Linkedin case study

Business

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LinkedinCorporation Every once in a while, a company comes around that transforms an industry in such a way that investors have difficulty grasping just how big it may one day become […] We believe LinkedIn can be one of these companies. —Morgan Stanley Research, June 28, 2011 On the evening of July 7, 2011, the price f or LinkedIn’s shares closed at $94. This closing price gave LinkedIn a market capitalization of $8. 9 billion: 37. 5 times its 2010 revenue and 592 times its 2010 earnings. LinkedIn, the 100 million member social networking website for professionals, had gone public seven weeks earlier.

After an eventful first day of trading where trading volume had exceeded 30 million shares and the trading price had reached at one point $123 before closing at $94, LinkedIn’s price had gradually fallen to $64 per share over the following month. However, the price had subsequently recovered to reach the $94 mark again in July. (S ee Exhibit 1 for LinkedIn stock price chart.) LinkedIn observers wondered if the company could possibly be worth that much or whether hype had overtaken reality.

Market participants were excited because IPO activity had been slow in recent years and because no major social networking website traded as a public company.

There was pent up demand for nearly any major IPO, but particularly for one in the s ocial media sector. While little information had been available throughout the 40 -day mandatory “ quiet period” during which company insiders and IPO underwriters were prohibited from making public statements, providing forecasts, or issuing research reports, new information was starting to come out about the company.

In particular, Morgan Stanley and JP Morgan—who had underwritten LinkedIn's IPO—issued reports on June 28 with " Overweight" recommendations and target prices of $88 and $85, respectively. 2 In contrast, CapstoneInvestments initiated coverage on July 6 with a " Sell" rating and a $45 target price per share. 3 Company Background Reid Hoffman and four cofounders launched LinkedIn in May 2003 in Mountain View California as a web-based site for career management and professional networking activities.

4 Within a month of its founding over 4, 500 members had joined LinkedIn. The company began earning revenue by accepting advertising on its site in 2004 and by posting job listings and selling premium subsc riptions

Professor Francois Brochet, and James Weber, Senior Researcher, Global Research Group, prepared this case. This case was developed from published sources. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endor sements, sources of primary data, or illustrations of effective or ineffective management.

112-006 LinkedIn Corporation in 2005. 6 In early 2007, LinkedIn had nearly 10 million members when Hoffman first announced that the company had reached profitability in March 2006. 7

LinkedIn attracted significant venture funding in its early years. This included $4.

7 million i n Series A funding from Sequoia Capital in 2003, $10 million in Series B funding in 2004 from Greylock Partners, and a combined $12. 8 million in 2007 from Bessemer Venture Partners and European Founders Fund. 8 In June and October 2008, LinkedIn raised anot her $75. 7 million from several funders including Bain Capital, Goldman Sachs, Bessemer Venture Partners and others. 9 The June infusion valued LinkedIn at $1 billion.

10 To attract new members and retain existing members, LinkedIn continued to add new servic es and capabilities to its site.

In late 2007, it introduced its Intelligent Applications Platform which enabled web content developers to create professional-focused applications which allowed business partners to embed LinkedIn applications onto their si tes and also business partners to embed their applications onto the LinkedIn site. 11 By early 2010, LinkedIn had introduced applications to enable members to access its services through mobile devices including iPhones, Palm, and Blackberry. 12 Since its early days, LinkedIn had attracted members from around the world.

The company promoted its global nature by offering its site in six languages: English, Spanish, German, French, Portuguese, and Italian.

13 In early 2011, LinkedIn had offices in Australia, Canada, India, Ireland, the Netherlands and the United Kingdom. 14 In early 2011, LinkedIn, already the largest professional oriented social networking site, was growing fast. The company had 990 employees (524 in engineering, product development and customer operations, 313 in sales and marketing, and 153 in general and administrative), 15 double the amount of one year earlier.

It had over 100 million members 16 in 200 countries and was adding over one million new members every 10 days. In 2010, the company earned $15 million on sales of $243 million; up from a loss of $4. 5 million on sales of $79 million in 2008.

First quarter 2011 sales doubled over the first quarter from the prior year. Over 50% of members and 27% of revenue came from outside of the U. S. LinkedIn membership included executives from all companies listed in the 2010 Fortune 500. 17 (See Exhibits 2, 3, and 4 for annual LinkedIn financial statements and Exhibit 5 for a summary of its quarterly financials. LinkedIn was a social networking website.

Its members tended to be individuals looking to build their professional networks to advance their careers. Like social networking sites generally, LinkedIn members created profiles of themselves in which they posted personal information they wanted to share with other site users. On the site, members could also look for new clients and business opportunities, communicate with existing contacts, reach out to potential new contacts, join industry groups, and learn more about organizations.

LinkedIn had conducted several small acquisitions designed to bring in talent and technology. Jeff Weiner, LinkedIn's CEO, explained that the company was growing fast enough that it did not need to acquire another social networking site. 18 The IPO Offering and Voting Rights For the IPO, LinkedIn and insider shareholders had offered 7.

84 million shares (out of 94. 5 million shares outstanding) for $45 per share. Approximately $ 200 million of the proceeds went to the company to be used for general business development purposes while the remainder went to selling shareholders and underwriter fees. LinkedIn Corporation 112-006 LinkedIn had both Class A shares and Class B shares. Class A shares came with one vo te per share while Class B shares had 10 votes per share.

All shares sold as part of the IPO were Class A shares while all remaining shares were Class B shares. Class B shares were held by company officers, employees, directors, early investors and other i nsiders. Thus while the IPO made public 8. 3% of issued shares, 99. 1% of the voting power remained in the hands of company insiders.

Under most circumstances, any future sales of Class B shares would result in the automatic conversion of those shares into Class A shares such that only individuals who were company insiders at the time of the IPO could hold Class B shares. (See Exhibit 6 for LinkedIn beneficial owners.) Business Model LinkedIn earned revenue from three segments: hiring solutions, marketing sol ution, and premium subscriptions. Hiring solutions LinkedIn enabled recruiters to search through the profiles of members who were either looking for jobs or willing to consider jobs even if they were not actively pursuing a new position.

Recruiters could search using a variety of categories including industry, job function, geography, experience, and education.

Recruiters could also post job listings on the LinkedIn website for $195 per posting or $1, 250 for 10 job postings. 19 LinkedIn employed a field sales force to sell its services to recruiters and companies. Alternately, companies could buy through the LinkedIn website. The services were sold for a subscription period during which the purchaser could access LinkedIn data. 20

Marketing solutions LinkedIn sold advertising space on its web pages and enabled advertisers to target ads to members using similar categories as hiring solutions. 21 Premium subscriptions LinkedIn provided basic level service to all members at no charge and offered advanced capabilities on a subscription basis.

Premium subscribers could be either individual members with profiles or business representatives. Advanced capabilities included enhanced search tools and results, the ability to communi cate with recruiters or be connected with individuals who work at a company of interest, and improved customer support.

Additionally, premium subscribers looking for new positions appeared at the top of recruiter search results. Individuals paid either $19. 95, $29.

95, or $49. 95 for one of three levels of premium subscriptions while business paid $24. 95, $49. 95, or $99. 95. 22 In recent years, the percentage of LinkedIn revenues had shifted from premium subscriptions towards hiring solutions and marketing solutions.

(See Exhibits 7a and 7b for LinkedIn's revenue by segment and Exhibit 8 for LinkedIn's revenue recognition policies.) Key Metrics LinkedIn tracked five primary metrics as measures of its performance.

Number of registered members Growth in membership depended on LinkedIn's ability to create an attractive and useful site for professionals around the world. A larger membership base itself made the site more attractive to individual and corporate members. LinkedIn had grown its membership 64%, from 55 million to 90 million, from the end of 2009 to the end of 2010.

(See Exhibit 9 for worldwide registered member data.)23 Unique visitors and page views Unique visitors and page view counts were standard measures of internet traffic. The first counted how many different users visited a site in a measured 3 12-006 LinkedIn Corporation time period while page views measured the total number of site pages visited by all users in the period. LinkedIn's unique visitors increased 81%, from 36 million to 65 million , while its page views increased 97%, from 2. 8 billion to 5.

5 billion, from the fourth quarter of 2009 to the fourth quarter of 2010. 24 Data from comScore, an internet traffic monitor, showed that unique visitors to LinkedIn were increasingly coming from outside of the North American

market. (See Exhibit 10 for comScore data on regional growth in LinkedIn traffic.

See Exhibit 11 for unique visitor data on U. S.

social networking sites.) Number of corporate solutions customers This figure counted the numbers of corporate customers under contract for at least one service type from LinkedIn. This measurement was critical to LinkedIn’s success because it was a significant source of company revenue in its Hiring Solutions segment. The number of corporate customers increased 144%, from 1. 6 thousand to 3. 9 thousand, from the end of 2009 to the end of 2010, and reached 4.

8 thousand by the end of March 2011. 5 Sales channel mix LinkedIn sold products online and through its field sales force . Online sales were primarily premium memberships and lower priced/non-contract-based hiring solutions or marketing solutions products with payment received upfront while the field sales force typically made higher priced, longer-term, contract-based sales to corporate customers with payment received either over time or at a later date. In 2010, LinkedIn earned 56% of its total revenues though field sales with the remained through online sales; up from 53% in 2009 and 47% in 2008.

The company expected future sales to increasingly come through its field sales force.

26 Different LinkedIn members used the site with different frequency and duration. For example, members actively looking for a job tended to have

heavier site usage patterns than other members. At the end of 2010, the average U. S. LinkedIn member spent 13 minutes per month using the site.

27 Competitive Landscape Social networking emerged in the 1990s and in the following decade it became popular with the growth of well-known sites such as MySpace (founded in 2003), Facebook(2004), andTwitter(2006).

Dozens of other sites had also formed in markets around the world. Social networking typically involved individual users creating profiles of themselves. Profiles could include a user’s name, home location, family members, friends, schools attended, employment information, personal photos, videos, hobbies, interests, or almost anything else that could be posted on a web site.

After creating them, many users frequently updated their profiles by adding or deleting content. By setting privacy filters, users had some control over who could access selected parts of their profiles.

Because the purpose of participating in social networking for many users was to both engage with current contacts and to seek out new contacts, such users frequently allowed their basic information (name and contact data) to be seen by anyone on the network. After creating a profile, social networking users used the site to share content with people on their network, seek out new connections, or comment on the activities of other users. Users could also join subgroups of users, for example people who graduated from a particular school, followed a sports team, worked in a certain industry, or worked for a certain employer.

Social networking was part of a broader category of online activity referred to as social media. In addition to social networking, social media included activities such as blogging, file sharing, consumer reviews, and sharing other user generated content. 28 Some observers referred to social media as Web 2. 0 in the sense that in the early days of the web, users typically viewed content found on web sites, but seldom had two-way interaction with a site where they generated content of their 4 LinkedIn Corporation 112-006 own. In Web 2.

0, sharing and genera ting content becomes a primary motivation for using the internet.

By 2010, social networking had become one of the most popular internet related activities: in the U. S. 135 million individuals, 60% of all internet users, visited a social networking site at least monthly. Usage was expected to increase to 164 million individuals and 67% of internet users by 2013. 29 In 2011, social networking was primarily a “ social” activity where site members interacted around issues involving family, friends, interests, or social/political issues.

There were, however, segments of social networking focused in other areas. One major area of focus was professional —employment, career, or business related social networking.

The economic crisis, recession, and generally slow economic recovery in the 2007-2011 period helped drive growth in the professional segment. 30 In addition to LinkedIn, the two other leading sites in the professional social networking segment were Viadeo and XING. Viadeo Founded in Paris in 2004, Viadeo was the second largest social networking site for professionals worldwide, and the largest in Europe, China, and South America.

At the end of 2010 it had 35 million members in 226 countries31 including 8. 1 million in Europe, 5. 0 million in North America, 1 1. 3 million in South America, 5. 5 million in China, and 3. 0 million in India.

Viadeo was adding over one million new members per month. One-third of its members visited the site at least once per month. The company had offices Europe (France, U. K. , Spain, and Italy), the Americas (U. S.

Canada, and Mexico) and Asia (China and India), and a global staff of 240. 32 Viadeo had grown primarily through acquisitions. In 2007 it acquired the leading professional networking site in China, in 2008 it acquired a site in Spain, and in 2009 it purchased the leading site in India. Its largest acquisition occurred in 2009 when it purchased the Canadian social networking site UNYK and its 16 million members.

To help fund its growth, Viadeo had raised a total of 15M€ ($19. 7 million33) in three rounds of venture funding in 2006, in 2007, and again in 2009.

Viadeo members could create personal profiles about themselves, connect with other members to build relationships, share information, and build their own professional brand and reputation online. They could look for jobs and make themselves known to potential employers looking to fill positions. Members could also conduct business development activities by looking for suppliers, clients or partners.

4 In contrasting Viadeo with LinkedIn, Viadeo founder and CEO Dan Serfaty stated that Viadeo was “ much more business-development oriented. “ 35 Viadeo based its strategy in part on the belief that professional networking depended largely on local cultures and customs.

To that end, it did not integrate its acquisitions into a single platform, but rather tailored each site to its local market. The local sites, however, were connected such that site members could network with other members around the world. To further enhance cross -border networks, Viadeo enabled individual profiles to appear in multiple languages. 6 Serfaty believed that LinkedIn was “ failing” in China, Brazil, and other countries because “ They do not take into account the local way of networking may not be the American way of doing things. ” 37 Viadeo was a privately held company.

In early 2011, Serfaty indicated that he expected the company to have 2011 revenues of $65 million, up from $2. 6 million in 2006.

Revenue was approximately evenly split from subscription fees, advertising, and recruitment services. Serfaty further indicated that 8% of its users paid subscription fees compared with less than 1% for LinkedIn. 38 Viadeo was profitable.

39 112-006 LinkedIn Corporation In early 2011, Viadeo opened its first office in the U. S. which it located in San Francisco. Serfaty, believing that Silicon Valley was key to the U. S technology market segmen t and key to Viadeo’s expansion in the U.

S. , decided to move to San Francisco and head the office himself. 40 Viadeo planned to leverage its international network, particularly in Europe and developing nations, to attract U. S. members interested in those markets. 41 XING AG XING, founded in 2003 and headquartered in Germany, was the third largest social networking site for professionals with 10.

million members worldwide in early 2011. The company had 2010 revenue of €54. 3 million, and 306 employees. 42 Membership increased from 4. 9 million at the end of 2007 to 10. 5 million at the end of 2010.

The number of members paying subscription fees increased from 362, 000 to 745, 000 over the same period. XING's largest markets were German speaking countries, which account ed for 4. 5 million members, and Spain and Turkey which accounted for 1. 6 million and 1. 0 million members respectively. XING had entered Spain and Turkey through acquisitions.

43 (See Exhibit 12 for XING financial data. XING earned revenue from three segments: subscriptions, e-recruiting, and advertising. Subscriptions accounted for nearly 80% of total revenue. Subscribers received higher functionality on the site and paid €6. 95 per month for a three month subscription, €5.

95 per month for a one -year subscription, and €4. 99 per month for a two-year subscription with the full amount due at the start of the subscription period. Approximately 96% of subscribers lived in its German speaking countries region due to XING's strategy of focusing on growth, rather than revenue generation, in its developing markets.

With e-recruiting, XING offered several pricing models to recruiters looking to post job openings online. In late 2009, XING began to increase investments in this segment to enable more options and capabilities for recruiters. In 2010, XING similarly expanded its capabilities and options for advertisers.

XING expected its e-recruiting and advertising revenues to grow faster than subscription revenues in coming years. 44 (See Exhibit 13 for XING segment revenue.) In December 2010, XING acquired amiando AG, a pioneer in online event registration and ticketing.

Users of amiando could organize events, register attendees, and sell tickets to both business related and entertainment related events. XING's purpose of the acquisition was to further develop its platform to make it more valuable to XING members and to increase revenue. 45 One industry observer believed that XING had been less focused on increasing membership and more focused on generating revenue by adding services.

46 There were other social networking sites that focused on the professional segment. Ryze, founded in San Francisco in 2001, had 500, 000 members in 200 countries in 2011. 7 Doostang, founded Sunnyvale, California in 2005, focused on young professional s who were typically recent graduates of top tier universities around the world. It had 750, 000 members in 2011.

48 Facebook Facebook was the world's largest social networking site in 2011. The company claimed it had over 500 million active users in July 2010 —30% in the U.

S. —and that between April 2009 and July 2010 it was adding 100 million users every five months. On an average day, 50% of Facebook users logged in to the site. 49 The average Facebook user spent 321 minutes per month on the site. 50 Facebook users created personal web sites and uploaded profiles of themselves which could include photos, videos, family and friend information, and other content. Users also formed networks 6 LinkedIn Corporation 112-006 of “ friends”—other users with whom they connected and allowed access to t heir profile.

51 Like social networking sites generally, Facebook created the platform while users provided the content. Facebook was developing a platform that would take it beyond simple social networking to potentially become a virtual economy around whic h much of an internet user’s online experience could revolve.

Mark Zuckerberg, Facebook’s founder, stated, “ Our goal is to make everything social. “ 52 What individuals chose to buy, read, or watch had long been influenced by the preferences and recommendations of friends. But historically this information was shared by word of mouth.

With the growth of its user base, Facebook was increasingly able to compile the activities and interests of individuals and then enable the efficient sharing of that information among an individual’s network of friends. By the end of 2010, over two million web sites had integrated with Facebook. 3 These included half of the top 25 retail sites54 such as Wal-Mart, Home Depot, Best Buy, and Target Corp. Facebook was also looking to become a distributor of online movies and offer discounts and special offers on behalf of its integrated partners. 55 To help consumers’ pay for online transactions, it had introduced a payment system called “ Credits.

“ 56 Facebook’s size gave it impact beyond traditional business borders. For example, it was a social network, but it had also become the largest photo sharing site on the internet. 57 Facebook was a privately held company.

By one estimate it had 2010 revenues of $2 billion which came primarily from hosting advertisements. 58 Revenues, however, appeared to be growing rapidly.

eMarketer, a leading market research company, estimated Facebook advertisement revenue would increase to $4. 05 billion in 2011. Lou Kerner, an analyst with Wedbush Securities Inc. , s eemed to agree. He estimated that Facebook had a 50% EBITDA profit margin and would have an EBITDA of $1.

95 billion in 2011. 59 As Facebook further developed the ability to apply the information it had on users and their preferences to create new revenue streams, revenue growth could accelerate.

Facebook, founded in 2004, had received several rounds of venture funding in its early years. In October 2007, MicrosoftCorp invested $240 million in Facebook which put a $15 billion market cap value on the company. 60 In May 2009, Digital Sky purchased $200 million in stock from the company and another $100 million from employees.

The transaction valued Facebook at $10 billion. 61 In January 2011, Facebook announced it had just completed its largest funding round: $1 bil lion from investors through Goldman Sachs and another $500 million from Digital Sky. This round put Facebook’s market cap at $50 billion.

Goldman Sachs indicated that its investors would have put up to $5 billion into the company, but Facebook limited the investment to the $1 billion. Facebook indicated that it had no immediate plans for the funds, but wanted to prepare for future opportunities. 62 By March 2011, Facebook shares trading on secondary markets had increased nearly 70% and pushed the company's estimated market capitalization to $84 billion.

63 Facebook users tended to use the site for social networking with family and friends. Many Facebook users, however, were also members of other social networking sites.

One industry observer indicated that many individuals preferred to keep separate their social and professional networking activities64 and to do so they maintained both a Facebook and a LinkedIn membership account. Facebook members could, however, use the Facebook site for professional purposes if they desired. In comparing Facebook users with LinkedIn users, LinkedIn founder Hoffman stated, “ Most users of social networks have a lot of disposable time, but not much disposable income.

With professionals it is the other way around. “ 65 7 112-006 LinkedIn Corporation Monster Worldwide

Monster Worldwide, the operator of Monster. com, provided online employment services to both job seekers and employers. The Monster web site, launched in 1994, gave the company a “ global leadership position” in online employment industry with nearly six t housand employees and operations in over 50 countries. Individual users could search through job postings on the site and post their own resumes at no cost.

For a fee, individuals could obtain resume writing and other job search and career management services. Hiring organizations could post jobs, search through resumes, and post areer information all on a fee basis. Monster earned 86% of its operating revenues from individuals and hiring organizations with the remainder coming from hosting third -party advertisement on its site.

While Monster competed with professionally oriented social networking sites, it did not offer significant social networking functionality. 66 In 2010, Monster lost $32 million on revenues of $914 million, both down from 2008 profits o f $125 million on sales of $1.

34 billion, a decline at least partly attributable to the global economic recession. The company had a market capitalization at the end of 2010 of $2. billion and was a member of the S&P 500 Index. 67 Opportunities and Threats for LinkedIn As it went public, LinkedIn held several advantages in the professional market. First, its membership count—three times and ten times larger than its nearest two competitors —gave it significant market power though network effects. It was advantageous for members to belong to a larger network so existing members were more likely to remain with a market leader and new members were more likely to join.

Having the highest membership count also attracted more job listings and advertisement revenue.

Similarly, the larger network let to higher switching costs for members. Members build their professional network on the site. Once created, members would find it difficult to rebuild their networks on a different site.

68 Being the first competitor in the segment to go public would likely translate into additional resources for LinkedIn to grow its membership, improve customer service, and expand technical capabilities.

This could put the company in a strong position to tap into what management believed was a $27. 3 billion addressable market for hiring solutions, i. . , 32% of global talent acquisition and staffing services spent in 2010, according to research by International Data Corporation (IDC). 69 Furthermore, a survey in April 2011 by the Society for Human Resource Management indicated that 56% of organizations used social media for recruitment purposes, compared to 34% in 2008.

70 LinkedIn also had advantages in the demographics of its members. Data from the U. S. in 2009 indicated that compared with Facebook and Twitter, LinkedIn members had higher incomes, higher education levels, and were more likely to be employed.

For example, while 53% of Facebook users and 56% of Twitter users had incomes less than $55, 000, 54% of LinkedIn users had incomes greater than $75, 000. In education, 37% of Facebook users, 39% of Twitter users, and 66% of LinkedIn users had at least a four-year college degree.

71 In 2011, another estimate described the average LinkedIn user as being 41 years old with an income of $110, 000 and a portfolio of at least $250, 000. 72 The distinct demographics of LinkedIn’s members were key to determining its competitive positioning in the growing online advertising market.

According to Magna Global, the global advertising market for 2011 was about $400 billion, of which $70 billion would be spent via the internet. Magna expected internet advertising to be the fastest growing segment of global advertising, reaching an estimated $120 billion in 2016 (10. 6% compound annual growth rate).

Similarly, Magna exp ected U. S. Internet advertising to grow at a 9. 1% CAGR to over $44 billion in 2016. Furthermore, an analyst estimated 8 LinkedIn Corporation 112-006 that social media websites represented close to $3 billion in advertisement spending in 2011.

3 From management's standpoint, LinkedIn's online advertising addressable market was $25. 4 billion. Despite its market leading position, LinkedIn faced several threats. (See Exhibit 14 for risk factors listed in LinkedIn's S-1 filing.) Growing membership in the future could prove challenging.

While LinkedIn was the clear leader in the U. S market, in the European market it faced two strong competitors in Viadeo and XING. Both competitors were concentrated in the European market and potential new members therefore could choose among three strong players.

Earning revenue from new members was also a challenge. In emerging markets, and also in parts of Europe, many new members brought in little new revenue —as of the first quarter of 2011, more than half of LinkedIn's members were from international markets, but international revenue accounted for about 31% of total revenue—yet such membership came with increased costs for LinkedIn. 74 These costs included both the technological infrastructure and the site features and languages that must be customized to serve a variety of local markets.

One researcher noted that other social networking sites had failed when they added new members faster than they could upgrade service capabilities—as service levels at a site declined, members began using the site less frequently until they eventually became members of another site. 75 Finally, the same network effect that gave LinkedIn an advantage in the professional segment, could give Facebook an advantage over LinkedIn should Facebook decide to enter the professional segmen t. Valuation Benchmarks Market participants were likely considering three possible benchmarks in trying to set an estimated value for LinkedIn.

First, they might compare LinkedIn with publicly traded peer companies. Second, they could move beyond peers to look at other publicly traded companies that could offer insight into LinkedIn's value.

Finally, they could look at other social media companies' stock performance on secondary markets. Compared with XING As the only publicly traded social networking site focused on professionals, XING was LinkedIn's closest peer company. XING went public in December 2006; raising €36 million. At that time, the company had 1. 5 million members, €6 million in 2006 revenues, and a market capitalization of €159 million.

By 2010, XING had €54.

3 million in revenues, a market cap of €192 million, and a price earnings ratio (PE-ratio) of 27. 76 (See Exhibit 15 for XING share data.) LinkedIn and XING had similar business models. They both focused on creating a platform

that allowed working professionals to network with other professionals and both earned revenue from subscriptions, advertising, and job postings. There were, however, significant differences between the two organizations. Most notable, LinkedIn had approximately 10 times the number of members as XING.

LinkedIn was also growing faster: from 2008 to 1010 its compound annual growth rate was 76%77 compared with XING’s 22%. 78 Geographically, LinkedIn appeared more diversified. While it had over 50% of its members outside of the U. S. it earned 73% of its revenues there. 79 XING also had over 50% of its members outside of its home country region, yet it earned 97% of its revenues there.

80 XING indicated that its site had 204 million page views in December 2010. 81 Other Public Companies Analysts could examine other publicly traded companies to estimate LinkedIn’s value.

Although XING was LinkedIn’s only industry peer stricto sensu, investors could gain further insight from U. S. 9 112-006 LinkedIn Corporation and foreign companies operating in industries such as eComme rce and subscription internet, software as a service (SaaS), online search and advertising, and online recruitment.

(See Exhibit 16 for financial details on selected companies. See Appendix A for company descriptions.) Other Social Media While LinkedIn was the first U. S. social media company to list its stock publicly, others such as Facebook or Twitter were trading heavily on private secondary markets such as SecondMarket and SharesPost.

Although traders on such markets typically did not have much information on the companies they were buying and selling, analyst reports were periodically issued that provided insights into the estimated valuation of LinkedIn's peers.

For instance, on May 30, 2011, an analyst from neXtup Research estimated Facebook's enterprise value to be in the $50. 8 to 51. 6 billion range, with expected annual revenue of $4. 0 billion in 2011 and $6. 4 billion in 2012, and long -term EBITDA margin of 50%. 82 On June 16, 2011, neXtup Research issued a report estimating Twitter's enterprise value between $2.

51 and 2. 0 billion, with expected revenue of $158 million for 2011 and $296 million for 2012 and a long-term EBITDA margin of 45%.

83 Determining a Value Reactions to LinkedIn's public debut were mixed. Skeptics argued that Link edIn was overpriced and expressed concerned over a " Bubble 2. 0" —in reference to the dot.

com bubble of the late 1990s — driven by irrational expectations for internet stocks. 84 Meanwhile, others saw in LinkedIn's high stock price at least as much of a confirmation of investors' strong demand for social media stocks as a validation of the company's business model in its own right. 5 The divergence in opinions was reflected in analysts' expectations. (See Exhibit 17 for key data from analyst reports.) 10 LinkedIn Corporation Exhibit 1 112-006 LinkedIn Stock Price, May 19 – July 7, 2011. $120 $100 $80 $60 $40 $20 $0 May 19 May 26 Jun 2 Jun 9 Jun 16 Jun 23 Jun 30 July 7

Source: Adapted from data from Thomson ONE, accessed December 2011.

11 112-006 LinkedIn Corporation Exhibit 2 Operations Data 2006 Net revenue Year Ended December 31, 2007 2008 2009 (in thousands) 2010 $9, 836 $32, 486 $78, 773 $120, 127 $243, 099 Cost of revenue (exclusive of depreciation and amortization shown separately below) 2, 019 , 384 18, 589 25, 857 44, 826 Sales and marketing 1, 555 5, 037 16, 986 26, 847 58, 978 Product development 4, 411 11, 578 29, 366 39, 444 65, 104 General and administrative 2, 248 6, 812 12, 976 19, 480 35, 064 973 2, 107 6, 365 11, 854 19, 551 Total costs and expenses 11, 206 32, 918 84, 282 123, 482 223, 523 Income (loss) from operations (1, 370) (3, 355) 19, 576 230 (610) (3, 125) 18, 966 848 3, 581 ($3, 973) $15, 385 Costs and expenses: Depreciation and amortization Other income (expense), net Income (loss) before income taxes Provision for income taxes Net income (loss) Source: (432) (5, 509) 696 773 1, 277 (674) 341 (4, 232) 3 ($677) 13 $328 290 $4, 522) Company document; LinkedIn, April 4, 2011, S-1 Amendment No. 2. (Mountain View: LinkedIn, 2011) via U. S. Securities and Exchange Commission, www.

sec. gov, accessed May 2011.

Exhibit 2 cont’d Reconciliation of Adjusted EBITDA 2006 Net income (loss) Provision for income taxes Other (income) expense, net Year Ended December 31, 2007 2008 2009 (in thousands) ($677) $328 3 290 $15, 385 848 3, 581 (230) 610 2, 107 6, 365 11, 854 19, 551 Stock-based compensation 112 1, 805 4, 605 6, 152 8, 832 ($285) $3, 480 $5, 461 $14, 651 $47, 959 12 (1, 277) ($3, 973) 973 Source: (773) ($4, 522) Depreciation and amortization Adjusted EBITDA 696) 13 2010 Company document;

LinkedIn, April 4, 2011, S-1 Amendment No. 2. (Mountain View: LinkedIn, 2011) via U. S.

Securities and Exchange Commission, www. sec. gov, accessed May 2011. LinkedIn Corporation Exhibit 3 112-006 Consolidated Balance Sheets (in thousands) December 31, 2009 ASSETS CURRENT ASSETS: Cash and cash equivalents Accounts receivable (net of allowance for doubtful accounts as of $1, 100 and $2, 672 at December 31, 2009 and 2010, respectively) Deferred commissions Prepaid expenses and other current assets Income tax receivable Deferred income taxes Total current assets Property and equipment, net

Intangible assets, net Other assets TOTAL ASSETS LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY CURRENT LIABILITIES: Accounts payable Accrued liabilities Deferred revenue Income tax payable Total current liabilities LONG-TERM LIABILITIES DEFERRED TAX LIABILITIES Total Liabilities COMMITMENTS AND CONTINGENCIES (Note 10) REDEEMABLE CONVERTIBLE PREFERRED STOCK: Redeemable convertible preferred stock, Series C, $0. 0001 par value— 4, 357, 644 shares authorized; 4, 357, 644 issued and outstanding; liquidation preference of $12, 811 Redeemable convertible preferred stock, Series D, $0.

001 par value— 6, 800, 349 shares authorized; 6, 599, 987 shares issued and outstanding; liquidation preference of $75, 702 Total redeemable convertible preferred stock STOCKHOLDERS' EQUITY Convertible preferred stock, Series A, $0. 0001 par value—17, 238, 579 shares authorized; 17, 168, 214, and 17, 238, 579 shares issued and outstanding at December 31, 2009 and 2010, respectively; liquidation preference of $5, 494 and $5, 516 at

December 31, 2009 and 2010, respectively Convertible preferred stock, Series B, $0. 001 par value—17, 450, 991 shares authorized; 17, 450, 991 shares issued and outstanding; liquidation preference of $9, 947

Common stock, $0. 001 par value—120, 000, 000 shares authorized; 41, 745, 728, and 43, 308, 742 shares issued and outstanding at December 31, 2009 and 2010, respectively; 88, 955, 943 shares issued and outstanding pro forma Additional paid-in capital Accumulated other comprehensive loss Accumulated deficit Total stockholders' equity TOTAL LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS EQUITY Source: 2010 $89, 979 $92, 951 24, 324 2, 961 2, 199 -1, 695 121, 158 25, 730 297 1, 374 $148, 559 58, 263 8, 684 5, 767 3, 090 3, 451 172, 206 56, 743 5, 232 4, 007 $238, 188 $4, 919 18, 352 25, 450 552 49, 273 528 1, 695 51, 496 $2, 064 38, 003 64, 985 420 05, 472 1, 861 6, 625 113, 958 12, 700 12, 700 75, 281 87, 981 75, 281 87, 981 5, 451 5, 884 9, 962 9, 962 4 13, 725 (3) (20, 057) 9, 082 4 25, 074 (3) (4, 672) 36, 249 $148, 559 $238, 188 Company document; LinkedIn, April 4, 2011, S-1 Amendment No. 2. (Mountain View: LinkedIn, 2011) via U.

S. Securities and Exchange Commission, www. sec. gov, accessed May 2011. 13 112-006 Exhibit 4 LinkedIn Corporation Consolidated Statements of Cash Flows (in thousands) Year Ended December 31, 2008 2009 2010 OPERATING ACTIVITIES: Net income (loss) Adjustments to reconcile net income (loss) to net cash provided by operating activities: Depreciation and amortization

Provision for doubtful accounts and sales returns Stock-based compensation Loss on disposal of assets Excess income tax benefit from the exercise of stock options Changes in operating asset and liabilities: Accounts receivable Deferred commissions Prepaid expenses and other assets Accounts payable and other liabilities Income taxes, net Deferred revenue Net cash provided by operating activities (4, 522) (3, 973) 15, 385 6, 365 724 4, 605 109 — 11, 854 448 6, 152 6 — 19, 551 1, 811 8, 832 317 (129) (10, 252) (1, 051) (487) 6, 762 81 6, 820 9, 154 (9, 791) (21, 115) (801) 8, 631 357 10, 592 21, 360 (35, 677) (5, 798) (4, 576) 15, 595 (493) 39, 535 54, 353 19, 579) (628) (278) (20, 485) (13, 279) -235 (13, 044) (50, 026) (4, 467) (1, 140) (55, 633) INVESTING ACTIVITIES: Purchase of property and equipment Purchases of intangible assets (Increase) decrease in restricted cash and deposits Cash used in investing activities FINANCING ACTIVITIES: Proceeds from issuance of redeemable convertible preferred stock Issuance costs in connection with redeemable convertible preferred stock Proceeds from exercise of warrant Proceeds from issuance of common stock Proceeds from early exercise of employee stock options Repurchase of common stock Repurchase of founders' stock Payments for deferred offering costs

Excess income tax benefit from the exercise of stock options Net cash provided by financing activities EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS 75, 702 (421) -778 1, 342 (286) (3, 197) –73, 918 (38) —1, 084 680 (734) —1, 030 138 –23 1, 307 3, 438 (175) -(397) 129 4, 325 (73) CHANGE IN CASH AND CASH EQUIVALENTS 62, 549 9, 484 2, 972 CASH AND CASH EQUIVALENTS—Beginning of period 17, 946 80, 495 89, 979 CASH AND CASH EQUIVALENTS—End of period 80, 495 89, 979 92, 951 Source: Company document; LinkedIn, April 4, 2011, S-1 Amendment No. 2.

(Mountain View: LinkedIn, 2011) via U. S. Securities and Exchange Commission, www. ec. gov, accessed May 2011. 14 LinkedIn Corporation Exhibit 5 112-006 Quarterly Financial Update Three Months Ended March 31 2010 2011 (in thousands) Operations Data Net revenue $44, 716 $93, 932 8, 305 16, 783 Sales and marketing 10, 454 29, 361 Product development 12, 141 24, 735 General and administrative 6, 672 13, 614 Depreciation and amortization 3, 940 8, 159 41, 512 92, 652 3, 204 1, 280 Costs and expenses: Cost of revenue (exclusive of depreciation and amortization shown separately below) Total costs and expenses Income (loss) from operations Other income (expense), net (346) Income (loss) before income taxes 2, 858

Provision (benefit) for income taxes 1, 043 Net income (loss) $1, 815 449 1, 729 (349) $2, 078 Balance Sheet Data Total current assets $187, 110 Total assets $265, 332 Total current liabilities $122, 481 Total liabilities $130, 821 Total redeemable convertible preferred stock $ 87, 981 Total stockholders' equity $46, 530 Total liabilities redeemable convertible preferred stock and stockholders' equity $265, 332 Cash Flow Data Net cash provided by operating activities $13, 607 $26, 557 Cash used in investing activities $(9, 009) $(18, 466) Net cash provided by financing activities $633 $4, 961 CASH AND CASH EQUIVALENTS—Beginning of period 89, 979 $92, 951 CASH AND CASH EQUIVALENTS—End of period $95, 241 $106, 0610 Source: Company document; LinkedIn, May 19, 2011, Form 424B4 (Mountain View: LinkedIn, 2011) via company website http://investors.

linkedin. com/sec. cfm, accessed September 2011. 15 112-006 LinkedIn Corporation Exhibit 6 Beneficial Ownership Shares Percenta 5% Stockholders

Reid Hoffman and Michelle Yee Sequoia Capital Greylock Partners Bessemer Venture Partners 19, 066, 032 16, 840, 309 14, 047, 978 4, 578, 253 21. 3% 18.

8 15. 7 5. 1 Named Executive Officers and Directors Jeffrey Weiner Steven Sordello David Henke Dipchand “ Deep” Nishar Erika Rottenberg

A. George “ Skip” Battle Reid Hoffman Leslie Kilgore Stanley Meresman Michael Moritz David Sze 3, 844, 512 1, 007, 327 850, 000 970, 000 425, 000 75, 000 19, 066, 032 60, 000 75, 000 16, 840, 309 14, 047, 978 4. 1 1.

1 * 1. 1 * * 21. 3 * * 18. 8 15. 7 All executive officers and directors as a group (12 persons) 57, 911, 158 60.

8% Beneficial Owner Source: Company document; LinkedIn, April 4, 2011, S-1 Amendment No. 2. (Mountain View: LinkedIn, 2011) via U. S. Securities and Exchange Commission, www.

sec. gov, accessed May 2011. a The calculation of the percentage of beneficial ownership is based on zero shares of Class A common stock nd 89, 547, 185 shares of Class B common stock (including preferred stock on an as converted basis) outstanding as of February 28, 2011. 16 LinkedIn Corporation Exhibit 7a 112-006 Net Revenue by Product (thousands, year ended December 31) 2007 Marketing solutions 2010 $17, 352 $ 36, 136 $101, 884 7, 780 38, 278 79, 309 35, 449 45, 713 61, 906 $32, 486 Total 25, 972 17, 239 Premium subscriptions Source: 2009 $ 7, 467 Hiring solutions 2008 $78, 773 $120, 127 $243, 099 Adapted from company documents; LinkedIn, April 4, 2011, S-1 Amendment No. 2. (Mountain View: LinkedIn, 2011); and LinkedIn, January 27, 2011, S-1 (Mountain View: LinkedIn, 2011), both via U.

S. Securities and Exchange Commission, www. sec. gov, accessed May 2011. Exhibit 7b Percentage of Net Revenue by Product (thousands, year ended December 31) 100% 90% 80% 23% 22% 24% 33% 30% 42% 70% 60% Hiring solutions 32% 50% 33% 40% Marketing solutions Premium subscriptions 30% 20% 53% 45% 38% 25% 2007 10% 2008 2009 2010 0% Source: Adapted from company documents; LinkedIn, April 4, 2011, S-1 Amendment No.

2. (Mountain View: LinkedIn, 2011); and LinkedIn, January 27, 2011, S-1 (Mountain View: LinkedIn, 2011), both via U. S. Securities and Exchange Commission, www. sec. gov, accessed May 2011.

17 112-006 Exhibit 8 LinkedIn Corporation

Revenue Recognition Policies Hiring Solutions Revenue from job postings is recognized as the posting is displayed or the contract period, whichever is shorter. Marketing Solutions Revenue from internet advertising is recognized net of any related agency commissions as the online advertisements are displayed on pages viewed by users , the timing of which is specified by the advertiser in the advertising contract but is generally distributed ratably over the term of the advertising contract. Premium Subscriptions Revenue from Premium Subscription services is recognized ratably over the contractual period, generally from one to 12 months.

Revenue Recognition Policies A majority of our arrangements for hiring solutions and marketing solutions include multiple deliverables. In accordance with recent authoritative guidance on revenue recognition, we allocate arrangement consideration in multiple- deliverable revenue arrangements at the inception of an arrangement to all deliverables based on the relative selling price method in accordance with the selling price hierarchy, which includes: (1) vendor specific objective evidence, or VSOE, if available; (2) third party vidence, or TPE, if vendor- specific objective evidence is not available; and (3) best estimate of selling price, or BESP, if neither VSOE nor TPE is available. VSOE.

We determine VSOE based on our historical pricing and discounting practices for the specific solution when sold separately. In determining VSOE, we require that a substantial majority of the selling prices for these services fall within a reasonably narrow pricing range. We have not historically priced our marketing solutions or certain products in our hiring solutions within a narrow range.

As a result, we have only used VSOE to allocate the selling price of deliverables in limited circumstances. TPE. When VSOE cannot be established for deliverables in multiple element arrangements, we apply judgment with respect to whether we can establish selling price based on TPE.

TPE is determined based on competitor prices for similar deliverables when sold separately. Generally, our go-to-market strategy differs from that of our peers and our offerings contain a significant level of differentiation such that the comparable pricing of services with similar functionality cannot be obtained.

Furthermore, we are unabl e to reliably determine what similar competitor services' selling prices are on a stand – alone basis. As a result, we have not been able to establish selling price based on TPE. BESP. When we are unable to establish selling price using VSOE or TPE, we use BESP in our allocation of arrangement consideration.

The objective of BESP is to determine the price at which we would transact a sale if the service were sold on a stand- alone basis. BESP is generally used to allocate the selling price to deliverables in our multiple element arrangements.

We determine BESP for deliverables by considering multiple factors including, but not limited to, prices we charge for similar offerings, sales volume, geographies, market conditions, competitive landscape and pricing practices. Because we generally have neither VSOE nor TPE for our hiring solutions and marketing solutions deliverables, the allocation of revenue has been based on our BESPs. The process for determining our BESP for deliverables without VSOE or TPE involves management's judgment.

Our process considers multiple factors that may vary depending upon the unique facts and circumstances related to each deliverable. Key factors that we considered in developing our BESPs include prices we charge for similar offering s, sales volume, geographies and historical pricing practices. If the facts and circumstances underlying the factors we considered change or should future facts and circumstances lead us to consider additional factors, our BESPs could change in future periods.