

Companies in the Internet Industry have experienced their share of ups and downs lately. A number of participants have fared rather well in recent times, and they should continue to perform well in the quarters ahead. We do expect that a measure of unevenness will persist. The possibility of new entrants and increased regulation are two of the more common concerns for this group. Still, long-term prospects look fairly bright here. Many of the companies found on the following pages appear to be well positioned in markets with attractive growth potential.

Business Fundamentals

A number of companies in the Internet Industry have performed well in recent times, and we expect the good times to persist. Of note, Chinese-language Internet search provider *Baidu* is well positioned in its market and ought to further benefit as many of its online marketing customers resume more-normal spending patterns. Meanwhile, *Booking Holdings* will likely achieve a partial rebound in revenues and earnings this year, after challenging times in 2020, owing to the emergence of the coronavirus pandemic. U.S. bookings and room nights have been improving, but Asian travel activity remains well below pre-pandemic levels. Elsewhere, *Facebook* continues to report strong operating results. The company remains well positioned in the social media space, and should continue to experience moderate growth in active users. Mobile advertising should remain the most important driver of performance here in the coming quarters. In addition, *Alphabet's* advertising operations are benefiting from healthy volume growth. Many of its customers that had previously cut back on marketing spending due to the pandemic have since resumed a more-normal level of advertising outlays. Measures by the company to cut costs are also paying off. Last but not least, *Amazon.com* continues to benefit from rising demand, as consumers increasingly prefer the ease and convenience of online shopping with at-home delivery services. The company has been increasing the number of fulfillment centers that it operates in order to accommodate greater volume and reduce delivery times. Moreover, Amazon Web Services continues to be selected by many large businesses as their preferred cloud provider.

Noteworthy Developments

There have been a number of important developments in the Internet Industry lately. An investigation by *The Wall Street Journal* uncovered a number of serious issues at *Facebook*. These include the existence of a controversial XCheck program which allowed certain users the ability to post anything they like on that platform. Moreover, the investigation unveiled that certain bad actors were using the platform for illicit activities and to spread hate on the Internet. Additionally, the report alleged that the company had been aware for some time about the negative psychological impact that its Instagram platform was having on certain teenage users. Lawmakers in the United States and Europe have already begun to address these issues. Meanwhile, *Zillow* has announced that its Zillow Offers business has suspended the signing of new contracts for the remainder of the year. The company cited a backlog in renovations and operational capacity constraints as reasons for

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the decision. Labor and supply constraints throughout the economy have contributed to this situation. On the M&A front, *Angi* has acquired Total Home Roofing, a leading residential roofing business. This move allows *Angi* to increase its footprint in the roofing category. Likewise, *IAC/InterActiveCorp's* Dotdash subsidiary plans to acquire National Media Group from Meredith Corporation for \$2.7 billion in cash. The transaction is expected to be completed by the end of the year. The combined entity would be called Dotdash Meredith and is expected to be one of the largest publishers in America with renowned brands in a wide variety of categories.

Caveats

Investors should be aware of several caveats. Many participants operate in a highly competitive marketplace that can be subject to rapid technological change. The operating results of some Internet companies can fluctuate dramatically from one year to the next, and their stock prices can be quite volatile. Too, some have generated substantial losses for much of their history as a public entity. The possibility of greater regulatory scrutiny is another concern. We prefer to seek companies with an established track record of growth in revenues and earnings over a fairly long time frame. We also like to see that a company earns a good return on capital and maintains a manageable level of debt. Moreover, it is important to make sure that an equity is trading at a fairly reasonable valuation prior to committing funds.

Conclusion

The Internet Industry carries our Highest rank for year-ahead relative price performance. Looking further out, we anticipate healthy growth in revenues and earnings for this group from 2022 onward. At this time, a number of equities offer worthwhile long-term appreciation potential. However, prospects for capital gains at several others are very limited due to their very rich valuations. Subscribers should tread carefully, given the aforementioned caveats. As usual, we encourage readers to examine our individual reports carefully prior to making an investment decision.

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