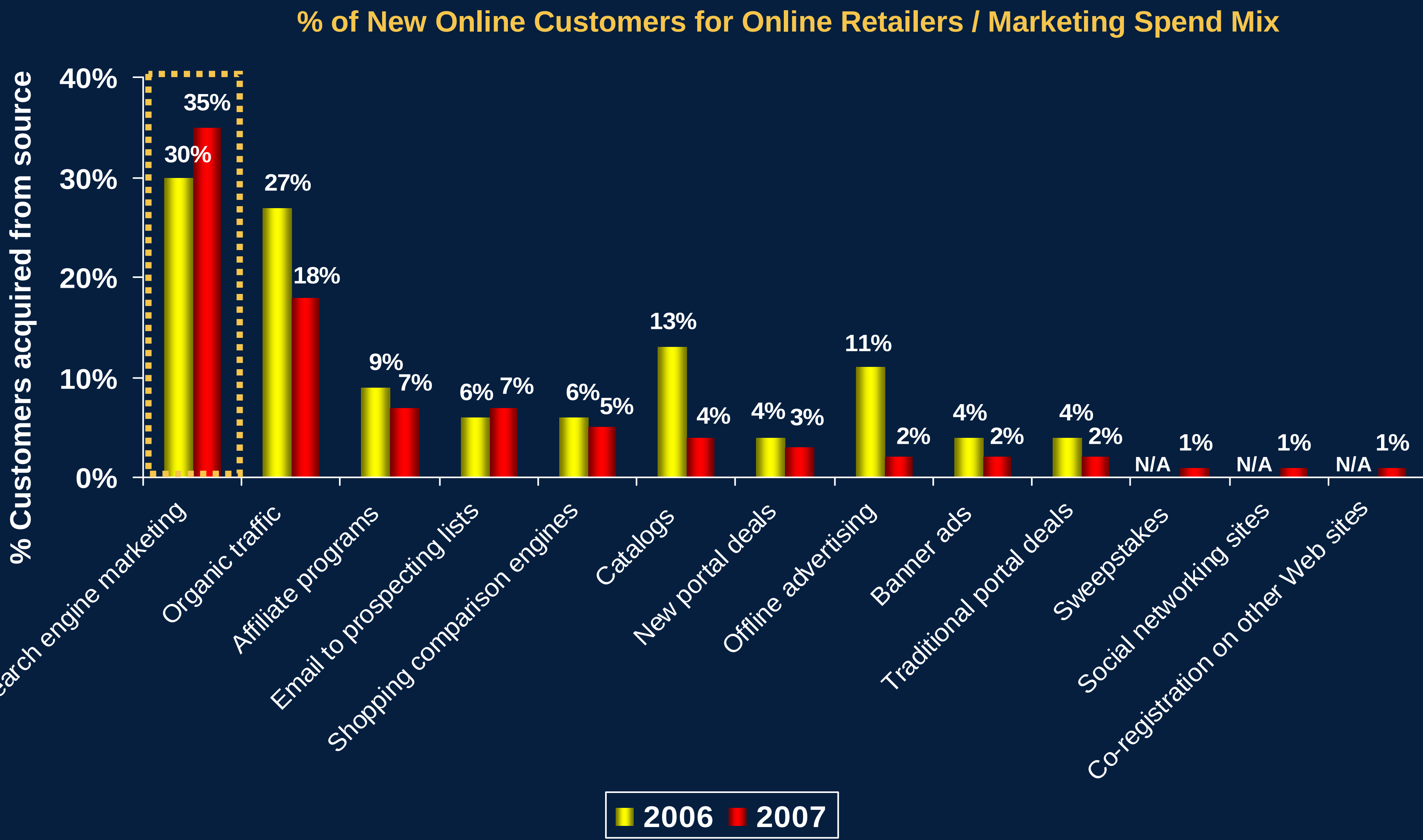
$288 Per Home vs. $818 for Newspapers Implies Upside

Medium	2007 Advertising Spending ($B)	Households (MM)	Ad Spending / Household ($)
Direct Telephone	$110	107	$1,032
Promotions	116	115	1,011
Newspapers	46	56	818
Classifieds	*15*	*56*	*260*
Direct Mail	61	114	532
Broadcast TV	44	112	390
Cable TV	27	80	327
Internet / Online	**21**	**71**	**288**
Radio	20	113	172
Yellow Pages	16	114	**141**
Outdoor	7	114	63
Total	$469		**$4,774**
Average	47		477

Newspapers include Classifieds. Promotions ($116B) include: incentives ($30B), promotional products ($27B), point-of-purchase ($19B), specialty printing ($9B), coupons ($7B), premiums ($7B), promotional licensing ($7B), promotional fulfillment ($6B), product sampling ($2B), and in-store marketing ($2B). Households may use multiple advertising mediums.

Source: PricewaterhouseCoopers, IAB, Jupiter Research, McCann-Erickson, Morgan Stanley Research.

Search Should Continue to Become More Important – 34% Y/Y Google Query Growth (CQ3:08)

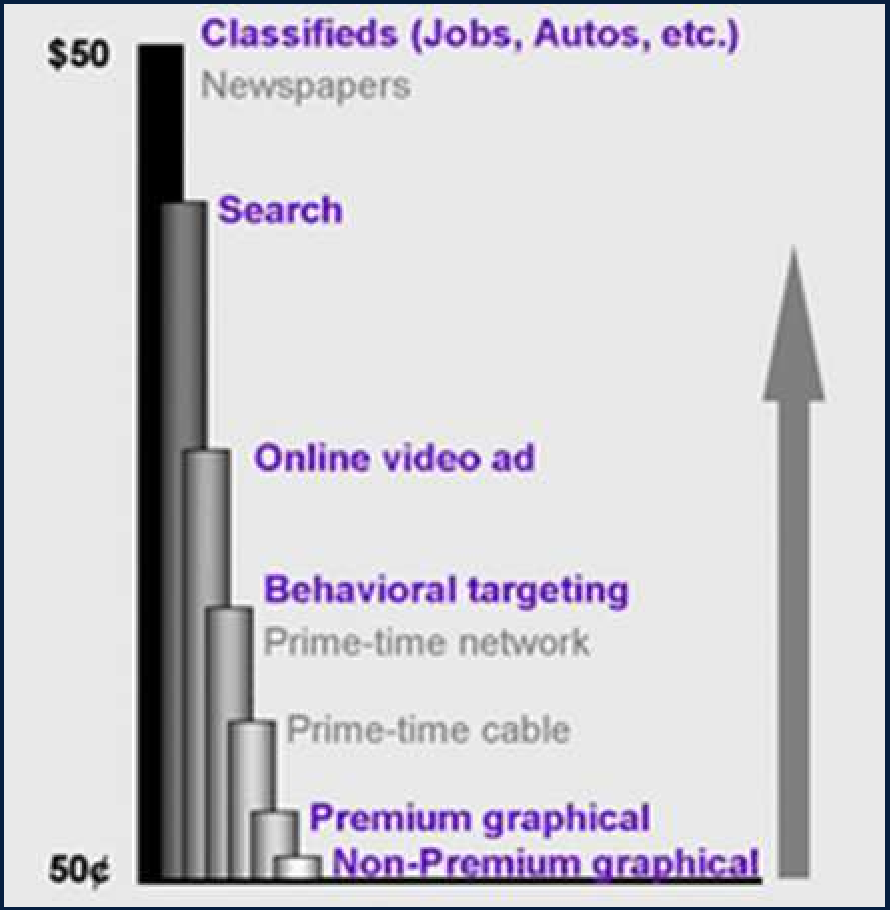


Morgan Stanley

Source: The State of Retailing Online 2007 / 2008 (Forrester Research), comScore global 9/08, Morgan Stanley Research.

While CPMs / CPCs May be Under Near-Term Pressure, If Targeting / ROI Continue to Improve (as they should) There Should Be Long-Term Upside

Estimated CPMs

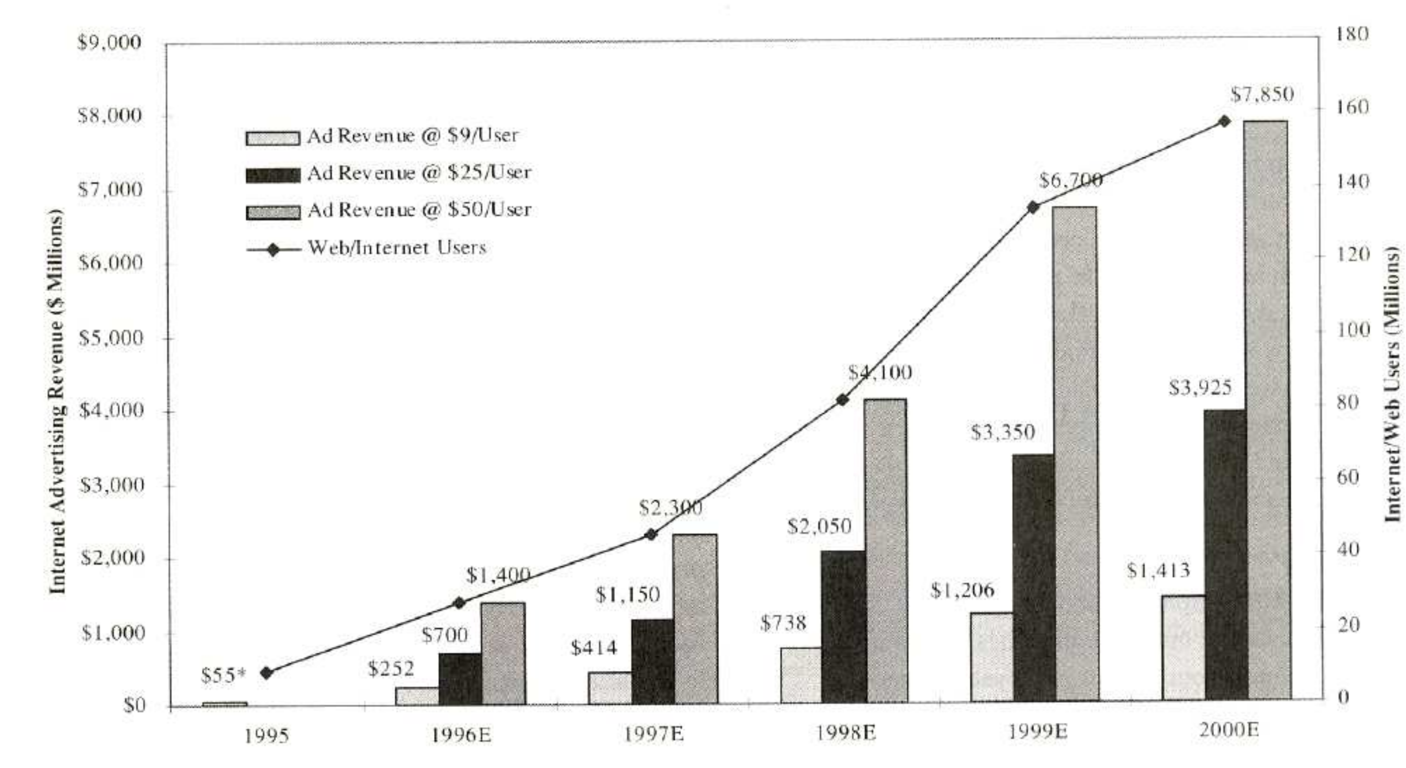


Source: Yahoo! Investor Presentation, 3/08.

Best News =
History Proves That Ads Follow Eyeballs, It Just Takes Time

1996 – Morgan Stanley Global Estimates in ‘The Internet Advertising Report’

Estimated Web Users vs. Advertising Revenue, Using Various Steady-State Assumptions, 1995–2000E



Source: Morgan Stanley Technology Research.
** 1995 contains actual revenue, as reported by Jupiter Communications.*
E = Morgan Stanley Technology Research Estimate.

2007 – We’re @

Internet Users:

1.35B(1)

Online Ad Revenue:

$41B(2)

Ad Revenue per User:

$30(3)

Note: (1) ITU, Morgan Stanley Research estimate, comScore reports a lower number for global unique visitors due to their sampling method; (2) ZenithOptimedia; (3) Using comScore’s #s, global online ad revenue per unique user would have been ~$53; Source: ITU, ZenithOptimedia, Morgan Stanley Research.

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(as of October 31, 2008)

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	Coverage Universe		Investment Banking Clients (IBC)		
Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	**869**	**39%**	**275**	**42%**	**32%**
Equal-weight/Hold	**983**	**44%**	**286**	**44%**	**28%**
Underweight/Sell	**403**	**18%**	**89**	**14%**	**22%**
Total	**2,255**		**650**		

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Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

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