

LinkedIn Corp LNKD (NYSE) | ★★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
114.54 USD	155.00 USD	93.00 USD	240.25 USD	High	Wide	Stable	Standard	Online Media

Despite Strong Fourth Quarter, LinkedIn Provides Weak 2016 Guidance

See Page 2 for the full Analyst Note from 04 Feb 2016

Neil Macker, CFA
Equity Analyst
neil.macker@morningstar.com
+1 312 384 4012

The primary analyst covering this company does not own its stock.

Research as of 04 Feb 2016
Estimates as of 04 Feb 2016
Pricing data through 21 Mar 2016
Rating updated as of 21 Mar 2016

Currency amounts expressed with "\$" are in U.S. dollars (USD) unless otherwise denoted.

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Investment Thesis 22 Jul 2015

LinkedIn sits alone at the top of the market for professional social networking. As users build and maintain their professional identities on the company's websites, enterprises increase spending with LinkedIn to source job candidates, run "business-to-business" ad campaigns, and generate sales leads. With an attractive business model and a user base that may never leave, this wide-moat firm owns one of the stickiest and most differentiable platforms in social networking.

LinkedIn has carved out a large niche community focusing on the professional worker. The company provides a social network for users to create an identity and make connections with other professionals, including colleagues, clients, bosses, and business partners. More than 350 million users have developed profiles that detail personal information such as employment history, job responsibilities, and education. This database of user information is proving valuable to users, advertisers, and recruiters.

Enterprise customers are using LinkedIn to reach potential job candidates, representing roughly 60% of total revenues. We believe this segment has the greatest upside, and is unlikely to be disrupted by competitors. In addition, because LinkedIn has significant user data, many business-to-business advertisers can run very targeted campaigns. This advertising segment is significant, and we estimate that businesses spend more than \$30 billion on business-to-business advertising. The firm is also well positioned to offer unique products, such as a new lead generation product (Sales Navigator) launched in 2014.

We believe ownership of the professional identity is the most defensible way to construct an economic moat in this industry. We are also encouraged by the size of LinkedIn's network and do not believe a company could launch a competing offering. LinkedIn's user base gains a great deal of value in putting forth a cohesive professional image, in our opinion. Additionally, because of the infrequent nature of the loose connections in people's professional networks, LinkedIn provides a seamless way for users to always reconnect with their network.

Vital Statistics

Market Cap (USD Mil)	15,128
52-Week High (USD)	267.28
52-Week Low (USD)	98.25
52-Week Total Return %	-56.7
YTD Total Return %	-49.1
Last Fiscal Year End	31 Dec 2015
5-Yr Forward Revenue CAGR %	20.8
5-Yr Forward EPS CAGR %	27.0
Price/Fair Value	0.74

Valuation Summary and Forecasts

	Fiscal Year:	2014	2015	2016(E)	2017(E)
Price/Earnings		113.7	79.3	37.1	25.5
EV/EBITDA		44.7	35.6	12.3	11.0
EV/EBIT		732.1	NM	NM	65.9
Free Cash Flow Yield %		0.1	1.0	3.8	3.5
Dividend Yield %		—	—	—	—

Financial Summary and Forecasts (USD Mil)

	Fiscal Year:	2014	2015	2016(E)	2017(E)
Revenue		2,219	2,991	3,700	4,527
Revenue YoY %		45.2	34.8	23.7	22.3
EBIT		36	-151	-107	199
EBIT YoY %		-24.4	-517.7	-29.3	-286.7
Net Income, Adjusted		254	373	425	649
Net Income YoY %		32.4	46.9	14.0	52.7
Diluted EPS		2.02	2.84	3.09	4.49
Diluted EPS YoY %		25.0	41.0	8.6	45.4
Free Cash Flow		-455	-829	9	148
Free Cash Flow YoY %		NM	82.1	-101.1	NM

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

With more than 350 million members, LinkedIn is the largest social networking company for professionals on the Internet. Revenue comes from three sources: hiring solutions for employers to search for job candidates, online advertising, and premium subscriptions. Currently, 40% of revenue is generated outside the United States.

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Morningstar Analysis

Despite Strong Fourth Quarter, LinkedIn Provides Weak 2016 Guidance

04 Feb 2016

LinkedIn reported a strong end to 2015 driven by strong performance across all three segments. Despite beating four-quarter consensus projections, management provided weaker-than-expected 2016 guidance on both the top and bottom lines. While management has been conservative with full-year guidance in the past, the 2016 guidance came in lower than our previous projections and well below consensus estimates. We reaffirm the company's wide moat rating but are lowering our fair value estimate to \$155 due to lower revenue growth expectations in 2016 and beyond as well as slower margin expansion than previously modeled. Given our lower fair value estimate, we don't believe the share price provides a large enough margin of safety at this time and we would encourage investors to wait before allocating new money to the name.

LinkedIn posted strong double-digit growth in all three segments (talent solutions, marketing solutions, and premium subscriptions) for the fourth quarter, growing total revenue by 34% (37% excluding currency effects) to \$862 million. Talent solutions, the largest segment, grew 45% as the company's registered members exceeded 400 million for the first time. Along with the 19% growth in members, the firm also posted 40% annual growth in members sharing content and doubling of open job listings. The large growth in usage by both members and corporations highlights the company's unique position at the top of the professional social networking market as well as the sticky nature of its platform.

Management continued to focus on growth and engagement this quarter, strengthening our belief that LinkedIn remains focused on user experience over near-term revenue contribution. The firm launched its new flagship mobile app last quarter which allows R&D to quickly test out new features. LinkedIn will also launch new products in 2016 for recruiters including an easy-to-use suite of all hiring

tools and launching tools to help with long-tail hiring.

Valuation, Growth and Profitability

04 Feb 2016

We have decreased our fair value estimate to \$155 per share to account for lower revenue growth expectations in 2016 and beyond, as well as slower margin expansion than previously modeled. For our valuation, two key thesis points are as follows: 1) The accessible market for LinkedIn's core recruiting products are not close to being saturated, and 2) the company will find success with new products, such as Sales Navigator, Bizo, and Lynda.com, that will generate new revenue streams. Our thesis assumes that LinkedIn extends its dominance as the preferred social-networking site for professionals. We forecast revenue to grow at a 21% compound annual rate through 2020 as total revenue from hiring solutions and advertising approaches \$5.0 billion. We now assume operating margins reach 19% by 2020. Key to our assumptions is our belief that LinkedIn is able to find new revenue streams to sustain double-digit growth in free cash flow within the next several years.

Online advertising is a key component of our valuation. LinkedIn doesn't currently do an efficient job of translating traffic into revenue versus other Internet companies. In our model, we expect that page views and revenue grow much faster than users. Admittedly, a wholesale change in website traffic could make a dramatic difference in our valuation.

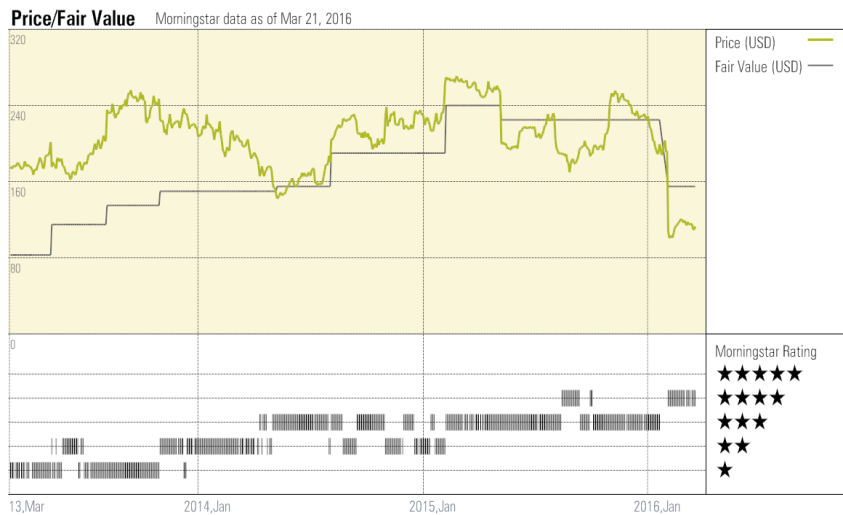
Scenario Analysis

In our bull-case scenario, we value the company at \$247 per share. We assume revenue grows to more than \$9.7 billion by 2020. In particular, we assume that the company generates additional revenue from new services such as lead generation or a network of experts and expands operating margins to 26% in 2020.

In our downside scenario, we value the company at \$100

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per share. In this scenario, we model revenue to grow 13% annually and operating margins to reach 15% by 2020.

Recruiters and advertisers are still discovering the value they gain from using LinkedIn, and we have not seen substantial evidence that competitors such as Monster Worldwide have felt any negative pressure in their business because of LinkedIn. Furthermore, the company may risk alienating its users if it attempts to drive users to spend more time and view more pages at LinkedIn's website.

Economic Moat

We give LinkedIn a wide moat rating. Perhaps most significantly, we estimate that the website has more than 300 million users who have posted profile information and connected to other LinkedIn users. Although the interactions inside LinkedIn's website are not at the level of a social network like Facebook, user profile information and connections are key. Switching costs are meaningful, in our view. Potential employers, clients, business partners, and others are becoming habituated to looking at LinkedIn profiles. Not having a profile could be catastrophic for one's career.

Importantly, LinkedIn has demonstrated that recent efforts to engage users with its website are successful. Initiatives such as sponsored updates are driving both engagement and advertising revenue. Additionally, recent innovations including a new application for Apple's iPad are significant in deepening the company's relationship with its user base. This relationship is materially increasing switching costs, on our view.

While we recognize the potential for Facebook to pursue the professional networking market, we believe strongly that LinkedIn's value is the ability for people to maintain a separate professional identity. While Facebook users are sharing photos of kids, parties, and pithy thoughts about their day, they can project their carefully crafted personal brand at LinkedIn.

Ultimately, this hold on users is key. Advertisers will go where users are. Recruiters will go where professionals are. Furthermore, having the data gives LinkedIn even more power to target advertising, target services, and launch other offerings such as lead generation, contract labor work, or expert networks.

Moat Trend

In our view, LinkedIn's moat trend is stable. Ultimately, a social network successfully constructs a moat when it builds a solution where users need to go to maintain their identities and connections. The moat potential of the business is determined not by the revenue model, but by the value it delivers to its users. We believe LinkedIn's value is driven primarily by its users' ability to maintain their contact information so that others can find them. It also has made significant strides in becoming a platform for professionals to view and share information, particularly with its recent acquisition of SlideShare. By keeping a hold on users and getting more identity information, the company can generate additional cash flow streams with extremely

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attractive returns on capital.

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Bulls Say/Bears Say

Bulls Say

- ▶ LinkedIn benefits from meaningful network effects as the largest professional social networking website in the world, with more than 300 million users.
- ▶ As LinkedIn opens its platform to application providers, it has the opportunity to create new products that generate revenue streams and further increase its revenue per user.
- ▶ The company's competitive positioning is even stronger than the best of the consumer social networking companies, where leaders such as Google, Facebook, and Twitter battle for dollars and time.

Bears Say

- ▶ Although LinkedIn is the largest professional social network, competitor Viadeo has more users in high-growth countries such as China.
- ▶ The operating model is largely unknown, and the firm may not benefit from operating leverage that we have forecast.
- ▶ Heavy investments in activities unrelated to professional networking and career search may be unsuccessful and generate unacceptable returns on capital.

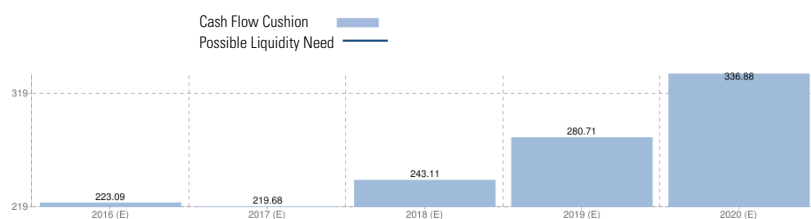
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Five Year Adjusted Cash Flow Forecast (USD Mil)

	2016(E)	2017(E)	2018(E)	2019(E)	2020(E)
Cash and Equivalents (beginning of period)	3,119	3,093	3,241	3,563	4,119
Adjusted Available Cash Flow	635	603	849	1,160	1,549
Total Cash Available before Debt Service	3,754	3,696	4,090	4,723	5,668
Principal Payments	—	—	—	—	—
Interest Payments	—	—	—	—	—
Other Cash Obligations and Commitments	-17	-17	-17	-17	-17
Total Cash Obligations and Commitments	-17	-17	-17	-17	-17

Cumulative Annual Cash Flow Cushion



Adjusted Cash Flow Summary

	USD Millions	% of Commitments
Beginning Cash Balance	3,119	3,707.9
Sum of 5-Year Adjusted Free Cash Flow	4,796	5,701.1
Sum of Cash and 5-Year Cash Generation	7,916	9,409.0
Revolver Availability	—	—
Asset Adjusted Borrowings (Repayment)	—	—
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	7,916	9,409.0
Sum of 5-Year Cash Commitments	-84	—

Financial Health

The company's balance sheet is strong, with more than \$2.4 billion in net cash. We expect investments in sales and marketing, geographic expansion, and capital expenditures to continue to depress cash flow and operating margins over the next several year, masking the firm's profit-making potential. The company has sufficient cash to fund its current operations and new product development.

Enterprise Risk

As a small company in an industry that hasn't fully formed, LinkedIn faces several risks. First, the firm may stumble as it chases revenue growth, increasing expenses much more quickly than revenue and pursuing opportunities that may not materialize. Second, there are competitors with substantially more financial resources that may either steal market share or depress the operating margins the company earns.

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Management & Ownership

Management Activity

Name	Position	Shares Held	Report Date*	Insider Activity
MR. JEFFREY WEINER	Director	88,920	11 Feb 2016	14,434
MR. MICHAEL GAMSON		77,014	29 Feb 2016	5,701
MR. STEVEN J. SORDELLO		71,225	29 Feb 2016	6,405
JAMES KEVIN SCOTT		63,234	17 Nov 2015	—
MICHAEL J. CALLAHAN		61,185	29 Feb 2016	1,100
MR. DAVID SZE	Director	30,938	17 Aug 2015	—
SUSAN J.S. TAYLOR		13,242	29 Feb 2016	1,173
A. GEORGE BATTLE	Director	8,957	17 Feb 2016	174
LESLIE J. KILGORE	Director	4,026	17 Feb 2016	174
STANLEY J. MERESMAN	Director	349	17 Feb 2016	—

*Represents the date on which the owner's name, position, and common shares held were reported by the holder or issuer.

Fund Ownership

Top Owners	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
VA CollegeAmerica Growth Fund of America	2.24	0.48	632	31 Dec 2015
Harbor Capital Appreciation Fund	1.66	1.81	185	31 Dec 2015
T. Rowe Price Growth Stock Fund	1.54	1.01	-489	31 Dec 2015
MainStay Large Cap Growth Fund	1.24	2.11	-52	31 Jan 2016
Vanguard Total Stock Mkt Idx	1.67	0.07	37	29 Feb 2016
Concentrated Holders				
GAM Star Technology	0.12	6.14	39	30 Nov 2015
Global X Social Media ETF	0.02	6.06	—	18 Mar 2016
TD Science & Technology Fund	0.04	5.07	—	30 Jun 2015
Dunham Focused Large Cap Growth Fund	0.01	5.02	0	31 Jan 2016
Market Vectors MS US Wide Moat ETF	—	4.68	1	18 Mar 2016

Institutional Transactions

Top 5 Buyers	% of Shares Held	% of Fund Assets	Shares Bought/Sold (k)	Portfolio Date
D. E. Shaw & Co LP	1.15	0.51	1,090	31 Dec 2015
Managed Account Advisors LLC	0.80	0.18	1,056	31 Dec 2015
Capital World Investors	3.42	0.28	949	31 Dec 2015
Columbia Mangmt Investment Advisers, LLC	3.03	0.56	785	30 Sep 2015
Two Sigma Investments LLC	0.44	0.62	574	31 Dec 2015
Top 5 Sellers				
Artisan Partners Limited Partnership	0.62	0.31	-690	30 Sep 2015
T. Rowe Price Associates, Inc.	7.13	0.45	-661	31 Dec 2015
UBS Asset Mgmt Americas Inc	0.01	0.02	-558	31 Dec 2015
Sands Capital Management, LLC	5.00	3.83	-490	31 Dec 2015
Blue Ridge CapHldgsLLC/BluRdgcCapOSHldgs	0.25	0.81	-460	31 Dec 2015

Management 22 Jul 2015

Jeff Weiner has been CEO since June 2009. In our opinion, Weiner has been instrumental in supporting many of the growth initiatives for the company. Before joining LinkedIn, Weiner worked at two venture capital firms: Greylock Partners and Accel Partners. From 2001 to 2008, Weiner served in several executive roles at Yahoo. Board chairman Reid Hoffman has meaningful influence on the company as a co-founder and significant shareholder. Hoffman owns more than 90% of the class B common shares and more than 50% of voting power.

For a relatively young company, it is frequently difficult to balance prudent investment with growth and profitability, but we believe LinkedIn has been successful in this regard. Although we were skeptical the company could drive increased traffic through its content initiatives, the early results appear good. Furthermore, the acquisition of SlideShare, while expensive, offers compelling functionality to its users to widen its moat and generate additional revenue opportunities.

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Analyst Notes

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LinkedIn reported a strong end to 2015 driven by strong performance across all three segments. Despite beating four-quarter consensus projections, management provided weaker-than-expected 2016 guidance on both the top and bottom lines. While management has been conservative with full-year guidance in the past, the 2016 guidance came in lower than our previous projections and well below consensus estimates. We reaffirm the company's wide moat rating but are lowering our fair value estimate to \$155 due to lower revenue growth expectations in 2016 and beyond as well as slower margin expansion than previously modeled. Given our lower fair value estimate, we don't believe the share price provides a large enough margin of safety at this time and we would encourage investors to wait before allocating new money to the name.

LinkedIn posted strong double-digit growth in all three segments (talent solutions, marketing solutions, and premium subscriptions) for the fourth quarter, growing total revenue by 34% (37% excluding currency effects) to \$862 million. Talent solutions, the largest segment, grew 45% as the company's registered members exceeded 400 million for the first time. Along with the 19% growth in members, the firm also posted 40% annual growth in members sharing content and doubling of open job listings. The large growth in usage by both members and corporations highlights the company's unique position at the top of the professional social networking market as well as the sticky nature of its platform.

Management continued to focus on growth and engagement this quarter, strengthening our belief that LinkedIn remains focused on user experience over near-term revenue contribution. The firm launched its new flagship mobile app last quarter which allows R&D to quickly test out new features. LinkedIn will also launch new products in

2016 for recruiters including an easy-to-use suite of all hiring tools and launching tools to help with long-tail hiring.

Placing LinkedIn Under Review 25 Jan 2016

We are placing our fair value estimate for LinkedIn under review as we transition coverage to a different analyst. We will have an updated valuation published by March 18.

Solid Third-Quarter Results Impressive for LinkedIn; Shares are Fairly Valued 30 Oct 2015

LinkedIn posted strong third-quarter results, above our expectations, driven by strong performance across all three segments: talent solutions; marketing solutions, and premium subscriptions. Management also increased its full-year outlook for revenue and adjusted EBITDA slightly ahead of our forecast. We anticipate increasing our fair value estimate slightly after revising our model, and reaffirm the company's wide moat rating. Although we expect the stock to be fairly valued, we don't believe the share price provides a margin of safety at this time, and we would encourage investors to wait before allocating new money to the name.

LinkedIn posted strong double digit growth in all three segments for the second quarter, growing top line by an impressive 37% to \$780 million. Talent solutions, the core driver of the company's value proposition and largest contributor of revenue, grew 46% (34% organically) as the company's registered members reached nearly 400 million members. Eighty percent of the net adds were outside the U.S. as international consumers respond to the company's platform localization efforts, especially Chitu, the networking app designed for the Chinese market. Management announced a similar plan to build a specialized platform for the Indian market, now LinkedIn's second-largest market base. We were encouraged to see sponsored updates representing more than 50% of the marketing

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Analyst Notes

solutions segment, as the company moves away from generic display ads to business-focused ad units which command premium pricing while also supporting continued engagement by the user base.

Growth and engagement was an overarching theme this quarter, and we continue to believe that the company is focused on user experience over near-term revenue contribution. LinkedIn's investment in its mobile application portfolio reflects this strategy, as the company embraces the secular shift from PC to mobile.

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Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

	3-Year Hist. CAGR	2013	2014	2015	Forecast		5-Year Proj. CAGR
					2016	2017	
Growth (% YoY)							
Revenue	45.4	57.2	45.2	34.8	23.7	22.3	20.8
EBIT	-238.5	-15.9	-24.4	-517.7	-29.3	-286.7	—
EBITDA	51.8	68.7	57.4	31.7	36.8	11.8	28.3
Net Income	158.5	788.0	32.4	46.9	14.0	52.7	33.3
Diluted EPS	145.8	742.4	25.0	41.0	8.6	45.4	27.0
Earnings Before Interest, after Tax	-215.0	-31.1	-5.6	-334.1	-240.7	103.6	—
Free Cash Flow	-389.8	-134.3	NM	82.1	-101.1	NM	—

	3-Year Hist. Avg	2013	2014	2015	Forecast		5-Year Proj. Avg
					2016	2017	
Profitability							
Operating Margin %	-0.1	3.1	1.6	-5.1	-2.9	4.4	9.0
EBITDA Margin %	25.8	24.6	26.7	26.1	28.8	26.3	30.4
Net Margin %	12.2	12.6	11.5	12.5	11.5	14.4	16.2
Free Cash Flow Margin %	-16.3	-0.8	-20.5	-27.7	0.3	3.3	5.8
ROIC %	86.1	156.7	72.5	29.0	52.0	52.6	80.2
Adjusted ROIC %	42.3	70.9	43.0	12.9	19.9	20.5	33.6
Return on Assets %	-0.6	1.1	-0.4	-2.7	-1.1	1.9	4.5
Return on Equity %	-1.1	1.5	-0.5	-4.3	-1.7	3.1	7.8

	3-Year Hist. Avg	2013	2014	2015	Forecast		5-Year Proj. Avg
					2016	2017	
Leverage							
Debt/Capital	0.15	—	0.25	0.20	0.20	0.20	0.18
Total Debt/EBITDA	1.09	—	1.83	1.44	1.06	0.94	0.73
EBITDA/Interest Expense	—	—	59.79	10.49	—	—	—

Valuation Summary and Forecasts

	2014	2015	2016(E)	2017(E)
Price/Fair Value	1.21	1.00	—	—
Price/Earnings	113.7	79.3	37.1	25.5
EV/EBITDA	44.7	35.6	12.3	11.0
EV/EBIT	732.1	NM	NM	65.9
Free Cash Flow Yield %	0.1	1.0	3.8	3.5
Dividend Yield %	—	—	—	—

Key Valuation Drivers

Cost of Equity %	9.0
Pre-Tax Cost of Debt %	5.3
Weighted Average Cost of Capital %	8.8
Long-Run Tax Rate %	30.0
Stage II EBI Growth Rate %	9.0
Stage II Investment Rate %	20.5
Perpetuity Year	20

Additional estimates and scenarios available for download at <http://select.morningstar.com>.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	1,352	7.3	10.12
Present Value Stage II	8,350	45.0	62.50
Present Value Stage III	8,866	47.8	66.36
Total Firm Value	18,569	100.0	138.99
Cash and Equivalents	3,119	—	23.35
Debt	-1,127	—	-8.43
Preferred Stock	—	—	—
Other Adjustments	—	—	—
Equity Value	20,562	—	153.90

Projected Diluted Shares

134

Fair Value per Share (USD)

—

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

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Morningstar Analyst Forecasts

Income Statement (USD Mil)

Fiscal Year Ends in December

	2013	2014	2015	Forecast	
				2016	2017
Revenue	1,529	2,219	2,991	3,700	4,527
Cost of Goods Sold	203	294	419	500	566
Gross Profit	1,326	1,925	2,572	3,201	3,961
Selling, General & Administrative Expenses	748	1,116	1,527	1,859	2,216
Research & Development	396	536	776	888	996
Other Operating Expense (Income)	—	—	—	—	—
Depreciation & Amortization (if reported separately)	135	237	420	560	550
Operating Income (ex charges)	48	36	-151	-107	199
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	48	36	-151	-107	199
Interest Expense	—	10	74	—	—
Interest Income	1	5	11	—	—
Pre-Tax Income	49	31	-215	-107	199
Income Tax Expense	22	47	-50	-32	60
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	0	-1	—	—
(Minority Interest)	—	—	—	—	—
(Preferred Dividends)	—	—	—	—	—
Net Income	27	-16	-166	-75	139
Weighted Average Diluted Shares Outstanding	119	126	131	138	145
Diluted Earnings Per Share	0.23	-0.13	-1.27	-0.54	0.96
Adjusted Net Income	192	254	373	425	649
Diluted Earnings Per Share (Adjusted)	1.61	2.02	2.84	3.09	4.49
Dividends Per Common Share	—	—	—	—	—
EBITDA	182	273	270	453	749
Adjusted EBITDA	376	592	780	1,067	1,192

LinkedIn Corp LNKD (NYSE) | ★★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
114.54 USD	155.00 USD	93.00 USD	240.25 USD	High	Wide	Stable	Standard	Online Media

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December

	2013	2014	2015	Forecast	
				2016	2017
Cash and Equivalents	2,329	3,443	3,119	3,093	3,241
Investments	—	—	—	—	—
Accounts Receivable	302	449	603	760	930
Inventory	—	—	—	—	—
Deferred Tax Assets (Current)	—	—	—	—	—
Other Short Term Assets	124	230	213	263	322
Current Assets	2,755	4,122	3,935	4,116	4,493
Net Property Plant, and Equipment	362	741	1,047	1,258	1,460
Goodwill	151	357	1,507	1,507	1,507
Other Intangibles	43	131	373	193	118
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	—	—	—	—	—
Long-Term Non-Operating Assets	42	76	149	149	149
Total Assets	3,353	5,427	7,011	7,223	7,727
Accounts Payable	67	100	162	193	219
Short-Term Debt	—	—	—	—	—
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	575	782	1,026	1,269	1,553
Current Liabilities	642	883	1,188	1,463	1,772
Long-Term Debt	—	1,082	1,127	1,127	1,127
Deferred Tax Liabilities (Long-Term)	15	—	—	—	—
Other Long-Term Operating Liabilities	62	132	201	249	304
Long-Term Non-Operating Liabilities	—	—	—	—	—
Total Liabilities	718	2,096	2,516	2,838	3,203
Preferred Stock	—	—	—	—	—
Common Stock	0	0	0	0	0
Additional Paid-in Capital	2,573	3,286	4,589	4,589	4,589
Retained Earnings (Deficit)	56	40	-129	-204	-64
(Treasury Stock)	—	—	—	—	—
Other Equity	0	0	9	—	—
Shareholder's Equity	2,629	3,325	4,469	4,385	4,524
Minority Interest	5	5	27	—	—
Total Equity	2,634	3,331	4,495	4,385	4,524

LinkedIn Corp LNKD (NYSE) | ★★★★★

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Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in December

	2013	2014	2015	Forecast	
				2016	2017
Net Income	27	-15	-165	-75	139
Depreciation	135	237	420	380	475
Amortization	—	—	—	180	75
Stock-Based Compensation	150	220	498	614	443
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	3	19	-36	—	—
Other Non-Cash Adjustments	5	31	79	—	—
(Increase) Decrease in Accounts Receivable	-103	-138	-149	-157	-170
(Increase) Decrease in Inventory	—	—	—	—	—
Change in Other Short-Term Assets	-29	-64	-85	-50	-59
Increase (Decrease) in Accounts Payable	115	150	101	31	26
Change in Other Short-Term Liabilities	135	129	144	243	284
Cash From Operations	436	569	807	1,166	1,213
(Capital Expenditures)	-278	-548	-507	-591	-677
Net (Acquisitions), Asset Sales, and Disposals	-19	-254	-678	—	—
Net Sales (Purchases) of Investments	-1,060	-1,492	393	—	—
Other Investing Cash Flows	—	—	—	48	56
Cash From Investing	-1,358	-2,293	-792	-543	-622
Common Stock Issuance (or Repurchase)	1,454	—	—	—	—
Common Stock (Dividends)	—	—	—	—	—
Short-Term Debt Issuance (or Retirement)	—	—	—	—	—
Long-Term Debt Issuance (or Retirement)	—	1,305	78	—	—
Other Financing Cash Flows	0	83	—	-640	-443
Cash From Financing	1,454	1,388	78	-640	-443
Exchange Rates, Discontinued Ops, etc. (net)	0	-6	-7	-9	—
Net Change in Cash	533	-342	85	-27	148

LinkedIn Corp LNKD (NYSE) | ★★★★★

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Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Valuation Analysis

Company/Ticker	Price/Fair Value	Price/Earnings			EV/EBITDA			Price/Free Cash Flow			Price/Book			Price/Sales		
		2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)
TripAdvisor Inc TRIP USA	0.81	41.2	32.7	25.9	25.9	19.4	15.3	45.4	58.4	26.9	8.8	6.0	5.1	8.3	5.7	4.9
Average		41.2	32.7	25.9	25.9	19.4	15.3	45.4	58.4	26.9	8.8	6.0	5.1	8.3	5.7	4.9
LinkedIn Corp LNKD US	0.74	79.3	37.1	25.5	35.6	12.3	11.0	99.2	26.3	28.2	6.7	3.5	3.3	9.9	4.1	3.3

Returns Analysis

Company/Ticker	Last Historical Year Total Assets (Mil)	ROIC %			Adjusted ROIC %			Return on Equity %			Return on Assets %			Dividend Yield %		
		2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)
TripAdvisor Inc TRIP USA	2,128 USD	28.5	28.4	32.8	126.4	85.8	82.9	15.6	13.8	16.6	9.7	9.7	12.4	—	—	—
Average		28.5	28.4	32.8	126.4	85.8	82.9	15.6	13.8	16.6	9.7	9.7	12.4	—	—	—
LinkedIn Corp LNKD US	7,011 USD	29.0	52.0	52.6	12.9	19.9	20.5	-4.3	-1.7	3.1	-2.7	-1.1	1.9	—	—	—

Growth Analysis

Company/Ticker	Last Historical Year Revenue (Mil)	Revenue Growth %			EBIT Growth %			EPS Growth %			Free Cash Flow Growth %			Dividend/Share Growth %		
		2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)
TripAdvisor Inc TRIP USA	1,492 USD	19.7	12.0	16.1	-31.9	29.7	35.8	32.7	-2.9	26.3	-322.2	-74.3	586.7	—	—	—
Average		19.7	12.0	16.1	-31.9	29.7	35.8	32.7	-2.9	26.3	-322.2	-74.3	586.7	—	—	—
LinkedIn Corp LNKD US	2,991 USD	34.8	23.7	22.3	-517.7	-29.3	-286.7	41.0	8.6	45.4	82.1	-101.1	NM	—	—	—

LinkedIn Corp LNKD (NYSE) | ★★★★★

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Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Profitability Analysis

Company/Ticker	Last Historical Year Net Income (Mil)	Gross Margin %			EBITDA Margin %			Operating Margin %			Net Margin %			Free Cash Flow Margin %		
		2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)
TripAdvisor Inc TRIP USA	302 USD	96.1	96.5	97.0	31.2	28.3	30.8	15.6	18.0	21.1	20.2	17.5	19.5	18.3	9.8	18.3
Average		96.1	96.5	97.0	31.2	28.3	30.8	15.6	18.0	21.1	20.2	17.5	19.5	18.3	9.8	18.3
LinkedIn Corp LNKD US	373 USD	86.0	86.5	87.5	26.1	28.8	26.3	-5.1	-2.9	4.4	12.5	11.5	14.4	10.0	15.5	11.8

Leverage Analysis

Company/Ticker	Last Historical Year Total Debt (Mil)	Debt/Equity %			Debt/Total Cap %			EBITDA/Interest Exp.			Total Debt/EBITDA			Assets/Equity		
		2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)
TripAdvisor Inc TRIP USA	201 USD	14.2	12.6	10.8	12.5	11.2	9.7	46.6	67.6	85.5	0.4	0.4	0.3	1.5	1.3	1.3
Average		14.2	12.6	10.8	12.5	11.2	9.7	46.6	67.6	85.5	0.4	0.4	0.3	1.5	1.3	1.3
LinkedIn Corp LNKD US	1,127 USD	25.2	25.7	24.9	20.1	20.4	19.9	10.5	—	—	1.4	1.1	0.9	1.6	1.6	1.7

Liquidity Analysis

Company/Ticker	Market Cap (Mil)	Cash per Share			Current Ratio			Quick Ratio			Cash/Short-Term Debt			Payout Ratio %		
		2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)
TripAdvisor Inc TRIP USA	9,545 USD	4.21	4.26	5.91	2.77	3.56	4.10	2.77	3.56	4.10	614.00	621.90	880.57	—	—	—
Average		4.21	4.26	5.91	2.77	3.56	4.10	2.77	3.56	4.10	614.00	621.90	880.57	—	—	—
LinkedIn Corp LNKD US	15,128 USD	23.77	22.45	22.40	3.31	2.81	2.54	3.31	2.81	2.54	—	—	—	—	—	—

Research Methodology for Valuing Companies

Components of Our Methodology

- ▶ Economic Moat™ Rating
- ▶ Moat Trend™ Rating
- ▶ Moat Valuation
- ▶ Three-Stage Discounted Cash Flow
- ▶ Weighted Average Cost of Capital
- ▶ Fair Value Estimate
- ▶ Scenario Analysis
- ▶ Uncertainty Ratings
- ▶ Margin of Safety
- ▶ Consider Buying/Selling
- ▶ Stewardship Rating

We believe that a company's intrinsic worth results from the future cash flows it can generate.

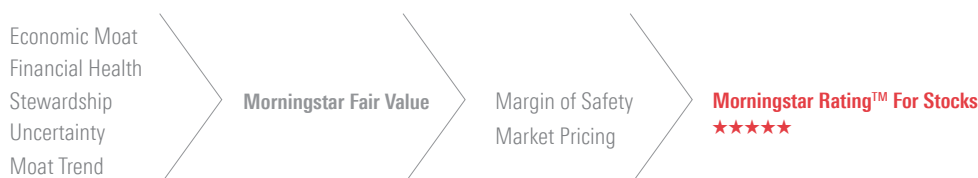
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The concept of the Morningstar Economic Moat™ Rating plays a vital role not only in our qualitative assessment of a firm's investment potential, but also in our actual calculation of our fair value estimates. We assign three moat ratings—none, narrow, or wide—as well as the Morningstar Moat Trend™ Rating—positive, stable, or negative—to each company we cover. Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns on invested capital over at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for

10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. The assumptions that we make about a firm's economic moat play a vital role in determining the length of "economic outperformance" that we assume in the terminal sections of our valuation model. To assess the sustainability of excess profits, analysts perform ongoing assessments of what we call the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

At the heart of our valuation system is a detailed projection of a company's future cash flows. The first stage of our three-stage discounted cash flow model can last from 5 to 10 years and contains numerous detailed assumptions about various financial and operating items. The second stage of our model—where a firm's return on new invested capital (RONIC) and earnings growth rate implicitly fade until the perpetuity year—can last anywhere from one year (for companies with no economic moat) to 10-15 years (for wide-moat companies). In our third stage, we assume the firm's RONIC equals its weighted average cost of capital, and we calculate a continuing value using a standard perpetuity formula. In deciding on the rate at which to discount future cash flows, we use a building block approach,

Morningstar Research Methodology for Valuing Companies



Source: Morningstar, Inc.

Detailed Methodology Documents and Materials*

- ▶ Comprehensive Equity Research Methodology
- ▶ Uncertainty Methodology
- ▶ Cost of Equity Methodology
- ▶ Morningstar DCF Valuation Model
- ▶ Stewardship Rating Methodology

*Please contact a sales representative for more information.

which takes into account expectations for market real return, inflation, country risk premia, corporate credit spread, and any additional systematic risk.

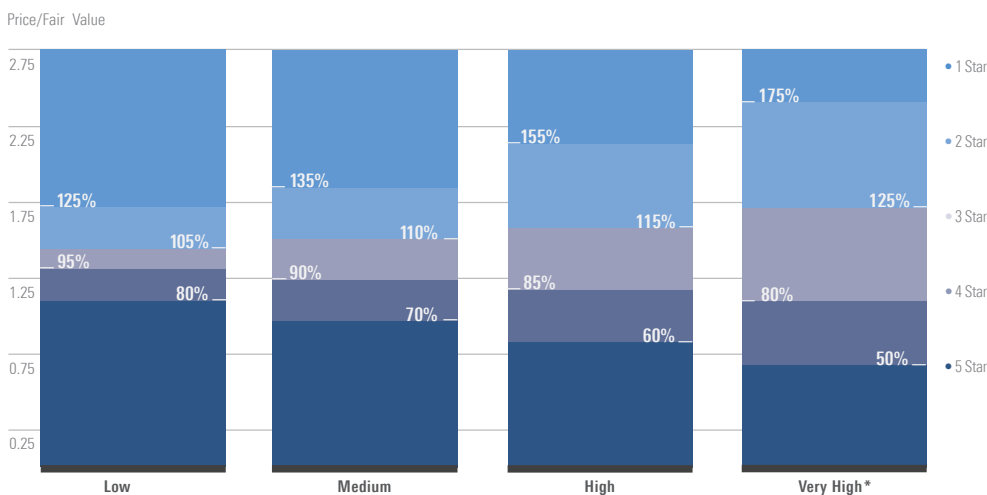
We also employ a number of other tools to augment our valuation process, including scenario analysis, where we assess the likelihood and performance of a business under different economic and firm-specific conditions. Our analysts model three scenarios for each company we cover, stress-testing the model and examining the distribution of resulting fair values.

The Morningstar Uncertainty Rating captures the range of likely potential fair values and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts’ ability to bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including

operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

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Morningstar Margin of Safety and Star Rating Bands

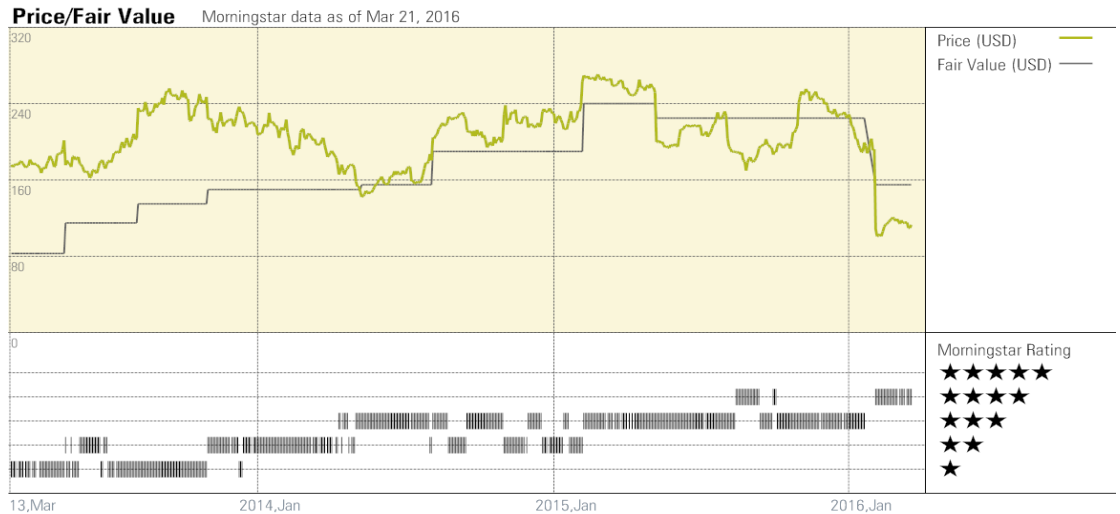


* Occasionally a stock’s uncertainty will be too high for us to estimate, in which case we label it Extreme.

Source: Morningstar, Inc.

LinkedIn Corp LNKD (NYSE) | ★★★★★

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