

Equity Research

LinkedIn Corporation

LNKD: Expectations Reset, But Still A Stock To Own, In Our View

Outperform / V

• **Quarter good, but guide resets the growth outlook.** Revenue and EBITDA were ahead of estimates, but forward quarter and FY guide sent investors running with shares slumping -28% after hrs, in our view. The magnitude of the projected growth deceleration is significant, and we lower our estimates sharply. But our fundamental view of LNKD's market position and opportunity is unchanged. User growth continues, engagement metrics—though recently mixed—remain solid and show indications of improving, and the company's core product portfolio remains essential to a broad range of global corporate enterprises. Moreover, the competitive landscape appears to be modestly more welcoming of late, as chief rival Viadeo shuttered its Chinese operations in late December. While guidance offers the market a more sober view of near-term growth, we continue to believe LNKD possesses a powerful platform in a market with large barriers to entry. As with past guidance, we believe mgmt is striking a conservative stance here—particularly as they are seeing some macro pressure in EMEA and APAC and verticals such as oil/gas. Flowing through results our FY'16E revenue/adj EBITDA/non-GAAP EPS move to \$3.63B/\$951MM/\$3.05 from \$3.92B/\$1.02B/\$3.78. Based on revisions, we lower our 12 month valuation range to \$170-\$190 from \$290-\$300 and maintain our Outperform rating.

• **Core Talent Solutions (TS) appears on track, Sales Navigator a focus for improvement.** Strong field sales cited in qtr, though mgmt did note some slowdown to online sales channel. New customer acquisition was healthy at 3,000 to more than 42,000 total. Churn for TS stable, as no material increase was seen as result of price increases. Though noting high customer satisfaction and promoter scores, add'l product focus is planned for Sales Navigator to reduce higher than satisfactory churn. This near-term challenge cited, mgmt reiterated positive long-term view on social selling, and we believe LNKD's distinct and deep data asset should drive deeper sales of this category-defining asset.

• **Marketing Solutions (MS) sheds network and display to focus on high-growth Sponsored Updates.** We were surprised to hear of the closing of off-platform targeting product Lead Accelerator, as it contributed to our bullish stance on Marketing Solutions (19% of FY'15 rev) and was a product arising out of LNKD's acquisition of b-to-b marketing platform Bizo. That said, Sponsored Update momentum is strong (over 100% growth in FY'15, now less than 50% share of MS), so we continue to see validation of LNKD's marketing platform and targeting capabilities. The expected addition of conversion tracking and enhanced targeting should aid an already strong offering.

Valuation Range: \$170.00 to \$190.00 from \$290.00 to \$300.00

Our 12-month valuation range equates to 19.3x EV/EBITDA using our FY17 estimates, a premium valuation we believe to be merited by LNKD's leadership position, multiple revenue segments and attractive economic model. Risks include declining member growth, corporate customer churn, ██████ risk, shareholder dilution via stock grants, data breaches, and rising competitive pressure.

Investment Thesis:

We favor LNKD's position as the leading, global professional social network, where the company's "clean signal" identity data powers connectivity to the benefit of members, corporate recruiters, and b-to-b marketers. We believe an expanding portfolio of products and international growth opportunities provides a ramp to multiple years of double-digit revenue growth and margin and earnings expansion.

Please see page 6 for rating definitions, important disclosures and required analyst certifications

All estimates/forecasts are as of 02/05/16 unless otherwise stated.

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Sector: Internet
Overweight

Earnings Estimate Revised Down

CASH EPS	2015A	2016E		2017E	
		Curr.	Prior	Curr. Prior	
Q1 (Mar.)	\$0.57	\$0.56	0.79	\$0.77	
Q2 (June)	0.55	0.56	0.80	0.93	
Q3 (Sep.)	0.78	0.82	1.07	1.12	
Q4 (Dec.)	0.94	1.08	1.12	1.24	
FY	\$2.84	\$3.05	3.78	\$4.06	NE
CY	\$2.84	\$3.05		\$4.06	
FY P/E	67.7x	63.0x		47.4x	
Rev.(MM)	\$2,991	\$3,633		\$4,315	

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters
NA = Not Available, NC = No Change, NE = No Estimate, NM = Not Meaningful
V = Volatile, * = Company is on the Priority Stock List

Cash EPS excludes stock-based comp

Ticker	LNKD
Price (02/04/2016)	\$192.28
52-Week Range:	\$165-277
Shares Outstanding: (MM)	133.6
Market Cap.: (MM)	\$25,688.6
500:	1,915.45
Avg. Daily Vol.:	1,671,880
Dividend/Yield:	\$0.00/0.0%
LT Debt: (MM)	\$1,126.5
LT Debt/Total Cap.:	20.0%
ROE:	0.0%
3-5 Yr. Est. Growth Rate:	25.0%
CY 2016 Est. P/C. EPS-to-Growth:	2.5x
Last Reporting Date:	02/04/2016
	After Close

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters

Peter Stabler, Senior Analyst
(415) 396-4478

Blake Nelson, Associate Analyst
(415) 396-4064

Together we'll go far



Exhibit 1. 4Q2015 Reported vs. Estimated

4Q15 PERFORMANCE REVIEW

(\$millions)	4Q15			4Q14		3Q15		Q/Q	
	Actual	Estimate	Difference	Actual	Y/Y Change	Actual	Change	Actual	Change
Talent Solutions Revenue	535.3	539.5	-0.8%	369.3	44.9%	502.1	6.6%		
Marketing Solutions Revenue	182.6	170.6	7.0%	152.7	19.5%	139.5	30.8%		
Premium Subscriptions Revenue	144.0	144.9	-0.7%	121.4	18.7%	137.9	4.4%		
Total net revenue	861.9	855.1	0.8%	643.4	34.0%	779.6	10.6%		
Cost of revenue (ex-SBC)	105.0	107.9	-2.7%	77.9	34.8%	98.4	6.7%		
Gross profit (ex-SBC)	756.9	747.2	1.3%	565.5	33.8%	681.2	11.1%		
Sales & Marketing (ex-SBC)	264.8	267.9	-1.2%	205.2	29.0%	238.5	11.0%		
Product Development (ex-SBC)	152.3	162.5	-6.3%	106.3	43.3%	144.7	5.2%		
General & Administrative (ex-SBC)	91.2	102.6	-11.2%	74.7	22.0%	89.9	1.4%		
████	129.6	124.8	3.8%	71.1	82.2%	117.9	9.9%		
Total operating expenses (ex-SBC)	508.2	533.0	-4.6%	386.6	31.4%	473.0	7.4%		
Operating income (loss) (Non-GAAP)	165.9	136.3	21.7%	120.4	37.8%	136.7	21.4%		
Adjusted EBITDA	248.5	214.2	16.0%	178.9	38.9%	208.1	19.4%		
Other income (expense), net	(2.6)	(2.3)	12.4%	(1.4)	86.5%	(2.3)	12.4%		
Income (loss) before taxes (Non-GAAP)	163.3	134.0	21.8%	119.0	37.2%	134.4	21.5%		
Provision (benefit) for income taxes (Non-GAAP)	37.6	30.8	21.8%	41.7	-9.8%	30.9	21.5%		
Non-GAAP Net Income (loss)	125.7	103.2	21.8%	77.4	62.5%	103.5	21.5%		
Diluted EPS (GAAP)	(0.06)	(0.36)	-82.4%	0.02	-363.4%	(0.36)	-82.4%		
Diluted EPS (Non-GAAP)	0.94	0.77	22.2%	0.61	54.9%	0.78	20.6%		
Non-GAAP Diluted shares outstanding	133.6	134.0	-0.3%	127.3	4.9%	132.5	0.8%		
Margin Analysis (% of Revenue)									
Cost of revenue (ex-████; ex-SBC)	12.2%	12.6%	-44 bp	12.1%	7 bp	12.6%	-44 bp		
Sales and marketing (ex-SBC)	30.7%	31.3%	-61 bp	31.9%	-118 bp	30.6%	13 bp		
Product development (ex-SBC)	17.7%	19.0%	-133 bp	16.5%	115 bp	18.6%	-89 bp		
General and administrative (ex-SBC)	10.6%	12.0%	-142 bp	11.6%	-104 bp	11.5%	-95 bp		
████	15.0%	14.6%	44 bp	11.1%	398 bp	15.1%	-9 bp		
Total operating expenses (ex-SBC)	59.0%	62.3%	-337 bp	60.1%	-112 bp	60.7%	-171 bp		
Adjusted EBITDA Margin	28.8%	25.1%	378 bp	27.8%	103 bp	26.7%	214 bp		
Revenue by Segments									
Talent Solutions Revenue	535.3	539.5	-0.8%	369.3	44.9%	502.1	6.6%		
Marketing Solutions Revenue	182.6	170.6	7.0%	152.7	19.5%	139.5	30.8%		
Premium Subscriptions Revenue	144.0	144.9	-0.7%	121.4	18.7%	137.9	4.4%		
Growth %									
Talent Solutions Revenue	44.9%	46.1%	-113 bp	41.3%	362 bp	45.7%	-78 bp		
Marketing Solutions Revenue	19.5%	11.7%	783 bp	56.3%	-3,675 bp	27.8%	-823 bp		
Premium Subscriptions Revenue	18.7%	19.4%	-78 bp	37.7%	-1,904 bp	20.5%	-184 bp		

Source: Company reports, Wells Fargo Securities, LLC estimates

Exhibit 2. 1Q'16 Estimate Revisions

(\$millions)	1Q15A	1Q16E				1Q16E Y/Y % Change	
		New	Previous	\$ Var	% Var	New	Original
Talent Solutions Revenue	396.4	532.9	567.1	(34.2)	-6.0%	34.4%	43.1%
Marketing Solutions Revenue	119.2	155.4	149.7	5.7	3.8%	30.3%	25.6%
Premium Subscriptions Revenue	122.1	145.3	155.9	(10.6)	-6.8%	19.0%	27.6%
Total net revenue	637.7	833.5	872.7	(39.1)	-4.5%	30.7%	36.9%
Cost of revenue (ex-SBC)	78.4	105.7	114.5	(8.8)	-7.7%	34.8%	46.0%
Gross profit (ex-SBC)	559.3	727.8	758.2	(30.4)	-4.0%	30.1%	35.6%
Sales & Marketing (ex-SBC)	210.6	290.1	275.2	14.9	5.4%	37.7%	30.6%
Product Development (ex-SBC)	115.6	151.1	158.2	(7.1)	-4.5%	30.7%	36.9%
General & Administrative (ex-SBC)	73.3	95.8	100.3	(4.5)	-4.5%	30.7%	36.9%
████	74.0	133.0	132.9	0.1	0.1%	79.8%	79.6%
Total operating expenses (ex-SBC)	399.5	537.0	533.7	3.3	0.6%	34.4%	33.6%
Operating income (loss) (Non-GAAP)	97.7	105.9	139.7	(33.8)	-24.2%	8.4%	43.0%
Adjusted EBITDA	159.9	190.9	224.5	(33.7)	-15.0%	19.4%	40.5%
Other income (expense), net	(3.5)	(7.0)	(2.3)	(4.7)	203.9%	102.4%	-33.4%
Income (loss) before taxes (Non-GAAP)	94.2	98.9	137.4	(38.5)	-28.0%	4.9%	45.8%
Provision (benefit) for income taxes (Non-GAAP)	21.7	22.7	31.6	(8.9)	-28.0%	4.9%	45.8%
Non-GAAP Net Income (loss)	72.7	76.1	105.8	(29.7)	-28.0%	4.8%	45.6%
Diluted Non-GAAP EPS	0.57	0.56	0.79	-0.22	-28.2%	-0.4%	38.7%
Diluted GAAP EPS (Reported)	(0.34)	(0.67)	(0.41)	-0.26	62.0%	97.9%	22.2%
Non-GAAP Diluted shares outstanding	128.3	135.0	134.7	0.3	0.2%	5.2%	5.0%
Margin Analysis (% of Revenue)							
Cost of revenue (ex-████; ex-SBC)	12.3%	12.7%	13.1%			39 bp	82 bp
Sales and marketing (ex-SBC)	33.0%	34.8%	31.5%			177 bp	-150 bp
Product development (ex-SBC)	18.1%	18.1%	18.1%			0 bp	0 bp
General and administrative (ex-SBC)	11.5%	11.5%	11.5%			0 bp	0 bp
████	11.6%	16.0%	15.2%			436 bp	363 bp
Adjusted EBITDA Margin	25.1%	22.9%	25.7%			-217 bp	66 bp
Revenue by Segments							
Talent Solutions Revenue	396.4	532.9	567.1			34.4%	43.1%
Marketing Solutions Revenue	119.2	155.4	149.7			30.3%	25.6%
Premium Subscriptions Revenue	122.1	145.3	155.9			19.0%	27.6%
Growth %							
Talent Solutions Revenue	36.0%	34.4%	43.1%			-156 bp	708 bp
Marketing Solutions Revenue	38.5%	30.3%	25.6%			-816 bp	-1,291 bp
Premium Subscriptions Revenue	27.8%	19.0%	27.6%			-886 bp	-21 bp

Source: Company reports, Wells Fargo Securities, LLC estimates

Internet

Exhibit 3. FY2016 Estimate Revisions

(\$millions)	2015A	2016E				2016E Y/Y % Change	
		New	Previous	\$ Var	% Var	New	Original
Talent Solutions Revenue	1,877.2	2,372.3	2,489.8	(117.5)	-4.7%	26.4%	32.6%
Marketing Solutions Revenue	581.3	663.3	757.8	(94.5)	-12.5%	14.1%	30.4%
Premium Subscriptions Revenue	532.4	596.9	670.1	(73.2)	-10.9%	12.1%	25.9%
Total net revenue	2,990.9	3,632.5	3,917.7	(285.2)	-7.3%	21.5%	31.0%
Cost of revenue (ex-SBC)	369.9	460.7	513.9	(53.2)	-10.4%	24.6%	39.0%
Gross profit (ex-SBC)	2,621.1	3,171.8	3,403.8	(232.0)	-6.8%	21.0%	29.9%
Sales & Marketing (ex-SBC)	952.1	1,160.5	1,206.9	(46.4)	-3.8%	21.9%	26.8%
Product Development (ex-SBC)	542.7	648.1	717.9	(69.8)	-9.7%	19.4%	32.3%
General & Administrative (ex-SBC)	346.7	412.1	459.9	(47.9)	-10.4%	18.8%	32.6%
████	420.5	562.0	531.5	30.5	5.7%	33.7%	26.4%
Total operating expenses (ex-SBC)	1,841.5	2,220.6	2,384.7	(164.1)	-6.9%	20.6%	29.5%
Operating income (loss) (Non-GAAP)	494.0	569.2	679.6	(110.4)	-16.2%	15.2%	37.6%
Adjusted EBITDA	779.8	951.2	1,019.1	(67.9)	-6.7%	22.0%	30.7%
Other income (expense), net	(9.4)	(27.0)	(9.2)	(17.8)	193.0%	186.3%	-2.3%
Income (loss) before taxes (Non-GAAP)	484.6	542.2	670.4	(128.2)	-19.1%	11.9%	38.3%
Provision (benefit) for income taxes (Non-GAAP)	111.5	124.7	154.2	(29.5)	-19.1%	11.9%	38.3%
Non-GAAP Net Income (loss)	373.5	417.5	516.2	(98.7)	-19.1%	11.8%	38.2%
Diluted Non-GAAP EPS	2.84	3.05	3.78	-0.73	-19.3%	7.4%	33.1%
Diluted GAAP EPS (Reported)	(1.29)	(2.34)	(1.36)	-0.99	72.7%	80.9%	4.7%
Non-GAAP Diluted shares outstanding	131.2	137.0	136.7	0.3	0.3%	4.4%	4.2%
Margin Analysis (% of Revenue)							
Cost of revenue (ex-████; ex-SBC)	12.4%	12.7%	13.1%			32 bp	75 bp
Sales and marketing (ex-SBC)	31.8%	31.9%	30.8%			11 bp	-103 bp
Product development (ex-SBC)	18.1%	17.8%	18.3%			-30 bp	18 bp
General and administrative (ex-SBC)	11.6%	11.3%	11.7%			-25 bp	15 bp
████	14.1%	15.5%	13.6%			141 bp	-49 bp
Adjusted EBITDA Margin	26.1%	26.2%	26.0%			11 bp	-6 bp
Revenue by Segments							
Talent Solutions Revenue	1,877.2	2,372.3	2,489.8	(117.5)	-4.7%	26.4%	32.6%
Marketing Solutions Revenue	581.3	663.3	757.8	(94.5)	-12.5%	14.1%	30.4%
Premium Subscriptions Revenue	532.4	596.9	670.1	(73.2)	-10.9%	12.1%	25.9%
Growth %							
Talent Solutions Revenue	41.4%	26.4%	32.3%			-1,502 bp	-905 bp
Marketing Solutions Revenue	27.9%	14.1%	33.1%			-1,381 bp	518 bp
Premium Subscriptions Revenue	22.0%	12.1%	25.7%			-984 bp	369 bp

Source: Company reports, Wells Fargo Securities, LLC estimates

Exhibit 4. Income Statement

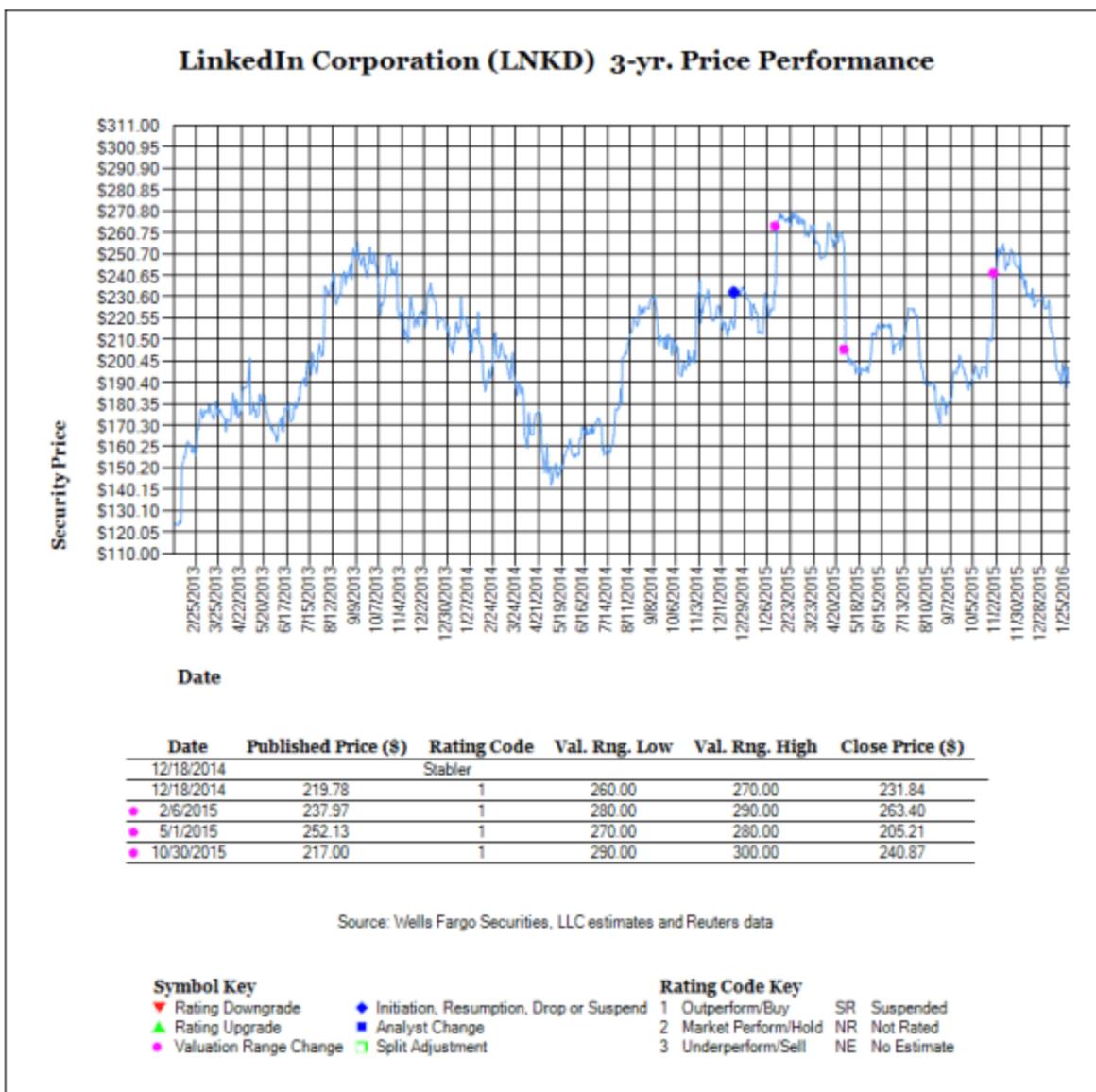
(\$millions)	2013A	2014A	2015A	1Q16E	2Q16E	3Q16E	4Q16E	2016E	2017E
Revenue	1,528.6	2,218.8	2,990.9	833.5	870.5	923.5	1,005.0	3,632.5	4,314.7
Y-o-Y	57.2%	45.2%	34.8%	30.7%	22.3%	18.5%	16.6%	21.5%	18.8%
Cost of revenue (ex-SBC)	187.3	264.8	369.9	105.7	110.4	117.1	127.5	460.7	568.0
Gross profit (ex-SBC)	1,341.2	1,953.9	2,621.1	727.8	760.1	806.3	877.5	3,171.8	3,748.7
Gross margin (ex-SBC)	87.7%	88.1%	87.6%	87.3%	87.3%	87.3%	87.3%	87.3%	86.9%
Sales & Marketing (ex-SBC)	485.9	713.9	952.1	290.1	287.3	281.7	301.5	1,160.5	1,337.1
Product Development (ex-SBC)	296.7	381.5	542.7	151.1	157.0	167.1	172.9	648.1	769.1
General & Administrative (ex-SBC)	182.4	266.0	346.7	95.8	110.8	104.1	101.3	412.1	485.0
Amortization of intangible assets	16.4	34.6	134.7	48.0	44.0	44.0	44.0	180.0	200.0
Depreciation	118.1	202.3	285.8	85.0	99.0	99.0	99.0	382.0	420.0
Operating income (loss) (Non-GAAP)	258.1	389.9	494.0	105.9	106.0	154.4	202.9	569.2	737.5
Adjusted EBITDA	376.2	592.2	779.8	190.9	205.0	253.4	301.9	951.2	1,157.5
EBITDA margin	24.6%	26.7%	26.1%	22.9%	23.6%	27.4%	30.0%	26.2%	26.8%
Other income (expense), net	1.4	1.0	-9.4	-7.0	-6.0	-7.0	-7.0	-27.0	0.0
Income (loss) before taxes (Non-GAAP)	259.5	390.9	484.6	98.9	100.0	147.4	195.9	542.2	737.5
Provision (benefit) for income taxes (Non-GAAP)	67.6	136.8	111.5	22.7	23.0	33.9	45.1	124.7	169.6
Non-GAAP Net Income (loss)	191.8	254.1	373.5	76.1	77.0	113.5	150.8	417.5	567.9
Diluted EPS (Non-GAAP)	1.61	2.02	2.84	0.56	0.56	0.82	1.08	3.05	4.06
Non-GAAP Diluted shares outstanding	118.9	126.0	131.2	135.0	136.4	137.7	139.1	137.0	139.7
Diluted EPS (GAAP)	0.24	-0.12	-1.29	-0.67	-1.10	-0.39	-0.18	-2.34	-1.42
Revenue by Segments									
Total Talent Solutions Revenue	910.2	1,327.6	1,877.2	532.9	561.6	610.9	666.9	2,372.3	2,853.8
Marketing Solutions Revenue	311.8	454.5	581.3	155.4	161.8	162.3	183.8	663.3	769.4
Premium Subscriptions Revenue	306.5	436.5	532.4	145.3	147.1	150.3	154.3	596.9	691.5
% of Revenue									
Total Talent Solutions Revenue	59.5%	59.8%	62.8%	63.9%	64.5%	66.2%	66.4%	65.3%	66.1%
Marketing Solutions Revenue	20.4%	20.5%	19.4%	18.6%	18.6%	17.6%	18.3%	18.3%	17.8%
Premium Subscriptions Revenue	20.1%	19.7%	17.8%	17.4%	16.9%	16.3%	15.4%	16.4%	16.0%
Growth %									
Total Talent Solutions Revenue	66.4%	45.9%	41.4%	34.4%	26.7%	21.7%	24.6%	26.4%	20.3%
Marketing Solutions Revenue	32.7%	45.7%	27.9%	30.3%	15.6%	16.3%	0.7%	14.1%	16.0%
Premium Subscriptions Revenue	74.7%	42.4%	22.0%	19.0%	14.6%	8.9%	7.2%	12.1%	15.8%

Source: Company reports, Wells Fargo Securities, LLC estimates

Company Description:

LinkedIn is an online professional network with more than 330 million registered members in over 200 countries as of Q3 2014. The company's platform enables users to create digital profiles to manage and expand professional networks and discover business opportunities. While profile creation is free, LinkedIn generates revenue from enterprises and members through three product lines: Talent Solutions, Marketing Solutions and Premium Subscriptions. The company was founded in 2003 and is headquartered in Mountain View, CA.

Required Disclosures



Additional Information Available Upon Request

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- 2) No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by me in this research report.

LinkedIn Corporation

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- Wells Fargo Securities, LLC or its affiliates has a significant financial interest in LinkedIn Corporation.

LNKD: Risks include declining member growth, corporate customer churn, ██████ risk, shareholder dilution via stock grants, data breaches, and rising competitive pressure.

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STOCK RATING

1=Outperform: The stock appears attractively valued, and we believe the stock's total return will exceed that of the market over the next 12 months. BUY

2=Market Perform: The stock appears appropriately valued, and we believe the stock's total return will be in line with the market over the next 12 months. HOLD

3=Underperform: The stock appears overvalued, and we believe the stock's total return will be below the market over the next 12 months. SELL

SECTOR RATING

O=Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.

M=Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

U=Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

VOLATILITY RATING

V = A stock is defined as volatile if the stock price has fluctuated by +/-20% or greater in at least 8 of the past 24 months or if the analyst expects significant volatility. All IPO stocks are automatically rated volatile within the first 24 months of trading.

As of: February 5, 2016

43% of companies covered by Wells Fargo Securities, LLC Equity Research are rated Outperform.

Wells Fargo Securities, LLC has provided investment banking services for 38% of its Equity Research Outperform-rated companies.

55% of companies covered by Wells Fargo Securities, LLC Equity Research are rated Market Perform.

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