| **LinkedIn Pre-IPO Company Notes** | **Research 2.0** |
|---|---|
| Driver: **Social/Professional Networking** | Boston \| New York \| Paris |
| Solution: **online Professional Network** | |
| Size: **Sales $225M(est), Op. Profit $20M(est), Employees 1,000 (est.)** | |
| Model: **80%+ Growth, 80% GM, 20% OM (EBITDA)** | |
| Advantages: **Large user base (90M), Recognized as leader for "professional" networking** | Kris Tuttle |
| Valuation: **Preliminary IV is between $2.6B and $2.9B.** | February 24, 2011 |

**LinkedIn is the recognized leader in the "professional" networking segment.** The company has 90 million members in 200 countries and 65 million unique page views per month. Membership has been growing rapidly and has been running at 1 million new members every 10 days.

The **basic features of LinkedIn include free services like maintaining a professional "profile of record" and being able to network with colleagues and peers**. Users also have access to premium services for a monthly fee, which accounts for 41% of revenue.

**Companies now make up the bulk of revenue** and are also growing the fastest. These services include **hiring solutions** (27% of revenue) and **advertising/marketing** (32% of revenue.) Over 3,900 companies are using LinkedIn for hiring and over 33,000 are doing direct advertising. Growth in hiring and marketing is 178% and 116% respectively versus 33% for individual premium services.

LinkedIn was **started and launched 2003**. In **September of 2004 they achieved their first revenue with marketing solutions**. LinkedIn **Jobs was launched March of 2005**. **Premium subscriptions were offered in August of 2005**. In **March of 2008 the company launched Corporate Solutions**.

LinkedIn would like to **improve their viral marketing**, **build more business and career intelligence** into the system, create a **better and more mainstream API** and offer more effective **tools for the sharing of skills and insights**.

## Positives, Neutrals and Negatives

+ The success of personal networking services like Facebook and Twitter has helped create a need for a "professional" version of these tools, and LinkedIn is the only meaningful platform for this purpose.
+ High revenue growth and rapidly expanding margins provide excellent returns on invested capital.
+ Is recognized as the de-facto professional networking tool and is effectively used by most as their professional profile of record and online resume.
+ Competition has been benign as consumer social networking players have avoided the business market and other business-focused companies have not yet offered any viable professional networking.

= So far the ability of the company to offer "professional insights" has been quite limited.
= The recent success of LinkedIn has more to do with being in the right place at the right time and driven more by Facebook and Twitter than anything LinkedIn has brought to market.
= Management is solid but uninspiring. The CEO is basically a VC with an Internet background from Yahoo. (We may change our mind after the roadshow but we shall see.)
= The company has expanded internationally but results have been mixed. Companies like Xing (in Germany) and Viadeo (in France) have done well in their local markets but could also be acquired.

– LinkedIn technology has lagged substantially and the company failed to capitalize on a variety of trends including blogging, micro-blogging, expert networks, and "connect" technology for using a LinkedIn profile more actively.

## Stock and Valuation

LinkedIn has only filed a preliminary prospectus that lacks a few details we need to compute a per-share Intrinsic Valuation. However, we can say that on a preliminary basis an IV of $2.6B is a good starting point. The company generates a good deal of cash, so after accounting for that and the IPO proceeds this figure is likely to go up.

An analysis of comparable companies is useful but hampered a bit by the lack of a "direct comparable" company. Most of the other firms are really talent management and recruiting. We did incorporate some online advertising, marketing and B2B services firms to capture that facet of the company.

## Management

- Jeffrey Weiner, CEO since June 2009, was at Greylock and Accel Partners and Yahoo from 2001 to 2008.
- Steven Sordello, CFO since 2007, was CFO of Tivo and Ask Jeeves.
- Michael Gamson, Head of Sales since June 2008, was at Advent Software.
- David Henke, Head of Operations since November 2009, was at Yahoo from 2005 to 2009 and AltaVista before that.

## Conclusion

There's never been a better time to be a social or professional networking company. LinkedIn has been capitalizing on the business opportunity and should be able to do the same in the capital markets, which offer little to investors who want a direct play on this market.

LinkedIn is likely to be an expensive stock even at the filing range. But their growth, positioning and financial performance in large part justifies it.

The broader questions for LinkedIn are what will they do different as a public company to execute better? Will they be aggressive with acquisitions and buy private companies like Quora? Their technology development has been well-funded for some time and hasn't produced great results. Will that improve post IPO?

Most fund managers and investors can be expected to want to own this one, which makes participating in the IPO a must and immediate purchases in the aftermarket possibly worth the effort. After the S1 filing is updated we will publish an updated IV with share prices as a guide.

# Intrinsic Valuation

**LinkedIN**
**LINK**
**24-Feb-11**

| Dec YE | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|---|
| YoY Change $ | | 46.3 | 41.3 | 104.9 | 100.0 | 100.0 | 125.0 | 125.0 | 125.0 |
| Total Revenue | $33 | $79 | $120 | $225 | $325 | $425 | $550 | $675 | $800 |
| YoY Growth | | 142.5% | 52.4% | 87.3% | 44.4% | 30.8% | 29.4% | 22.7% | 18.5% |
| COGS % | 22.8% | 23.6% | 21.6% | 18.7% | 18.0% | 18.0% | 18.0% | 18.0% | 18.0% |
| COGS $ | $7.4 | $18.6 | $25.9 | $42.0 | $58.5 | $76.5 | $99.0 | $121.5 | $144.0 |
| Gross Profit | $25.1 | $60.2 | $94.2 | $183.0 | $266.5 | $348.5 | $451.0 | $553.5 | $656.0 |
| Gross Margin | 77.2% | 76.4% | 78.4% | 81.3% | 82.0% | 82.0% | 82.0% | 82.0% | 82.0% |
| S&M % | 15.4% | 21.4% | 22.3% | 22.2% | 22.0% | 22.0% | 21.0% | 21.0% | 20.0% |
| S&M $ | $5.0 | $16.9 | $26.8 | $50.0 | $71.50 | $93.50 | $115.50 | $141.75 | $160.00 |
| R&D % | 35.7% | 37.3% | 32.8% | 24.4% | 22.0% | 21.0% | 20.0% | 19.0% | 18.0% |
| R&D $ | $11.6 | $29.4 | $39.4 | $55.0 | $71.5 | $89.3 | $110.0 | $128.3 | $144.0 |
| G&A % | 20.9% | 16.5% | 16.2% | 14.2% | 14.0% | 13.0% | 12.5% | 12.0% | 11.5% |
| G&A $ | $6.8 | $13.0 | $19.5 | $32.0 | $45.5 | $55.3 | $68.8 | $81.0 | $92.0 |
| Non-Cash Costs % | 6.5% | 8.1% | 9.9% | 8.0% | 8.0% | 8.0% | 8.0% | 8.0% | 8.0% |
| Non-Cash Costs $ | $2.1 | $6.4 | $11.9 | $18.0 | $26.0 | $34.0 | $44.0 | $54.0 | $64.0 |
| Operating Expenses % | 72.0% | 75.3% | 71.4% | 60.9% | 58.0% | 56.0% | 53.5% | 52.0% | 49.5% |
| Operating Expenses $ | $23.4 | $59.3 | $85.7 | $137.0 | $188.5 | $238.0 | $294.3 | $351.0 | $396.0 |
| Operating Margin | 5.2% | 1.1% | 7.1% | 20.4% | 24.0% | 26.0% | 28.5% | 30.0% | 32.5% |
| Operating Income | $2 | $1 | $8 | $46 | $78 | $111 | $157 | $203 | $260 |
| Taxes | $0.5 | $0.3 | $2.6 | $13.8 | $23.4 | $33.2 | $47.0 | $60.8 | $78.0 |
| Tax Rate | 30% | 30% | 30% | 30% | 30% | 30% | 30% | 30% | 30% |
| Net Income | $1 | $1 | $6 | $32 | $55 | $77 | $110 | $142 | $182 |
| Net Margin | 3.7% | 0.8% | 5.0% | 14.3% | 16.8% | 18.2% | 20.0% | 21.0% | 22.8% |
| Market Value Using P/E | $30 | $16 | $149 | $805 | $1,365 | $1,934 | $2,743 | $3,544 | $4,550 |
| Cash Position | | | $0 | $32 | $87 | $164 | $274 | $416 | $598 |
| Shares (M) | 100 | 100 | 101 | 102 | 103 | 104 | 105 | 106 | 107 |
| Period Share Price | $0 | $0 | $1 | $8 | $13 | $19 | $26 | $33 | $42 |
| PV of MV 4 Years Out | $780 | $1,106 | $1,568 | $2,026 | $2,601 | | | | |
| PV of Cash 4 Years Out | $50 | $94 | $157 | $238 | $342 | | | | |
| PV MV + Cash | $830 | $1,199 | $1,725 | $2,264 | $2,943 | | | | |
| PV Value Per Share | $8.30 | $11.99 | $17.08 | $22.19 | $28.57 | | | | |

| **LINK** | Ticker |
|---|---|
| **Nasdaq** | Exchange |
| 41% | Rev Growth |
| **$20.00** | Current Price |
| 100 | Shares Out |
| | |
| 1% | Avg. Dilution |
| $2,000 | Cap (M) |
| $0 | Cash |
| $0 | Debt |
| 30% | Tax Rate |
| 25 | P/E Multiple |
| 15% | Discount Rate |
| | |
| **$28.57** | Intrinsic Value |
| 43% | Up/Downside |

## Peer Analysis

**24-Feb-11**

| *COMPANY* | Segment | Ticker | Price | 1 year change | 3 month change | TEV | LTM Rev | LTM Growth | Gross Margin | Oper Margin | TEV / Revenue | Emps | Rev / Emp |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Taleo Corp. | Talent Management | TLEO | $31.85 | 40% | 2% | 1,185 | 237 | 19.6% | 68.7% | 0.2% | 5.0 | 916 | 259,034 |
| Kenexa Corp. | Talent Management | KNXA | $24.25 | 144% | 28% | 578 | 196 | 24.5% | 65.1% | -2.7% | 2.9 | 1,459 | 134,581 |
| Saba Software, Inc. | Talent Management | SABA | $6.65 | 31% | 8% | 168 | 112 | 6.3% | 66.4% | -1.6% | 1.5 | 598 | 186,712 |
| Monster Worldwide, Inc. | Recruiting & Talent | MWW | $16.88 | 20% | -25% | 2,236 | 914 | 1.0% | 46.5% | -3.5% | 2.4 | 5,850 | 156,262 |
| Dice Holdings, Inc. | Recruiting & Talent | DHX | $13.78 | 108% | 20% | 950 | 129 | 17.3% | 92.6% | 14.7% | 7.4 | 338 | 381,648 |
| 51job Inc. | Recruiting & Talent | JOBS | $56.71 | 205% | 11% | 1,370 | 146 | 28.9% | 60.5% | 22.3% | 9.4 | 3,209 | 45,498 |
| CTPartners | Executive Search | CTP | $15.74 | na | na | 105 | 113 | 0.0% | 32.7% | 8.2% | 0.9 | 319 | 353,816 |
| Heidrick & Struggles International Inc. | Executive Search | HSII | $25.46 | -7% | 17% | 292 | 513 | 23.8% | 29.8% | 1.5% | 0.6 | 1,483 | 346,080 |
| Korn/Ferry International | Executive Search | KFY | $21.98 | 29% | 24% | 886 | 706 | 33.6% | 24.1% | 5.9% | 1.3 | 1,406 | 502,255 |
| ValueClick, Inc. | Online Advertising | VCLK | $14.71 | 59% | -6% | 1,058 | 431 | 1.9% | 72.9% | 18.7% | 2.5 | 1,086 | 396,683 |
| Vocus Inc. | Online Marketing | VOCS | $23.81 | 66% | -6% | 369 | 97 | 14.4% | 80.4% | -3.8% | 3.8 | 640 | 151,188 |
| Ariba Inc. | Online B2B Solutions | ARBA | $28.76 | 145% | 36% | 2,700 | 376 | 14.7% | 63.0% | 6.3% | 7.2 | 1,804 | 208,633 |
| ***Average*** | | | | ***76.5%*** | ***10.0%*** | | | ***15.5%*** | ***58.6%*** | ***5.5%*** | ***3.7*** | | ***260,199*** |
| LinkedIn | Professional Networking | LINK | $11.00 | NA | NA | 2,600 | 225 | 80.0% | 80.0% | 20.0% | 11.6 | 220 | 1,022,727 |