

Problem 1. Business Strategy Analysis

- (i) LinkedIn competes for advertising revenue with other social networks including Facebook and Twitter. List one key success factor and key risk of LinkedIn's 'Marketing Solutions' business relative to these competing social networks. **[4 points]**

1. Key success factor

2. Significant risk

- (ii) 'Sales Navigator' is LinkedIn's premium social selling solution and one of LinkedIn's most promising monetization strategies. List one significant risk associated with this monetization strategy. **[3 points]**

Problem 2. Accounting Analysis

- (i) Summarize the accounting policy used by LinkedIn during the most recent fiscal year for the expensing of sales commissions that are directly associated with non-cancelable subscription contracts. **[3 points]**
- (ii) Assume that instead of using its current accounting policies for deferring the recognition of both revenues and directly associated sales commissions, LinkedIn instead recognized these revenues and costs at the inception of the sale. Estimate the Income from operations that LinkedIn would have reported for the most recent fiscal year. **[6 points]**

- (iii) Summarize the accounting policy that LinkedIn uses for ‘website and internal-use software development costs’. **[3 points]**
- (iv) Assume that instead of using its current accounting policy for ‘website and internal-use software development costs’, LinkedIn instead expensed all these costs in the fiscal year in which they were incurred. Estimate the Income from operations that LinkedIn would have reported for the most recent fiscal year. **[6 points]**

Problem 3. Financial Analysis

- (i) Compute the net operating asset (NOA) turnover ratios for LinkedIn and Facebook for the most recent fiscal year. **[6 points]**

2103 NOA Turnover for LinkedIn =

2013 NOA Turnover for Facebook =

- (ii) Briefly identify the primary reason(s) for the difference between the NOA turnover ratios that you computed above? **[4 points]**

- (iii) Estimate the average number of days that elapsed between the receipt of cash from customers and the recognition of the associated revenue for LinkedIn and Facebook in the most recent fiscal year. Be sure to specify whether cash is received before or after revenue is recognized in each case. **[6 points]**

Average number of days for LinkedIn =

Average number of days for Facebook =

- (iv) Briefly identify the primary reason(s) for the difference between the average number of days for LinkedIn and Facebook that you computed above. **[4 points]**

Problem 4. Forecasting

- (i) The Cowen and Company research report provided in the financial statement booklet forecasts that LinkedIn's operating margin will grow from 3.1% in the most recent fiscal year to 25.5% in 2019 (see Figure 20 of the report). Identify the key drivers of the improved operating margin. **[5 points]**
- (ii) The Cowen and Company research report provided in the financial statement booklet forecasts that LinkedIn's Accounts Receivable balance will grow from 302.2 in the most recent fiscal year to 1,143.0 in 2019 (see Figure 21 of the report). Briefly evaluate the plausibility of this forecasting assumption. **[5 points]**

- (iv) Compute the per-share value of LinkedIn at the end of 2014 by discounting your answer to part (iii) back to 2014 and dividing by the 2014 'Wtd Avg. Diluted Shares Outstanding' provided in Figure 20 of the report. **[4 points]**
- (v) Compare the per-share value you derived in part (iv) above to the \$252.75 per-share value derived in Figure 10 of the Cowen and Company report. What are the main reason(s) for the different valuations? **[4 points]**

This is the end of the exam.