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What if Facebook's IPO Followed Google's IPO PE Ratios?

Facebook could hit \$187.03 shortly after trading and \$215.71 when the shares become free trading 180 days later if it follows Google trading patterns.

Summary

In the days of thinly traded IPOs like LinkedIn, Groupon (planned November 4, 2011) and Zynga (IPO date TBD) the demand clearly outstrips the supply, creating a high multiple effect until the restricted period comes off the bulk of the stock. If we follow what Google did from their August 19, 2004 IPO, by analyzing their Price to Earnings ratio and apply the same PE ratio to Facebook, the Facebook share price could hit \$187.03 with a PE ratio of 108, the same PE ratio Google had at the close of their opening day. Google's multiple climbed to 132.05 over the next 3 months of trading which if applied to Facebook, would put the price of Facebook at \$305.41. When the restricted period came off the Google stock, selling pressure pushed the PE multiple to 71 which would put the price of the Facebook Shares at \$215.71 when the restricted period comes off the Facebook shares. The following chart summarizes the estimated share price as a comparison between Galt's financial model and a model that applies the same PE ratios that Google had following their IPO. As you can see, if the multiples come anywhere close to what Google was rewarded following their IPO, Facebook will generate significant returns for their investors:

Revenue Scenarios 2012	Q1	Q2	Q3	Q4
Share Price (Galt Global's Model)	\$33.59	\$40.32	\$77.98	\$112.57
Facebook Share Price following Google				\$187.03
Revenue Scenarios 2013	Q1	Q2	Q3	Q4
Share Price (Galt Global's Model)	\$173.46	\$182.29	\$250.98	\$285.65
Facebook Share Price following Google	\$305.41	\$215.71	\$334.80	\$332.59
Revenue Scenarios 2014	Q1	Q2	Q3	Q4
Share Price (Galt Global's Model)	\$340.52	\$375.36	\$370.69	\$401.66
Facebook Share Price following Google	\$469.01	\$468.59	\$506.53	\$513.42

In 2004 it was quite a different economic time for Google, the tech market was at an all-time low following the Dot Com implosion yet the resource sectors and real estate were booming. In 2012 when Facebook goes public the markets should be slowly recovering from the worst economic meltdown since the great depression. It is tough to predict if Facebook will be rewarded with the same multiples Google had post-IPO, but even if they are close the returns far exceed the financial forecast that Galt has predicted.



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Detailed Analysis

The following chart shows the PE ratio Google accomplished after their IPO in 2004, it certainly was spectacular:



We have seen the recent IPO for LinkedIn and in September 2011 was trading with a PE multiple of 1,272. Galt believes that this is a phenomenon of a thinly traded market, lack of available stock and demand institutionally for Social Media companies. We see the LinkedIn PE multiple staying in the 200 range through 2012 and 85-100 range through 2013.

Facebook's IPO will take on a similar effect due to the "thinly traded" effect until the restricted period expires. This 180 day period will give Facebook enough time to build global demand for the stock and Galt believes that significant interest will create a minimal effect on share price at this 180 day period after IPO. We have modeled a slight drop in the PE multiple however this will be short lived as global demand will take down most of the available stock. Liquidity at this time will be extreme as the 2.5



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billion shares will be free trading and will represent the bulk of the trading through that period. Below is the financial model for revenue and earning Galt has forecasted, along with the projected multiple we believe is conservative. We also showed the Google multiple sequenced with Facebook's post IPO timing to show you that if Facebook earns the same multiples as Google did when it went public the share price far exceeds that of what Galt is projecting.

Revenue Scenarios 2012	Q1	Q2	Q3	Q4
Revenue Growth Rate Quarter of Quarter	25%	27%	30%	32%
Revenue	\$1,679,282,569	\$2,132,688,862	\$2,772,495,521	\$3,659,694,088
Earnings Percentage of Revenue	36%	38%	40%	42%
Earnings	\$604,541,725	\$810,421,768	\$1,108,998,208	\$1,537,071,517
Forecasted Market Multiple of Earnings	50	50	60	65
Forecasted Market Capitalization	\$78,762,206,562.59	\$94,559,575,566	\$182,873,871,730	\$263,967,159,139
Share Price (Galt Global's Model)	\$33.59	\$40.32	\$77.98	\$112.57
Google PE Ratio IPO and Sync				108
Facebook Potential Price - Market Cap			\$438,591,587,492.81	
Facebook Share Price following Google				\$187.03
Revenue Scenarios 2013	Q1	Q2	Q3	Q4
Revenue Growth Rate Quarter of Quarter	25%	22%	21%	20%
Revenue	\$4,574,617,609.49	\$5,581,033,484	\$6,753,050,515	\$8,103,660,618
Earnings Percentage of Revenue	43%	45%	45%	45%
Earnings	\$1,967,085,572	\$2,511,465,068	\$3,038,872,732	\$3,646,647,278
Forecasted Market Multiple of Earnings	75	60	65	60
Forecasted Market Capitalization	\$406,768,279,866	\$427,477,221,890	\$588,542,167,739	\$669,844,238,980
Share Price (Galt Global's Model)	\$173.46	\$182.29	\$250.98	\$285.65
Google PE Ratio IPO and Sync	132.05	71	86.71	69.86
Facebook Potential Price - Market Cap	\$716,183,351,417	\$505,848,045,904	\$785,115,251,763	\$779,921,975,586
Facebook Share Price following Google	\$305.41	\$215.71	\$334.80	\$332.59
Revenue Scenarios 2014	Q1	Q2	Q3	Q4
Revenue Growth Rate Quarter of Quarter	18%	21%	22%	24%
Revenue	\$9,562,319,529.42	\$11,570,406,631	\$14,115,896,089	\$17,503,711,151
Earnings Percentage of Revenue	43%	45%	45%	45%
Earnings	\$4,111,797,398	\$5,206,682,984	\$6,352,153,240	\$7,876,670,018
Forecasted Market Multiple of Earnings	60	55	45	40
Forecasted Market Capitalization	\$798,526,948,514	\$880,220,021,527	\$869,277,640,491	\$941,892,145,579
Share Price (Galt Global's Model)	\$340.52	\$375.36	\$370.69	\$401.66
Google PE Ratio IPO and Sync	82.64	68.66	61.49	51.13
Facebook Potential Price - Market Cap	\$1,099,837,783,754	\$1,098,834,666,874	\$1,187,819,602,528	\$1,203,973,635,086
Facebook Share Price following Google	\$469.01	\$468.59	\$506.53	\$513.42

Conclusion

If Facebook's IPO Price to Earning multiple are anywhere close to Google's when they went public the pre-IPO investors of Facebook as going to be very happy investors with a massive return. Galt believes the multiples and share price will be somewhere between Galt's estimates and the Google comparison. This will all depend on the size of the float at IPO which is expected to be small and the global demand



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institutional investors will have for the stock (which we believe will be high). Galt sees the IPO priced at a 25-50% discount to the public market putting this in the \$60-\$85 range and expects the closing price on the opening day to be in the \$112.57 to \$187.03 range

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