

COMPANY NOTE

Initiating Coverage

USA | Technology | Internet

September 4, 2012

Jefferies

EQUITY RESEARCH AMERICAS

Facebook, Inc. (FB) Initiating with a Buy and \$30 PT; Strong Fundamentals and Vast Potential

Key Takeaway

With a potent mix of unprecedented scale, high engagement, and social + behavioral targeting, we think Facebook is must-buy media for marketers as they follow users online. Lockup pressure looks inevitable through Dec. But expansion into other business areas also looks inevitable, and at the current price investors effectively receive this optionality for free. Following a 50% share retreat since the IPO (0.7 PEG), we see lots to Like.

Massive, highly-engaged user base a key competitive advantage as network effects drive user lock-in. With about one out of seven people on the planet now using Facebook (one out of ~5.4 ex-China), Facebook has achieved unprecedented scale. And as the user base continues to grow, engagement levels are on the rise with the average user now spending ~33 minutes on the site per day (comScore). Network effects drive user lock-in while establishing a deep moat for Facebook, positioning it well for the long-term.

Social graph a core asset; valuable data for a data-driven world. We think FB's vast trove of highly personalized user data is a differentiated, valuable asset that will be attractive to marketers who are increasingly deploying data-driven, performance based ad campaigns based on behavioral targeting.

We see a long runway as FB has yet to step on the monetization gas. FB is already working with an estimated ~95% of the AdAge 100 (just testing the waters, for now), and this early collaboration should result in the deployment of more effective, pricier ad formats over time. As FB's ad rates are currently low, monetization is a big driver of this model, and we see compelling upside.

Free optionality as FB pursues new business areas. We think FB has the ability and desire to expand into new businesses over time. We highlight that these assumptions are not baked into our model, reflecting nice optionality and substantial long-term earnings upside. Why free? See valuation below.

Valuation/Risks

Our \$30 PT (12-month) is based on a 10-year DCF (11% WACC, 3.5% LTGR). FB currently trades at ~24x (ex-cash) our '13 non-GAAP ests. vs. our '12-15 Op EPS CAGR estimate of 36%, implying a compelling PEG of about 0.7. **Declines in user base could impact financial model.** To-date, users continue to grow across demographics and geographies. See our detailed user-per-country analysis on p. 13. **1.6B Shares Unlock Through December.** See our lock-up expiration analysis on p. 11.

USD	Prev.	2011A	Prev.	2012E	Prev.	2013E	Prev.	2014E
Rev. (MM)	--	3,711.0	--	4,978.0	--	6,455.0	--	8,244.0
EV/Rev		10.6x		7.9x		6.1x		4.8x
EPS Non-GAAP								
Mar	--	0.11	--	0.16A	--	--	--	--
Jun	--	0.15	--	0.12A	--	--	--	--
Sep	--	0.15	--	0.11	--	--	--	--
Dec	--	0.19	--	0.13	--	--	--	--
FY Dec	--	0.59	--	0.43	--	0.60	--	0.79

BUY

Price target \$30.00

Price \$18.06

Financial Summary

Net Debt (MM): (\$10,188.0)

Market Data

52 Week Range: \$45.00 - \$18.03

Total Entprs. Value (MM): \$39,290.9

Market Cap. (MM): \$49,478.9

Shares Out. (MM): 2,740.0

Float (MM): 553.8

Avg. Daily Vol.: 37,148,392

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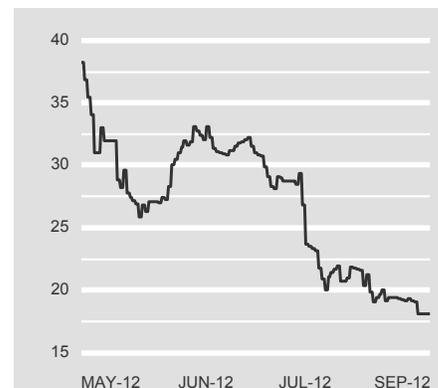
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Scenarios

Target Investment Thesis

- Must-buy media as advertisers follow users online. Social graph a valuable core asset
- Unprecedented scale with one of seven people on globe using Facebook
- Free call option on new business initiatives (ad exchange, deals / eCommerce, search)
- Attractive financial model: \$5B rev with 28% CAGR; \$10B net cash; 43% Adj Op Margin (ex-SBC)
- 2012 EPS: \$0.43; Target Multiple: 61x (ex-cash); Target Price: \$30

Upside Scenario

- Social Stories roll out faster than anticipated, particularly on mobile
- Monetization rates rise as ad formats improve
- Payments business reinvigorated
- New businesses like deals gain traction
- 2012 EPS: \$0.47; Target Multiple: 67x (ex-cash); Target Price: \$35

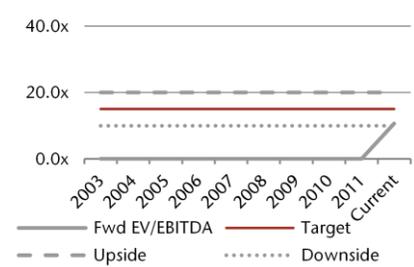
Downside Scenario

- Significant pressure from lockup expirations
- User declines in key western markets pressure monetization
- Payments platform declines
- Monetization rates pressured from continued mix-shift to mobile
- 2012 EPS: \$0.38; Target Multiple: 30x; Target Price: \$15

Long Term Analysis

1 Year Forward EV / EBITDA

Source: CapIQ, Jefferies estimates



Long Term Financial Model Drivers

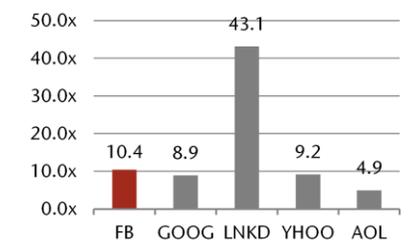
LT Earnings CAGR	36%
Organic Revenue Growth	28%
Gross Profit Margin ('13e)	76%
Adj. Op. Margin ('13e; ex-SBC)	44%

Other Considerations

We think pressure from lockup expirations looks inevitable as \$32B of supply (~1.6B shares @ \$20) will be unlocked through December, and we acknowledge investors will likely see better entry points in the NT. We view any pressure as a potential point of entry and we note this stock is trading ~26x our '13 ests (ex-cash) with a 36% EPS CAGR. With a PEG of 0.7, investors get a free call option on new business (ex: ad exchange, location-based services, deals).

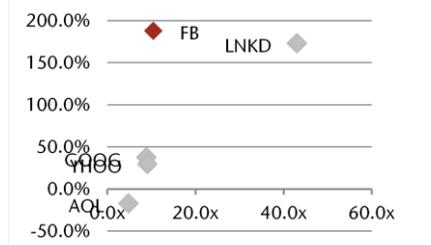
Peer Group

Group EV/EBITDA



Source: CapIQ, Jefferies estimates

EBITDA Growth vs. EV/EBITDA



Source: CapIQ, Jefferies estimates

Recommendation / Price Target

Ticker	Rec.	PT
FB	Buy	\$30
GOOG	Buy	\$850
LNKD	Buy	\$142
YHOO	Hold	\$14
AOL	Buy	\$39

Catalysts

- Oct. 15 – Nov. 13: 250MM shares unlocked
- Nov. 14: 1.2B shares unlocked
- Dec. 14: 149MM shares unlocked
- Studies on monetization of sponsored stories

Company Description

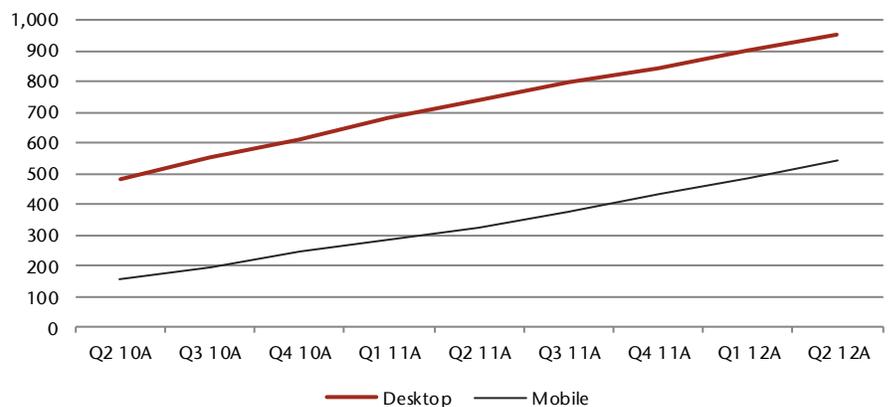
Facebook, Inc. operates the world's largest social network. The company builds tools that enable users to connect and communicate with each other; enables developers to build social applications on Facebook or to integrate their Websites with Facebook; and offers products that enable advertisers to engage with users. The company was founded in 2004 and is headquartered in Menlo Park, California..

Executive Summary

With a potent mix of unprecedented scale, high user engagement, and social + behavioral targeting, we believe Facebook is must-buy media for advertisers as they follow users online. We think pressure from lock-up expirations looks inevitable as ~\$32B of additional supply (~1.6B shares @ \$20) must be absorbed by the market through December, and we acknowledge investors will likely see better entry points in the near-term. We particularly note the Nov 14 lockup, when 1.2B or 63% of the lockup shares could come to market (see Table 3 for a detailed Lock-up Expiration Analysis). But expansion into other business lines also looks inevitable, and at current share prices investors effectively receive this optionality for free. At 24x our F'13 Op EPS (ex- cash) vs. our ~36% EPS CAGR (implying a compelling PEG of 0.7) following a ~50% share retreat since the IPO, we see lots to 'Like.'

Massive, highly-engaged user base a key competitive advantage as network effects drive user lock-in. With about one out of seven people on the planet now using Facebook (1 out of ~5.4 ex-China), Facebook has achieved unprecedented scale. And as the user base continues to grow, engagement levels are on the rise with the average user now spending ~33 minutes on the site per day (comScore). Network effects drive user lock-in while establishing a deep moat for Facebook, positioning the company well for the long-term. See our detailed country by country Facebook user analysis starting on page 13.

Chart 1: Facebook Monthly Active Users (MAUs, MM)



Source: Facebook

Social graph a core asset; valuable data for a data-driven world. We think FB's vast trove of highly personalized user data is a differentiated, valuable asset that will be attractive to marketers who are increasingly deploying data-driven, performance based ad campaigns based on behavioral targeting. Additionally, Open Graph extends the Facebook identity / social layer across the entire web and mobile ecosystem, positioning the company to monetize traffic far beyond its owned properties.

We see a long runway as FB has yet to step on the monetization gas. With a potent mix of massive scale, high user engagement, and social + behavioral targeting, we think FB looks well positioned to benefit as large brands shift ad budgets to digital

channels. FB is already working with an estimated ~95% of the AdAge 100 (just testing the waters, for now), and this early collaboration should result in the deployment of more effective, pricier ad formats *over time*. Note, Facebook is hyper focused on the user experience, and as such, the company goes to great lengths to ensure products (including advertising integrations) are beneficial and effective for the users before rolling them out in a fairly cautious, yet deliberate fashion. We are already encouraged by early deployments of Sponsored Stories, which monetize at higher rates than the non-social brand ads they effectively displace. Additionally, we view FB's Ad Exchange (FBX) as a big opportunity longer-term that no one is really talking about (see page 9 for more detail).

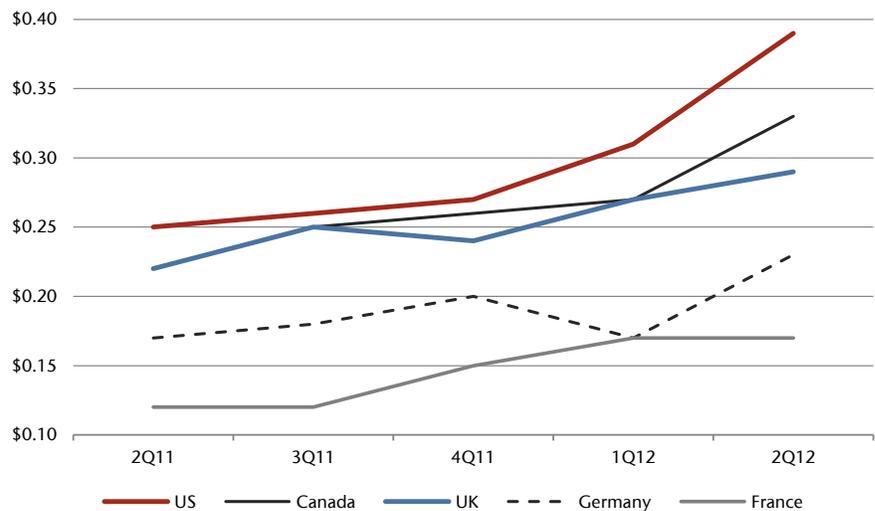
As FB's ad rates are currently low, monetization is a big driver of this model, and we see substantial upside.

Social media specialist TBG Digital, a firm that helps global brands (clients include Ford, Heineken, Dell, Samsung, Calvin Klein, Microsoft, P&G, Hugo Boss, IKEA, Capital One, and Energizer) advertise on Facebook and Twitter, confirms monetization rates are moving in the right direction.

In its Global Facebook Advertising Report for Q2 2012, TBG measured 406B Facebook ad impressions across 190 companies for 276 clients between 2Q11 and 2Q12.

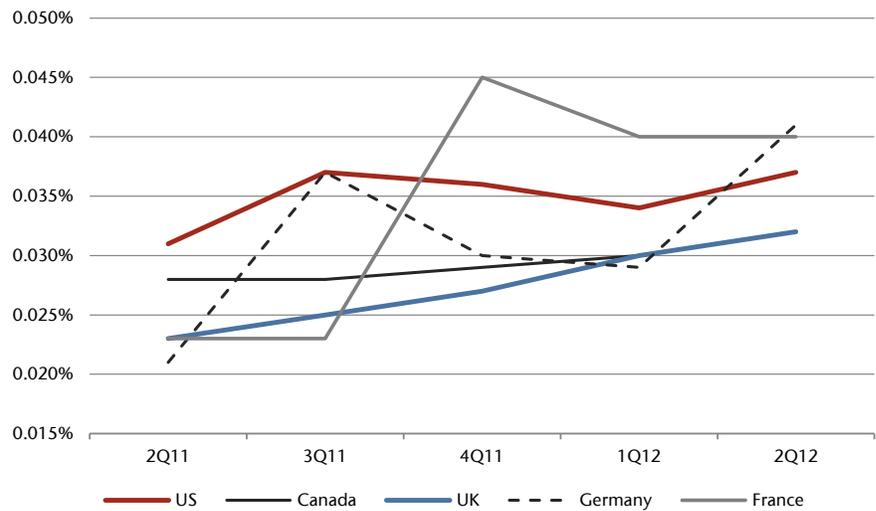
- CPM rates increased 58% Y/Y
- Engagement rates increased 11% Y/Y
- Sponsored Stories have 53% higher engagement vs. standard FB ads
- Facebook mobile ads have 14x higher CTR than FB desktop ads

Chart 2: Facebook Ad Cost per Mille (CPM) Rates for Select Countries



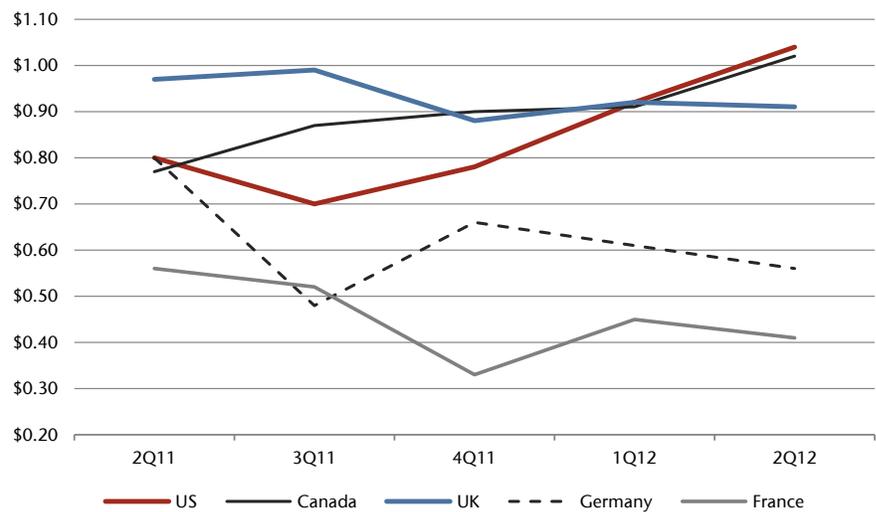
Source: TBG Digital

Chart 3: Facebook Ad Click Through Rates (CTR) for Select Countries



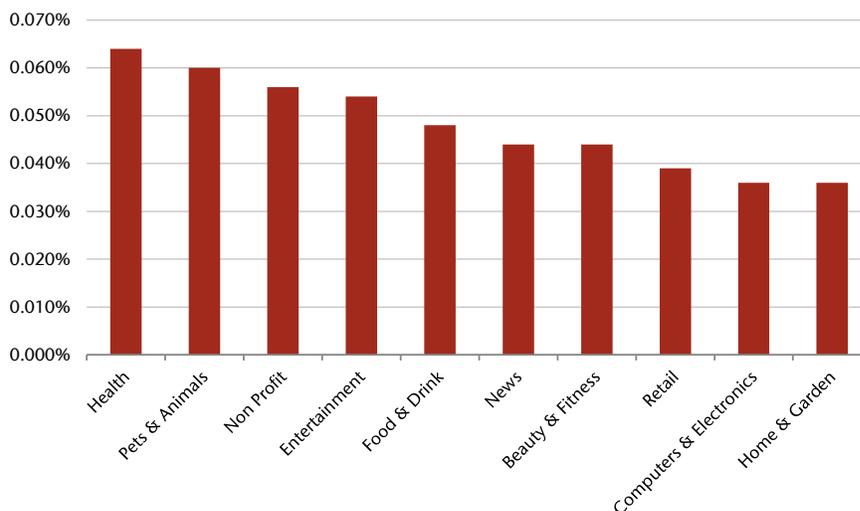
Source: TBG Digital

Chart 4: Facebook Ad Cost per Click (CPC) for Select Countries



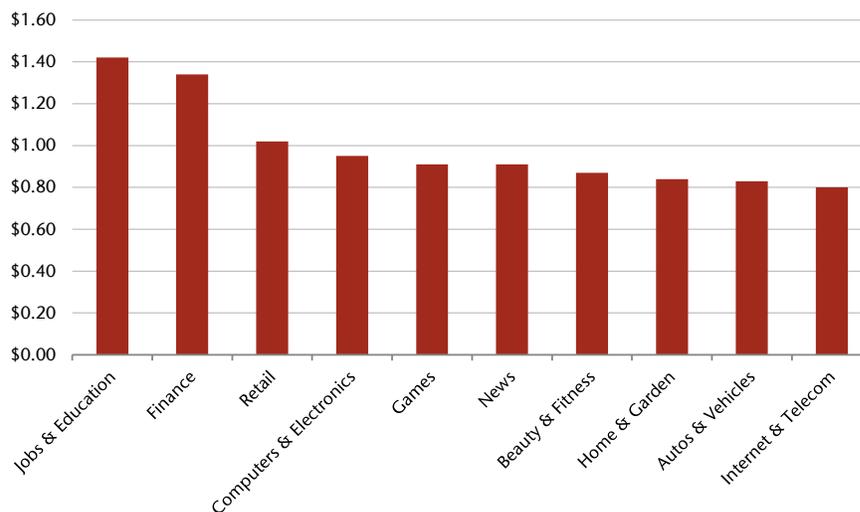
Source: TBG Digital

Chart 5: Facebook Ad Click Through Rates (CTR) for Top-10 Categories



Source: TBG Digital

Chart 6: Facebook Ad Cost per Click (CPC) for Top-10 Categories



Source: TBG Digital

Free optionality as FB pursues new business areas. Given Facebook is still in the early stages of monetizing its platform (not to mention the ~\$10B cash on the BS), we think it has all the critical components to expand into new businesses over time. We highlight that these assumptions are not baked into our model, reflecting nice optionality and substantial long-term earnings upside for shareholders. While FB's valuation may look pricey at first glance, we offer the following thoughts:

- 1) Excluding cash totaling ~\$10B, FB trades at 26x our F'13 non-GAAP earnings estimates.
- 2) We model a '12-15 Op EPS CAGR of 36% (vs. Street ~33% CAGR), which implies a PEG of 0.7.
- 3) On a PEG basis, FB shares trade at a discount to most names in the group on overwhelmingly negative sentiment. Given the discount here, we believe investors are getting significant optionality / upside essentially for free.

Right now, it looks like management is prioritizing sponsored stores. Only after this would we envision management launching more ambitious plans.

So where could FB ultimately expand?

- 1) **Ad network** – We think the most logical place for Facebook to expand is an AdSense-style ad network, which would enable Facebook to serve ads on other sites. OpenGraph is the key here, as it will allow FB to target users far beyond its own site. Note Facebook is already working with Zynga in a similar fashion, with some early success.
- 2) **Location-based deals / ads** - As FB usage on mobile continues to ramp, the company will have increasing access to a user's location data. We believe this data, in addition to data from the social graph, could enable FB to serve highly relevant commerce-related deals or advertisements.

For example, consider a Wal-Mart shopper who has previously 'liked' a particular video game on Facebook. Facebook could theoretically serve a highly targeted ad as the shopper walks down the Wal-Mart video game aisle.

- 3) **Search** – Facebook currently processes billions of search requests, although most are currently low-value people-searches.

We don't believe FB's product would directly compete with Google. Rather, we believe FB can slowly monetize certain commercial queries on its site, particularly around recommendations for things like discovering restaurants or music.

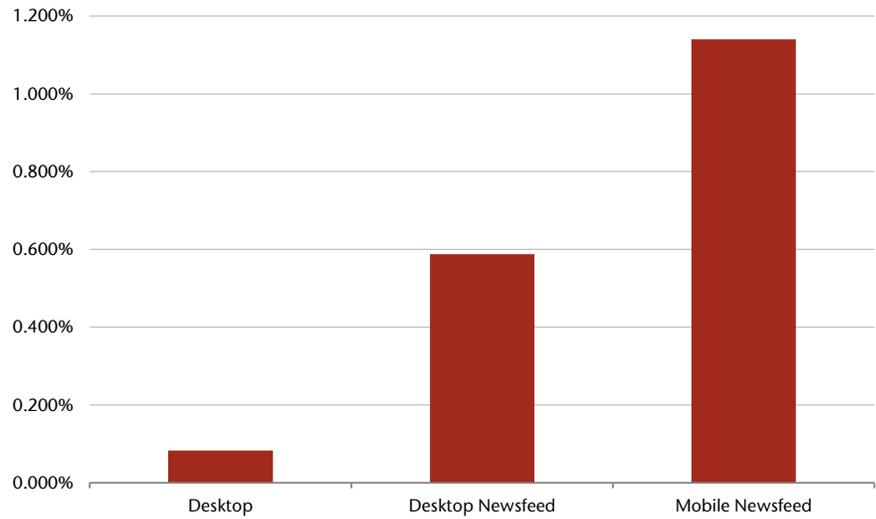
Heads-down focus on Sponsored Stories (for now): At the moment, Facebook is focused on thoughtfully deploying sponsored stories across its desktop and mobile platforms.

To be clear, from Facebook's Investor Relations page:

Sponsored Stories -- Sponsored Stories enable marketers to amplify the distribution of stories that people have already shared with their friends. For example, when someone posts on Facebook that they have "checked-in" at a restaurant, their friends may see that in their News Feeds. The restaurant can purchase sponsored stories to increase the distribution of that story to the person's friends.

These new ad formats are monetizing at roughly \$1MM / day, and we expect this will increase over time. While we appreciate FB's thoughtful rollout (don't want to upset users), we note the gating factor is likely demand from brands.

Chart 7: CTR for Sponsored Stories Increase When Placed in Users' News Feed



Source: TBG Digital

Chart 8: Facebook Sponsored Story in a Mobile News Feed



Source: Facebook

The Facebook Ad Exchange (FBX): In Q2, Facebook began testing its emerging exchange allowing marketers to get real-time ad inventory / impressions on Facebook. FBX currently works exclusively with Facebook's traditional sidebar display ads, not the higher-value Sponsored Stories.

FBX works by collecting data as users visit third-party websites, allowing Facebook to display relevant ads when those users return to Facebook. When users return to Facebook, advertisers bid in real-time to display their ad – with the highest bid winning.

The Exchange is currently working with a number of Demand Side Platforms (DSPs) like TriggIt, Turn, AppNexus, and TellApart.

Aside from simply being able to fill the massive volume of ads on Facebook's network, we are most interested in the retargeting capabilities of FBX. Retargeting allows marketers to display ads based on a user's history – displaying an ad for a Casio watch to someone who just viewed that watch on an eCommerce site, for example.

Demonstrating ROI for Advertisers: As we have highlighted previously, highlighted Facebook currently works with all of the Global Ad Age 100 advertisers, though to date most are only testing the waters with small allocations from their ad budgets (despite the imbalance in time spent). As such the company continues to focus on educating the market about the ROI Facebook ads deliver, and partnered with Nielsen to demonstrate that Facebook ads (studied across 500+ ad campaigns) on average drive 98% better ad recall and 31% higher brand awareness vs. non-Facebook online ad campaigns. Below we highlight some recent Facebook Case Studies showing solid ROI:

Case Study 1 - Electronic Arts: Electronic Arts recently spent \$2.75MM promoting Battlefield 3 on Facebook, and attributed \$12MM of its sales to these Facebook ads, translating to a 4.4x return on the marketing spend.

Case Study 2 - Barclay Card: Barclay Card purchased Facebook ads as a part of a direct response strategy promoting NFL team-branded credit cards, targeting people on specific team affinity. The Facebook ads generated 40% higher conversion than any other online ad platform Barclay Card used in the campaign, making the customer acquisition cost 48% lower (on Facebook) than from the other online ad buys. In total, 60% of the campaign's approved credit card applications came from Facebook.

Case Study 3 - Wooga: Wooga (game developer) used mobile News Feed to drive installs Diamond Dash, increasing downloads 26% in the US, 29% in Germany, and 37% in France, at attractive costs-per-app-install rate.

Mobile strategy: Not just ads; FB as a social / identity layer across all apps and devices. In the near-term, the mix shift towards mobile is a headwind that will pressure monetization as the company addresses the issue with a heads-down focus on sponsored stories. But Facebook's strategy is to become the de-facto social and identity layer across the entire mobile ecosystem.

We see early signs of success, as apps integrating Facebook logins and Open Graph see rapid user gains on FB's massive distribution platform, with new users acquired at low cost through social means via the News Feed. The distribution strategy is complementary to the ad business, as these partners are more likely to spend ad dollars on the site to further boost distribution.

Music video platform Vevo saw a 200% increase in daily registrations since the change to FB-only registration.

\$10B on the balance sheet. We think Facebook remains focused on smaller, tuck-in deals like Threadsy, which was acquired in late August primarily for its talent. Saying that, larger deals remain a possibility.

Valuation

Our \$30 PT (12-month) is based on a 10-year DCF (11% WACC, 3.5% LTGR). Our estimates only consider FB's current lines of business (Advertising; Payments & Other).

Excluding its \$10B cash + marketable securities, FB currently trades at ~24x our '13 non-GAAP earnings estimates (Table 1, below). Considering our '12-15 Op EPS CAGR estimate of 36% (vs. ~33% Street CAGR), this implies a PEG of about 0.7.

At these multiples, we think investors are essentially getting optionality for free. Our price target of \$30 implies what we believe are reasonable multiples. (Table 2, below)

Table 1: FB Multiples Based on Current Share Price & Jefferies Estimates

	'13	'14
PE (ex-cash)	24.2x	18.2x
PEG (~36% est. '12-15 Op. EPS CAGR)	0.7x	0.5x
EBITDA	10.5x	8.2x

Source: CapitalIQ, Jefferies

Table 2: FB Multiples Based on Jefferies Price Target & Estimates

	'13	'14
PE (ex-cash)	42.5x	32.0x
PEG (~36% est. '12-15 Op. EPS CAGR)	1.2x	0.9x
EBITDA	19.1x	14.9x

Source: CapitalIQ, Jefferies

Risks

Declines in user base could impact financial model

We note any declines in the user base could impact the financial model. We view network effects as one of the key Facebook competitive advantages. If users start to abandon the platform, these network effects could weaken to the point where a particular demographic or region is no longer represented on the platform.

Expect pressure from lock-up expiration.

Our analysis suggests about 1.6B additional shares will unlock through December 2012. On Aug. 16, the stock declined ~6% as 271MM shares unlocked. See Table 3 for timing and ownership details of the multi-stage expiration.

Table 3: Facebook Lock-Up Expiration Analysis

Date	Shares/ RSUs (MM)	Sellers	Details
Aug. 16	271	Stockholders from IPO (excluding Mr. Zuckerberg)	Named Facebook Execs & Directors, Accel, DST, Goldman Sachs, Mail.ru, Tiger Global, Greylock, Meritech, Microsoft, Elevation, Mark Pincus, Reid Hoffman
Oct. 15 - Nov. 13	250	Current and former Facebook employees	137MM pre-2011 RSUs, 55MM shares, 55MM stock options
Nov. 14	1,212	Broad groups of sellers	500MM of these owned by Mr. Zuckerberg
Dec. 14	149	Stockholders from IPO (excluding Mr. Zuckerberg)	Same sellers as Aug 16
May 18, 2013	47	Mail.ru, DST, and respective affiliates.	
Total Shares	1,929		\$38B of supply @ \$20

Source: Company Reports, Thomson, Jefferies

Mix-shift to mobile pressures ad pricing

As mobile usage continues to grow, Facebook has seen the number of mobile users rise to ~543MM. (Chart 1) While these mobile users are ~20% more likely to use Facebook on any given day, Facebook has only just started monetizing its mobile platform. While Sponsored Stories (which are now served directly into a user's mobile News Feed) are off to an encouraging start, this mix-shift could pressure revenue and profitability in the near-term.

Founder has control of a majority of voting stock

With ~56% voting control of the company, Mr. Zuckerberg has absolute control over the outcome of matters submitted to the stockholders for approval, including election of directors, and management of the company. Due to being a "controlled company", FB is not required to have an independent board, have a compensation committee, or an independent nominating function.

The concentrated control gives Mr. Zuckerberg the ability to act quickly and decisively, without consent from the board. Consider the Instagram purchase, in which the board was not notified until Mr. Zuckerberg independently negotiated the deal over a weekend. Those negotiations promised ~23MM shares plus \$300MM cash (~\$750MM at current share prices) in exchange for Instagram, a pre-revenue camera app with 80MM users (and growing fast).

Table 4: Facebook Management Biographies

Name	Title	Background
Mark Zuckerberg	Founder, Chairman, & CEO	Mr. Zuckerberg is the founder of Facebook and has served as CEO since July 2004. He is responsible for setting the overall direction and product strategy of the company, and leads the design of Facebook's service and development of its core technology and infrastructure. Mr. Zuckerberg has been the Chairman since January 2012 and has been its Director since July 2004. He serves as a member of the Investment Committee at fbFund. He attended Harvard University.
David Ebersman	CFO	Mr. Ebersman has been the CFO of Facebook since September 2009, overseeing finance, accounting, IR, and real estate functions. Prior to joining Facebook, he served as CFO of Genentech from 2005 to 2009, as SVP of Product Operations from 2001 to 2005, and other positions since he joined the company in 1994. Prior to Genentech, Mr. Ebersman was a Research Analyst at Oppenheimer. He holds an A.B. from Brown University.
Sheryl Sandberg	COO and Director	Sheryl Sandberg is the Chief Operating Officer of Facebook. She oversees the company's business operations including sales, marketing, business development, human resources, public policy and communications. Prior to Facebook, Sheryl was Vice President of Global Online Sales and Operations at Google, where she built and managed the online sales channels for advertising and publishing and operations for consumer products worldwide. Before Google, Sheryl served as Chief of Staff for the United States Treasury Department. Earlier, she was a management consultant with McKinsey & Company and an economist with the World Bank. Sheryl received a B.A. from Harvard University and an MBA from Harvard Business School.

Source: Company

Table 5: Facebook Estimated Users by Country / State (212 Total)

	Country	Estimated Facebook Users	Internet Users	FB Penetration (per Internet User)	Population	FB Penetration (per Person)
1	United States	171,314,567	245,203,319	70%	313,232,044	55%
2	Brazil	56,301,189	79,245,740	71%	203,429,773	28%
3	India	54,796,272	121,000,000	45%	1,189,172,906	5%
4	Indonesia	48,225,168	55,000,000	88%	245,613,043	20%
5	Mexico	39,171,305	42,000,000	93%	113,724,226	34%
6	Turkey	34,239,721	35,000,000	98%	78,785,548	43%
7	United Kingdom	33,711,676	52,731,209	64%	62,698,362	54%
8	Philippines	31,092,446	29,700,000	105%	101,833,938	31%
9	France	26,736,545	50,290,226	53%	65,102,719	41%
10	Germany	26,130,648	67,364,898	39%	81,471,834	32%
11	Italy	24,114,564	35,800,000	67%	61,016,804	40%
12	Argentina	20,942,842	28,000,000	75%	41,769,726	50%
13	Canada	19,400,803	27,757,540	70%	34,030,589	57%
14	Colombia	18,512,301	25,000,000	74%	44,725,543	41%
15	Spain	17,872,869	30,654,678	58%	46,754,784	38%
16	Thailand	16,505,173	18,310,000	90%	66,720,153	25%
17	Malaysia	13,724,648	17,723,000	77%	28,728,607	48%
18	Taiwan	13,484,688	16,147,000	84%	23,071,779	58%
19	Egypt	12,477,911	21,691,776	58%	82,079,636	15%
20	Australia	12,111,909	19,554,832	62%	21,766,711	56%
21	Japan	11,052,541	101,228,736	11%	126,475,664	9%
22	Venezuela	10,629,700	10,976,342	97%	27,635,743	38%
23	Chile	10,318,489	10,000,000	103%	16,888,760	61%
24	Peru	9,696,551	9,973,244	97%	29,248,943	33%
25	Poland	9,466,933	23,852,486	40%	38,441,588	25%
26	South Korea	7,899,148	40,329,660	20%	48,754,657	16%
27	Pakistan	7,288,828	29,128,970	25%	187,342,721	4%
28	Netherlands	7,261,895	15,071,191	48%	16,847,007	43%
29	Russia	6,591,370	61,472,011	11%	138,739,892	5%
30	Vietnam	6,032,519	30,516,587	20%	90,549,390	7%
31	Saudi Arabia	5,735,369	11,400,000	50%	26,131,703	22%
32	Nigeria	5,557,748	45,039,711	12%	155,215,573	4%
33	South Africa	5,467,661	6,800,000	80%	49,004,031	11%
34	Romania	5,385,804	8,578,484	63%	21,904,551	25%
35	Belgium	5,183,736	8,489,901	61%	10,431,477	50%
36	Ecuador	5,170,863	4,075,500	127%	15,007,343	34%
37	Sweden	5,102,319	8,441,718	60%	9,088,728	56%
38	Morocco	5,034,874	15,656,192	32%	31,968,361	16%
39	Portugal	4,898,094	5,455,217	90%	10,760,305	46%
40	Hungary	4,477,872	6,516,627	69%	9,976,062	45%
41	Greece	4,143,534	5,043,550	82%	10,760,136	39%
42	Hong Kong, (China)	4,100,361	4,894,913	84%	7,122,508	58%
43	Czech Republic	4,046,934	7,220,732	56%	10,190,213	40%
44	Algeria	3,925,710	4,700,000	84%	34,586,184	11%
45	Israel	3,841,300	5,263,146	73%	7,473,052	51%
46	Serbia	3,756,781	4,107,000	91%	7,310,555	51%
47	Tunisia	3,416,457	3,856,984	89%	10,629,186	32%
48	United Arab Emirates	3,369,280	5,859,118	58%	8,264,070	41%
49	Denmark	3,133,786	4,923,824	64%	5,529,888	57%
50	Switzerland	3,122,894	6,430,363	49%	7,639,961	41%
51	Austria	3,042,555	6,143,600	50%	8,217,280	37%
52	Bangladesh	3,006,512	5,501,609	55%	158,570,535	2%
53	Dominican Republic	2,973,175	4,643,393	64%	9,956,648	30%
54	Norway	2,907,227	4,560,572	64%	4,691,849	62%

Table 5: Facebook Estimated Users by Country / State (212 Total)

	Country	Estimated Facebook Users	Internet Users	FB Penetration (per Internet User)	Population	FB Penetration (per Person)
55	Singapore	2,901,330	3,658,400	79%	4,740,737	61%
56	Bulgaria	2,631,289	3,646,287	72%	7,093,635	37%
57	Jordan	2,489,425	1,987,400	125%	6,508,271	38%
58	New Zealand	2,385,212	3,325,553	72%	4,290,347	56%
59	Finland	2,364,593	4,661,265	51%	5,259,250	45%
60	Ireland	2,336,999	3,122,358	75%	4,670,976	50%
61	Guatemala	2,258,993	2,280,000	99%	13,824,463	16%
62	Ukraine	2,165,738	15,300,000	14%	45,134,707	5%
63	Slovakia	2,152,271	4,337,868	50%	5,477,038	39%
64	Iraq	1,950,665	1,303,760	150%	30,399,572	6%
65	Costa Rica	1,947,738	2,000,000	97%	4,576,562	43%
66	Bolivia	1,805,544	1,985,970	91%	10,118,683	18%
67	Uruguay	1,725,139	1,855,000	93%	3,308,535	52%
68	Nepal	1,698,778	2,031,245	84%	29,391,883	6%
69	Croatia	1,668,059	2,656,089	63%	4,483,804	37%
70	Lebanon	1,594,696	1,367,220	117%	4,143,101	38%
71	Kenya	1,567,366	10,492,785	15%	40,070,934	4%
72	El Salvador	1,527,824	1,257,380	122%	6,071,774	25%
73	Ghana	1,417,471	2,085,501	68%	24,791,073	6%
74	Sri Lanka	1,402,090	2,503,194	56%	21,283,913	7%
75	Bosnia & Herzegovina	1,379,139	1,955,277	71%	4,622,163	30%
76	Puerto Rico	1,347,078	1,698,301	79%	3,989,133	34%
77	Honduras	1,249,620	1,067,560	117%	8,143,564	15%
78	Paraguay	1,200,901	1,523,273	79%	6,459,058	19%
79	Lithuania	1,169,743	2,103,471	56%	3,535,547	33%
80	Albania	1,133,765	1,441,928	79%	2,986,952	38%
81	Palestine	1,024,006	1,512,273	68%	2,568,555	40%
82	Panama	1,019,914	1,503,441	68%	3,460,462	29%
83	Kuwait	1,010,100	1,100,000	92%	2,595,628	39%
84	Macedonia	1,003,102	1,069,432	94%	2,077,328	48%
85	Azerbaijan	904,345	3,689,000	25%	8,372,373	11%
86	Georgia	894,091	1,300,000	69%	4,585,874	19%
87	Republic of the Congo	888,502	915,400	97%	71,712,867	1%
88	Nicaragua	807,503	663,500	122%	5,666,301	14%
89	Slovenia	770,821	1,420,776	54%	2,000,092	39%
90	Senegal	732,423	1,989,396	37%	12,643,799	6%
91	Jamaica	728,947	1,581,100	46%	2,868,380	25%
92	Ethiopia	658,488	622,122	106%	90,873,739	1%
93	Libya	616,283	391,880	157%	6,597,960	9%
94	Yemen	609,748	2,609,698	23%	24,133,492	3%
95	Cyprus	608,009	584,863	104%	1,120,489	54%
96	Cambodia	606,601	449,160	135%	14,701,717	4%
97	Tanzania	570,227	4,932,535	12%	42,746,620	1%
98	China	559,203	513,100,000	0%	1,336,718,015	0%
99	Cameroon	543,360	783,956	69%	19,711,291	3%
100	Qatar	532,996	563,800	95%	848,016	63%
101	Estonia	520,717	993,785	52%	1,282,963	41%
102	Trinidad and Tobago	520,101	650,611	80%	1,222,505	43%
103	Oman	508,637	1,741,804	29%	3,027,959	17%
104	Kazakhstan	485,268	5,448,965	9%	15,522,373	3%
105	Angola	476,180	744,195	64%	13,068,161	4%
106	Mongolia	459,236	355,524	129%	3,133,318	15%
107	Uganda	457,256	4,178,085	11%	34,612,250	1%
108	Haiti	429,882	836,435	51%	9,719,932	4%

Table 5: Facebook Estimated Users by Country / State (212 Total)

	Country	Estimated Facebook Users	Internet Users	FB Penetration (per Internet User)	Population	FB Penetration (per Person)
109	Belarus	428,716	4,436,800	10%	9,577,552	4%
110	Latvia	392,628	1,540,859	25%	2,204,708	18%
111	Bahrain	371,372	694,009	54%	1,214,705	31%
112	Mauritius	356,387	323,494	110%	1,303,717	27%
113	Armenia	335,086	1,396,550	24%	2,967,975	11%
114	Montenegro	333,326	328,375	102%	661,807	50%
115	Afghanistan	326,966	1,256,470	26%	29,121,286	1%
116	Mozambique	272,461	975,395	28%	22,948,858	1%
117	Moldova	271,845	1,429,154	19%	4,314,377	6%
118	Brunei Darussalam	263,681	318,900	83%	401,890	66%
119	Zambia	259,324	882,170	29%	13,881,336	2%
120	Madagascar	256,574	352,135	73%	21,926,221	1%
122	Botswana	245,968	167,180	147%	2,065,398	12%
123	Iceland	245,043	304,129	81%	311,058	79%
124	Malta	225,107	262,404	86%	408,333	55%
125	Luxembourg	223,017	459,833	48%	503,302	44%
126	Macau	209,836	308,797	68%	573,003	37%
127	Lao People's D Rep.	206,183	527,400	39%	6,477,211	3%
128	Namibia	189,350	148,414	128%	2,147,585	9%
129	Fiji	186,225	162,880	114%	883,125	21%
130	Guadeloupe	182,132	155,740	117%	405,500	45%
131	Bahamas	180,636	158,700	114%	313,312	58%
132	Rwanda	158,565	818,048	19%	11,370,425	1%
133	Central African Republic	158,433	123,800	128%	4,950,027	3%
134	Benin	156,805	277,002	57%	9,325,032	2%
135	Mali	155,441	414,985	37%	14,159,904	1%
136	Malawi	153,526	716,400	21%	15,879,252	1%
137	Uzbekistan	146,815	7,550,000	2%	28,128,600	1%
138	Martinique	141,270	170,000	83%	397,166	36%
139	Guyana	140,896	225,593	62%	744,768	19%
140	Maldives	135,636	114,100	119%	394,999	34%
141	Barbados	128,837	191,878	67%	286,705	45%
142	Burkina Faso	127,737	230,562	55%	16,751,455	1%
143	Cape Verde	107,338	148,800	72%	516,100	21%
144	New Caledonia	106,810	87,420	122%	256,275	42%
145	Papua New Guinea	106,304	125,000	85%	6,187,591	2%
146	Somalia	104,962	106,000	99%	9,925,640	1%
147	Gabon	104,896	108,845	96%	1,576,665	7%
148	Suriname	100,671	165,733	61%	491,989	20%
149	Mauritania	99,175	100,333	99%	3,281,634	3%
150	French Polynesia	98,845	132,674	75%	294,935	34%
151	Republic of the Congo	97,590	915,400	11%	71,712,867	0%
152	Togo	97,568	356,300	27%	6,771,993	1%
153	The Gambia	94,796	159,012	60%	1,797,860	5%
154	Netherlands Antilles	94,532	92,500	102%	199,800	47%
155	Kyrgyzstan	85,400	2,194,400	4%	5,587,443	2%
156	Bhutan	79,415	98,728	80%	708,427	11%
157	Belize	78,358	63,580	123%	321,115	24%
158	Guam	71,823	90,000	80%	183,286	39%
159	French Guiana	70,195	61,480	114%	235,690	30%
160	Swaziland	66,322	95,122	70%	1,370,424	5%
161	Sierra Leone	63,857	48,520	132%	5,363,669	1%
162	Saint Lucia	61,569	142,900	43%	161,557	38%
163	Aruba	56,200	51,280	110%	106,113	53%

Table 5: Facebook Estimated Users by Country / State (212 Total)

	Country	Estimated Facebook Users	Internet Users	FB Penetration (per Internet User)	Population	FB Penetration (per Person)
164	Niger	52,195	128,749	41%	16,468,886	0%
165	Guinea	49,312	95,823	51%	10,601,003	0%
166	Djibouti	47,134	61,320	77%	757,074	6%
167	St Vincent & Grenadines	43,833	76,000	58%	103,869	42%
168	Man, Isle of	41,479	35,600	117%	84,655	49%
169	Grenada	40,202	34,961	115%	108,419	37%
170	Tajikistan	37,826	794,483	5%	7,627,200	0%
172	Burundi	37,782	176,040	21%	10,216,190	0%
171	Lesotho	37,782	83,813	45%	1,924,886	2%
173	Antigua & Barbuda	37,518	70,968	53%	87,884	43%
174	Monaco	36,132	23,000	157%	30,539	118%
175	Chad	35,449	190,863	19%	10,758,945	0%
176	Andorra	34,613	68,740	50%	84,525	41%
177	Faroe Islands	33,491	37,500	89%	49,057	68%
178	Cayman Islands	32,083	37,112	86%	51,384	62%
179	Bermuda	30,828	54,687	56%	68,679	45%
180	Greenland	28,210	52,000	54%	57,670	49%
181	Equatorial Guinea	25,679	42,024	61%	668,225	4%
182	Dominica	24,403	32,151	76%	72,969	33%
183	Eritrea	24,315	283,699	9%	5,939,484	0%
184	Saint Kitts and Nevis	24,161	22,340	108%	50,314	48%
185	Seychelles	23,633	33,900	70%	89,188	26%
186	Jersey	21,476	45,800	47%	94,161	23%
187	Gibraltar	21,212	20,200	105%	28,956	73%
188	Solomon Islands	19,144	26,907	71%	571,890	3%
189	Comoros	16,173	37,472	43%	794,683	2%
190	Mayotte	16,041	10,620	151%	209,530	8%
191	Turks and Caicos	15,953	14,760	108%	44,819	36%
192	Tonga	15,271	12,487	122%	105,916	14%
193	Samoa	14,765	12,816	115%	193,161	8%
194	Guernsey and Alderney	13,753	48,300	28%	65,068	21%
195	Micronesia	13,665	22,213	62%	106,836	13%
196	Liechtenstein	12,719	28,826	44%	35,236	36%
197	British Virgin Islands	10,364	14,620	71%	25,383	41%
198	US Virgin Islands	10,320	30,000	34%	109,666	9%
199	N. Mariana Islands	10,298	15,980	64%	46,050	22%
200	Vanuatu	9,110	19,172	48%	224,564	4%
201	San Marino	8,912	17,000	52%	31,817	28%
202	Turkmenistan	8,824	110,924	8%	4,997,503	0%
203	Marshall Islands	7,658	6,540	117%	67,182	11%
204	Palau	6,975	5,980	117%	20,956	33%
205	Anguilla	6,755	6,940	97%	15,094	45%
206	Sao Tome and Principe	5,941	31,012	19%	179,506	3%
207	Kiribati	3,521	8,959	39%	100,743	3%
209	Falkland Islands	2,531	2,900	87%	3,140	81%
210	Tuvalu	2,046	4,300	48%	10,544	19%
211	American Samoa	616	3,040	20%	67,242	1%
212	Nauru	528	340	155%	9,322	6%
212	Vatican City	22	480	5%	832	3%
	Total / Penetration	954,788,580	2,217,464,964	43%	6,718,163,933	14%

Source: Jefferies proprietary scripts; checkfacebook.com

Chart 9: Facebook Income Statement (\$ 000s)

	F2011				F2012				F2011A	F2012E	F2013E	F2014E
	Q1 11A	Q2 11A	Q3 11A	Q4 11A	Q1 12A	Q2 12A	Q3 12E	Q4 12E				
Total Revenue	\$731	\$895	\$954	\$1,131	\$1,058	\$1,184	\$1,256	\$1,480	\$3,711	\$4,978	\$6,455	\$8,244
% Y/Y Growth	112%	107%	105%	55%	45%	32%	31%	31%	88%	34%	30%	28%
% Q/Q Growth	0%	22%	7%	19%	(6%)	12%	6%	18%	--	--	--	--
Cost of Revenue	167	207	233	244	273	295	314	370	851	1,252	1,575	2,012
Total Gross Profit	\$564	\$688	\$721	\$887	\$785	\$889	\$942	\$1,110	\$2,860	\$3,726	\$4,880	\$6,232
% Margin	77.2%	76.9%	75.6%	78.4%	74.2%	75.1%	75.0%	75.0%	77.1%	74.8%	75.6%	75.6%
Marketing and Sales	68	92	108	116	136	135	166	192	384	629	826	1,055
Research and Development	53	64	75	82	93	112	132	154	274	491	697	890
General and Administrative	48	61	54	65	72	127	113	133	229	445	549	668
Total Stock-Based Compensation	7	64	70	76	103	1,258	180	185	217	1,726	736	883
Adjusted Operating Income (excl. stock con	\$395	\$471	\$484	\$624	\$484	\$515	\$531	\$630	\$1,973	\$2,161	\$2,808	\$3,619
% Margin	54%	53%	51%	55%	46%	43%	42%	43%	53%	43%	44%	44%
% Y/Y Growth	137%	111%	120%	41%	23%	9%	10%	1%	88%	10%	30%	29%
% Q/Q Growth	(11%)	19%	3%	29%	(22%)	6%	3%	19%	--	--	--	--
Adjusted EBITDA	\$446	\$542	\$575	\$734	\$623	\$657	\$688	\$796	\$2,296	\$2,763	\$3,809	\$4,870
% Margin	61%	61%	60%	65%	59%	55%	55%	54%	62%	56%	59%	59%
% Y/Y Growth	167%	142%	162%	66%	40%	21%	20%	9%	93%	20%	38%	28%
% Q/Q Growth	1%	22%	6%	28%	(15%)	5%	5%	16%	--	--	--	--
Net Interest (Income) and Other (Income)	(10)	19	25	27	(1)	22	(5)	(5)	61	11	(30)	(37)
Adjusted Pre-Tax Profit / (Loss)	\$405	\$452	\$459	\$597	\$485	\$493	\$536	\$635	\$1,912	\$2,149	\$2,838	\$3,656
% Effective Tax Rate	41%	35%	34%	36%	36%	40%	36%	36%	36%	(0%)	33%	32%
Provision / (Benefit) for Income Taxes	165	157	158	215	177	(608)	193.055186	229	695	(9)	936	1,170
Tax Adjustments for Non-GAAP Items	0	0	0	0	0	806	65	66	0	937	243	282
Net Income Attributable to Participating Securitie	80	76	75	101	68	0	0	0	332	68	0	0
Minority Interest	0	0	0	0	0	0	0	0	0	0	0	0
Operating Net Income / (Loss)	\$160	\$219	\$226	\$281	\$240	\$295	\$278	\$340	\$885	\$1,153	\$1,658	\$2,204
% Margin	22%	24%	24%	25%	23%	25%	22%	23%	24%	23%	26%	27%
% Y/Y Growth	151%	159	181	72	50	35	23	21	126%	30%	44%	33%
% Q/Q Growth	(2%)	37	3	24	(15)	23	(6)	22	--	--	--	--
Stock-Based Compensation	7	64	70	76	103	1,258	180	185	217	1,726	736	883
Tax Effect of Non-GAAP Entries	0	0	0	0	0	(806)	(65)	(66)	0	(937)	(243)	(282)
Reported GAAP Net Income / (Loss)	\$153	\$155	\$156	\$205	\$137	(\$157)	\$163	\$222	\$668	\$365	\$1,166	\$1,603
% Margin	21%	17%	16%	18%	13%	(13%)	13%	15%	18%	7%	18%	19%
% Y/Y Growth	160%	95%	104%	30%	(10%)	(201%)	5%	8%	80%	(45%)	219%	38%
% Q/Q Growth	(3%)	1%	1%	31%	(33%)	(215%)	--	36%	--	--	--	--
Weighted Avg. Diluted Shares Outstanding	1,508	1,508	1,508	1,508	1,526	2,451	2,436	2,707	1,508	2,685	2,784	2,783
Operating EPS	\$0.11	\$0.15	\$0.15	\$0.19	\$0.16	\$0.12	\$0.11	\$0.13	\$0.59	\$0.43	\$0.60	\$0.79
% Y/Y Growth	135%	143%	163%	61%	48%	(17%)	(24%)	(33%)	112%	(27%)	39%	33%
% Q/Q Growth	(8)	37	3	24	(16)	(23)	(5)	10	--	--	--	--
Reported GAAP EPS	\$0.11	\$0.11	\$0.11	\$0.14	\$0.10	(\$0.08)	\$0.07	\$0.08	\$0.46	\$0.14	\$0.42	\$0.58
% Y/Y Growth	128%	77%	82%	21%	(10%)	(173%)	(38%)	(42%)	66%	(71%)	208%	38%
% Q/Q Growth	(9)	2	1	30	(33)	(183)	--	22	--	--	--	--

Source: Company, Jefferies

Chart 10: Facebook Balance Sheet (\$ 000s)

	F2012				F2011A	F2012E	F2013E	F2014E
	Q1 12A	Q2 12A	Q3 12E	Q4 12E				
Cash & Cash Equivalents	\$1,282	\$2,098	\$2,062	\$1,977	1,512	1,977	2,719	\$3,184
Marketable Securities	2,628	8,090	8,090	8,090	2,396	8,090	8,090	8,090
Accounts Receivable	482	578	613	722	547	722	944	1,201
Deferred Income Taxes	0	567	601	711	0	711	936	1,208
Prepaid Expenses and Other Current Assets	627	634	690	806	149	806	707	1,118
Current Assets	\$5,019	\$11,967	\$12,056	\$12,306	\$4,604	\$12,306	\$13,397	\$14,801
Property and Equipment	1,855	2,105	2,376	2,654	1,475	2,654	3,654	4,959
Long-Term Investments	0	0	0	0	0	0	0	0
Goodwill	0	0	0	0	0	0	0	0
Intangible Assets	189	809	809	809	162	809	809	809
Long-Term Deferred Income Taxes	0	0	0	0	0	0	0	0
Other Long-Term Assets	121	47	181	211	90	211	245	330
Total Assets	\$7,184	\$14,928	\$15,422	\$15,981	\$6,331	\$15,981	\$18,105	\$20,900
Accounts Payable	\$129	\$43	\$72	\$85	63	85	112	\$140
Platform Partners Payable	178	153	187	190	171	190	226	224
Accrued Expenses & Other Current Liabilities	337	441	493	575	296	575	727	938
Deferred Revenue & Deposits	93	85	85	101	90	101	144	175
Current Portion of Capital Lease Obligations	302	312	312	312	279	312	312	312
Current Portion of Long-Term Debt	0	0	0	0	0	0	0	0
Total Current Liabilities	\$1,039	\$1,034	\$1,150	\$1,263	\$899	\$1,263	\$1,520	\$1,789
Long-Term Debt	0	0	0	0	0	0	0	0
Capital Lease Obligations	404	394	394	394	398	394	283	230
Other Long-Term Liabilities	144	191	214	249	135	249	323	412
Total Liabilities	\$1,587	\$1,619	\$1,758	\$1,906	\$1,432	\$1,906	\$2,125	\$2,431
Convertible Preferred Stock	0	0	0	0	0	0	0	0
Common Stock	0	0	0	0	0	0	0	0
Retained Earnings (Accumulated Deficit)	1,171	1,654	1,817	2,039	1,606	2,039	3,205	4,808
Additional Paid-In Capital	4,433	11,684	11,876	12,064	3,299	12,064	12,804	13,690
Accumulated Other Comprehensive Loss	(7)	(29)	(29)	(29)	(6)	(29)	(29)	(29)
Shareholders' Equity	\$5,597	\$13,309	\$13,664	\$14,075	\$4,899	\$14,075	\$15,979	\$18,469
Liabilities & Shareholders' Equity	\$7,184	\$14,928	\$15,422	\$15,981	\$6,331	\$15,981	\$18,105	\$20,900

Source: Company, Jefferies

Chart 11: Facebook Cash Flow Statement (\$ 000s)

	F2011				F2012				F2011A	F2012E	F2013E	F2014E
	Q1 11A	Q2 11A	Q3 11A	Q4 11A	Q1 12A	Q2 12A	Q3 12E	Q4 12E				
Net Income	\$233	\$231	\$231	\$306	\$205	(\$157)	\$163	\$222	\$1,000	\$433	\$1,166	\$1,603
Depreciation	51	71	91	110	139	139	156	166	323	600	1,001	1,251
Amortization of Intangible Assets	0	0	0	0	0	3	0	0	0	3	0	0
Stock-Based Compensation	7	64	70	76	103	1,106	180	185	217	1,726	736	883
Tax Benefit from Stock Options	69	0	0	0	0	0	0	0	433	0	0	0
Excess Tax Benefit from Stock Options	(69)	0	0	0	0	0	0	0	(433)	0	0	0
Deferred Taxes	0	0	0	0	0	(350)	0	0	0	(350)	0	0
(Gain) / Loss on Sale of PP&E	0	0	0	0	0	0	0	0	4	0	0	0
Other / Charges	1	0	0	0	0	0	0	0	0	0	0	0
Funds From Operations	\$292	\$366	\$392	\$492	\$447	\$741	\$499	\$572	\$1,544	\$2,411	\$2,902	\$3,737
(Inc.) Dec. in Accounts Receivable	27	0	0	(547)	65	(106)	(35)	(109)	(174)	(185)	(222)	(257)
(Inc.) Dec. in Prepaid Expenses and Other Asset	(26)	0	0	(149)	(478)	26	(90)	(226)	(31)	(768)	(127)	(683)
(Inc.) Dec. in Other Assets	(10)	0	0	(90)	(31)	(604)	(134)	(30)	(32)	(799)	(34)	(86)
Inc. (Dec.) in Accounts Payable	(3)	0	0	63	66	(5)	29	13	6	103	27	28
Inc. (Dec.) in Platform Partners Payables	24	0	0	171	7	(22)	34	2	96	22	36	(2)
Inc. (Dec.) in Accrued Expenses and Other Liabi	6	0	0	296	41	224	52	82	38	399	151	212
Inc. (Dec.) in Deferred Revenue & Deposits	17	0	0	90	3	(8)	0	15	49	11	43	31
Inc. (Dec.) in Other Liabilities	18	0	0	135	9	(4)	23	36	53	63	73	89
Change in Net Working Capital	\$53	\$0	\$0	(\$31)	(\$318)	(\$499)	(\$120)	(\$217)	\$5	(\$1,154)	(\$52)	(\$667)
Cash Flow from Operations	\$345	\$366	\$392	\$461	\$129	\$242	\$379	\$355	\$1,549	\$1,257	\$2,851	\$3,069
Purchases of Property & Equipment	(153)	(312)	(333)	(395)	(369)	(413)	(427)	(444)	(606)	(1,653)	(2,001)	(2,556)
Purchases of Marketable Securities	0	0	0	0	0	(6,083)	0	0	(3,025)	(6,083)	0	0
Maturities and Sales of Marketable Securities	0	0	0	0	0	598	0	0	629	598	0	0
Acquisitions, Net of Cash Acquired	(1)	0	0	0	0	(550)	0	0	(24)	(550)	0	0
Proceeds from Sales of PP&E	0	0	0	0	0	0	0	0	0	0	0	0
Change in Restricted Cash and Other	1	0	0	0	0	(2)	0	0	3	(2)	0	0
Net Cash Used in Investing Activities	(\$153)	(\$312)	(\$333)	(\$395)	(\$369)	(\$6,450)	(\$427)	(\$444)	(\$3,023)	(\$7,690)	(\$2,001)	(\$2,556)
Debt Issuance / (Repayment)	(250)	0	0	0	0	0	0	0	(250)	0	0	0
Proceeds from / (Repurchase of) Stock	998	0	0	0	0	6,761	3	1	998	6,765	1	1
Proceeds from Exercise of Stock Options	9	0	0	0	0	4	0	0	28	4	0	0
Proceeds from Sale and Lease-back Transaction:	1	0	0	0	0	20	0	0	170	20	0	0
Principal Payments on Capital Lease Obligation	(29)	0	0	398	6	(72)	0	0	(181)	(66)	(111)	(53)
Excess Tax Benefit from Stock Options	69	0	0	0	108	327	9	2	433	446	2	2
Net Cash Provided by Financing Activities	\$798	\$0	\$0	\$398	\$114	\$7,040	\$12	\$4	\$1,198	\$7,170	(\$107)	(\$49)
Effect of Exchange Rate Changes	1	0	0	0	0	(16)	0	0	3	(16)	0	0
Inc. (Dec.) in Cash and Cash Equivalents	\$991	\$54	\$59	\$464	(\$126)	\$816	(\$36)	(\$85)	(\$273)	\$720	\$742	\$464
Beginning Cash and Cash Equivalents	1,785	2,776	0	0	1,512	1,282	2,098	2,062	1,785	1,512	1,977	2,719
Ending Cash and Cash Equivalents	\$2,776	\$2,830	\$59	\$464	\$1,386	\$2,098	\$2,062	\$1,977	\$1,512	\$2,232	\$2,719	\$3,184

Source: Company, Jefferies

Chart 12: Facebook DCF (\$MM)

	2011A	2012				2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
		Q1 12A	Q2 12A	Q3 12E	Q4 12E									
Revenue	\$3,711	\$1,058	\$1,184	\$1,256	\$1,480	\$6,455	\$8,244	\$10,346	\$12,737	\$15,483	\$18,263	\$21,050	\$23,879	\$26,644
% Y/Y Growth	88%	45%	32%	32%	31%	30%	28%	26%	23%	22%	18%	15%	13%	12%
EBITDA	\$2,296	\$623	\$657	\$688	\$796	\$3,809	\$4,870	\$6,108	\$7,433	\$9,168	\$10,783	\$12,396	\$14,046	\$15,557
% Margin	62%	59%	55%	55%	54%	59%	59%	58%	59%	59%	59%	59%	59%	58%
% Y/Y Growth	93	40	21	20	9	38	28	25	22	23	18	15	13	11
Implied Taxes on Operations	(\$835)	(\$227)	(\$264)	(\$248)	(\$287)	(\$1,257)	(\$1,558)	(\$1,771)	(\$1,933)	(\$2,200)	(\$2,372)	(\$2,603)	(\$2,809)	(\$3,111)
% Effective Tax Rate	36%	36%	40%	36%	36%	33%	32%	29%	26%	24%	22%	21%	20%	20%
Capital Expenditures	(\$606)	(\$369)	(\$413)	(\$427)	(\$444)	(\$2,001)	(\$2,556)	(\$2,690)	(\$2,802)	(\$3,097)	(\$3,105)	(\$3,158)	(\$3,224)	(\$3,331)
% Y/Y Growth	107%	141%	32%	28%	13%	21%	28%	5%	4%	11%	0%	2%	2%	3%
Change in Net Working Capital	\$5	(\$318)	(\$499)	(\$120)	(\$217)	(\$52)	(\$667)	(\$433)	(\$725)	(\$709)	(\$805)	(\$773)	(\$821)	(\$761)
Tax Benefit from NOL Carryforwards	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Acquisitions Not Reflected on Balance Sheet	--	--	--	0	0	0	0	0	0	0	0	0	0	0
Unlevered Free Cash Flow	\$860	(\$291)	(\$519)	(\$107)	(\$151)	\$499	\$89	\$1,214	\$1,974	\$3,162	\$4,501	\$5,863	\$7,191	\$8,354
NPV at 6/30/12 Valuation Date and 11.0% WACC	--	--	--	(\$105)	(\$144)	\$450	\$72	\$887	\$1,299	\$1,875	\$2,405	\$2,822	\$3,117	\$3,263
Perpetuity Growth Rate / Terminal Value at 11.0% WACC				Implied Terminal Value / Terminal EBITDA Multiple										
2.5%				9.1x										
3.0%				9.7x										
3.5%				10.4x										
4.0%				11.2x										
4.5%				12.1x										
\$140,871				\$140,871										
\$150,406				\$150,406										
\$161,212				\$161,212										
\$173,561				\$173,561										
\$187,811				\$187,811										
Median DCF Valuation at 6/30/12 Valuation Date														
NPV of Cash Flows and Terminal Value														
\$72,661														
Plus: Net Cash														
10,188														
Implied Equity Value														
\$82,849														
Implied Fully Diluted Shares Outstanding (MM)														
2,783														
Implied Equity Value per Share														
\$30														
WACC														
Equity Value per Share														
9.0%	\$31	\$33	\$35	\$36	\$39									
10.0%	29	31	32	34	36									
11.0%	27	28	30	31	33									
12.0%	25	26	28	29	31									
13.0%	24	25	26	27	29									

Source: Company, Jefferies

Company Description

Facebook, Inc. operates the world's largest social network. The company builds tools that enable users to connect and communicate with each other; enables developers to build social applications on Facebook or to integrate their Websites with Facebook; and offers products that enable advertisers to engage with users. The company was founded in 2004 and is headquartered in Menlo Park, California.

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Conviction List Methodology

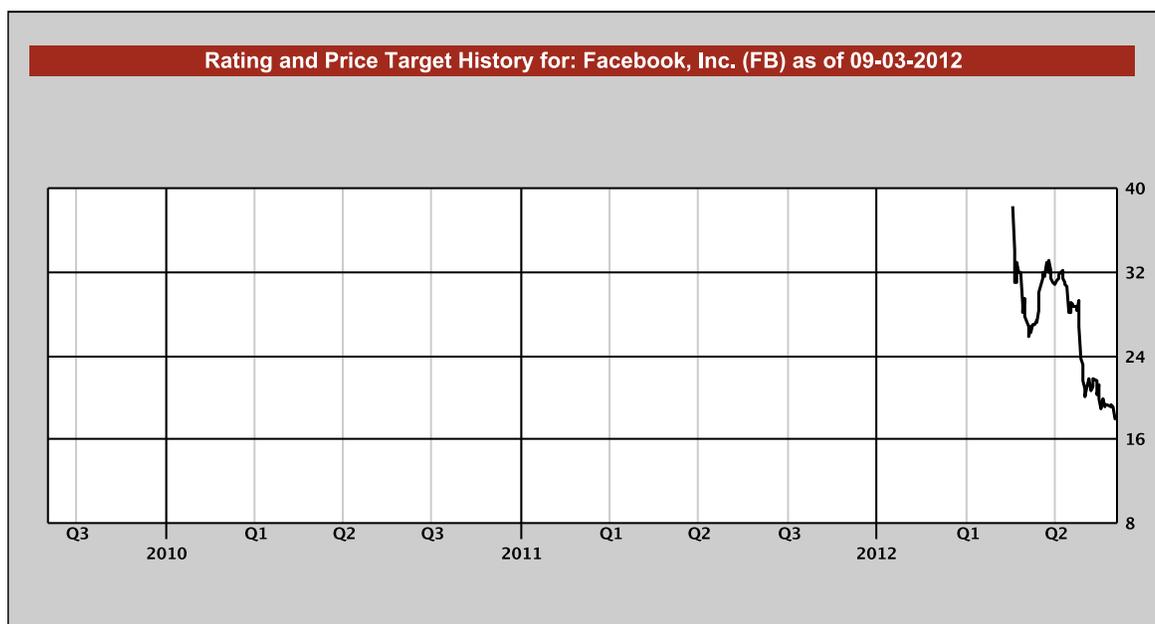
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10. All corporate actions are taken into account.

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- Google, Inc. (GOOG: \$685.09, BUY)
- LinkedIn Corporation (LNKD: \$107.30, HOLD)
- Wal-Mart Stores, Inc. (WMT: \$72.60, HOLD)
- Yahoo!, Inc. (YHOO: \$14.65, HOLD)



Distribution of Ratings

Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
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