J.P.Morgan

North America Equity Research
25 July 2013

Facebook

Facebook Beginning to Show the True Potential of Its Ad Platform; We'd Continue to Be Buyers, PT to $44

Overweight

FB, FB US

Price: $26.51

▲ **Price Target: $44.00**
Previous: $35.00

Internet

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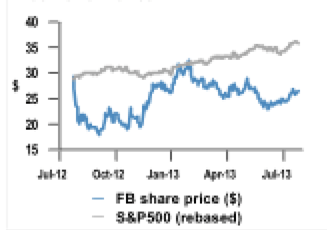
Price Performance



	YTD	1m	3m	12m
Abs	-5.3%	10.8%	1.5%	-6.8%
Rel	-20.6%	3.6%	-5.3%	-32.8%

Facebook delivered its strongest quarter yet as a public company—results that we think could be thesis-changing for many—and we would continue to buy Facebook shares even after the ~17% move up in the after-market. Our revenue and non-GAAP EPS estimates increase 12% and 38% for 2013, and 22% and 46% for 2014. Our price target moves from $35 for year end 2013 to $44 for year end 2014, based on the average of our DCF analysis ($48), 15x 2015E EBITDA ($45), and 30x 2015E non-GAAP EPS ($38). We reiterate our Overweight rating.

- **Significant Mobile Advertising upside.** Mobile revenue of $656M was well above our $446M estimate, driving 15% upside in total Ad revenue and 45% upside in both non-GAAP operating income and EPS. One year into Facebook's Mobile Advertising efforts, Mobile has increased from zero to 41% of total Ad revenue. **As Mobile becomes the majority of Ad revenue in 2H13, we believe the Desktop to Mobile mix-shift bear argument should fade as Mobile benefits from secular growth and higher pricing potential.** It is also where Facebook's ad platform is most differentiated. Quite simply, Mobile moves from a headwind to a tailwind.
- **Inflection in advertiser demand and ad quality.** We believe 2Q marked an inflection point in advertiser demand and ad quality for Facebook, enabling the company to increase inventory while simultaneously realizing higher pricing. This is the first quarter we have seen such strong auction dynamics play out on Facebook's platform and we believe it can continue as advertiser ROI improves. Overall ad impressions increased 43% Y/Y and eCPMs 13% Y/Y, and pricing would have been even higher if not for the lower pricing floor in int'l markets.
- **Greater clarity on engagement and back-half comps.** We think management provided greater insight into engagement trends and tougher 2H13 comps. Beyond DAUs/MAUs increasing to 61%, management indicated that time spent per person on Facebook continues to increase and that internal data shows steady usage and engagement among teens. Management noted tougher 2H comps, but also showed greater confidence in News Feed ads and the company's ability to improve quality and relevance. Our 2H13 Y/Y advertising growth increases from 27% to 51%.
- **Significant increases to numbers.** We now project 2013/2014 revenue of $7.3B (+44% Y/Y) / $9.6B (+31% Y/Y) and non-GAAP EPS of $0.74 (+38% Y/Y) / $0.98 (+32%). Our 2015 non-GAAP EPS goes to $1.25.

Facebook Inc. (FB;FB US)

FYE Dec	2011A	2012A	2013E *(Prev)*	2013E *(Curr)*	2014E *(Prev)*	2014E *(Curr)*
EPS - Reported ($)						
Q1 (Mar)	0.10	0.12	0.12A	0.12A	-	-
Q2 (Jun)	0.12	0.12	0.13	0.19A	-	-
Q3 (Sep)	0.12	0.12	0.13	0.19	-	-
Q4 (Dec)	0.17	0.17	0.15	0.23	-	-
FY	0.51	0.54	0.54	0.74	0.67	0.98
CONSENSUS_EPS						
Bloomberg EPS FY ($)	-	0.51	-	0.58	-	0.76

Source: Company data, Bloomberg, J.P. Morgan estimates.

Company Data	
Price ($)	26.51
Date Of Price	24 Jul 13
52-week Range ($)	32.51-17.55
Market Cap ($ mn)	64,976.01
Fiscal Year End	Dec
Shares O/S (mn)	2,451
Price Target ($)	44.00
Price Target End Date	31-Dec-14

See page 13 for analyst certification and important disclosures.

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Key Takeaways:

- **Strong 2Q results.** Facebook reported 2Q total revenue of $1.8B (+53% Y/Y), 14% ahead of our forecast and 12% ahead of the Street. Ad revenue of $1.6B (+61% Y/Y) was 15% ahead of our $1.4B (40% Y/Y) estimate. Upside to ad revenue was driven by greater than expected mobile ad revenue, an increase in the number of marketers to over 1M active advertisers in 2Q, and strong performance of News Feed ads. Payments and Other revenue of $214M (+11% Y/Y) also came in 4% above our $205M (+7% Y/Y) estimate as revenue from games was up 11% Y/Y when adjusted for revenue recognition timing in 2012. EBITDA and PF EPS of $1.0B and $0.19 also beat our/consensus estimates of $783M/$848 and $0.13/$0.13.

- **Solid user engagement trends.** Engagement trends across platforms remain strong, users continue to grow in all geographies, and total DAUs/MAUs have reached 61%, with the most penetrated U.S. market at over 70%. Facebook continues to make good progress on mobile as mobile DAUs were up 60% Y/Y and reached 57% DAUs/MAUs in 2Q. Despite recent negative sentiment around teen engagement levels, Facebook indicated that it is nearly fully penetrated among U.S. teens and DAUs and MAUs have been steady over the past year and half. Beyond teens, Facebook cited comScore and Nielsen data highlighting Facebook's share of time spent in the U.S. is either steady or increasing as the market expands due to mobile. As these metrics highlight Facebook only, the inclusion of Instagram would add to the growth in engagement.

- **Upside to ad revenue driven by News Feed ads and mobile monetization.** 2Q ad revenue of $1.6B (+61% Y/Y, +63% Y/Y ex-FX) came in well above our $1.4B estimate, driven by strength across all regions as Facebook captures a growing portion of budgets. News Feed ads continue to be the main driver of ad revenue growth without a meaningful drop in user satisfaction—ads on average now make up 5% of stories in the News Feed. In an analysis by Datalogix, marketers saw a median return on ad sales of 3x for non-News Feed ads vs. 5.9x for News Feed ads. Facebook noted increased spend from Direct Response marketers, mobile app developers, local businesses, and brand marketers. Facebook exceeded 1M active advertisers in the quarter and reached ~18M local businesses with Facebook Pages, and 88-100M people actively used Facebook daily during primetime TV hours. Additionally, mobile ad revenue of $655.6M (41% of total ad revs) was significantly higher than our $446.1M (32% of total ad revs) estimate.

- **Expecting tougher 2H compares.** We're encouraged by the acceleration in 2Q ad revenue and we expect continued strong ad revenue growth in 2H13, driven by continued advertiser penetration, ad quality improvements, and new ad products such as video which could potentially launch in 4Q. However, Facebook faces tougher Y/Y revenue compares in 3Q and 4Q given the introduction of News Feed ads in 2H12. Facebook noted it expects 2013 revenue growth to be somewhat slower than its 50% opex growth target for 2013 and we're modeling 50% and 36% growth in 3Q and 4Q respectively.

- **2013 opex guidance maintained, though capex guidance was reduced.** Facebook maintained its 2013 opex (including COGS, excluding SBC) guidance of 50% Y/Y growth and we're modeling some deceleration in opex growth in 2H13. 2Q capex of $268M was lower than expected due to efficiencies and timing and the company now expects 2013 capex of $1.6B, down from $1.8B.

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Summary of the Quarter

Facebook reported 2Q revenue, EBITDA, and PF EPS of $1.81B, $1.02B, and $0.19, compared to our estimates of $1.59B, $783M, and $0.13, respectively.

Figure 1: Facebook 2Q Performance vs. J.P. Morgan Estimates

($ in millions)	2Q13 JPME	2Q13 Actuals	Diff (%)
Advertising	1,390	1,599	15.0%
Payments and Other Fees	205	214	4.2%
Revenue	**1,596**	**1,813**	13.6%
EBITDA	**783**	**1,024**	30.8%
EBITDA Margin	49.1%	56.5%	
GAAP EPS	$0.08	$0.13	56.0%
PF EPS	**$0.13**	**$0.19**	**49.7%**
Y/Y Growth			
Advertising	*40.1%*	*61.2%*	
Payments and Other Fees	*7.0%*	*11.5%*	
Revenue	*34.8%*	*53.1%*	
EBITDA	*19.7%*	*56.6%*	
GAAP EPS	*NM*	*NM*	
PF EPS	*8.2%*	*62.0%*	
Sequential Growth			
Advertising	*11.7%*	*28.4%*	
Payments and Other Fees	*-3.6%*	*0.5%*	
Revenue	*9.4%*	*24.3%*	
EBITDA	*-2.6%*	*27.4%*	
GAAP EPS	*NM*	*NM*	
PF EPS	*4.3%*	*56.1%*	

Source: J.P. Morgan estimates, Company data.

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Adjusting Estimates

Facebook reported higher than expected mobile ad revenues and payments revenues, which offset lower than expected desktop ad revenues. As a result, we are adjusting our estimates as follows:

Figure 2: Adjusting J.P. Morgan Estimates

Facebook	3Q13 JPME		4Q13 JPME		2013 JPME		2014 JPME	
($ in millions)	Old	New	Old	New	Old	New	Old	New
Advertising Revenue	1,425	1,693	1,647	1,952	5,708	6,489	7,088	8,830
Y/Y Growth	*31.2%*	*55.9%*	*24.0%*	*46.9%*	*33.4%*	*51.6%*	*24.2%*	*36.1%*
% chg vs. old		18.8%		18.5%		13.7%		24.6%
Mobile Revenue	505	804	623	996	1,947	2,829	3,412	5,092
Y/Y Growth	*231.9%*	*429.1%*	*103.8%*	*225.7%*	*314.7%*	*502.5%*	*75.2%*	*80.0%*
% chg vs. old		59.4%		59.8%		45.3%		49.2%
Desktop Total Rev	921	888	1,024	957	3,761	3,660	3,676	3,738
Y/Y Growth	*-1.4%*	*-4.9%*	*0.1%*	*-6.5%*	*-1.3%*	*-3.9%*	*-2.2%*	*2.1%*
% chg vs. old		-3.5%		-6.6%		-2.7%		1.7%
Desktop Right Rail Rev	690	628	707	646	2,817	2,666	2,416	2,289
Y/Y Growth	*-19.5%*	*-26.8%*	*-17.2%*	*-24.3%*	*-20.3%*	*-24.6%*	*-14.3%*	*-14.2%*
% chg vs. old		-9.1%		-8.6%		-5.4%		-5.2%
Desktop News Feed Rev	230	261	318	311	943	994	1,261	1,450
Y/Y Growth	*201.7%*	*241.7%*	*86.8%*	*82.7%*	*242.5%*	*260.9%*	*33.7%*	*45.9%*
% chg vs. old		13.3%		-2.2%		5.4%		15.0%
Payments Revenue	203	203	201	201	822	831	779	788
Y/Y Growth	*15.3%*	*15.3%*	*-21.4%*	*-21.4%*	*1.5%*	*2.6%*	*-5.2%*	*-5.2%*
% chg vs. old		0.0%		0.0%		1.1%		1.1%
Total Revenue	1,628	1,896	1,849	2,153	6,530	7,320	7,868	9,618
Y/Y Growth	*29.0%*	*50.2%*	*16.6%*	*35.9%*	*28.3%*	*43.8%*	*20.5%*	*31.4%*
% chg vs. old		16.4%		16.5%		12.1%		22.2%
EBITDA	781	1,045	915	1,182	3,283	4,055	3,841	5,102
Y/Y Growth	*11.4%*	*49.1%*	*-4.7%*	*23.1%*	*12.9%*	*39.4%*	*17.0%*	*25.8%*
Margin (%)	48.0%	55.1%	49.5%	54.9%	50.3%	55.4%	48.8%	53.0%
% chg vs. old		33.8%		29.2%		23.5%		32.8%
PF EPS	$0.13	$0.19	$0.15	$0.23	$0.54	$0.74	$0.67	$0.98
Y/Y Growth	*5.5%*	*58.5%*	*-9.6%*	*33.9%*	*0.1%*	*38.0%*	*24.4%*	*32.2%*
% chg vs. old		50.3%		48.2%		37.9%		46.4%

Source: J.P. Morgan estimates, Company data.

Investment Thesis, Valuation and Risks

Facebook *(Overweight; Price Target: $44.00)*

Investment Thesis

We believe Facebook's virtual ownership of the social graph, strong competitive moat, and focus on the user experience position the company to significantly improve monetization over time and to become an enduring, blue-chip company built for the long term. Facebook's massive reach and engagement continue to drive network effects and its targeting abilities provide significant value to advertisers, though it is still early. We believe Facebook's ad platform is just beginning to shift toward more social ads with higher-quality formats, and it will become increasingly valuable to advertisers.

Valuation

Raising PT to $44. We are establishing a 2014 year end price target of $44, which replaces our prior 2013 year end price target of $35. Our new PT employs an average of a DCF and multiples (EV/EBITDA and P/E) based valuation. We're using this valuation approach as we believe it appropriately balances Facebook's valuation relative to its growth and industry peers, while a DCF gives the company some credit for the opportunity to improve monetization over the long term.

Our DCF results in a $48 price per share and employs an 11% WACC and 3% long term growth rate. We expect Facebook to generate $26.96B in revenue in 2020 with a 53.5% EBITDA margin.

Our EV/EBITDA valuation results in a $45 price per share and employs a 15x target EV/EBITDA multiple on our 2015 EBITDA of $6.39B. Our 15x target multiple is in-line with high-growth industry peers such as Netflix and TripAdvisor.

Our P/E valuation results in a $38 price per share and employs a 30x P/E multiple on our 2015 PF EPS estimate of $1.25, which is slightly below Facebook's 33% 2012-15E PF EPS CAGR.

Risks to Rating and Price Target

Downside risks include: 1) user-first mentality could create short-term revenue risk and volatility; 2) competition from purpose-driven social services; 3) advertiser ROI on Facebook may remain difficult to measure; 4) privacy, security, and regulatory risks; 5) competition for online and mobile ad dollars from Google, Yahoo!, and other online advertising companies; and 6) dual-class share structure and Mark Zuckerberg's control.

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Figure 3: Facebook Income Statement

	2011A	1Q12A	2Q12A	3Q12A	4Q12A	2012A	1Q13A	2Q13A	3Q13E	4Q13E	2013E	2014E	2015E
Revenue	3,711	1,058	1,184	1,262	1,585	5,089	1,458	1,813	1,896	2,153	7,320	9,618	11,924
Cost of Revenue	851	273	295	317	387	1,272	404	454	474	528	1,860	2,414	2,981
Gross Profit	2,860	785	889	945	1,198	3,817	1,054	1,359	1,422	1,626	5,461	7,204	8,943
Operating Expenses													
Marketing and Sales	383	136	135	149	162	582	175	235	252	286	949	1,270	1,514
Research and Development	273	93	112	142	157	504	165	186	218	241	810	1,154	1,479
General and Administrative	225	72	127	129	143	471	151	144	152	166	612	789	954
Stock-based Compensation	217	103	1,106	179	184	1,572	170	224	227	258	880	866	954
Payroll Tax Related to SBC	6		152	(31)	29	150	20	8					
Total Operating Expenses	1,104	404	1,632	568	675	3,279	681	797	849	952	3,251	4,078	4,901
Operating Income	1,756	381	(743)	377	523	538	373	562	573	674	2,210	3,126	4,042
PF Operating Income	1,979	484	515	525	736	2,260	563	794	800	932	3,089	3,991	4,996
Other income (expense), net	(61)	1	(22)	(5)	(18)	(44)	(20)	(17)	0	21	(16)	102	162
Pre-tax Income	1,695	382	(765)	372	505	494	353	545	573	695	2,194	3,228	4,204
Income Taxes	695	177	(608)	431	441	441	134	212	252	306	904	1,356	1,724
Effective Tax Rate	41%	46%	N/A	116%	87%	89%	38%	39%	44%	44%	41%	42%	41%
GAAP Net Income	1,000	205	(157)	(59)	64	53	219	331	321	389	1,290	1,872	2,481
GAAP EPS	$0.43	$0.09	($0.08)	($0.02)	$0.03	$0.02	$0.09	$0.13	$0.13	$0.15	$0.51	$0.73	$0.95
Diluted Shares Out	2,332	2,361	2,451	2,579	2,506	2,474	2,499	2,502	2,511	2,515	2,507	2,557	2,608
Non-GAAP Pre-tax Income	1,918	485	493	520	718	2,216	543	777	800	954	3,074	4,093	5,158
Income Taxes	732	192	198	209	292	891	231	289	320	382	1,222	1,596	1,909
Effective Tax Rate	38%	40%	40%	40%	41%	40%	43%	37%	40%	40%	40%	39%	37%
Non-GAAP Net Income	1,186	293	295	311	426	1,325	312	488	480	572	1,852	2,497	3,250
Non-GAAP EPS	$0.51	$0.12	$0.12	$0.12	$0.17	$0.54	$0.12	$0.19	$0.19	$0.23	$0.74	$0.98	$1.25
EBITDA Calculation													
Operating Income	1,756	381	(743)	377	523	538	373	562	573	674	2,210	3,126	4,042
Stock-based compensation	217	103	1,106	179	184	1,572	170	224	227	258	880	866	954
Payroll Tax Related to SBC	6		152	(31)	29	150	20	8					
Depreciation and Amortization	323	110	139	176	224	649	241	230	245	249	965	1,111	1,396
EBITDA	2,302	594	654	701	960	2,909	804	1,024	1,045	1,182	4,055	5,102	6,392

	2011A	1Q12A	2Q12A	3Q12A	4Q12A	2012A	1Q13A	2Q13A	3Q13E	4Q13E	2013E	2014E	2015E
Y/Y Growth													
Revenue	88%	45%	32%	32%	40%	37%	38%	53%	50%	36%	44%	31%	24%
Cost of Revenue	73%	63%	43%	36%	59%	49%	48%	54%	50%	36%	46%	30%	23%
Gross Profit	93%	39%	29%	31%	35%	33%	34%	53%	50%	36%	43%	32%	24%
Marketing and Sales	110%	100%	48%	38%	40%	52%	29%	74%	69%	77%	63%	34%	19%
Research and Development	102%	75%	78%	89%	91%	85%	77%	66%	54%	54%	61%	42%	28%
General and Administrative	101%	50%	123%	139%	120%	109%	110%	13%	18%	16%	30%	29%	21%
Stock-based Compensation	985%	1371%	1626%	156%	142%	624%	65%	-80%	27%	40%	-44%	-2%	10%
Total Operating Expenses	146%	130%	481%	85%	99%	197%	69%	-51%	50%	41%	-1%	25%	20%
Total Operating Expenses (Ex-SBC)	88%	71%	60%	57%	67%	63%	56%	52%	49%	44%	50%	33%	23%
Operating Income	70%	-2%	-283%	-9%	-5%	-69%	-2%	NM	52%	29%	311%	41%	29%
PF Operating Income	88%	23%	8%	8%	18%	14%	16%	54%	52%	27%	37%	29%	25%
GAAP Net Income	65%	-12%	-165%	-139%	-79%	-95%	7%	NM	NM	508%	NM	45%	33%
GAAP EPS		-13%	-179%	-125%	-80%	-95%	1%	NM	NM	506%	NM	42%	30%
Non-GAAP EPS		20%	-1%	4%	2%	5%	1%	62%	58%	34%	38%	32%	28%
EBITDA	93%	33%	19%	21%	32%	26%	35%	57%	49%	23%	39%	26%	25%
Q/Q Growth													
Revenue		-6%	12%	7%	26%		-8%	24%	5%	14%			
Operating Income		-30%	-295%	-151%	39%		-29%	51%	2%	18%			
PF Operating Income		-22%	6%	2%	40%		-24%	41%	1%	17%			
EBITDA		-18%	10%	7%	37%		-16%	27%	2%	13%			
% of Revenue													
Cost of Revenue	22.9%	25.8%	24.9%	25.1%	24.4%	25.0%	27.7%	25.0%	25.0%	24.5%	25.4%	25.1%	25.0%
Gross Profit	77.1%	74.2%	75.1%	74.9%	75.6%	75.0%	72.3%	75.0%	75.0%	75.5%	74.6%	74.9%	75.0%
Marketing and Sales	10.3%	12.9%	11.4%	11.8%	10.2%	11.4%	12.0%	13.0%	13.3%	13.3%	13.0%	13.2%	12.7%
Research and Development	7.4%	8.8%	9.5%	11.3%	9.9%	9.9%	11.3%	10.3%	11.5%	11.2%	11.1%	12.0%	12.4%
General and Administrative	6.1%	6.8%	10.7%	10.2%	9.0%	9.3%	10.4%	7.9%	8.0%	7.7%	8.4%	8.2%	8.0%
Stock-based Compensation	5.8%	9.7%	93.4%	14.2%	11.6%	30.9%	11.7%	12.4%	12.0%	12.0%	12.0%	9.0%	8.0%
Operating Income	47.3%	36.0%	-62.8%	29.9%	33.0%	10.6%	25.6%	31.0%	30.2%	31.3%	30.2%	32.5%	33.9%
PF Operating Income	53.3%	45.7%	43.5%	41.6%	46.4%	44.4%	38.6%	43.8%	42.2%	43.3%	42.2%	41.5%	41.9%
EBITDA	62.0%	56.1%	55.2%	55.5%	60.6%	57.2%	55.1%	56.5%	55.1%	54.9%	55.4%	53.0%	53.6%

Source: J.P. Morgan estimates, Company data.

Figure 4: Facebook Revenue Segment Summary

	2011A	1Q12A	2Q12A	3Q12A	4Q12A	2012A	1Q13A	2Q13A	3Q13E	4Q13E	2013E	2014E	2015E
Summary													
Advertising	**3,154**	**872**	**992**	**1,086**	**1,329**	**4,279**	**1,245**	**1,599**	**1,693**	**1,952**	**6,489**	**8,830**	**11,161**
Y/Y Growth	*69%*	*37%*	*28%*	*36%*	*41%*	*36%*	*43%*	*61%*	*56%*	*47%*	*52%*	*36%*	*26%*
Ex-FX Revenue (Y/Y)		*38%*	*33%*	*43%*	*43%*		*43%*	*63%*					
Q/Q Growth		*-8%*	*14%*	*9%*	*22%*		*-6%*	*28%*	*6%*	*15%*			
% of Total Revenues	85%	82%	84%	86%	84%	84%	85%	88%	89%	91%	89%	92%	94%
Payments and Other Fees	**557**	**186**	**192**	**176**	**256**	**810**	**213**	**214**	**203**	**201**	**831**	**788**	**762**
Y/Y Growth	*425%*	*98%*	*61%*	*13%*	*36%*	*45%*	*15%*	*11%*	*15%*	*-21%*	*3%*	*-5%*	*-3%*
Q/Q Growth		*-1%*	*3%*	*-8%*	*45%*		*-17%*	*0%*	*-5%*	*-1%*			
% of Total Revenues	15%	18%	16%	14%	16%	16%	15%	12%	11%	9%	11%	8%	6%
Total Revenue	**3,711**	**1,058**	**1,184**	**1,262**	**1,585**	**5,089**	**1,458**	**1,813**	**1,896**	**2,153**	**7,320**	**9,618**	**11,924**
Y/Y Growth	*88%*	*45%*	*32%*	*32%*	*40%*	*37%*	*38%*	*53%*	*50%*	*36%*	*44%*	*31%*	*24%*
Y/Y Growth (Ex-FX)	*86%*	*46%*	*36%*	*38%*	*42%*	*41%*							
Q/Q Growth		*-6%*	*12%*	*7%*	*26%*		*-8%*	*24%*	*5%*	*14%*			
Seasonality		21%	23%	25%	31%		20%	25%	26%	29%			
Revenue per MAU (ARPU) Summary													
US & Canada	$11.50	$2.90	$3.20	$3.40	$4.08	$13.61	$3.50	$4.32	$4.24	$4.83	$16.95	$19.59	$22.64
Europe	$5.61	$1.40	$1.43	$1.37	$1.71	$5.94	$1.60	$1.87	$1.82	$1.99	$7.33	$8.84	$10.43
Asia	$2.08	$0.53	$0.55	$0.58	$0.69	$2.37	$0.64	$0.75	$0.78	$0.76	$2.96	$3.39	$3.86
Rest of World	$1.56	$0.37	$0.44	$0.47	$0.56	$1.88	$0.50	$0.63	$0.79	$0.96	$2.95	$4.14	$4.68
Total	**$5.11**	**$1.21**	**$1.28**	**$1.29**	**$1.54**	**$5.35**	**$1.35**	**$1.60**	**$1.61**	**$1.77**	**$6.38**	**$7.28**	**$8.05**
Y/Y Growth													
US & Canada	*33%*	*17%*	*13%*	*22%*	*28%*	*18%*	*21%*	*35%*	*25%*	*18%*	*25%*	*16%*	*16%*
Europe	*46%*	*18%*	*7%*	*2%*	*7%*	*6%*	*14%*	*31%*	*33%*	*16%*	*23%*	*21%*	*18%*
Asia	*40%*	*25%*	*11%*	*3%*	*22%*	*14%*	*21%*	*36%*	*36%*	*11%*	*25%*	*14%*	*14%*
Rest of World	*468%*	*18%*	*13%*	*18%*	*38%*	*21%*	*36%*	*44%*	*70%*	*70%*	*57%*	*40%*	*13%*
Total	***25%***	***7%***	***1%***	***4%***	***12%***	***5%***	***11%***	***25%***	***25%***	***15%***	***19%***	***14%***	***11%***
Q/Q Growth													
US & Canada		*-9%*	*10%*	*6%*	*20%*		*-14%*	*23%*	*-2%*	*14%*			
Europe		*-13%*	*2%*	*-4%*	*25%*		*-7%*	*17%*	*-2%*	*9%*			
Asia		*-6%*	*4%*	*5%*	*19%*		*-7%*	*18%*	*4%*	*-3%*			
Rest of World		*-9%*	*19%*	*6%*	*21%*		*-11%*	*26%*	*26%*	*21%*			
Total		***-12%***	***5%***	***1%***	***19%***		***-12%***	***19%***	***1%***	***10%***			
Geographic Revenue Breakdown													
Based on User Location													
US & Canada	1,914	525	590	637	780	2,532	679	848	840	963	3,330	3,957	4,649
Europe	1,155	328	346	341	440	1,455	423	505	499	552	1,979	2,518	3,090
Asia	363	118	135	154	198	605	197	247	274	280	998	1,397	1,863
Rest of World	278	87	113	130	167	497	159	213	283	359	1,013	1,746	2,321
Total	**3,711**	**1,058**	**1,184**	**1,262**	**1,585**	**5,089**	**1,458**	**1,813**	**1,896**	**2,153**	**7,320**	**9,618**	**11,924**
% of Total													
US & Canada	52%	50%	50%	50%	49%	50%	47%	47%	44%	45%	45%	41%	39%
Europe	31%	31%	29%	27%	28%	29%	29%	28%	26%	26%	27%	26%	26%
Asia	10%	11%	11%	12%	12%	12%	14%	14%	14%	13%	14%	15%	16%
Rest of World	8%	8%	10%	10%	11%	10%	11%	12%	15%	17%	14%	18%	19%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Y/Y Growth													
US & Canada	67%	33%	25%	32%	38%	32%	29%	44%	32%	23%	32%	19%	17%
Europe	100%	43%	26%	18%	22%	26%	29%	46%	46%	25%	36%	27%	23%
Asia	145%	90%	65%	48%	72%	67%	67%	83%	78%	41%	65%	40%	33%
Rest of World	907%	89%	69%	68%	90%	79%	83%	88%	118%	115%	104%	72%	33%
Total	95%	45%	32%	32%	40%	37%	38%	53%	50%	36%	44%	31%	24%

Source: J.P. Morgan estimates, Company data.

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J.P.Morgan

Figure 5: Facebook Bottom-Up Ad Model

(in Millions except per user figures)	2011A	1Q12A	2Q12A	3Q12A	4Q12A	2012A	1Q13A	2Q13A	3Q13E	4Q13E	2013E	2014E	2015E
Mobile News Feed													
Average MAUs	339	460	516	574	642	556	716	785	847	902	804	1,033	1,231
Visits/User/Day	0.7	0.70	0.80	0.95	1.00	0.86	1.07	1.12	1.20	1.28	1.17	1.35	1.55
Impressions/Visit/User		0.00	0.17	0.55	1.00	0.63	1.05	1.18	1.22	1.25	1.18	1.25	1.32
Total Impressions/Day		0	72	300	642	241	801	1037	1240	1443	1,133	1744	2519
Total Impressions in Period		-	**1,722**	**27,568**	**59,064**	**88,354**	**72,077**	**94,668**	**114,103**	**132,747**	**413,595**	**636,504**	**919,597**
Y/Y Growth		*NM*	*NM*	*NM*	*NM*		*NM*	*5397%*	*314%*	*125%*	*368%*	*54%*	*44%*
Q/Q Growth		*NM*	*NM*	*1501%*	*114%*		*22%*	*31%*	*21%*	*16%*			
eCPM		**$0.00**	**$6.88**	**$5.52**	**$5.18**	**$5.31**	**$5.18**	**$6.93**	**$7.05**	**$7.50**	**$6.84**	**$8.00**	**$8.25**
Y/Y Growth		*NM*	*NM*	*NM*	*NM*		*NM*	*1%*	*28%*	*45%*	*29%*	*17%*	*3%*
Q/Q Growth		*NM*	*NM*	*-20%*	*-6%*		*0%*	*34%*	*2%*	*6%*			
Revenue/MAU		$0.00	$0.02	$0.27	$0.48	$0.84	$0.52	$0.84	$0.95	$1.10	$3.52	$4.93	$6.16
Period ending revenue/day (millions)			$0.50	$3.00	$3.65	$3.65	$4.66	$9.71	$7.77	$13.87	$11.86	$16.04	$25.53
Y/Y Growth		*NM*	*NM*	*NM*	*NM*		*NM*	*1843%*	*159%*	*281%*	*225%*	*35%*	*59%*
Q/Q Growth		*NM*	*NM*	*500%*	*22%*		*28%*	*109%*	*-20%*	*78%*			
Avg Period Revenue/Day (millions)		--	$0.49	$1.65	$3.32	$1.28	$4.15	$7.18	$8.74	$10.82	$7.75	$13.95	$20.79
Mobile News Feed Revenue		**$0.0**	**$11.8**	**$152.0**	**$305.7**	**$469.6**	**$373.5**	**$655.6**	**$804.4**	**$995.6**	**$2,829.1**	**$5,092.0**	**$7,586.7**
Y/Y Growth							*NM*	*NM*	*429%*	*226%*	*503%*	*80%*	*49%*
Q/Q Growth				*1183%*	*101%*		*22%*	*76%*	*23%*	*24%*			
% of Total Ad Revenue			1%	14%	23%	11%	30%	41%	48%	51%	44%	58%	68%
Desktop News Feed													
Average MAUs		803	836	867	890	843	910	929	945	962	935	996	1,039
Visits/User/Day	1.04	1.07	1.03	1.02	1.00	1.03	0.96	0.90	0.85	0.78	0.87	0.80	0.70
Impressions/Visit/User		0.05	0.17	0.35	0.60	0.30	0.70	0.80	0.85	0.90	0.85	0.95	1.05
Total Impressions/Day		44	145	310	534	257	612	669	682	676	660	756	764
Total Impressions in Period		**3,981**	**13,168**	**28,166**	**48,594**	**93,909**	**55,037**	**61,002**	**62,790**	**62,158**	**240,987**	**276,101**	**278,800**
Y/Y Growth		*NM*	*NM*	*NM*	*NM*		*NM*	*383%*	*123%*	*28%*	*157%*	*15%*	*1%*
Q/Q Growth		*NM*	*NM*	*114%*	*73%*		*13%*	*11%*	*3%*	*-1%*			
eCPM		**$1.50**	**$1.75**	**$2.71**	**$3.50**	**$2.93**	**$3.35**	**$3.90**	**$4.15**	**$5.00**	**$4.12**	**$5.25**	**$5.75**
Y/Y Growth		*NM*	*NM*	*NM*	*NM*		*NM*	*123%*	*53%*	*43%*	*41%*	*27%*	*10%*
Q/Q Growth		*NM*	*NM*	*55%*	*29%*		*-4%*	*16%*	*6%*	*20%*			
Revenue/MAU		$0.01	$0.03	$0.09	$0.19	$0.33	$0.20	$0.26	$0.28	$0.32	$1.06	$1.46	$1.54
Period ending revenue/day (millions)			$0.50	$1.00	$2.74	$2.74	$1.36	$3.86	$1.81	$4.96	$2.71	$5.24	$3.55
Y/Y Growth		*NM*	*NM*	*NM*	*NM*		*NM*	*671%*	*81%*	*81%*	*-1%*	*93%*	*-32%*
Q/Q Growth		*NM*	*NM*	*100%*	*174%*		*-50%*	*184%*	*-53%*	*173%*			
Avg Period Revenue/Day (millions)		--	$0.25	$0.84	$1.87	$0.75	$2.05	$2.61	$2.83	$3.38	$2.72	$3.97	$4.39
Desktop News Feed Revenue		**$6.0**	**$23.0**	**$76.2**	**$170.1**	**$275.3**	**$184.4**	**$237.9**	**$260.6**	**$310.8**	**$993.7**	**$1,449.5**	**$1,603.1**
Y/Y Growth							*NM*	*932%*	*242%*	*83%*	*261%*	*46%*	*11%*
Q/Q Growth			*286%*	*231%*	*123%*		*8%*	*29%*	*10%*	*19%*			
% of Total Ad Revenue			2%	7%	13%	6%	15%	15%	15%	16%	15%	16%	14%
Total News Feed Revenue (Mobile + Desktop)		**$6.0**	**$34.9**	**$228.3**	**$475.7**	**$744.9**	**$557.9**	**$893.5**	**$1,065.0**	**$1,306.4**	**$3,822.8**	**$6,541.6**	**$9,189.8**
Y/Y Growth							*NM*	*NM*	*367%*	*175%*	*413%*	*71%*	*40%*
Q/Q Growth			*484%*	*554%*	*108%*		*17%*	*60%*	*19%*	*23%*			
Desktop Right Rail													
Average MAUs	690	803	836	867	890	843	910	929	945	962	935	996	1,039
Visits/User/Day	1.04	1.07	1.03	1.02	1.00	1.03	0.96	0.90	0.85	0.78	0.87	0.80	0.70
Impressions/Visit/User	64.5	58.9	59.2	61.9	77.8	64.5	79.7	83.0	85.0	85.0	83.2	75.0	75.0
Total Impressions/Day	43,119	50,506	50,864	54,728	69,269	56,034	69,632	69,359	68,250	63,810	68,222	59,719	54,560
Impressions/Minute	5.1	4.9	5.0										
Days in Period	365	91	91	91	91	366	90	91	92	92	365	365	365
Minutes (in millions)	3,070,649	929,594	929,718	944,833	878,077	3,682,221	924,426	921,392					
Revenue per 1000 Minutes	$1.03	$0.93	$1.03	$0.91	$0.97	$0.96	$0.74	$0.77	--	--	--	--	--
Total Impressions in Period	**15,738,369**	**4,596,019**	**4,628,594**	**4,980,291**	**6,303,482**	**20,508,386**	**6,266,886**	**6,484,512**	**6,278,966**	**5,870,521**	**24,900,885**	**21,797,414**	**19,914,303**
Y/Y Growth		*34%*	*17%*	*26%*	*44%*	*30%*	*36%*	*40%*	*26%*	*-7%*	*21%*	*-12%*	*-9%*
Q/Q Growth		*5%*	*1%*	*8%*	*27%*		*-1%*	*3%*	*-3%*	*-7%*			
eCPM	**$0.20**	**$0.19**	**$0.21**	**$0.17**	**$0.14**	**$0.17**	**$0.11**	**$0.11**	**$0.10**	**$0.11**	**$0.11**	**$0.11**	**$0.10**
Y/Y Growth		*2%*	*5%*	*-14%*	*-37%*	*-14%*	*NM*	*-47%*	*-42%*	*-19%*	*-38%*	*-2%*	*-6%*
Q/Q Growth		*-12%*	*10%*	*-17%*	*-21%*		*-19%*	*-1%*	*-8%*	*10%*			
Revenue/MAU	$4.57	$1.08	$1.15	$0.99	$0.96	$4.19	$0.76	$0.76	$0.66	$0.67	$2.85	$2.30	$1.90
Avg Period Revenue/Day (millions)	$8.64	$9.52	$10.52	$9.43	$9.38	$9.66	$7.63	$7.73	$6.82	$7.02	$7.30	$6.27	$5.40
Desktop Right Rail Revenue	**$3,154.0**	**$866.0**	**$957.1**	**$857.7**	**$853.3**	**$3,534.1**	**$687.1**	**$705.5**	**$627.9**	**$645.8**	**$2,666.3**	**$2,288.7**	**$1,971.5**
Y/Y Growth	*69%*	*36%*	*23%*	*7%*	*-10%*	*12%*	*-21%*	*-26%*	*-27%*	*-24%*	*-25%*	*-14%*	*-14%*
Q/Q Growth		*-8%*	*11%*	*-10%*	*-1%*		*-19%*	*3%*	*-11%*	*3%*			
% of Total Ad Revenue			96%	79%	64%	83%	55%	44%	37%	33%	41%	26%	18%
Total Desktop Revenue (News Feed	**$3,154.0**	**$872.0**	**$980.2**	**$934.0**	**$1,023.3**	**$3,809.4**	**$871.5**	**$943.4**	**$888.5**	**$956.5**	**$3,659.9**	**$3,738.3**	**$3,574.6**
Y/Y Growth	*69%*	*37%*	*26%*	*17%*	*9%*	*21%*	*0%*	*-4%*	*-5%*	*-7%*	*-4%*	*2%*	*-4%*
Q/Q Growth		*-8%*	*12%*	*-5%*	*10%*		*-15%*	*8%*	*-6%*	*8%*			
% of Total Ad Revenue	100%	100%	99%	86%	77%	89%	70%	59%	52%	49%	56%	42%	32%
Revenue/MAU	$4.57	$1.09	$1.17	$1.08	$1.15	$4.52	$0.96	$1.02	$0.94	$0.99	$3.91	$3.76	$3.44
Y/Y Growth		*7%*	*3%*	*-1%*	*-6%*	*-1%*	*-12%*	*-13%*	*-13%*	*-14%*	*-13%*	*-4%*	*-8%*
TOTAL ADVERTISING													
Average MAUs	727	873	928	981	1,032	951	1,083	1,133	1,177	1,218	1,147	1,322	1,482
Visits/User/Day	1.31	1.35	1.37	1.46	1.49	1.42	1.51	1.51	1.55	1.56	1.53	1.66	1.78
Impressions/Visit/User	45	43	40	39	46	42	43	42	39	35	40	28	22
Total Impressions/Day	43,119	50,549	51,027	55,341	70,452	56,532	71,044	72,769	70,172	65,929	70,015	62,219	57,843
Total Impressions in Period	**15,738,369**	**4,600,000**	**4,643,484**	**5,036,026**	**6,411,140**	**20,690,649**	**6,394,000**	**6,640,182**	**6,455,858**	**6,065,427**	**25,555,467**	**22,710,019**	**21,112,700**
Y/Y Growth		*34%*	*18%*	*27%*	*46%*	*31%*	*39%*	*43%*	*28%*	*-5%*	*24%*	*-11%*	*-7%*
Q/Q Growth		*5%*	*1%*	*8%*	*27%*		*0%*	*4%*	*-3%*	*-6%*			
eCPM	**$0.20**	**$0.19**	**$0.21**	**$0.22**	**$0.21**	**$0.21**	**$0.19**	**$0.24**	**$0.26**	**$0.32**	**$0.25**	**$0.39**	**$0.53**
Y/Y Growth		*2%*	*9%*	*7%*	*-4%*	*3%*	*3%*	*13%*	*22%*	*55%*	*23%*	*53%*	*36%*
Q/Q Growth		*-12%*	*13%*	*1%*	*-4%*		*-6%*	*24%*	*9%*	*23%*			
TOTAL ADVERTISING REVENUE	**$3,154.0**	**$872.0**	**$992.0**	**$1,086.0**	**$1,329.0**	**$4,279.0**	**$1,245.0**	**$1,599.0**	**$1,692.9**	**$1,952.2**	**$6,489.0**	**$8,830.3**	**$11,161.3**
Y/Y Growth	*69%*	*37%*	*28%*	*36%*	*41%*	*36%*	*43%*	*61%*	*56%*	*47%*	*52%*	*36%*	*26.4%*
ex-FX Y/Y Growth	*0%*	*38%*	*33%*	*43%*	*43%*	*0%*	*43%*	*63%*	*56%*	*47%*	*52%*	*36%*	*26%*
Q/Q Growth		*-8%*	*14%*	*9%*	*22%*		*-6%*	*28%*	*6%*	*15%*			
% of Total Ad Revenue	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
News Feed as a % of total Impressions		0.09%	0.32%	1.11%	1.68%	1%	1.99%	2.34%	2.74%	3.21%	2.56%	4.02%	5.68%
News Feed as a % of total Revenue		0.7%	3.5%	21.0%	35.8%	17.4%	44.8%	55.9%	62.9%	66.9%	58.9%	74.1%	82.3%

Source: J.P. Morgan estimates, Company data.

Figure 6: Facebook Revenue Drivers -- Advertising

	2011A	1Q12A	2Q12A	3Q12A	4Q12A	2012A	1Q13A	2Q13A	3Q13E	4Q13E	2013E	2014E	2015E
Global Summary													
Global Advertising													
Advertising Impressions (in billions)	15,500	4,600	4,643	5,036	6,411	20,691	6,394	6,640	6,456	6,065	25,555	22,710	21,113
Y/Y Growth	*41%*	*35%*	*18%*	*27%*	*46%*	*33%*	*39%*	*43%*	*28%*	*-5%*	*24%*	*-11%*	*-7%*
Q/Q Growth		*5%*	*1%*	*8%*	*27%*		*0%*	*4%*	*-3%*	*-6%*			
Average Cost Per Thousand (CPM)	$0.20	$0.19	$0.21	$0.22	$0.21	$0.21	$0.19	$0.24	$0.26	$0.32	$0.25	$0.39	$0.53
Y/Y Growth	*20%*	*1%*	*9%*	*7%*	*-4%*	*4%*	*3%*	*13%*	*22%*	*55%*	*23%*	*53%*	*36%*
Q/Q Growth		*-12%*	*13%*	*1%*	*-4%*		*-6%*	*24%*	*9%*	*23%*			
Global Advertising Revenue	**3,154**	**872**	**992**	**1,086**	**1,329**	**4,279**	**1,245**	**1,599**	**1,693**	**1,952**	**6,489**	**8,830**	**11,161**
Y/Y Growth	*69%*	*37%*	*28%*	*36%*	*41%*	*36%*	*43%*	*61%*	*56%*	*47%*	*52%*	*36%*	*26%*
Q/Q Growth		*-8%*	*14%*	*9%*	*22%*		*-6%*	*28%*	*6%*	*15%*			
Regional Breakdown													
US & Canada													
Advertising Impressions (in billions)	4,455	1,200	1,103	1,212	1,337	4,852	1,265	1,169	1,175	1,283	4,893	4,697	4,509
Y/Y Growth		*8%*	*-2%*	*14%*	*16%*	*9%*	*5%*	*6%*	*-3%*	*-4%*	*1%*	*-4%*	*-4%*
Q/Q Growth		*4%*	*-8%*	*10%*	*10%*		*-5%*	*-8%*	*1%*	*9%*			
Average Cost Per Thousand (CPM)	$0.36	$0.35	$0.43	$0.44	$0.47	$0.43	$0.44	$0.62	$0.63	$0.67	$0.59	$0.77	$0.96
Y/Y Growth		*16%*	*24%*	*20%*	*18%*	20%	*25%*	*42%*	*42%*	*43%*	*38%*	*30%*	*25%*
Q/Q Growth		*-13%*	*24%*	*2%*	*6%*		*-8%*	*41%*	*2%*	*7%*			
US & Canada Advertising Revenue	**1,583**	**419**	**479**	**538**	**631**	**2,067**	**552**	**721**	**741**	**866**	**2,880**	**3,595**	**4,314**
Y/Y Growth	*48%*	*26%*	*22%*	*36%*	*37%*	*31%*	*32%*	*51%*	*38%*	*37%*	*39%*	*25%*	*20%*
% of Total Advertising Revenue	*50%*	*48%*	*48%*	*50%*	*47%*	*48%*	*44%*	*45%*	*44%*	*44%*	*44%*	*41%*	*39%*
Europe													
Advertising Impressions (in billions)	5,549	1,800	1,715	1,638	2,045	7,198	2,341	2,328	2,162	2,250	9,080	9,535	9,535
Y/Y Growth		*40%*	*26%*	*27%*	*27%*	*30%*	*30%*	*36%*	*32%*	*10%*	*26%*	*5%*	*0%*
Q/Q Growth		*12%*	*-5%*	*-5%*	*25%*		*14%*	*-1%*	*-7%*	*4%*			
Average Cost Per Thousand (CPM)	$0.18	$0.15	$0.17	$0.18	$0.18	$0.17	$0.16	$0.19	$0.20	$0.22	$0.19	$0.24	$0.30
Y/Y Growth		*-5%*	*-5%*	*-5%*	*-4%*	*-5%*	*3%*	*13%*	*13%*	*20%*	*12%*	*25%*	*25%*
Q/Q Growth		*-20%*	*13%*	*5%*	*2%*		*-14%*	*24%*	*5%*	*8%*			
Europe Advertising Revenue	**1,002**	**274**	**294**	**295**	**374**	**1,237**	**367**	**451**	**440**	**494**	**1,752**	**2,299**	**2,874**
Y/Y Growth	*81%*	*33%*	*20%*	*20%*	*22%*	*23%*	*34%*	*53%*	*49%*	*32%*	*42%*	*31%*	*25%*
% of Total Advertising Revenue	*32%*	*31%*	*30%*	*27%*	*28%*	*29%*	*29%*	*28%*	*26%*	*25%*	*27%*	*26%*	*26%*
Asia													
Advertising Impressions (in billions)	2,646	650	841	953	1,315	3,760	939	1,219	1,287	1,381	4,826	5,309	5,734
Y/Y Growth		*28%*	*25%*	*30%*	*80%*	*42%*	*45%*	*45%*	*35%*	*5%*	*28%*	*10%*	*8%*
Q/Q Growth		*-11%*	*29%*	*13%*	*38%*		*-29%*	*30%*	*6%*	*7%*			
Average Cost Per Thousand (CPM)	$0.12	$0.15	$0.14	$0.14	$0.13	$0.14	$0.19	$0.18	$0.20	$0.19	$0.19	$0.24	$0.30
Y/Y Growth		*38%*	*24%*	*16%*	*-2%*	*17%*	*23%*	*35%*	*40%*	*45%*	*37%*	*28%*	*25%*
Q/Q Growth		*17%*	*-10%*	*2%*	*-8%*		*47%*	*-1%*	*6%*	*-5%*			
Asia Advertising Revenue	**313**	**99**	**115**	**133**	**168**	**515**	**176**	**225**	**251**	**256**	**908**	**1,279**	**1,726**
Y/Y Growth	*119%*	*77%*	*55%*	*51%*	*77%*	*65%*	*78%*	*96%*	*89%*	*52%*	*76%*	*41%*	*35%*
% of Total Advertising Revenue	*10%*	*11%*	*12%*	*12%*	*13%*	*12%*	*14%*	*14%*	*15%*	*13%*	*14%*	*14%*	*15%*
Rest of World													
Advertising Impressions (in billions)	3,089	950	984	1,233	1,714	4,881	1,849	1,924	1,832	1,151	6,756	3,169	1,335
Y/Y Growth		*77%*	*25%*	*41%*	*93%*	*58%*	*95%*	*95%*	*49%*	*-33%*	*38%*	*-53%*	*-58%*
Q/Q Growth		*7%*	*4%*	*25%*	*39%*		*8%*	*4%*	*-5%*	*-37%*			
Average Cost Per Thousand (CPM)	$0.08	$0.08	$0.11	$0.10	$0.09	$0.09	$0.08	$0.10	$0.14	$0.29	$0.14	$0.52	$1.68
Y/Y Growth		*5%*	*32%*	*22%*	*1%*	*14%*	*-4%*	*-1%*	*46%*	*221%*	*49%*	*272%*	*222%*
Q/Q Growth		*-6%*	*25%*	*-8%*	*-6%*		*-11%*	*29%*	*35%*	*106%*			
ROW Advertising Revenue	**256**	**80**	**104**	**120**	**156**	**460**	**150**	**202**	**260**	**336**	**949**	**1,658**	**2,248**
Y/Y Growth	*934%*	*86%*	*65%*	*71%*	*95%*	*80%*	*88%*	*94%*	*117%*	*116%*	*106%*	*75%*	*36%*
% of Total Advertising Revenue	*8%*	*9%*	*10%*	*11%*	*12%*	*11%*	*12%*	*13%*	*15%*	*17%*	*15%*	*19%*	*20%*

Source: J.P. Morgan estimates, Company data.

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Figure 7: Facebook Revenue Drivers – Payments and Other Fees

	2011A	1Q12A	2Q12A	3Q12A	4Q12A	2012A	1Q13A	2Q13A	3Q13E	4Q13E	2013E	2014E	2015E
Payment and Other Fees													
Global Payments and Other Fees													
Total Payments and Other Fees	**557**	**186**	**192**	**176**	**256**	**810**	**213**	**214**	**203**	**201**	**831**	**788**	**762**
Y/Y Growth	*425%*	*98%*	*61%*	*13%*	*36%*	*45%*	*15%*	*11%*	*15%*	*-21%*	*3%*	*-5%*	*-3%*
Q/Q Growth		*-1%*	*3%*	*-8%*	*45%*		*-17%*	*0%*	*-5%*	*-1%*			
	0.96												
Revenue per Avg. DAU	**$1.38**	**$0.37**	**$0.36**	**$0.31**	**$0.43**	**$1.47**	**$0.33**	**$0.31**	**$0.28**	**$0.27**	**$1.20**	**$1.00**	**$0.88**
Y/Y Growth	*232%*	*37%*	*18%*	*-13%*	*6%*	*7%*	*-10%*	*-12%*	*-9%*	*-37%*	*-19%*	*-17%*	*-12%*
Q/Q Growth		*-8%*	*-3%*	*-13%*	*37%*		*-22%*	*-5%*	*-10%*	*-5%*			
Revenue Per Avg. MAU (ARPU)	**$0.77**	**$0.21**	**$0.21**	**$0.18**	**$0.25**	**$0.85**	**$0.20**	**$0.19**	**$0.17**	**$0.17**	**$0.72**	**$0.60**	**$0.51**
Y/Y Growth	*250%*	*46%*	*23%*	*-12%*	*9%*	*11%*	*-8%*	*-9%*	*-4%*	*-33%*	*-15%*	*-18%*	*-14%*
Q/Q Growth		*-7%*	*-3%*	*-13%*	*38%*		*-21%*	*-4%*	*-9%*	*-4%*			

	2011A	1Q12A	2Q12A	3Q12A	4Q12A	2012A	1Q13A	2Q13A	3Q13E	4Q13E	2013E	2014E	2015E
Facebook Payments Revenue From Zynga (30% take)	**436**	**120**	**103**	**88**	**151**	**462**	**75**	**57**	**57**	**62**	**251**	**225**	**210**
Y/Y Growth		*35%*	*-6%*	*-24%*	*23%*	*6%*	*-38%*	*-45%*	*-35%*	*-59%*	*-46%*	*-10%*	*-6%*
Q/Q Growth		*-2%*	*-14%*	*-15%*	*72%*		*-50%*	*-25%*	*1%*	*9%*			
% of FB Payments Revenue	NA	64%	54%	50%	59%	57%	35%	26%	28%	31%	30%	29%	28%
% of FB Total Revenue	NA	11%	9%	7%	10%	9%	5%	3%	3%	3%	3%	2%	2%
Other Payments Revenue (excl. Zynga)	**121**	**66**	**89**	**88**	**105**	**348**	**138**	**157**	**146**	**139**	**580**	**563**	**552**
Y/Y Growth		*NA*	*NA*	*120%*	*105%*	*189%*	*109%*	*78%*	*65%*	*32%*	*67%*	*-3%*	*-2%*
Q/Q Growth		*0%*	*34%*	*0%*	*19%*		*31%*	*14%*	*-7%*	*-5%*			
% of FB Payments Revenue	NA	36%	46%	50%	41%	43%	65%	74%	72%	69%	70%	71%	72%
Total Facebook Payments Revenue (Bottom-up)	**557**	**186**	**192**	**176**	**256**	**810**	**213**	**214**	**203**	**201**	**831**	**788**	**762**
Y/Y Growth	*425%*	*98%*	*61%*	*13%*	*36%*	*45%*	*15%*	*11%*	*15%*	*-21%*	*3%*	*-5%*	*-3%*
Q/Q Growth		*-1%*	*3%*	*-8%*	*45%*		*-17%*	*0%*	*-5%*	*-1%*			

Source: J.P. Morgan estimates, Company data.

Figure 8: Facebook User Metrics by Region

	2011A	1Q12A	2Q12A	3Q12A	4Q12A	2012A	1Q13A	2Q13A	3Q13E	4Q13E	2013E	2014E	2015E
User Metrics													
Monthly Active Users (MAU)													
US & Canada	179	183	186	189	193	193	195	198	199	200	200	204	207
Europe	229	239	246	253	261	261	269	272	276	279	279	293	302
Asia	212	234	255	277	298	298	319	339	359	375	375	449	516
Rest of World	225	245	268	288	304	304	327	346	366	383	383	460	533
Total	**845**	**901**	**955**	**1,007**	**1,056**	**1,056**	**1,110**	**1,155**	**1,199**	**1,238**	**1,238**	**1,406**	**1,558**
Y/Y Growth													
US & Canada	*16%*	*12%*	*10%*	*7%*	*8%*	*8%*	*7%*	*6%*	*5%*	*4%*	*4%*	*2%*	*1%*
Europe	*25%*	*19%*	*16%*	*14%*	*14%*	*14%*	*13%*	*11%*	*9%*	*7%*	*7%*	*5%*	*3%*
Asia	*54%*	*50%*	*47%*	*41%*	*41%*	*41%*	*36%*	*33%*	*30%*	*26%*	*26%*	*20%*	*15%*
Rest of World	*69%*	*53%*	*46%*	*39%*	*35%*	*35%*	*33%*	*29%*	*27%*	*26%*	*26%*	*20%*	*16%*
Total	***39%***	***33%***	***29%***	***26%***	***25%***	***25%***	***23%***	***21%***	***19%***	***17%***	***17%***	***14%***	***11%***
Country Mix													
US & Canada	*21%*	*20%*	*19%*	*19%*	*18%*	*18%*	*18%*	*17%*	*17%*	*16%*	*16%*	*15%*	*13%*
Europe	*27%*	*27%*	*26%*	*25%*	*25%*	*25%*	*24%*	*24%*	*23%*	*23%*	*23%*	*21%*	*19%*
Asia	*25%*	*26%*	*27%*	*28%*	*28%*	*28%*	*29%*	*29%*	*30%*	*30%*	*30%*	*32%*	*33%*
Rest of World	*27%*	*27%*	*28%*	*29%*	*29%*	*29%*	*29%*	*30%*	*31%*	*31%*	*31%*	*33%*	*34%*
Total	***100%***	***100%***	***100%***	***100%***	***100%***	***100%***	***100%***	***100%***	***100%***	***100%***	***100%***	***100%***	***100%***
Mobile MAU	**432**	**488**	**543**	**604**	**680**	**680**	**751**	**819**	**875**	**928**	**928**	**1,138**	**1,324**
Y/Y Growth	*76%*	*69%*	*67%*	*61%*	*57%*	*57%*	*54%*	*51%*	*45%*	*37%*	*37%*	*23%*	*16%*
Q/Q Growth		*13%*	*11%*	*11%*	*13%*		*10%*	*9%*	*7%*	*6%*			
% of total MAUs	51%	54%	57%	60%	64%	64%	68%	71%	73%	75%	75%	81%	85%
Mobile-Only MAU	**58**	**83**	**102**	**126**	**157**	**157**	**189**	**219**	**246**	**266**	**266**	**387**	**499**
Y/Y Growth	*287%*	*277%*	*240%*	*215%*	*171%*	*171%*	*128%*	*115%*	*95%*	*69%*	*69%*	*45%*	*29%*
Q/Q Growth		*43%*	*23%*	*24%*	*25%*		*20%*	*16%*	*12%*	*8%*			
% of total MAUs	7%	9%	11%	13%	15%	15%	17%	19%	21%	22%	22%	28%	32%
Web and Mobile MAU	**374**	**405**	**441**	**478**	**523**	**523**	**562**	**600**	**630**	**662**	**662**	**752**	**826**
Y/Y Growth	*63%*	*52%*	*49%*	*42%*	*40%*	*40%*	*39%*	*36%*	*32%*	*27%*	*27%*	*14%*	10%
Q/Q Growth		*8%*	*9%*	*8%*	*9%*		*7%*	*7%*	*5%*	*5%*			
% of total MAUs	44%	45%	46%	47%	50%	50%	51%	52%	53%	54%	54%	54%	53%
Web MAU	**787**	**818**	**853**	**881**	**899**	**899**	**921**	**936**	**953**	**972**	**972**	**1,019**	**1,059**
Y/Y Growth	*33%*	*24%*	*20%*	*16%*	*14%*	*14%*	*13%*	*10%*	*8%*	*8%*	*8%*	5%	4%
Q/Q Growth		*4%*	*4%*	*3%*	*2%*		*2%*	*2%*	*2%*	*2%*			
% of total MAUs	93%	91%	89%	87%	85%	85%	83%	81%	80%	79%	79%	73%	68%
Web Only MAU	**413**	**413**	**412**	**403**	**376**	**376**	**359**	**336**	**324**	**309**	**309**	**267**	**234**
Y/Y Growth	*14%*	*5%*	*0%*	*-5%*	*-9%*	*-9%*	*-13%*	*-18%*	*-20%*	*-18%*	*-18%*	*-14%*	-12%
Q/Q Growth		*0%*	*0%*	*-2%*	*-7%*		*-5%*	*-6%*	*-4%*	*-4%*			
% of total MAUs	49%	46%	43%	40%	36%	36%	32%	29%	27%	25%	25%	19%	15%
Daily Active Users (DAU)													
US & Canada	126	129	130	132	135	135	139	142	143	144	144	151	155
Europe	143	152	154	160	169	169	179	182	190	195	195	211	222
Asia	105	119	129	141	153	153	167	181	194	207	207	260	310
Rest of World	109	126	139	151	161	161	180	194	208	222	222	290	352
Total	**483**	**526**	**552**	**584**	**618**	**618**	**665**	**699**	**736**	**768**	**768**	**912**	**1,039**
Mobile DAUs			**293**	**329**	**374**	**374**	**425**	**469**					
Y/Y Growth								*60%*					
Q/Q Growth				*12%*	*14%*		*14%*	*10%*					
% of Mobile MAUs			*54%*	*54%*	*55%*	*55%*	*57%*	*57%*					
DAU as % of MAU													
US & Canada	70%	70%	70%	70%	70%	70%	71%	72%	72%	72%	72%	74%	75%
Europe	62%	64%	63%	63%	65%	65%	67%	67%	69%	70%	70%	72%	74%
Asia	50%	51%	51%	51%	51%	51%	52%	53%	54%	55%	55%	58%	60%
Rest of World	48%	51%	52%	52%	53%	53%	55%	56%	57%	58%	58%	63%	66%
Total	**57%**	**58%**	**58%**	**58%**	**59%**	**59%**	**60%**	**61%**	**61%**	**62%**	**62%**	**65%**	**67%**
Y/Y Growth													
US & Canada	*27%*	*23%*	*11%*	*6%*	*7%*	*7%*	*8%*	*9%*	*8%*	*7%*	*7%*	*5%*	*3%*
Europe	*34%*	*27%*	*21%*	*19%*	*18%*	*18%*	*18%*	*18%*	*19%*	*16%*	*16%*	*8%*	*5%*
Asia	*64%*	*65%*	*52%*	*44%*	*46%*	*46%*	*40%*	*40%*	*37%*	*35%*	*35%*	*26%*	*19%*
Rest of World	*91%*	*68%*	*58%*	*51%*	*48%*	*48%*	*43%*	*40%*	*38%*	*38%*	*38%*	*30%*	*22%*
Total	***48%***	***41%***	***32%***	***28%***	***28%***	***28%***	***26%***	***27%***	***26%***	***24%***	***24%***	***19%***	***14%***
Country Mix													
US & Canada	*26%*	*25%*	*24%*	*23%*	*22%*	*22%*	*21%*	*20%*	*19%*	*19%*	*19%*	*17%*	*15%*
Europe	*30%*	*29%*	*28%*	*27%*	*27%*	*27%*	*27%*	*26%*	*26%*	*25%*	*25%*	*23%*	*21%*
Asia	*22%*	*23%*	*23%*	*24%*	*25%*	*25%*	*25%*	*26%*	*26%*	*27%*	*27%*	*29%*	*30%*
Rest of World	*23%*	*24%*	*25%*	*26%*	*26%*	*26%*	*27%*	*28%*	*28%*	*29%*	*29%*	*32%*	*34%*
Total	***100%***	***100%***	***100%***	***100%***	***100%***	***100%***	***100%***	***100%***	***100%***	***100%***	***100%***	***100%***	***100%***

Source: J.P. Morgan estimates, Company data.

Facebook: Summary of Financials

Income Statement - Annual	FY12A	FY13E	FY14E	FY15E	Income Statement - Quarterly	1Q13A	2Q13A	3Q13E	4Q13E
Revenues	5,089	7,320	9,618	11,924	Revenues	1,458A	1,813A	1,896	2,153
Operating income	538	2,210	3,126	4,042	Operating income	373A	562A	573	674
D&A	649	965	1,111	1,396	D&A	241A	230A	245	249
EBITDA	1,187	3,175	4,236	5,439	EBITDA	614A	792A	818	923
Net interest income / (expense)	(37)	0	0	0	Net interest income / (expense)	(15)A	(14)A	0	0
Other income / (expense)	(44)	(16)	102	162	Other income / (expense)	(20)A	(17)A	0	21
Pretax income	494	2,194	3,228	4,204	Pretax income	353A	545A	573	695
Income taxes	(441)	(904)	(1,356)	(1,724)	Income taxes	(134)A	(212)A	(252)	(306)
Net Income	53	1,290	1,872	2,481	Net Income	219A	333A	321	389
Weighted average diluted shares	2,474	2,507	2,557	2,608	Weighted average diluted shares	2,499A	2,502A	2,511	2,515
Diluted EPS	0.54	0.74	0.98	1.25	Diluted EPS	0.12A	0.19A	0.19	0.23
Balance Sheet and Cash Flow Data	**FY12A**	**FY13E**	**FY14E**	**FY15E**	**Ratio Analysis**	**FY12A**	**FY13E**	**FY14E**	**FY15E**
Cash and cash equivalents	2,384	3,842	7,133	10,801	Sales growth	37.1%	43.8%	31.4%	24.0%
Accounts receivable	719	861	1,020	1,192	EBITDA growth	26.4%	39.4%	25.8%	25.3%
Other current assets	922	1,206	1,250	1,443	EPS growth	5.3%	38.0%	32.2%	27.6%
Current assets	11,267	13,160	16,654	20,687					
PP&E	2,391	3,066	4,100	4,909	EBITDA margin	57.2%	55.4%	53.0%	53.6%
Total assets	15,103	17,952	22,479	27,323	Net margin	26.0%	25.3%	26.0%	27.3%
Total debt	1,500	0	0	0	Debt / EBITDA	0.5	0.0	0.0	0.0
Total liabilities	3,348	2,140	2,358	2,560					
Shareholders' equity	11,755	15,812	20,121	24,762	Return on assets (ROA)	12.2%	11.2%	12.4%	13.1%
					Return on equity (ROE)	15.6%	13.4%	13.9%	14.5%
Net Income (including charges)	53	1,262	1,872	2,481					
D&A	649	965	1,111	1,396	Enterprise value / EBITDA	19.0	12.9	9.6	7.1
Change in working capital	(513)	(98)	16	(163)	Enterprise value / Free cash flow	135.6	22.6	15.1	10.8
Other	-	-	-	-	P/E	1,237.6	51.5	36.2	27.9
Cash flow from operations	1,614	3,544	4,881	5,875					
Capex	(1,235)	(1,224)	(1,635)	(1,669)					
Free cash flow	409	2,320	3,246	4,205					
Cash flow from investing activities	(7,024)	(1,453)	(1,635)	(1,669)					
Cash flow from financing activities	6,283	(78)	(510)	(537)					
Dividends	-	-	-	-					
Dividend yield	-	-	-	-					

Source: Company reports and J.P. Morgan estimates.
Note: $ in millions (except per-share data).Fiscal year ends Dec

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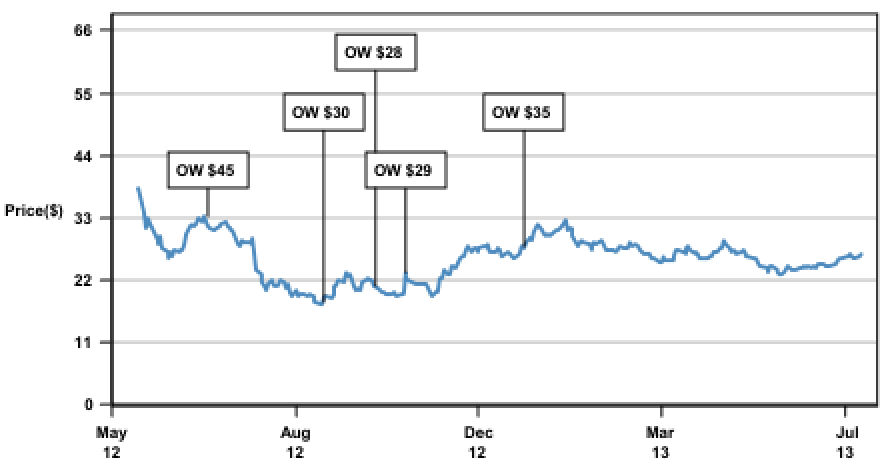
Facebook (FB, FB US) Price Chart



Date	Rating	Share Price ($)	Price Target ($)
27-Jun-12	OW	33.10	45.00
04-Sep-12	OW	18.06	30.00
05-Oct-12	OW	20.91	28.00
24-Oct-12	OW	23.23	29.00
02-Jan-13	OW	28.00	35.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Jun 27, 2012.

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