

FACEBOOK, INC. INITIAL PUBLIC OFFERING (IPO)

SLIDES BY

SHAN BALA

FACEBOOK, INC. IPO: BACKGROUND

INTRODUCTION & BACKGROUND

THE ROAD TO FACEBOOK'S IPO

EVENT DRIVEN MILESTONES

ZUCKERBERG + 4 OTHERS LAUNCH FB @ HARVARD

ZUCKERBERG: NO TO \$750MM OFFER

MSFT BUYS 1.6% STAKE FOR \$240MM.

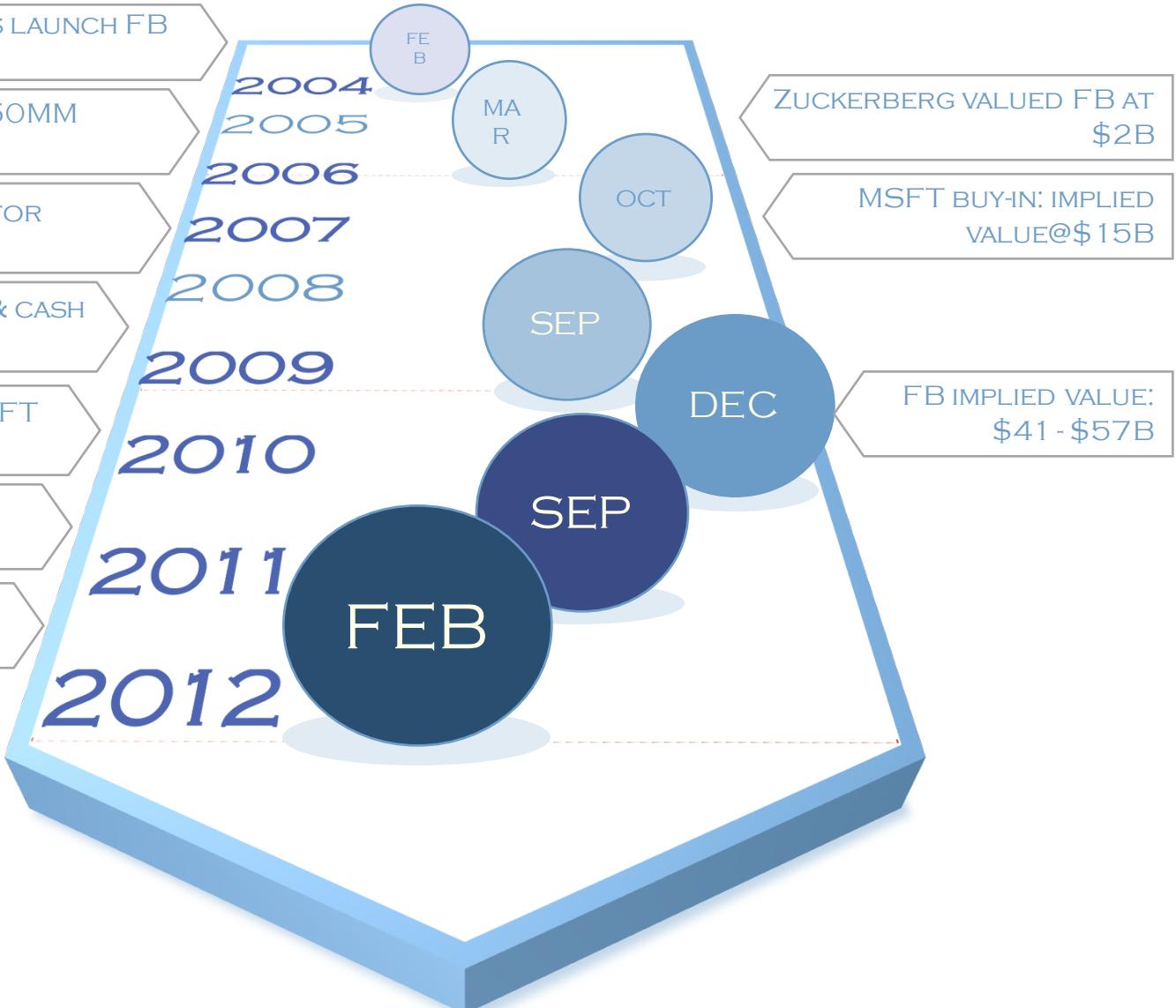
FB WITH 300MM USERS & CASH FLOW +

FB @ 3X VALUE SINCE MSFT INVEST.

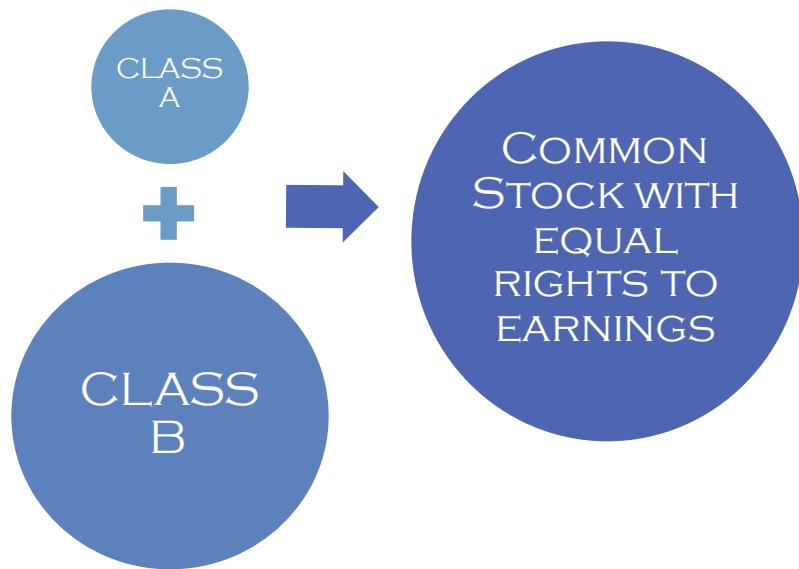
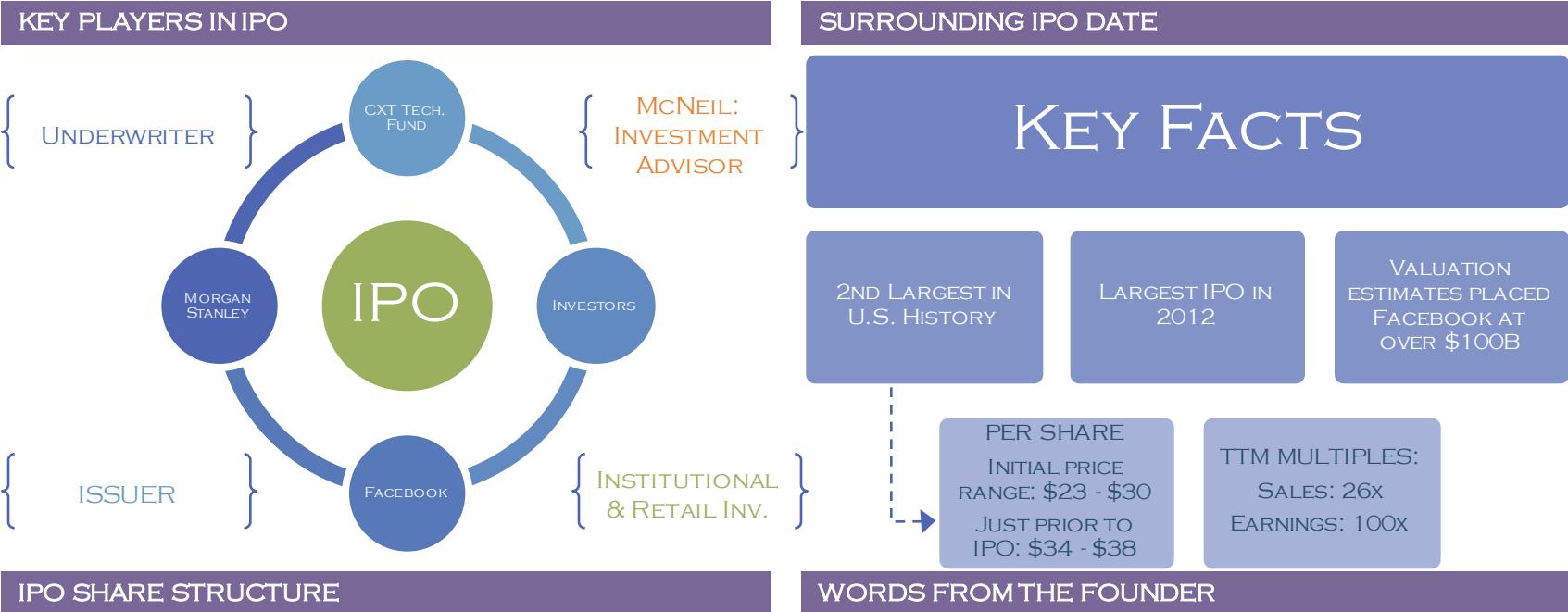
FB USER BASE GROWS TO 800MM

FB ANNOUNCES PLANS FOR IPO

IMPLIED VALUATION Δ LEADING UP TO IPO



INTRODUCTION AND BACKGROUND



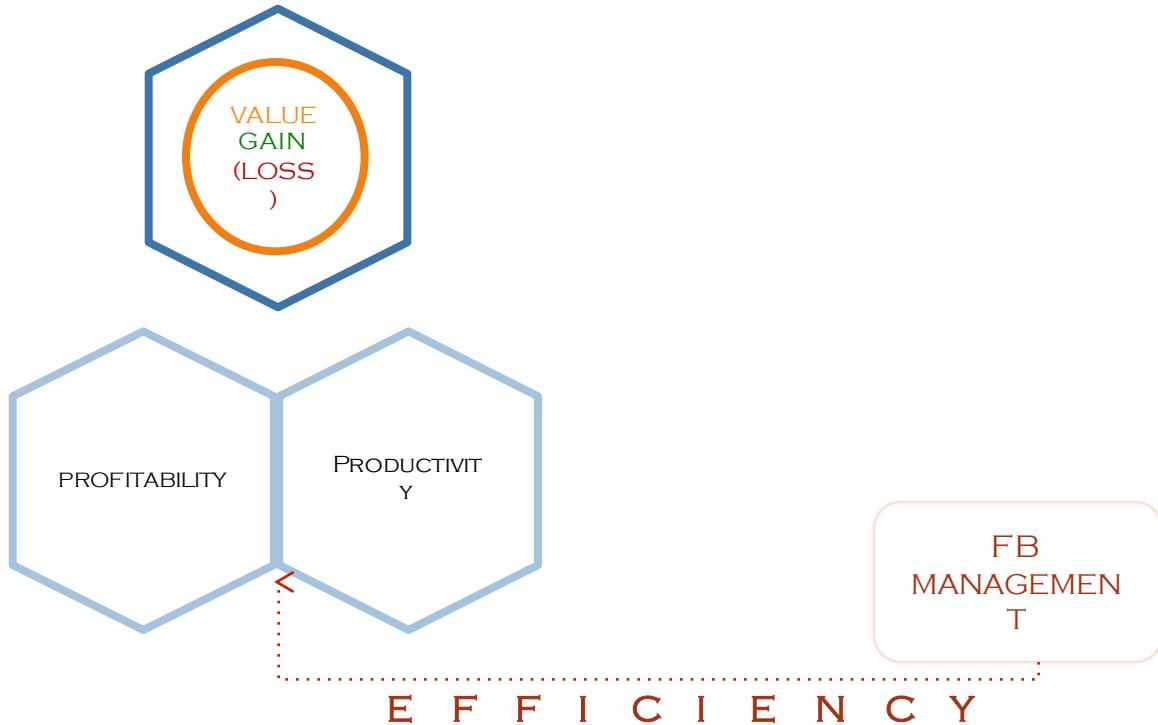
CLASS B SHARES WITH 10:1 VOTING RIGHTS IN FAVOR OF FACEBOOK INSIDERS

“FACEBOOK WAS NOT ORIGINALLY CREATED TO BE A COMPANY. IT WAS BUILT TO ACCOMPLISH A SOCIAL MISSION — TO MAKE THE WORLD MORE OPEN AND CONNECTED.”
-MARK ZUCKERBERG (IPO PROSPECTUS)

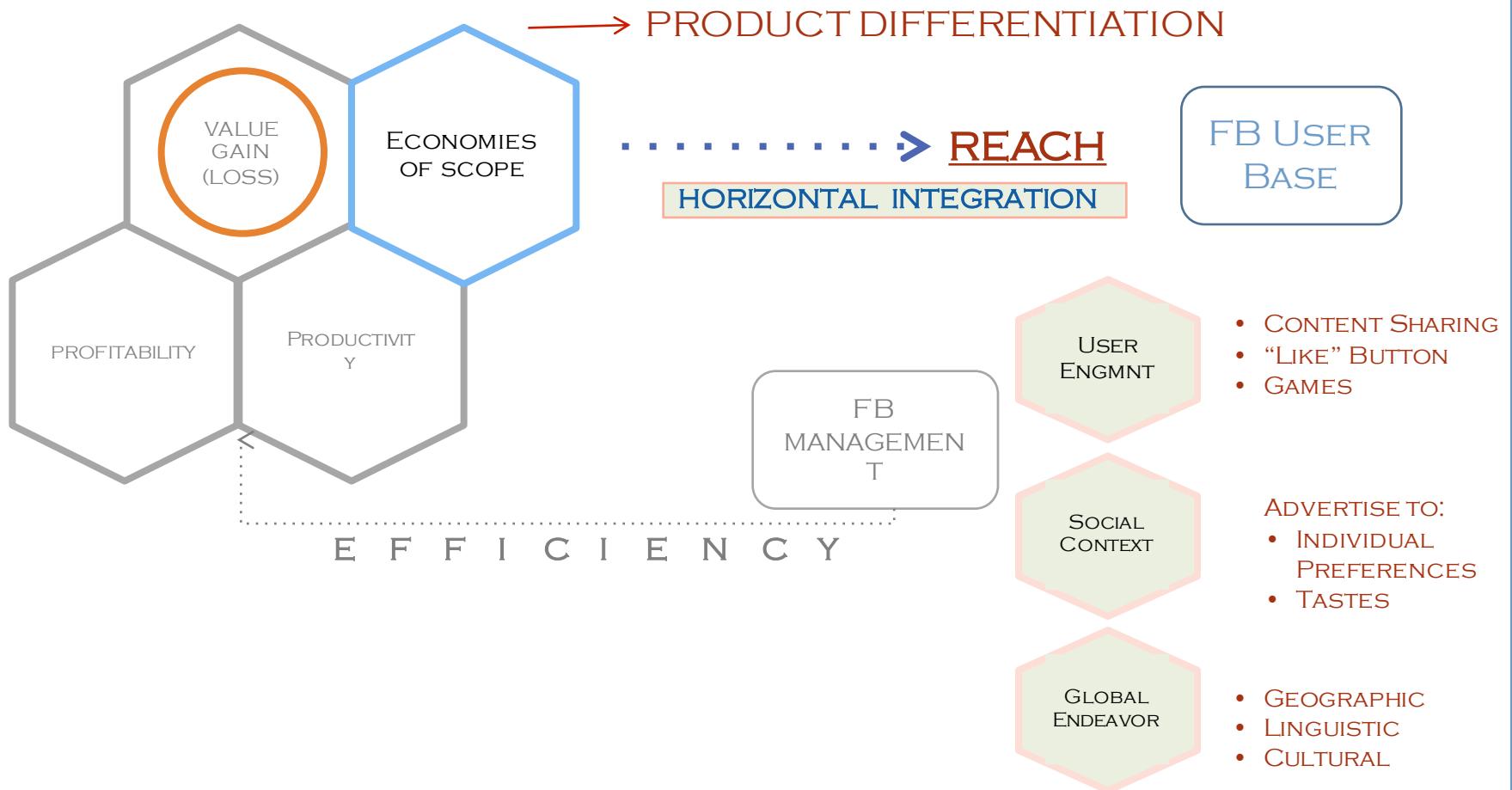
FACEBOOK, INC. IPO: STRATA-ECONOMIC CONSIDERATIONS & IMPLICATIONS

ECONOMIC & STRATEGIC VALUE DRIVERS

ECONOMIC VALUE DRIVERS - MANAGEMENT

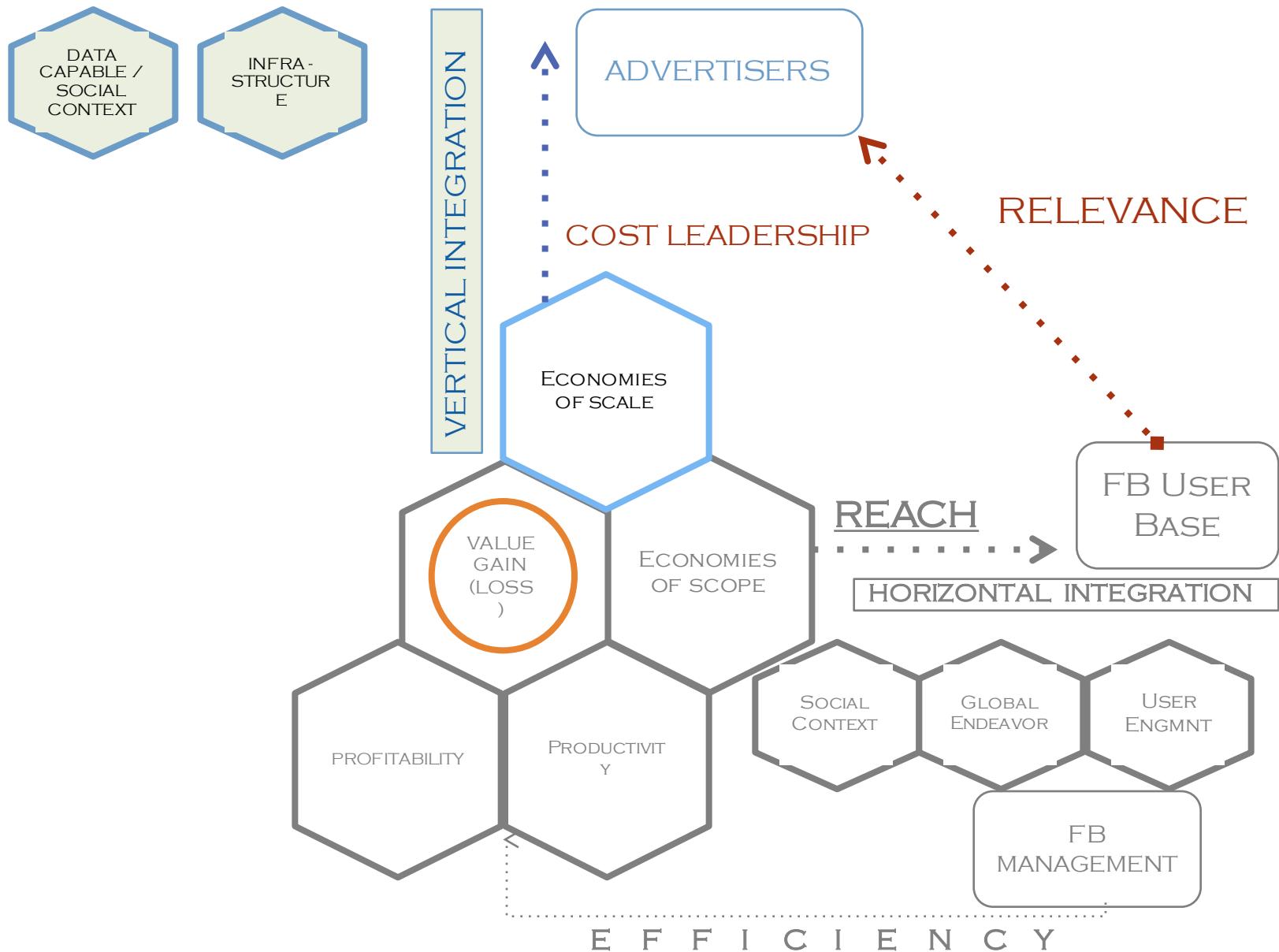


ECONOMIC VALUE DRIVERS – STRATEGIC SCOPE RELATED VALUE PROPOSITIONS

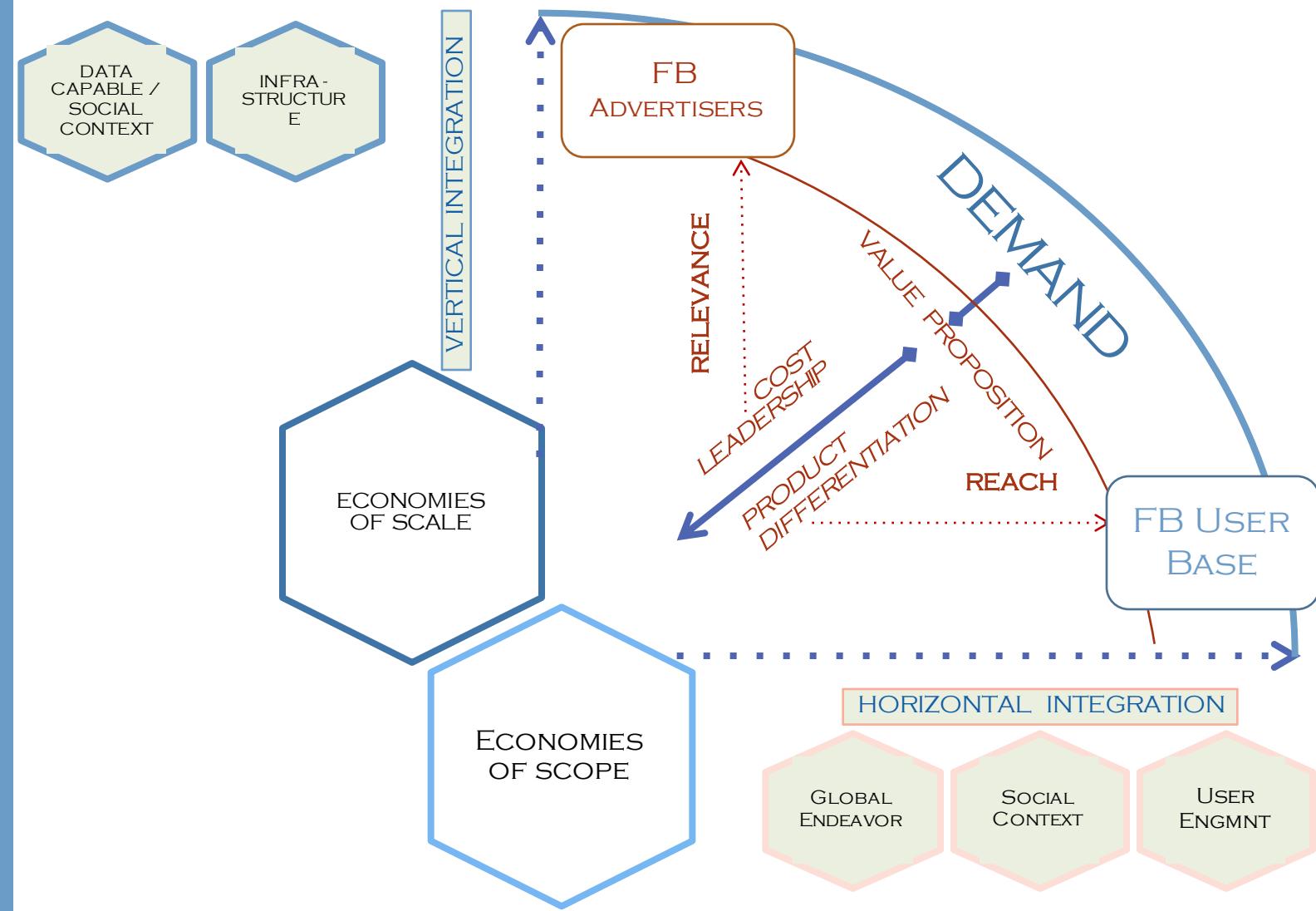


ECONOMIC & STRATEGIC VALUE DRIVERS

ECONOMIC VALUE DRIVERS – STRATEGIC SCALE RELATED VALUE PROPOSITIONS

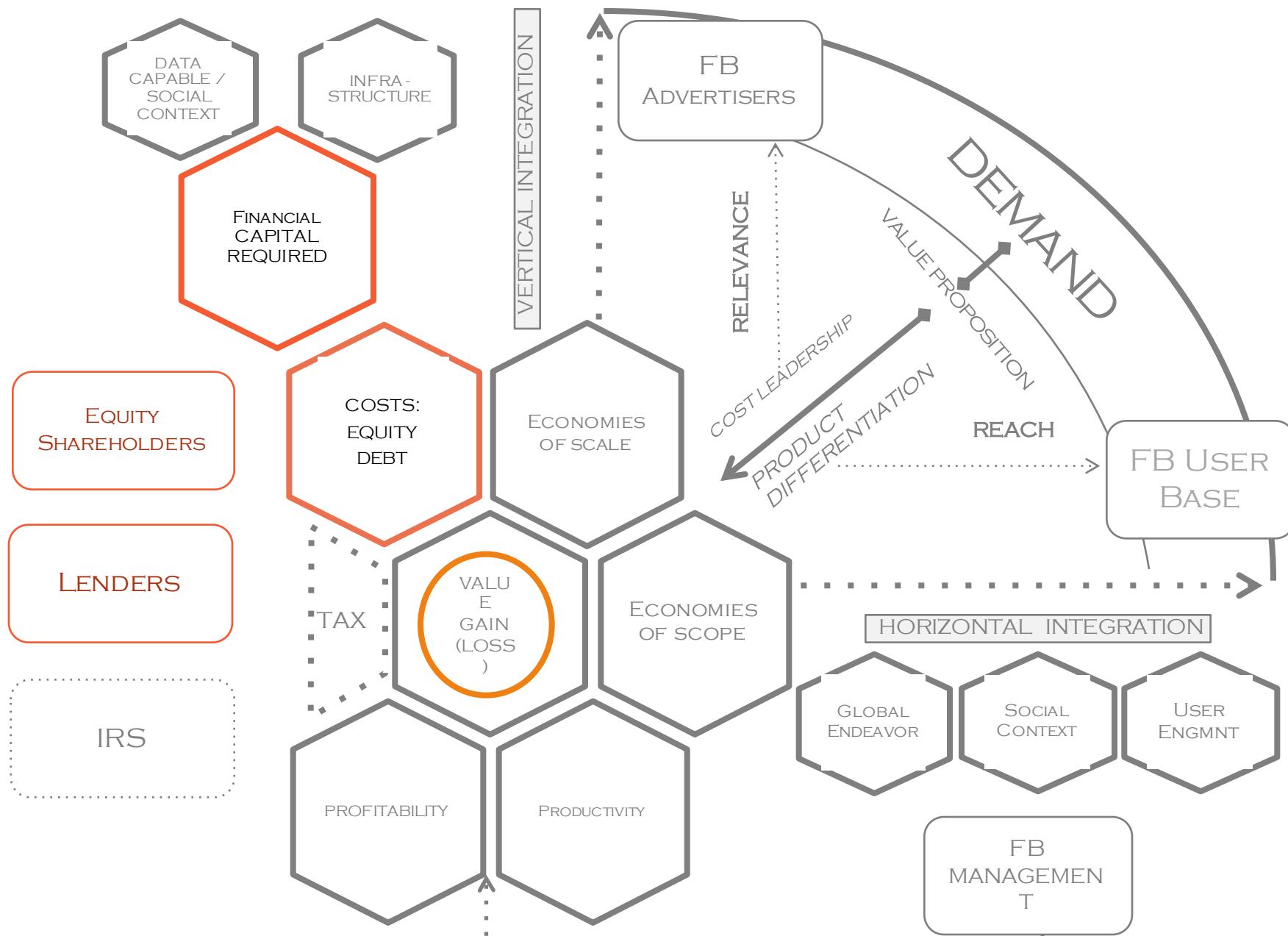


INTEGRATIVE ASSESSMENT OF FACEBOOK'S STRATEGIC & ECONOMIC VALUE CREATION PROCESSES

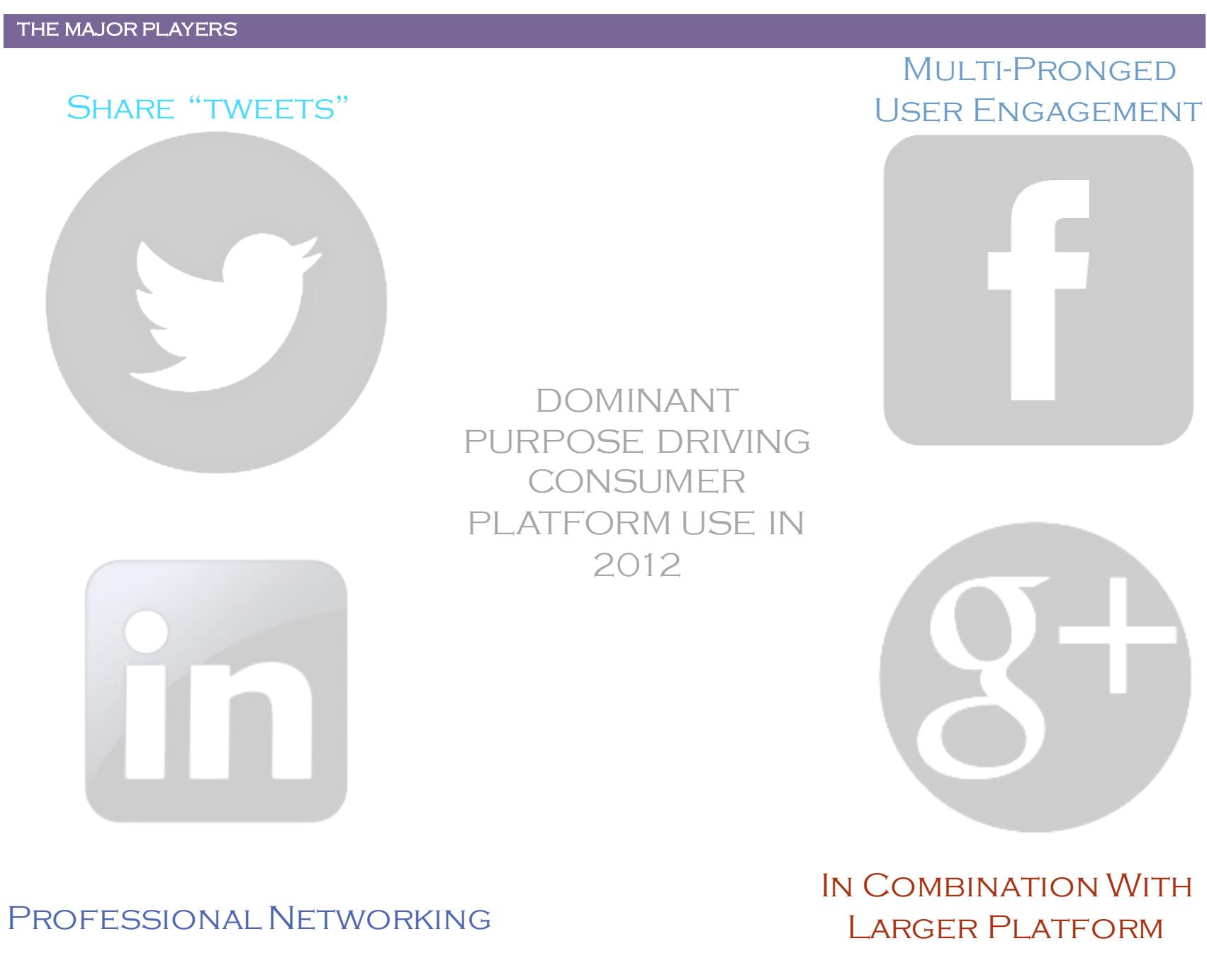


STRATEGIC & ECONOMIC VALUE DRIVERS

INTEGRATIVE ASSESSMENT OF FACEBOOK'S STRATEGIC & ECONOMIC VALUE CREATION PROCESSES



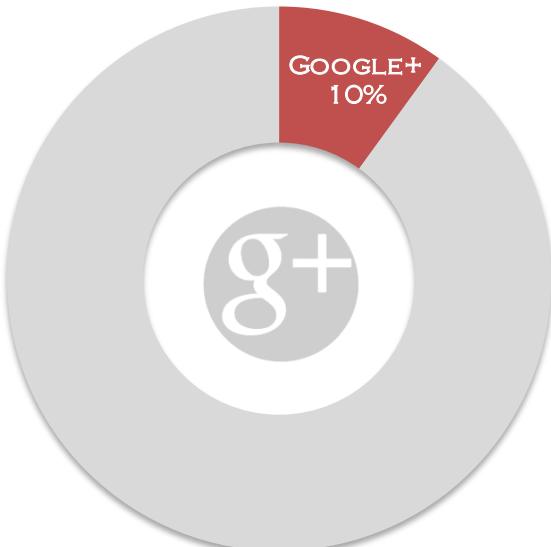
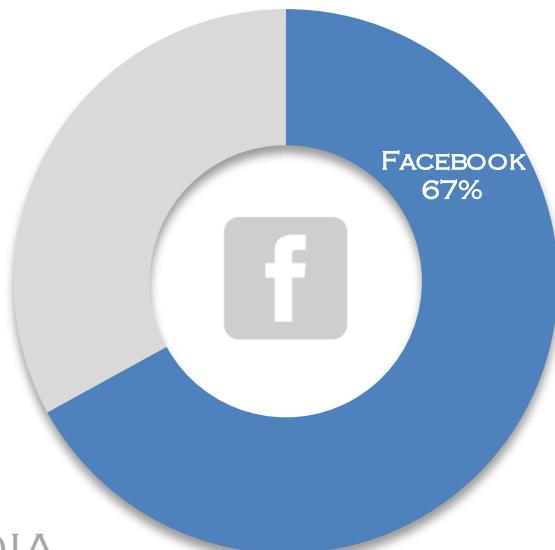
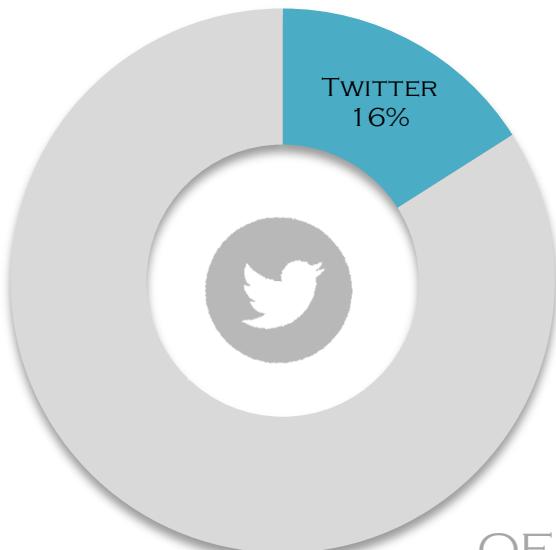
FACEBOOK, INC. IPO: COMPARATIVE ADVANTAGE IN SOCIAL MEDIA



ONLINE ADULT USAGE OF MAJOR PLAYERS' PLATFORM

ONLINE ADULT USE OF SOCIAL MEDIA PLATFORMS

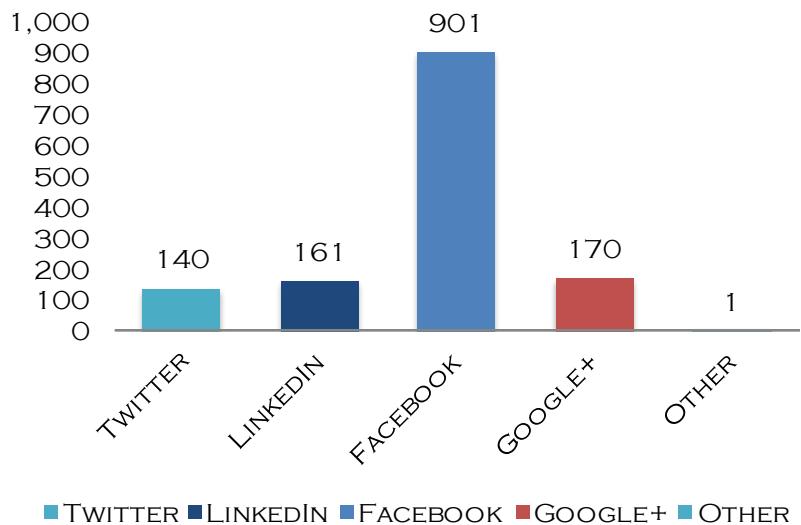
2012 ADULT USE OF SOCIAL MEDIA PLATFORMS



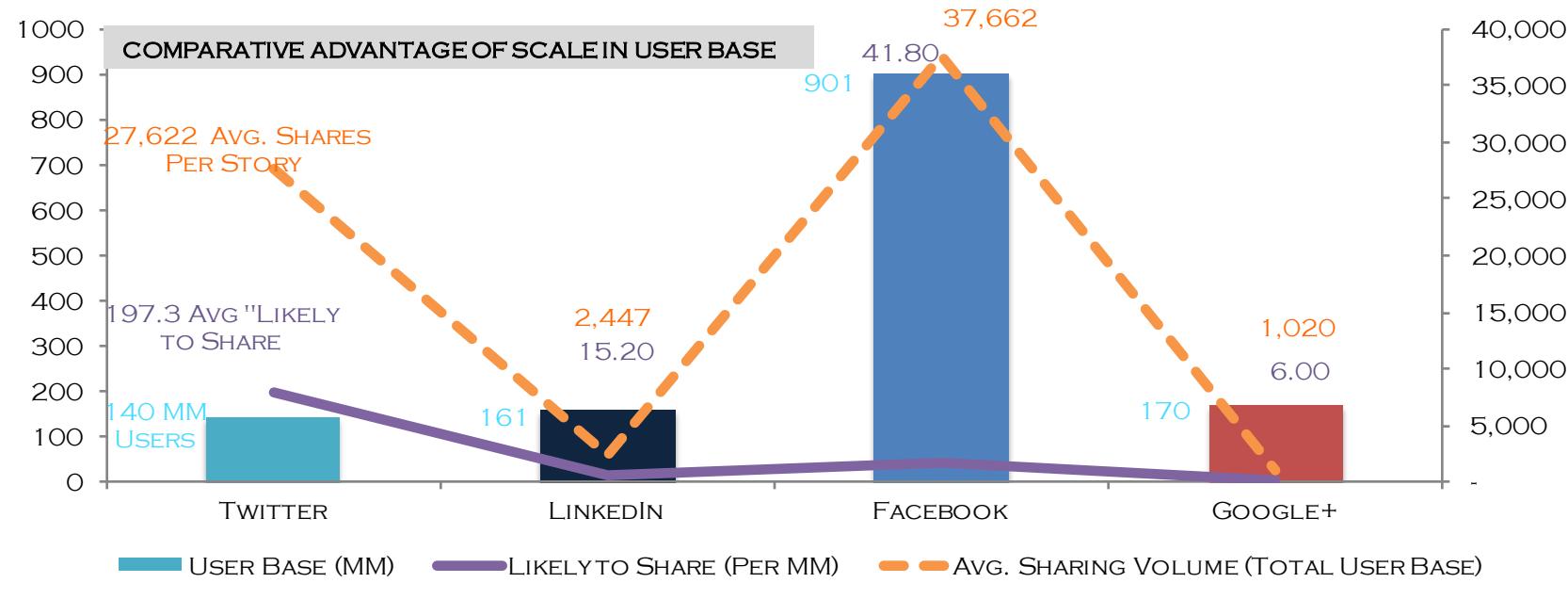
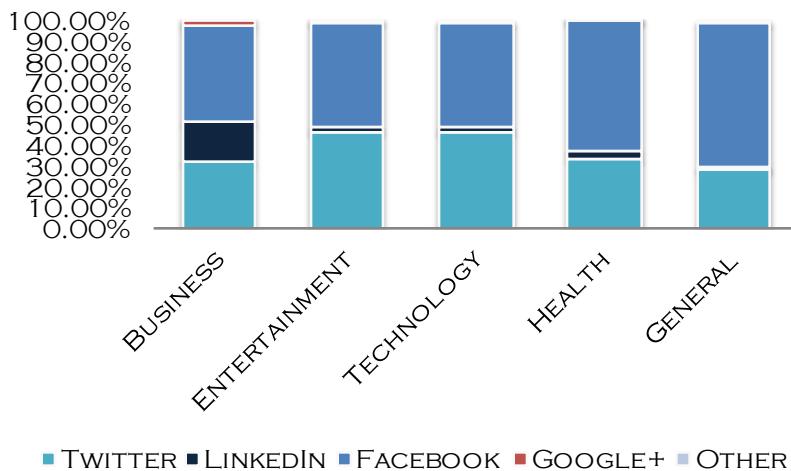
(SOURCE: INTERNETSERVICEPROVIDERS)

FACEBOOK'S COMPARATIVE ADVANTAGES

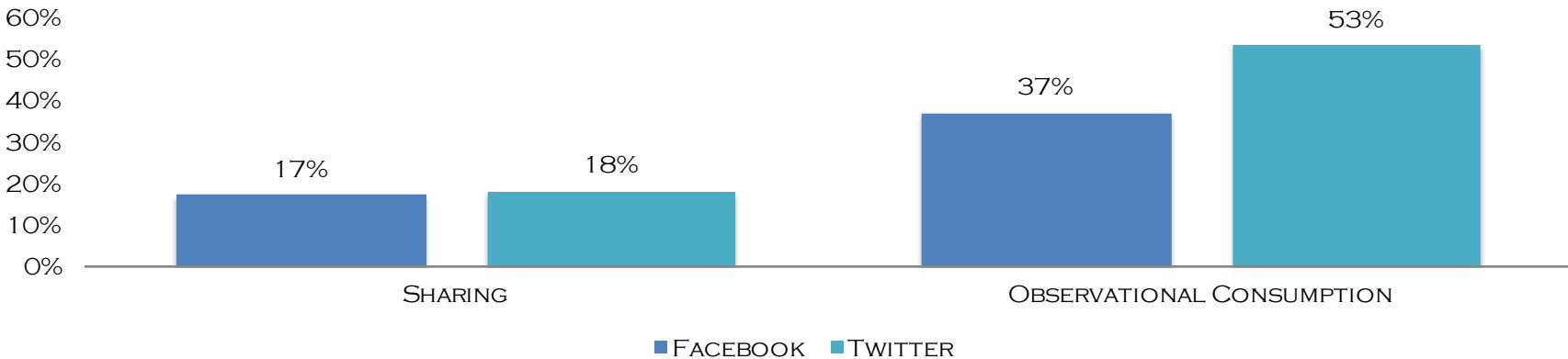
USER BASE (MM)



USER "SHARES" OF NEWS STORIES

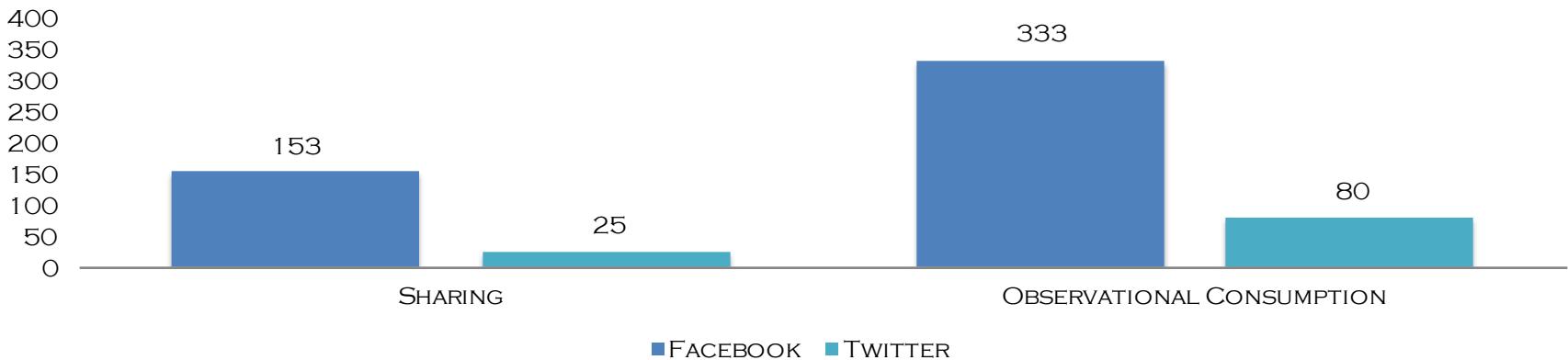


ACTIVE AND PASSIVE ENGAGEMENT % OF USER BASE



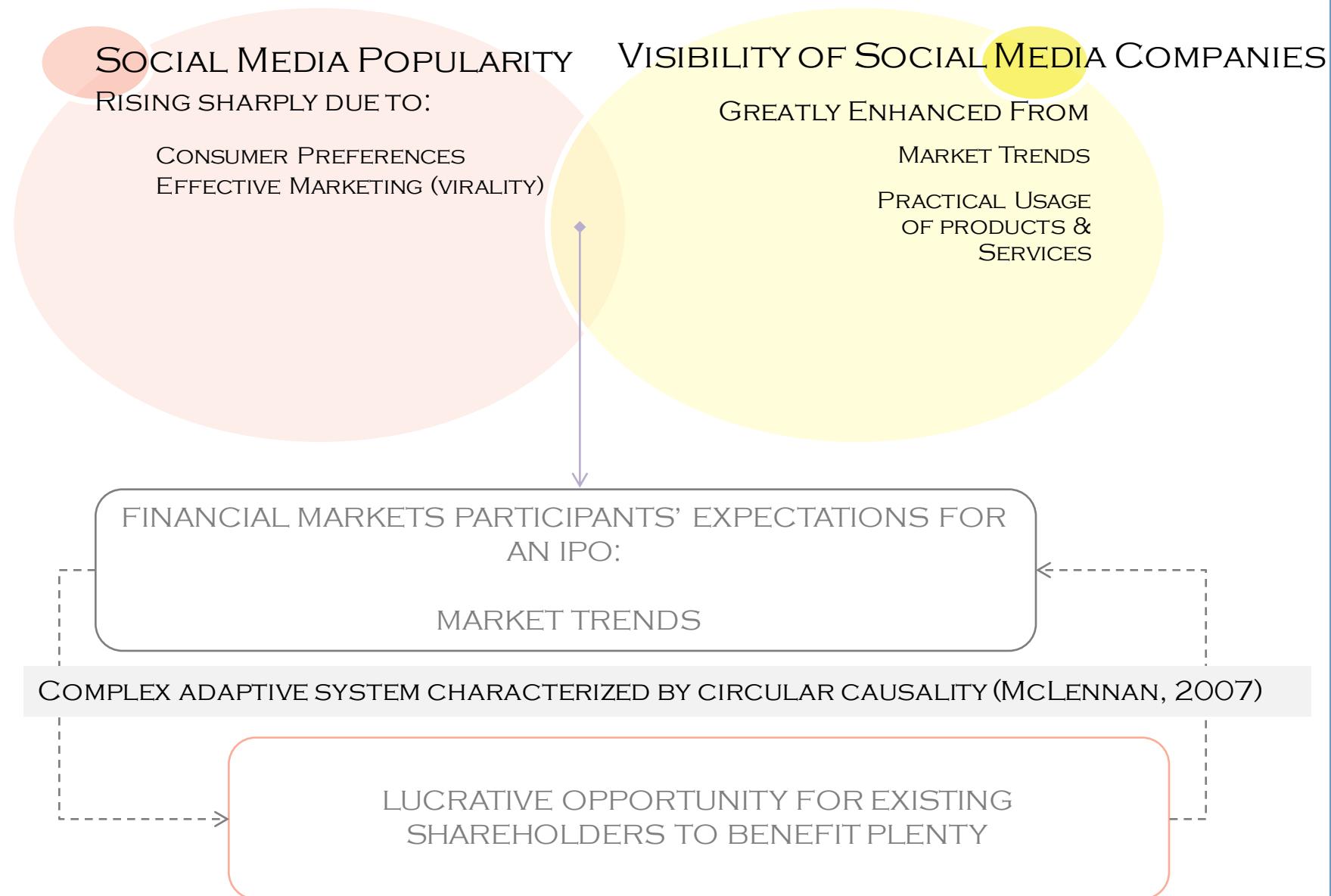
(SOURCE: HARRIS INTERACTIVE | MYLIFE)

ACTIVE AND PASSIVE ENGAGEMENT VOLUME OF USER BASE (MM)



FACEBOOK IPO: MOTIVATIONS & INTENTIONS

MOTIVATIONS BEHIND INITIAL PUBLIC OFFERING



DUAL NATURE OF UNDERLYING MOTIVATION:

RED HERRING

INSIDER MOTIVATION

WORKING CAPITAL &
GENERAL PURPOSE

PERSONAL GAIN FROM OFFERING
CURRENTLY HELD SHARES

EXPECTED ALLOCATION OF CAPITAL RAISED FROM IPO (\$ IN BILLIONS)



FACEBOOK IPO: USE OF CAPITAL RAISED

PRE-IPO NON-CASH
WORKING CAPITAL NOTE:

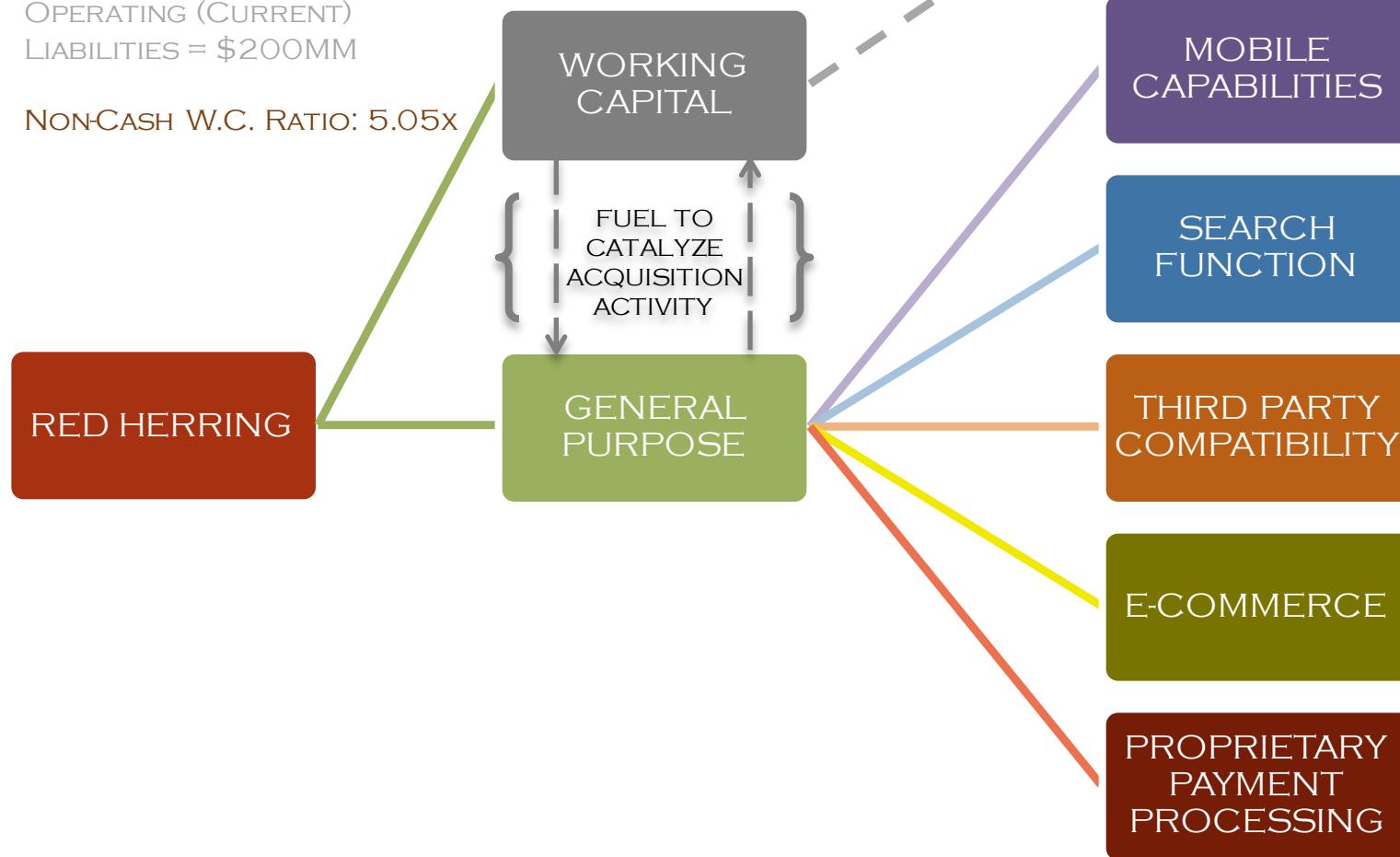
Non-Cash Current Assets
= \$1094MM

Operating (Current)
Liabilities = \$200MM

Non-Cash W.C. Ratio: 5.05x

PRE-IPO CASH INCLUSIVE
WORKING
CAPITAL RATIO: 25.02x

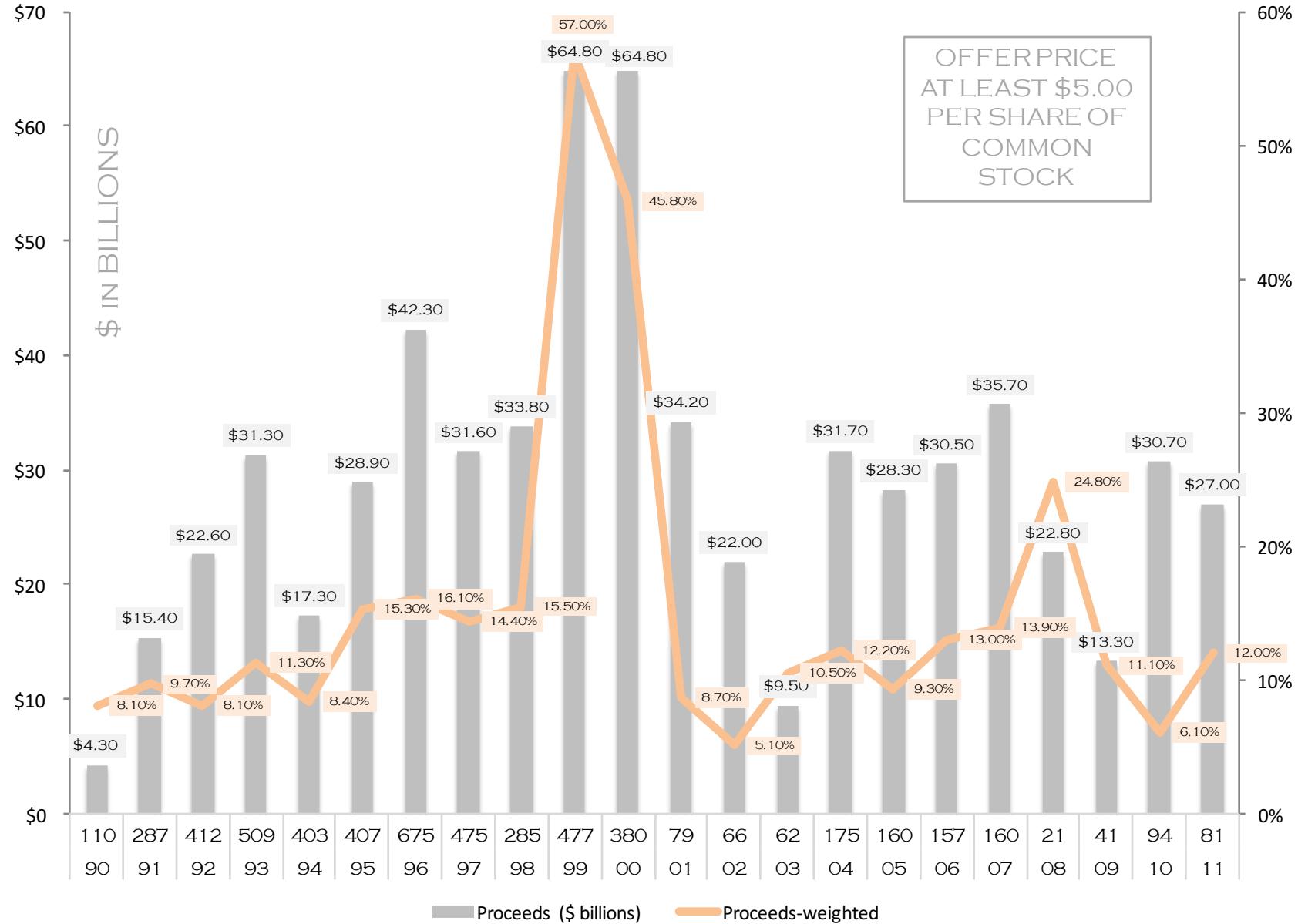
AFTER IPO:
CASH INCLUSIVE
W.C. = 52x



FACEBOOK IPO: MARKET CONDITIONS: PAST → 2012

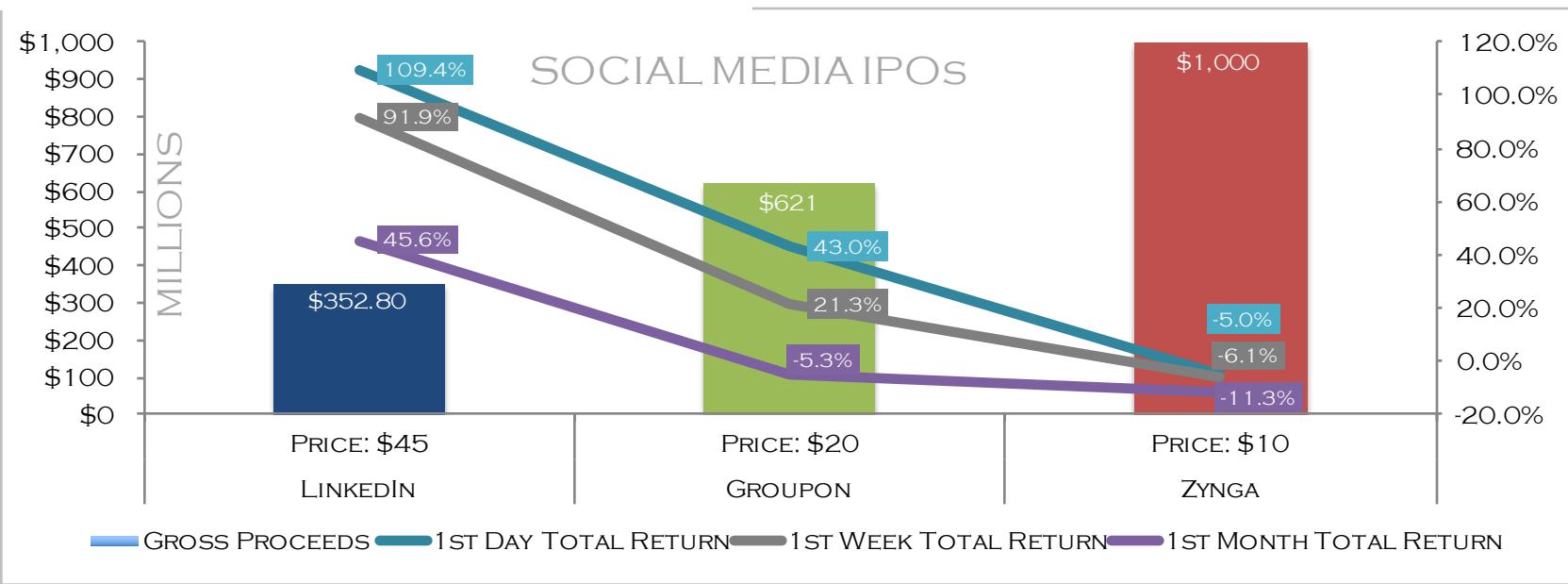
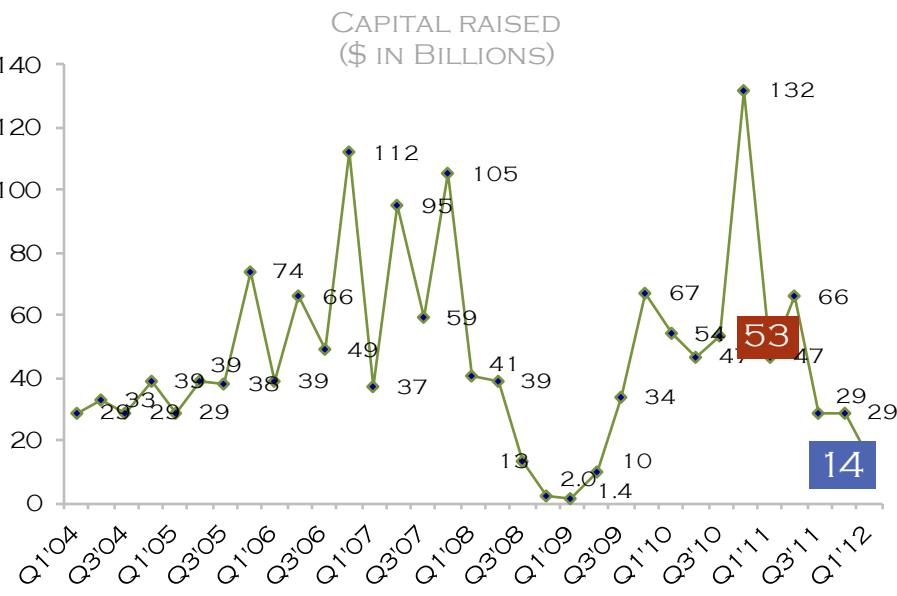
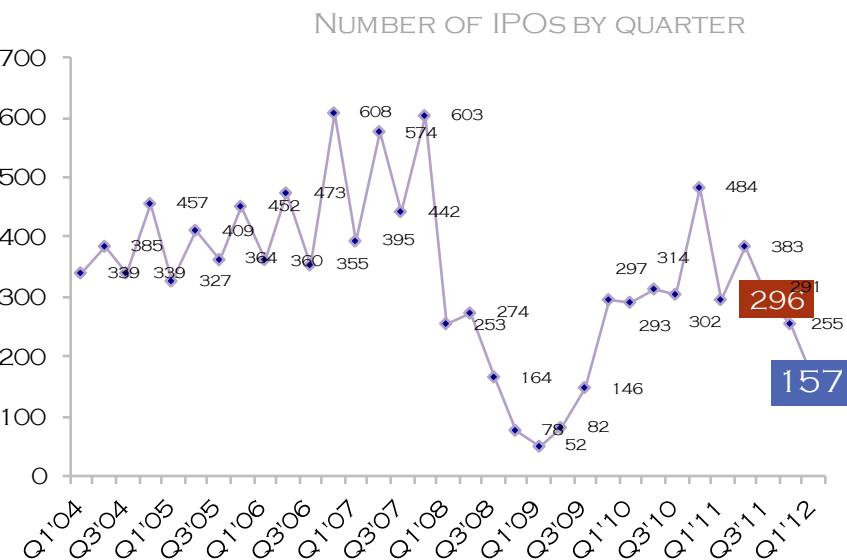
HISTORICAL IPO PERFORMANCE METRICS

HISTORICAL IPO PROCEEDS & PROCEED WEIGHTED RETURNS



IPO MARKETS SURROUNDING MAY 2012

US IPO MARKET SURROUNDING FACEBOOK'S OWN IPO

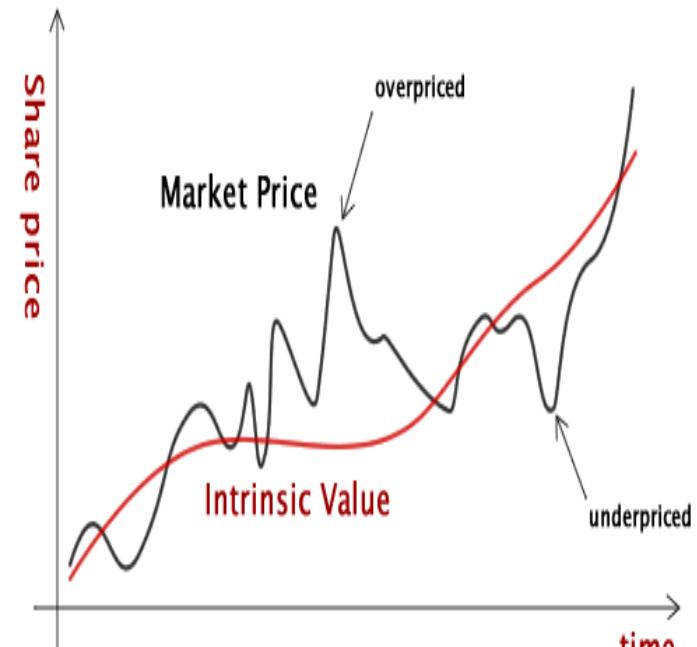


FACEBOOK IPO: INTRINSIC VALUE OF A SHARE OF FB STOCK

INTRINSIC VALUE: GENERAL IDEA

"INTRINSIC VALUE CAN BE DEFINED SIMPLY: IT IS THE DISCOUNTED VALUE OF THE CASH THAT CAN BE TAKEN OUT OF A BUSINESS DURING ITS REMAINING LIFE."

-WARREN BUFFET



(SOURCE: INTELLIGENTSTOCKS.COM)

POTENTIAL APPROACHES:

DIVIDEND DISCOUNT MODEL
(GENERAL VERSION DEPICTED BELOW)

$$\text{Per Share Value} = \sum_{t=1}^{\infty} \frac{E(DPS_t)}{(1+k_e)^t}$$

DISCOUNTED CASH FLOW MODEL

$$\text{Per Share Value} = \frac{\sum_{t=0}^n \frac{CF_t}{(1+r_e)^t} + \frac{CF_n(1+g)}{(\frac{r-g}{g})} - \text{Creditor Claims} + \text{Cash & Equivalents}}{\text{Common Shares Outstanding}}$$

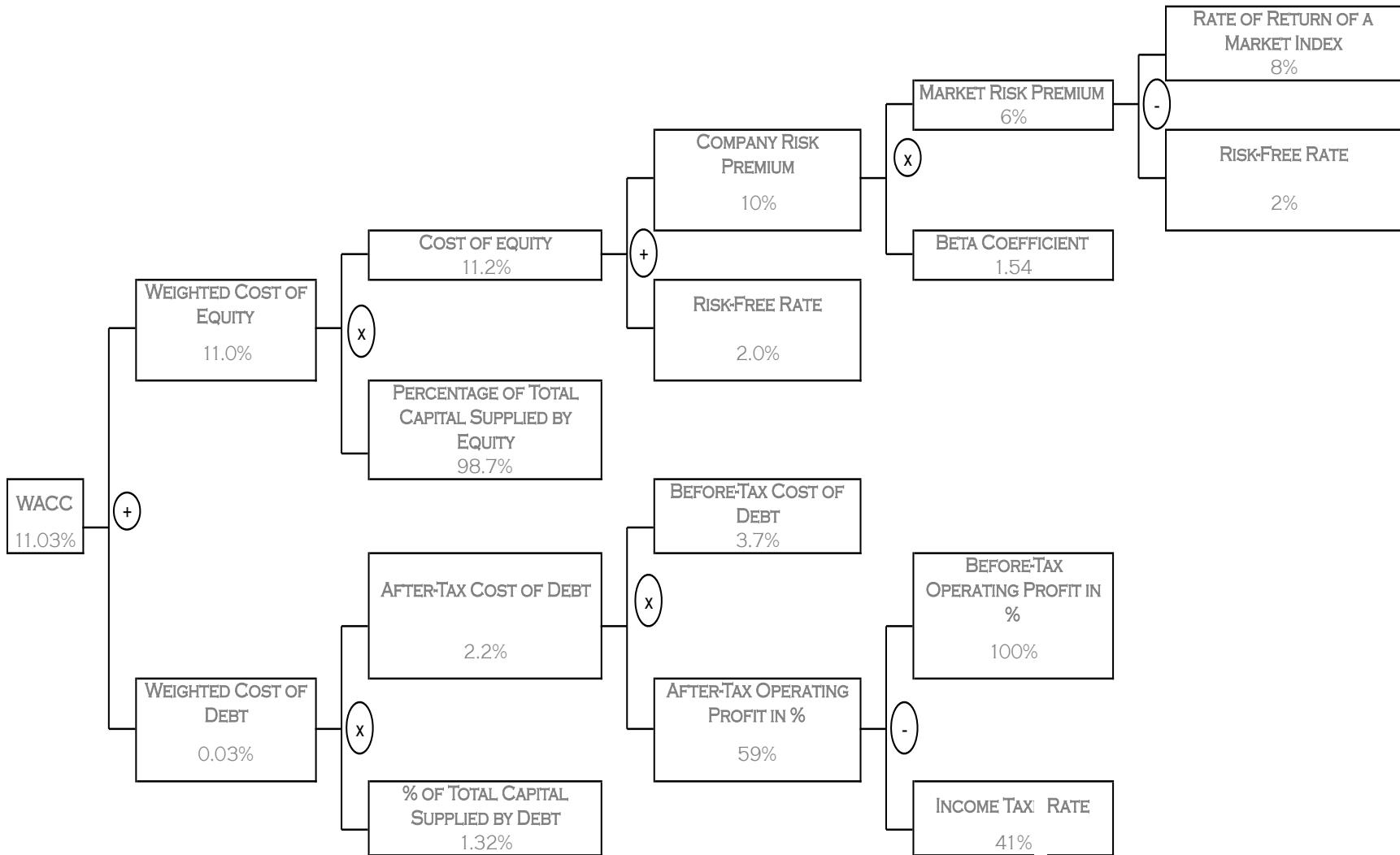
WE WILL RELY ON DCF
FOR FB SINCE NO DIVIDENDS PAID

ASWATH DAMODARAN'S DCF EXERCISE: ASSUMPTIONS

ASSUMPTIONS (IN \$ MILLIONS)	2012	MARKET NUMBERS	2012
REVENUES	\$3,711.0	RISKFREE RATE	2.0%
OPERATING INCOME OR EBIT	\$1,695.0	INITIAL COST OF CAPITAL	11.1%
BOOK VALUE OF EQUITY	\$5,228.0	COST OF CAPITAL AFTER YEAR 10	8.0%
BOOK VALUE OF DEBT	\$1,587.0		
EXCESS CASH	\$2,000.0		
PRE-IPO NUMBER OF SHARES (MILLIONS)	1,958.1	ESTIMATION OF CURRENT COST OF CAPITAL	
CURRENT STOCK PRICE	\$38.00	EQUITY	
EFFECTIVE TAX RATE (LAST 3 YEARS)	40.00%	PRE-IPO SHARES OUTSTANDING	1958.1
MARGINAL TAX RATE	35.00%	CURRENT MARKET PRICE PER SHARE	\$38.00
THE VALUE DRIVERS BELOW:		INDUSTRY AVG UNLEVERED BETA	1.52
COMPOUNDED ANNUAL REVENUE GROWTH RATE OVER NEXT 5 YEARS	40.00%	RISKFREE RATE	2.0%
TARGET PRE-TAX OPERATING MARGIN (EBIT AS % OF SALES IN YEAR 10)	35.00%	EQUITY RISK PREMIUM	6.00%
SALES TO CAPITAL RATIO (FOR COMPUTING REINVESTMENT)	1.50	LEVERED BETA FOR EQUITY	1.54
		DEBT	
		PRE-TAX COST OF DEBT	3.65%
		MARGINAL TAX RATE	35%
		PREFERRED STOCK	
		NUMBER OF PREFERRED SHARES	0
		CURRENT MARKET PRICE PER SHARE	70

VALUATION OF FACEBOOK, BASED ON PROF. ASWATH DAMODARAN

A CLOSER LOOK AT WACC



ASWATH DAMODARAN'S DCF EXERCISE: DCF & PER SHARE EXPECTATIONS

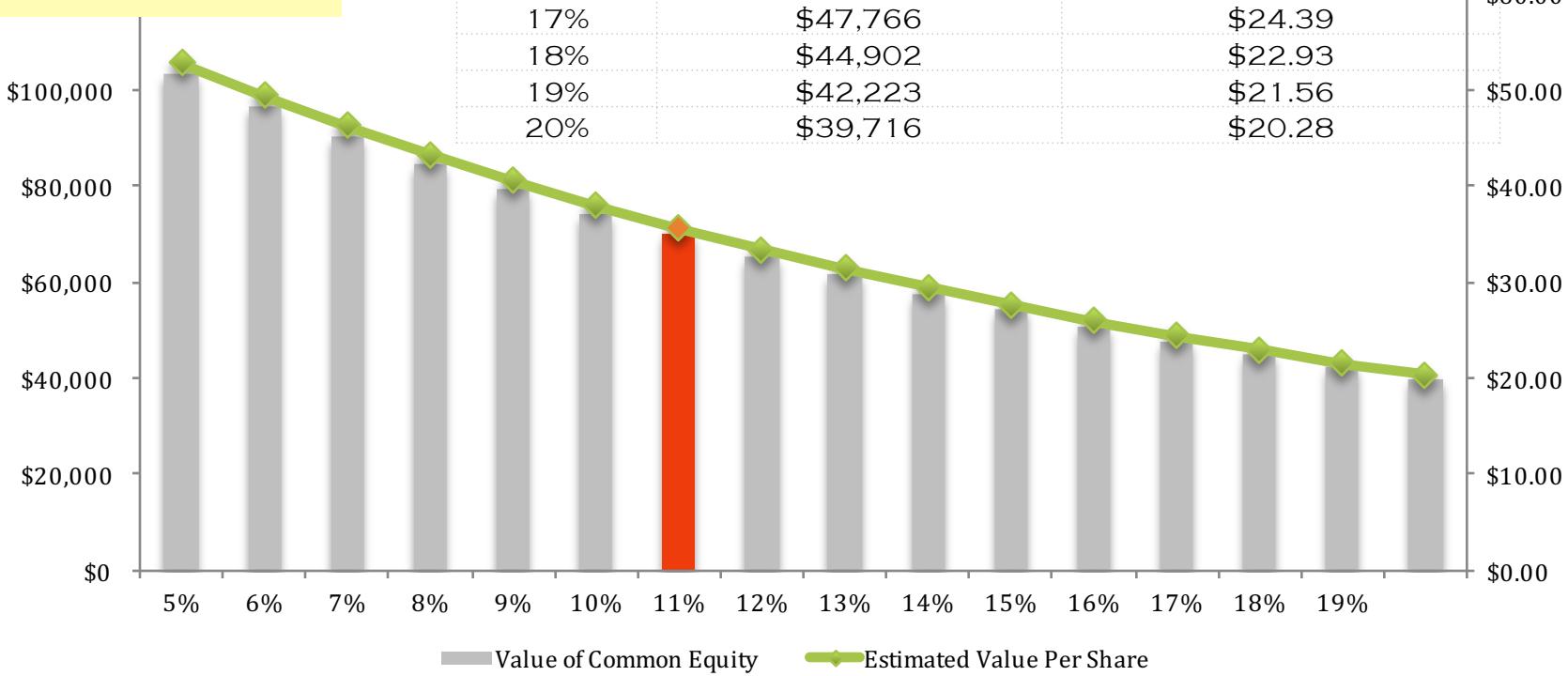
VALUATION OF FACEBOOK, BASED ON PROF. ASWATH DAMODARAN

DAMODARAN'S INTRINSIC VALUE EXERCISE

INTRINSIC VALUE CHANGES BASED ON CHANGES IN WACC

SENSITIVITY ANALYSIS

DAMODARAN'S
ESTIMATE & PRICE-
TALK ESTIMATE
VERY
COMPARABLE
(RELATIVELY
SPEAKING)



FACEBOOK IPO: POTENTIAL SHAREHOLDERS' CONCERNS

FACEBOOK PRE-IPO SHARES HELD

PRE-IPO SHARE ALLOCATION

FACEBOOK – PRINCIPAL AND SELLING STOCKHOLDERS

NAME OF BENEFICIAL OWNER	PRE-IPO CLASS A SHARES OWNED	PRE-IPO CLASS B SHARES OWNED
EXECUTIVE OFFICERS AND DIRECTORS:		
MARK ZUCKERBERG, CHAIRMAN AND CEO	0	533,801,850
SHARES SUBJECT TO VOTING PROXY	<u>42,395,203</u>	<u>541,994,071</u>
TOTAL	42,395,203	1,075,795,921
SHERYL K. SANDBERG, COO		1,899,986
DAVID A. EBERSMAN, CFO		2,399,999
MIKE SCHROEPFER, VP - ENGINEERING		2,291,849
THEODORE W. ULLYOT, VP - COUNSEL		2,025,244
MARC L. ANDREESSEN, DIRECTOR		6,607,131
JAMES W. BREYER, DIRECTOR		201,378,349
PETER A. THIEL, DIRECTOR		44,724,100
OTHER STOCKHOLDERS:		
ACCEL PARTNERS		201,378,349
DST GLOBAL LIMITED		94,567,945
DUSTIN MOSKOVITZ		133,698,645
GOLDMAN SACHS		
T. ROWE PRICE ASSOCIATES, INC.		12,158,743
ELEVATION PARTNERS		40,109,645
GREYLOCK PARTNERS		36,656,372
MAIL.RU GROUP LIMITED		55,026,235
MARK PINCUS		5,313,920
MERITECH CAPITAL PARTNERS		40,355,223
MICROSOFT CORPORATION		32,784,626
REID HOFFMAN		4,713,920
SEAN PARKER		69,653,657
TIGER GLOBAL MANAGEMENT		49,630,486
VALIANT CAPITAL OPPORTUNITIES, LLC		36,335,590
ALL OTHER SELLING STOCKHOLDERS	4,207,500	352,522

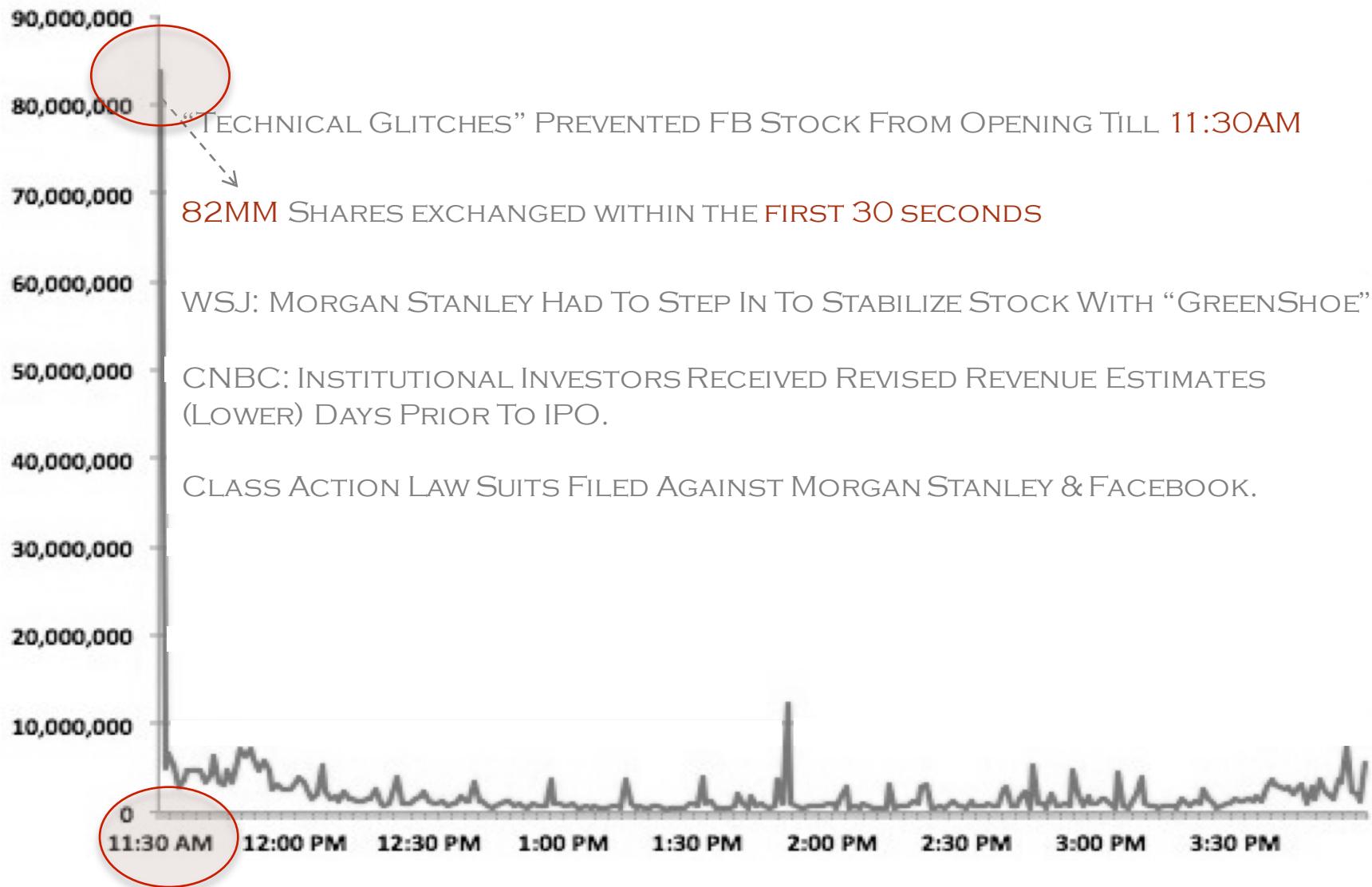
FOOD FOR THOUGHT 1
 WHAT DO YOU THINK
 THESE HIGHLIGHTED
 INDIVIDUALS WILL DO?

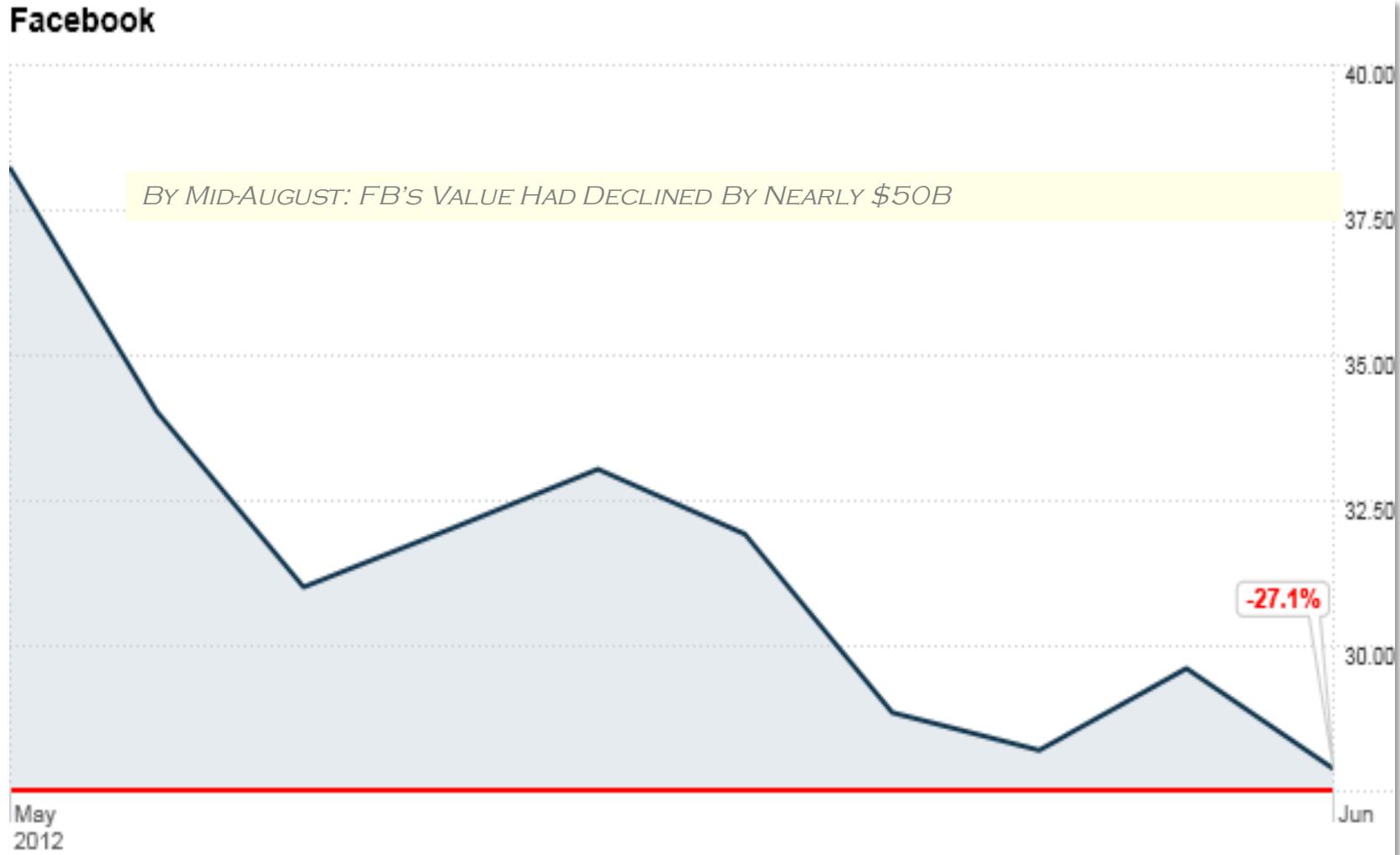
FOOD FOR THOUGHT 2
 THINK ABOUT WHAT
 DRIVES A STOCK'S
 PRICE UP OR DOWN

FACEBOOK IPO: CONCLUSION & UPDATE

(SOURCE: THE GUARDIAN)

Facebook's volume on Friday



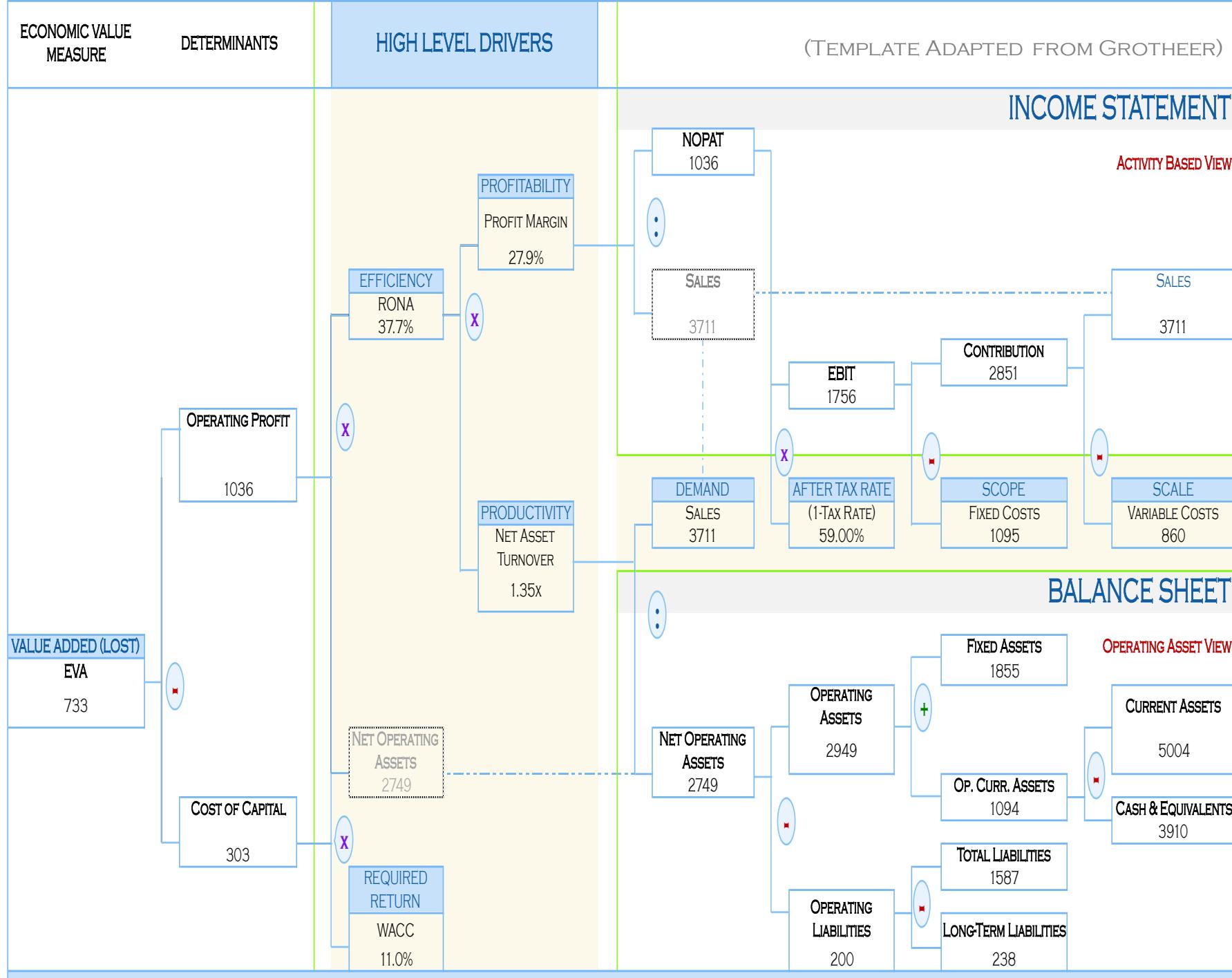
Facebook

(SOURCE: CNN MONEY)

FACEBOOK'S IPO: INSIDER SELLING

FACEBOOK – PRINCIPAL AND SELLING STOCKHOLDERS

NAME OF BENEFICIAL OWNER	POST-IPO CLASS A SHARES OWNED	POST-IPO CLASS B SHARES OWNED	% VOTING POWER POST-IPO	SHARES SOLD IN IPO
EXECUTIVE OFFICERS AND DIRECTORS:				
MARK ZUCKERBERG, CHAIRMAN AND CEO		503,601,850	31.0	30,200,000
SHARES SUBJECT TO VOTING PROXY	<u>5,166,794</u>	<u>430,293,407</u>	<u>27.5</u>	<u>95,795,713</u>
TOTAL	5,166,794	933,895,257	57.5	125,995,713
SHERYL K. SANDBERG, COO		1,899,986	<1.0	0
DAVID A. EBERSMAN, CFO		2,399,999	<1.0	0
MIKE SCHROEPFER, VP - ENGINEERING		2,291,849	<1.0	0
THEODORE W. ULLYOT, VP - COUNSEL		2,025,244	<1.0	0
MARC L. ANDREESSEN, DIRECTOR		6,607,131	<1.0	0
JAMES W. BREYER, DIRECTOR	144,418,008	7,929,092	1.4	49,031,249
PETER A. THIEL, DIRECTOR	18,581,901	9,297,884	<1.0	16,844,315
OTHER STOCKHOLDERS:				
ACCEL PARTNERS	144,418,008	7,929,092	1.4	49,031,249
DST GLOBAL LIMITED	5,016,794	80,600,514	5.2	45,662,565
DUSTIN MOSKOVITZ		133,698,645	8.5	0
GOLDMAN SACHS	37,274,529		<1.0	28,672,712
T. ROWE PRICE ASSOCIATES, INC.	6,033,630	12,158,743	<1.0	0
ELEVATION PARTNERS		35,487,149	2.3	4,622,496
GREYLOCK PARTNERS		29,049,020	1.9	7,607,352
MAIL.RU GROUP LIMITED		36,751,311	2.3	19,600,699
MARK PINCUS		4,304,637	<1.0	1,009,283
MERITECH CAPITAL PARTNERS		33,356,443	2.1	6,998,780
MICROSOFT CORPORATION		26,227,701	1.7	6,556,925
REID HOFFMAN		3,771,136	<1.0	942,784
SEAN PARKER		69,653,657	4.4	0
TIGER GLOBAL MANAGEMENT		30,430,166	1.9	23,407,820
VALIANT CAPITAL OPPORTUNITIES, LLC		36,335,590	2.3	0
ALL OTHER SELLING STOCKHOLDERS		275,887	<1.0	76,635



FACEBOOK ECONOMIC VALUE ADDED 2013

FACEBOOK ECONOMIC VALUE ADDED - 2013

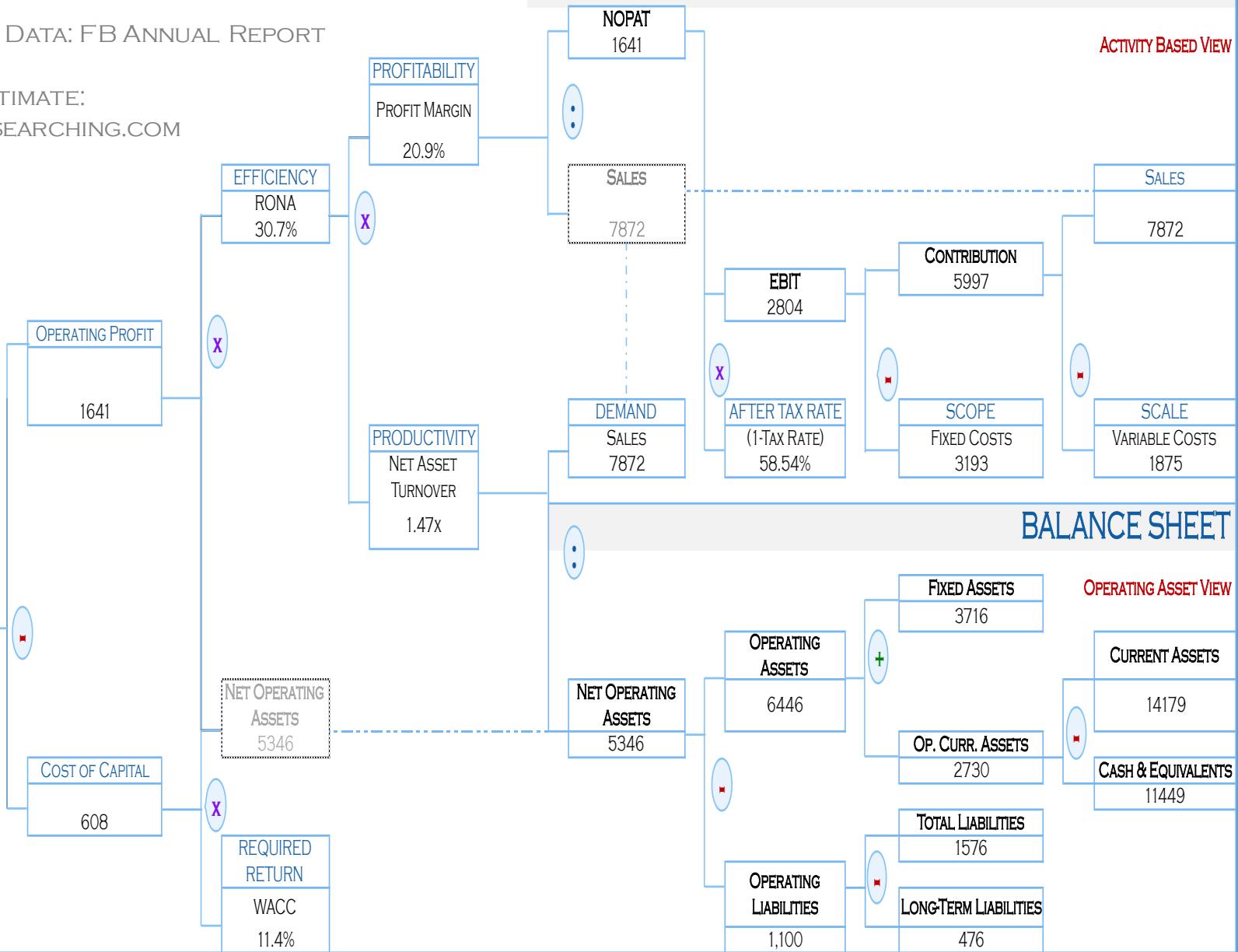
SOURCES:

FINANCIAL DATA: FB ANNUAL REPORT

WACC ESTIMATE:
STOCKRESEARCHING.COM

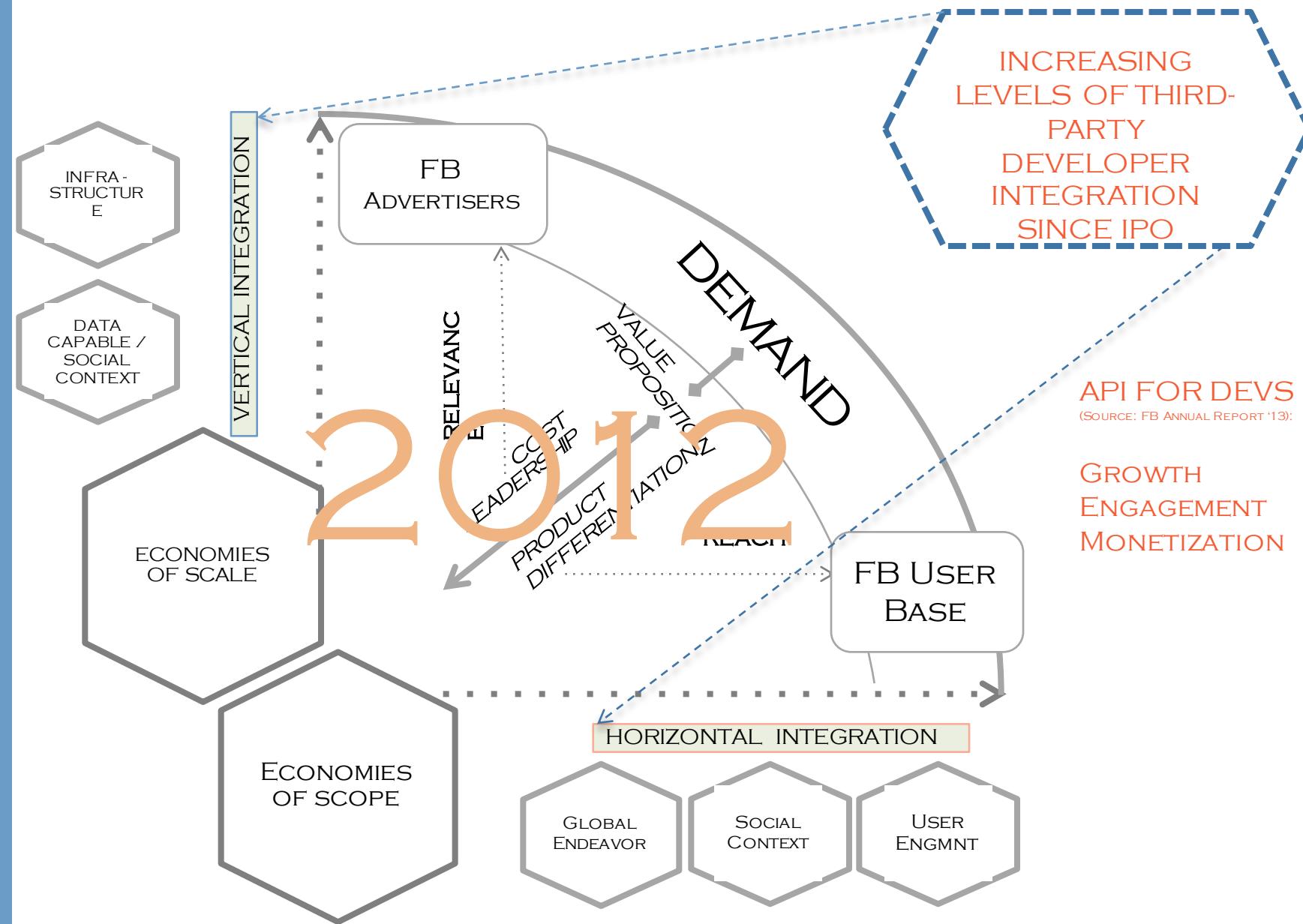
INCOME STATEMENT

ACTIVITY BASED VIEW



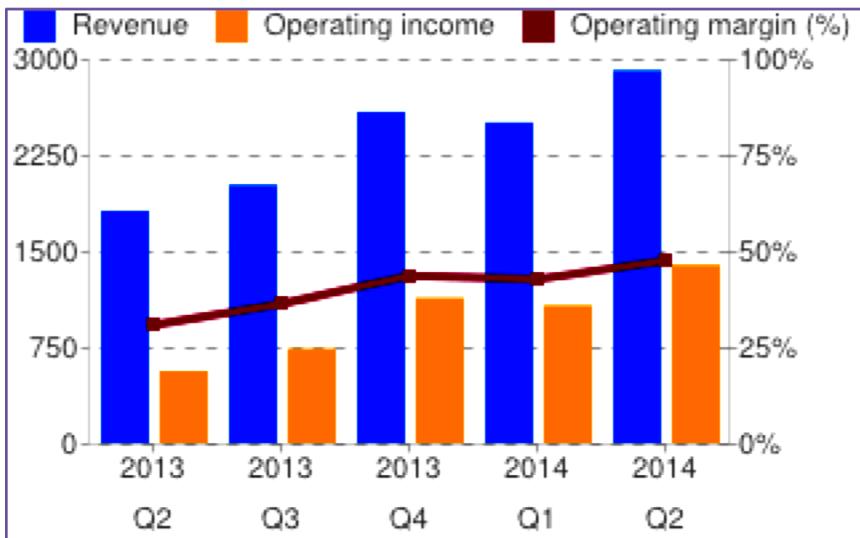
FACEBOOK'S COMPETITIVE ADVANTAGE

INTEGRATIVE ASSESSMENT OF FACEBOOK'S STRATEGIC & ECONOMIC VALUE CREATION PROCESSES



FB QUARTERLY & ANNUAL FINANCIAL STATEMENTS SINCE IPO

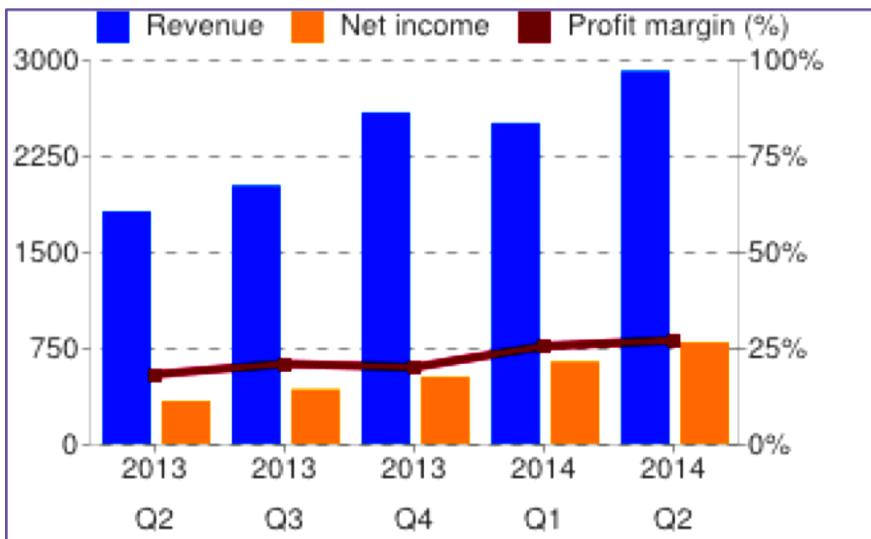
QUARTERLY OPERATING INCOME



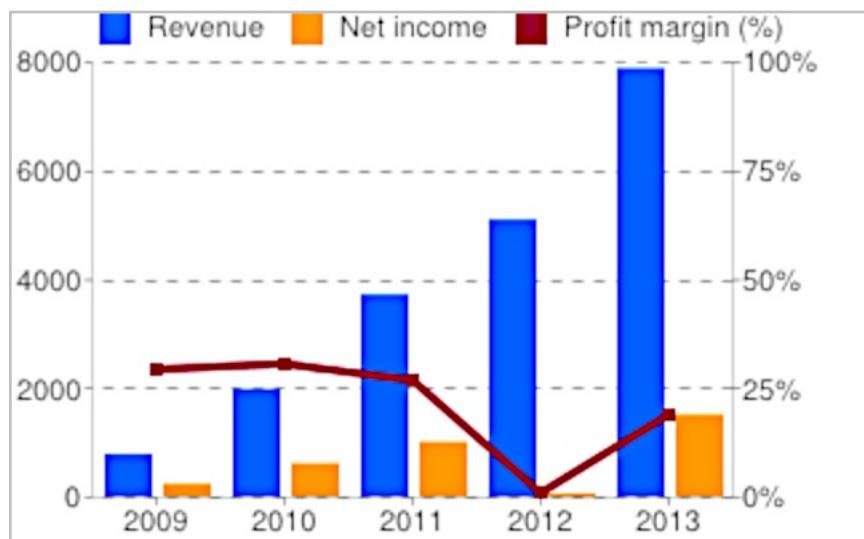
ANNUAL OPERATING INCOME



QUARTERLY NET INCOME

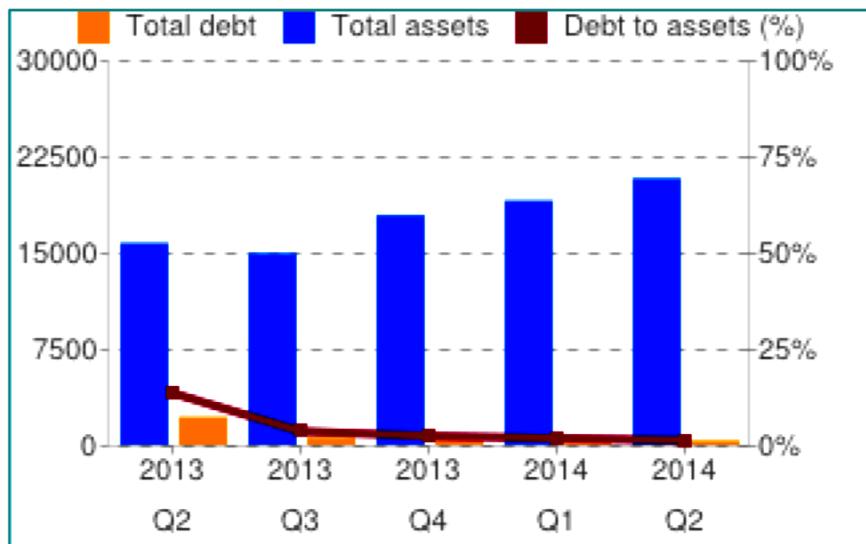


ANNUAL NET INCOME

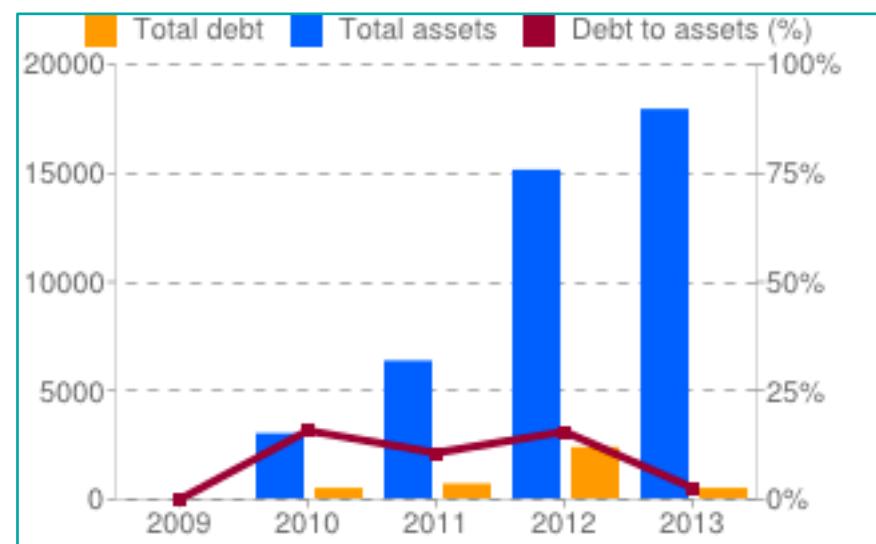


FB QUARTERLY & ANNUAL FINANCIAL STATEMENTS SINCE IPO

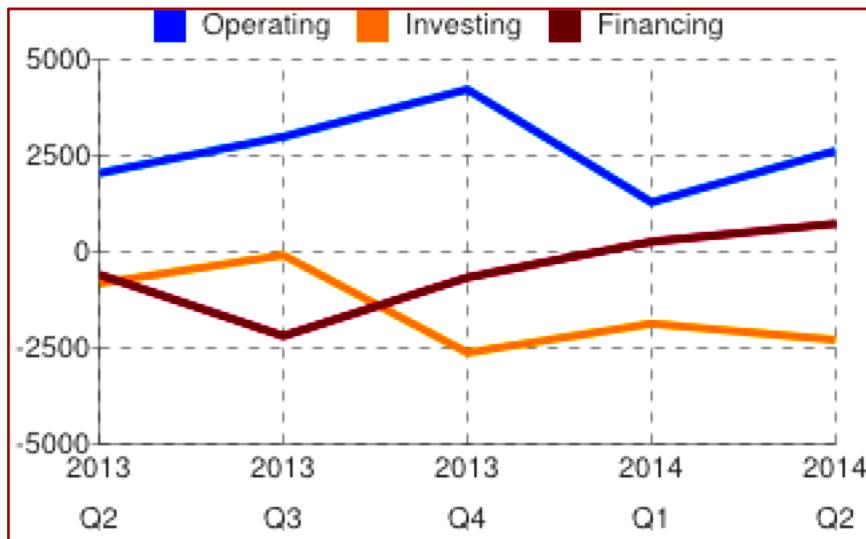
BALANCE SHEET – QUARTERLY



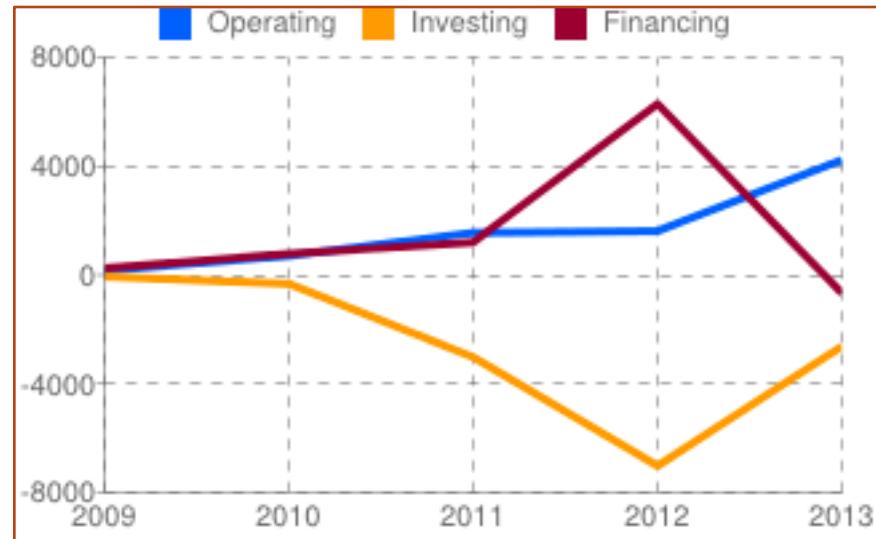
BALANCE SHEET - ANNUAL



CASH FLOWS – QUARTERLY



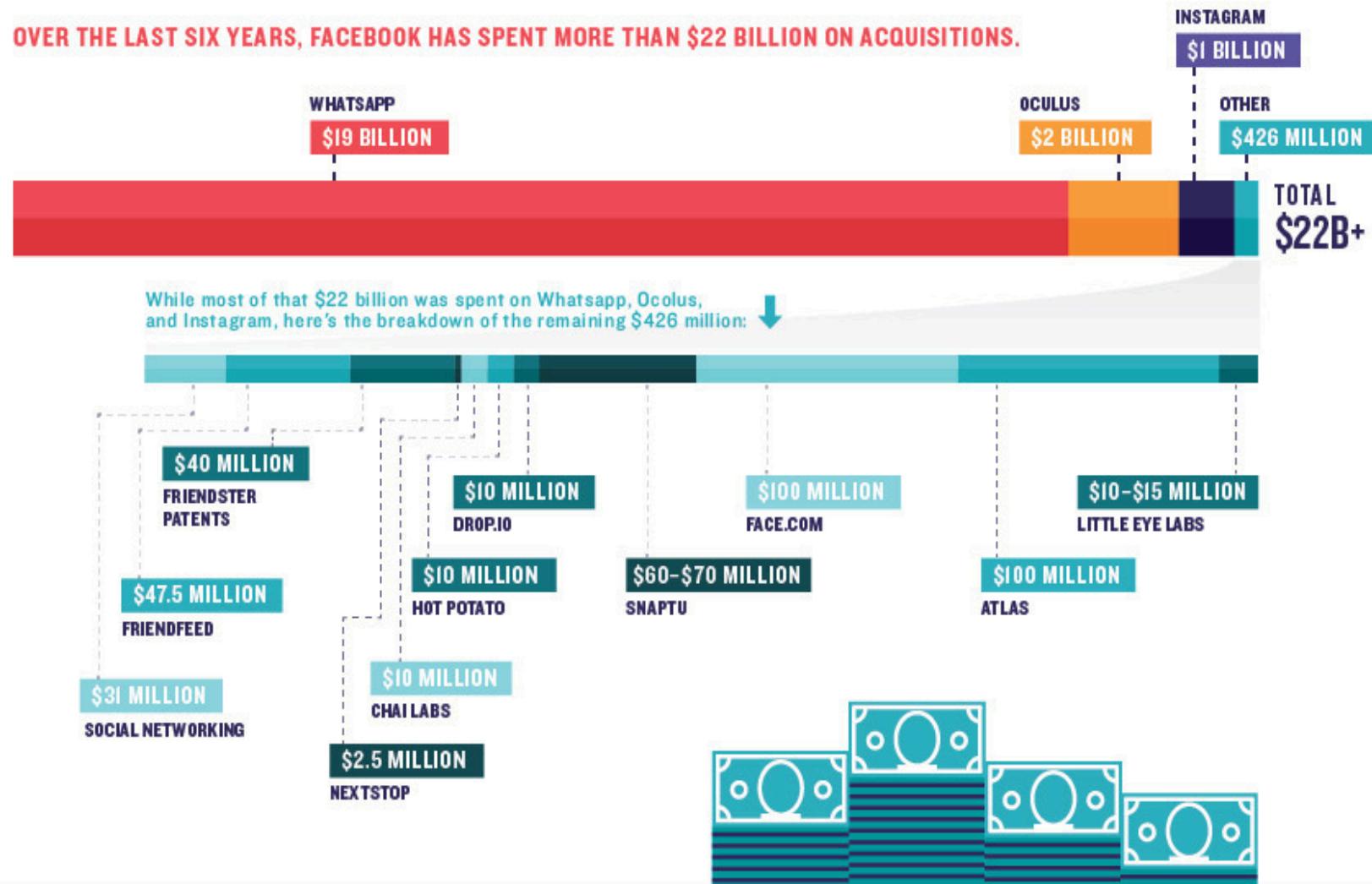
CASH FLOWS – ANNUAL



FACEBOOK'S ACQUISITION HISTORY

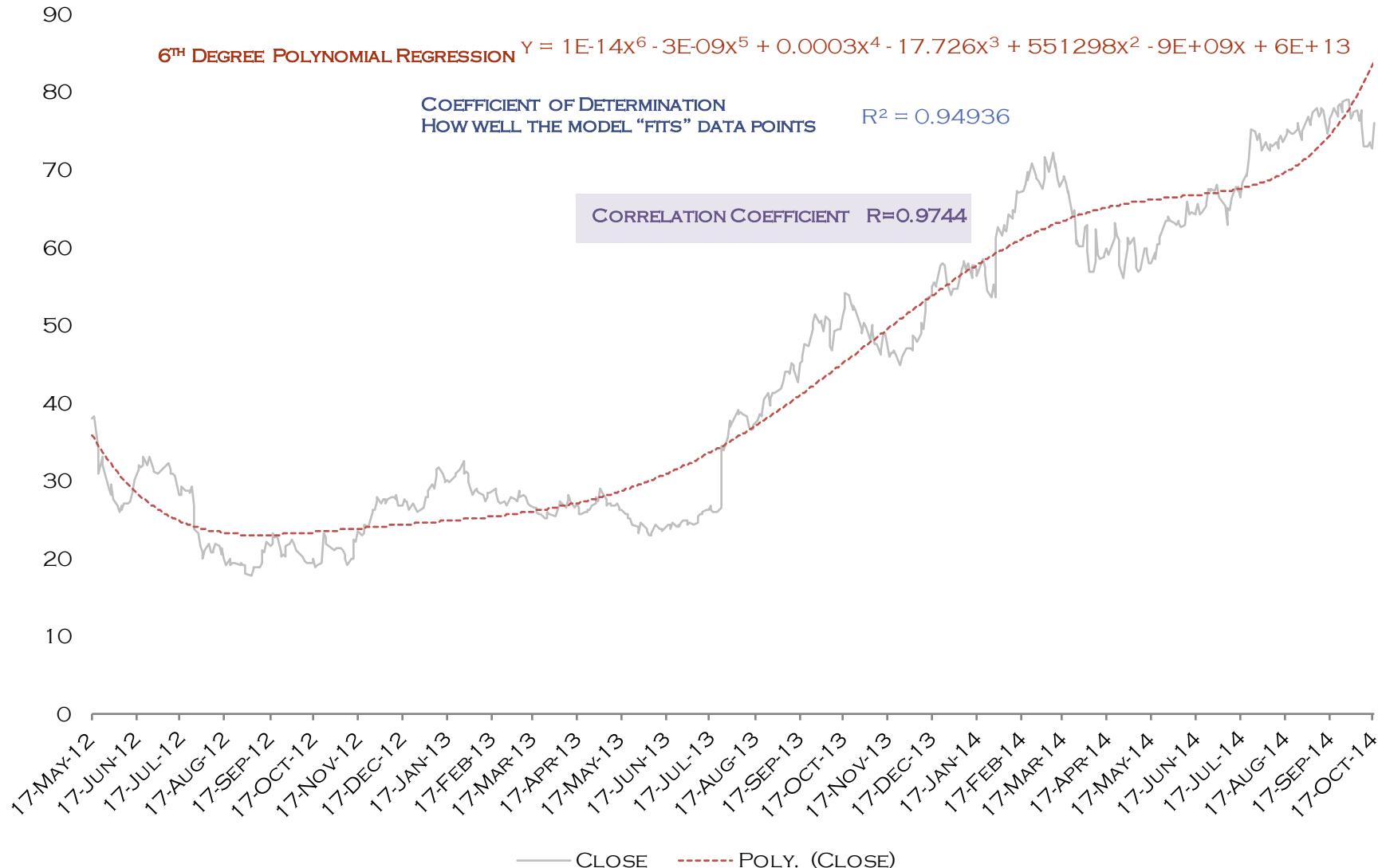
ACQUISITION HISTORY

OVER THE LAST SIX YEARS, FACEBOOK HAS SPENT MORE THAN \$22 BILLION ON ACQUISITIONS.



(SOURCE: MASHABLE)

FB- DAILY CLOSE PRICE SINCE IPO



FACEBOOK STOCK SINCE IPO – YEARLY CHANGE

FACEBOOK-YEARLY CHANGE SINCE IPO



(SOURCE: CNN MONEY)