

**CO-RISE**

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# THE DISTINCT VALUE OF SOCIAL NETWORKS IN THE AGE OF THE FACEBOOK IPO

Much of the financial discussion that has taken place since the launch of the popular social networks has been centered around the business models & financial metrics of these new platforms. This does not fully capture the essence & opportunity of assets with their precedent more properly rooted in the phone system than in the business offering that might use it. Regardless of the ways in which social networks are currently monetized (or not), the true & lasting value of these is in their user community. Over time, the market will monetize this in ways that we may not currently contemplate.

This presentation illustrates & seeks to quantify our thinking on this subject, based on market activity & expectations for the Facebook IPO. It is not a comprehensive review of industry activities or a survey of competitors. Nor is it an analysis or set of recommendations for purposes of assessing any investment, public or private. CoRise does not have a working relationship with any of the companies mentioned in this presentation.



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# THESIS

**In the section that follows, our perspectives on networks & their nature are presented in parallel with selections from the CEO's letter in Facebook's S-1 filing (dated February 1, 2012). We think his vision & our overview are in many ways confluent.**



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# A network is not a mere product... or even a mere business

*“Facebook was not originally created to be a company..”*



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**A network is an interconnection on a large scale,  
with value that perpetuates itself through usage**

*“... it was built to... make the world more  
connected...”*



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# A network is built on user engagement & depends on this to preserve its value

*“... we’re inspired by technologies that have revolutionized how people spread and consume information...”*



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**A network is a platform on which business models  
can be built, but the network itself transcends  
any single one**

*“... we often talk about inventions like the printing  
press and the television...*

*[and] making communication more efficient...”*



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**The financial value of a network reflects the total of all future business models predicated on paying to use it**

*“... it’s important that everyone who invests in Facebook understands what [our] mission means...”*



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**Stated differently, the financial value of a network is the aggregate option value of its current & future participants**

*“... the world’s information infrastructure should resemble the social graph — a network built peer-to-peer...”*

*... as people share more, they have access to more...”*



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**The primary focus & main business goal of a network is to perpetually build & protect its base of network users**

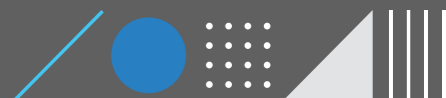
*“... we don't build services to make money; we make money to build better services...”*



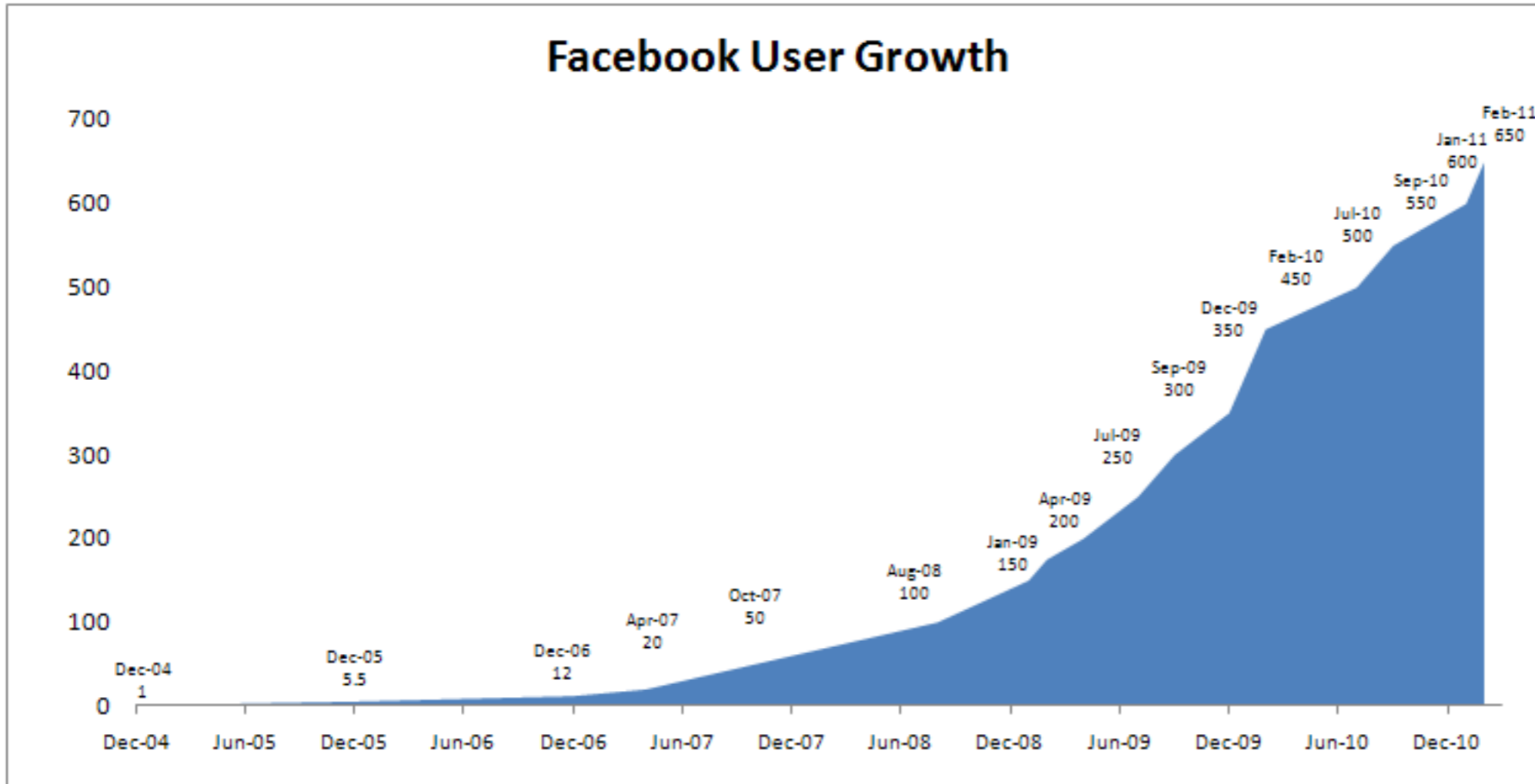
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# CASE STUDY: FACEBOOK

Based on the conceptual thesis presented, the following pages depict one aspect of Facebook analysis, in which the company's enterprise valuation is framed in the context of its network value.



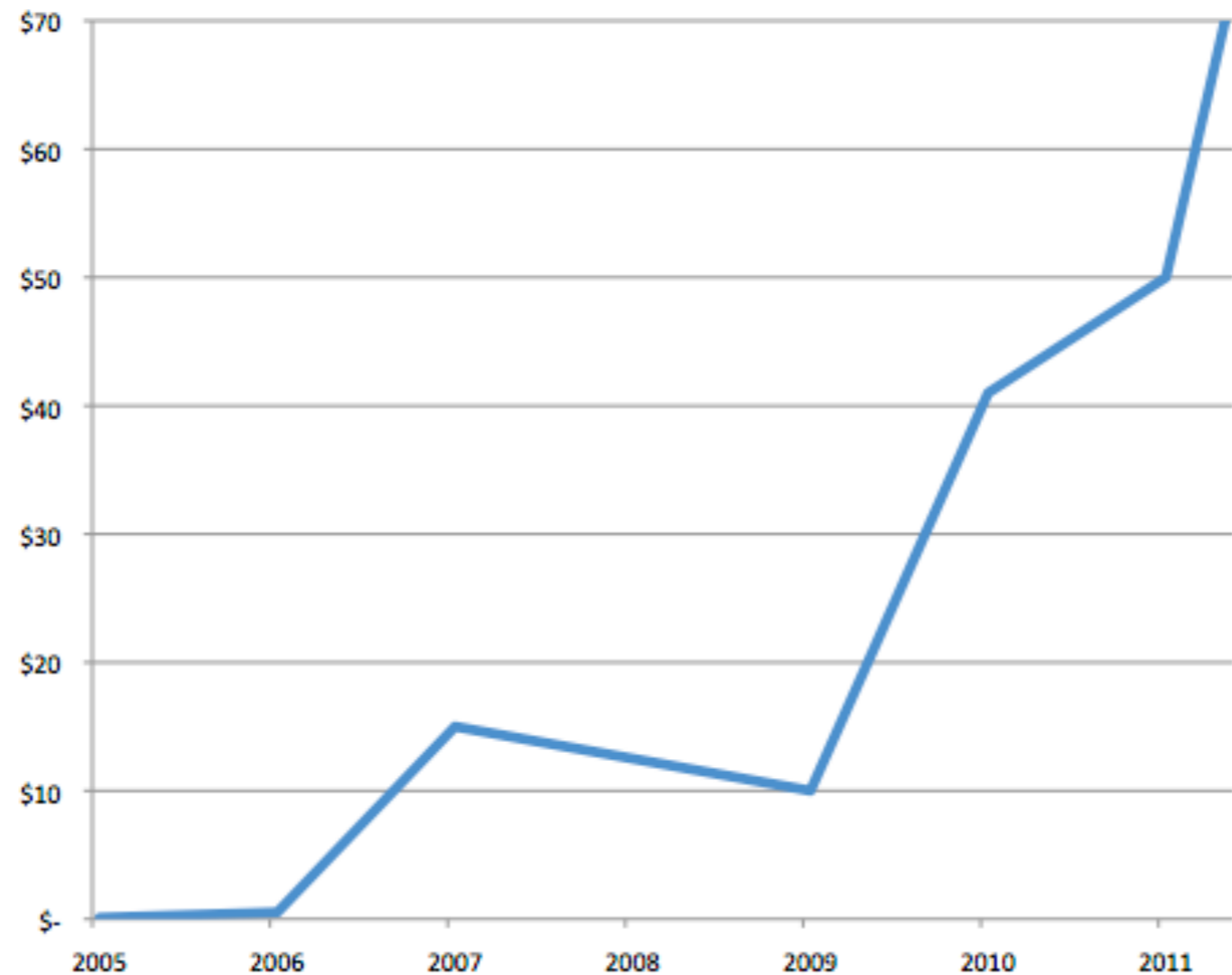
# 843 million users currently registered on network



Source: Marginlines



# Estimated market capitalization of \$100 billion at IPO



Source: The Atlantic Wire

<http://www.theatlanticwire.com/technology/2011/04/facebook-frenzy-cools-investors-seek-sell-1-billion-shares/37128/>



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**At the expected value range, the average enterprise value per registered user is \$119**

<b>Value (\$mils)</b>	<b>\$100,000</b>
<b>Members (mils)</b>	<b>843</b>
<b>EV / User</b>	<b>\$119</b>



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**Enterprise value per user (equivalent to average NPV of free cash flow) can be further distilled with standard assumptions...**

<b>EV / User</b>	<b>\$119</b>
<b>Rate (WACC)</b>	<b>10%</b>
<b>EBITDA Margin</b>	<b>55%</b>
<b>Near-term Topline Growth</b>	<b>&gt;50% CAGR</b>
<b>Long-term User Growth</b>	<b>5% (Terminal)</b>
<b>Capex</b>	<b>5% (of Revs)</b>
<b>Tax</b>	<b>35%</b>



... in order to extrapolate an average expected revenue amount per registered user (based on expected market cap)

	Yr 1	Yr2-4	Yr5/TML
<b>Revs (\$ / User)</b>	5	49	558
<b>Costs</b>	2	22	251
<b>EBITDA</b>	3	27	307
<b>Capex</b>	-0.3	-2	-28
<b>Tax</b>	-1	-9	-107
<b>uFCF</b>	2	15	172
<b>NPV of uFCF</b>	<b>\$119 / User</b>		
<b>NPV Revs</b>	<b>\$387 / User</b>		



Irrespective of business model, the market is implying average revenue per user (NPV) within the grid below

		EBITDA Margins				
		45%	50%	55%	60%	65%
	<b>\$80,000</b>	\$394	\$347	\$309	\$281	\$256
	<b>\$90,000</b>	\$440	\$387	\$349	\$315	\$288
	<b>\$100,000</b>	\$489	\$432	<b>\$387</b>	\$349	\$318
<b>Market</b>	<b>\$110,000</b>	\$535	\$472	\$422	\$383	\$349
<b>Cap</b>	<b>\$120,000</b>	\$584	\$516	\$462	\$417	\$381
<b>(\$ mils)</b>	<b>\$130,000</b>	\$633	\$561	\$500	\$454	\$413
	<b>\$140,000</b>	\$686	\$603	\$538	\$488	\$444
	<b>\$150,000</b>	\$735	\$646	\$580	\$523	\$478



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## Core takeaway for Facebook analysis:

**At an enterprise value of \$100 billion, the market is implying an average NPV of total worldwide revenues of less than \$400 per user**



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# EXTRAPOLATING FROM HERE



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**The foregoing analysis was based on the assumption that the value of a network is reflected in the present value of:**

**all future revenues...  
from the aggregate of all sources...  
known or unknown...  
using the network...  
to reach its users...  
during its perpetual lifetime**



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**In the Facebook analysis presented, as in any other case, this valuation will be subject to:**

**potential timing differences...**

**differences in annual growth rates...**

**fluctuations in profitability & churn...**

**fluctuations in capital cost (discount rate)...**

**... most of which differences & fluctuations would smooth out & normalize over time**



# As Facebook has been the premier social network in terms of size, features & global popularity...

## Top 10 U.S. Social Networks & Blogs

Rank	Web Brand	Avg # of Unique Visitors (000) per month
1	Facebook	137,644
2	Blogger	45,712
3	Twitter.com	23,574
4	WordPress.com	20,357
5	Myspace.com	17,935
6	LinkedIn	17,020
7	Tumblr	10,879
8	Google+	8,207
9	Yahoo! Pulse	8,063
10	Six Apart TypePad	7,793

Source: Nielsen

Data from January – October 2011, Home and Work Computers. Ranked on average monthly unique audience.

Read as: During 2011, 137.6 million U.S. people, on average, visited Facebook from home and work computers



... its metrics should set a standard by which other networks are valued...

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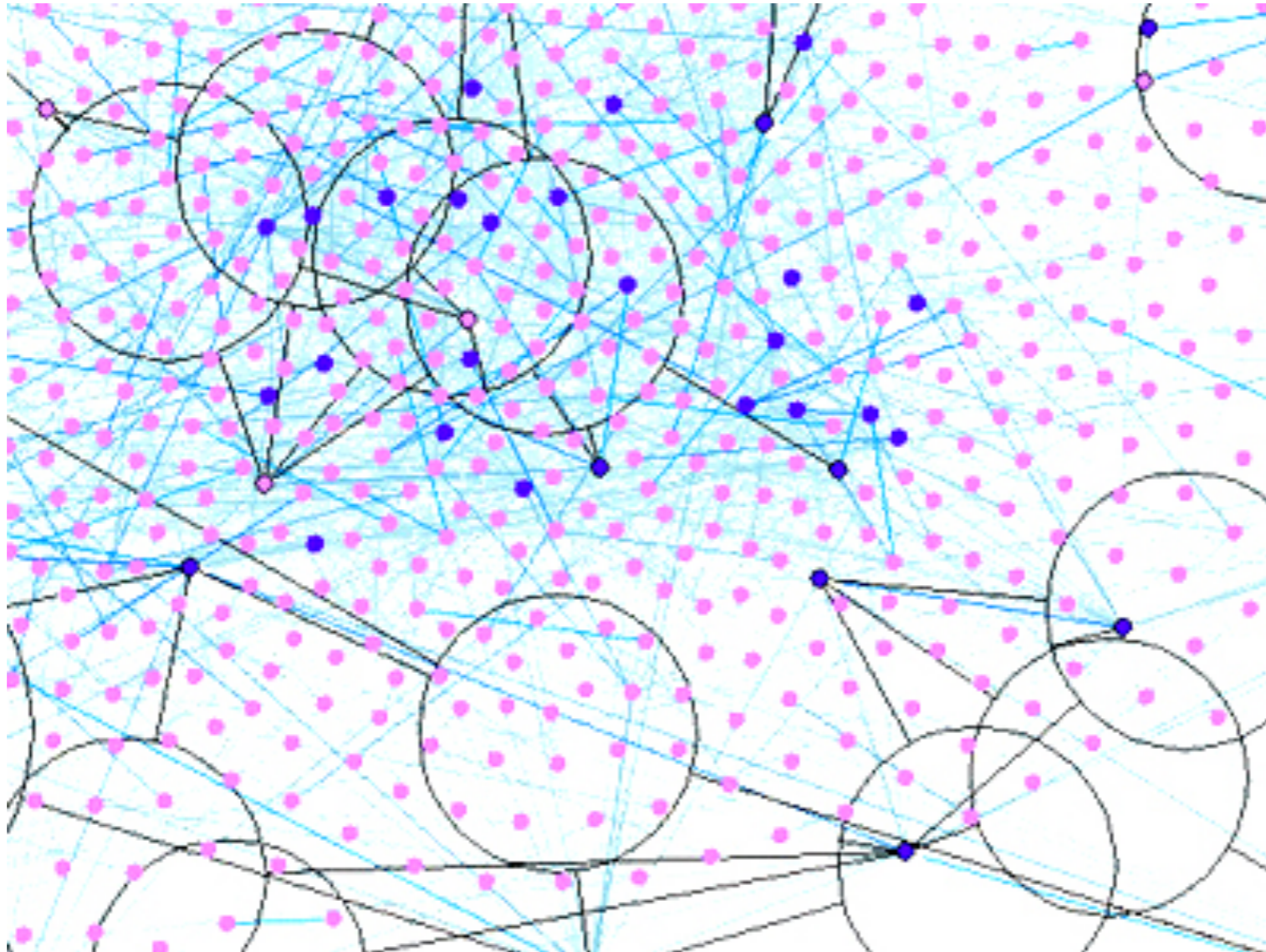
**As networks are not mere products... or even  
mere businesses...**

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company...”*



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**... such valuation metrics should reflect the unique traits of networks...**





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# Additional Information

We will be pleased to discuss our views summarized in this presentation with prospective clients & investors.

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