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Adam Burke, Fund Manager

Valuation

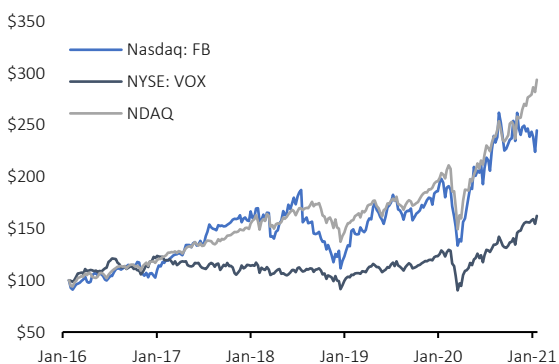
Current share price	\$263.34
Target price	\$307.32
Holding period return	0 HPR
Discount Rate	8.17%
TV/EBITDA	8.7 x
Conviction	Buy

Market profile

52 week range	\$137.1 - \$250.15
Market cap (\$mm)	\$690,109
Net debt (\$mm)	-\$55,620
Enterprise Value (\$mm)	\$602,009
Beta (5 year)	1.19

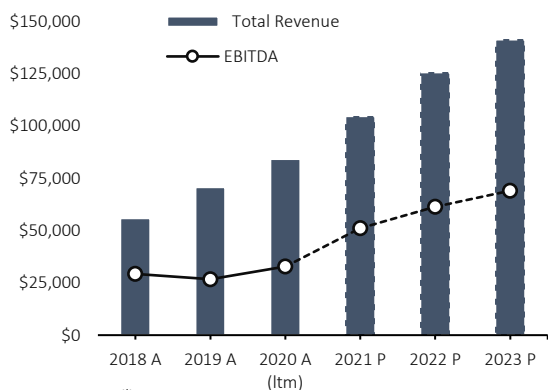
Metrics	2021 P	2022 P	2023 P
Revenue	\$104,641	\$125,569	\$141,265
EBITDA	\$51,119	\$61,344	\$69,013
EPS	\$12.27	\$14.72	\$16.56
P/E	27.7 x	29.7 x	31.7 x
EV/EBITDA	16.7 x	18.6 x	20.5 x

Historical Trading Performance (Indexed to \$100)



Source: CAPIQ

Figure 1: Revenue Growth



Source: Company Filings

Business Description

Facebook (NASDAQ:FB) founded in 2004 is headquartered in Menlo Park, California. The company's products include FB that enables people to connect, share, discover, and communicate with each other on mobile devices and personal computers; Instagram, a community for sharing photos, videos, and private messages; Messenger, a messaging application for people to connect with friends, family, groups, and businesses across platforms and devices; and WhatsApp, a messaging application that is used by people and businesses to communicate confidentially.

Mandate Fit

ESG: FB landed 7th on Glassdoor's best places to work in 2019. In this top 7, there are only two other tech companies ahead of FB, LinkedIn, and Google. FB's goal is to use 100% renewable energy by 2020. FB started the trend and was the first to "re-think" data centers, attempting to use them with renewables in 2011. When the first renewable data center was built, it ranked 9th on the most innovative facilities rankings.

Financial Positioning: FB's financial health is second to none, well-positioned with no debt, a moat of net cash, and nearly 1/3 of the globe tuning in monthly to their Facebook platform. FB's short and long-term assets both exceed their liabilities by around 3.5x. FB's cash well covers all of their liabilities, leaving them well-positioned for acquisitions, R&D, and other growth-related purchases. Additionally, FB has a debt to equity of .3% and has grown their ROA, ROIC, ROE and ROCE by 3% Y/Y on average since 2014, leaving them at 16%, 19%, 20%, and 20%, respectively.

Free-Cash-Flow: The strength of FB's cash flow, plus the fact that FB has \$55.6B of cash and no debt on its balance sheet, gives us confidence that FB has an ample war chest with which to continue diversifying its product lineup to stimulate continued user growth. In Q3, FB returned to cash flow growth after a double-whammy in Q2 that was weighed down by both advertising weakness and FB's \$5B settlement to the FTC.

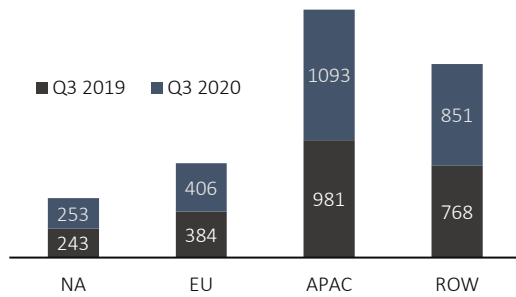
Management: Mark Zuckerberg, founder, and CEO of FB, has a total compensation of USD 23M, which is higher than the average CEO by about 2x, with the average being USD 11M. Zuckerberg is intermittently under fire around anti-trust, elections, and data concerns. Despite speed wobble, mgnt continues to spend appropriately in line with stakeholder needs and concerns.

Competitive Advantage: FB has not truly tapped into monetizing FB Messenger and WhatsApp, together counting more than 2.3 billion MAUs. As FB advances, Instagram will likely remain the key driver for FB's user growth as its main app is becoming increasingly stagnant, especially for younger demographics.

Risks

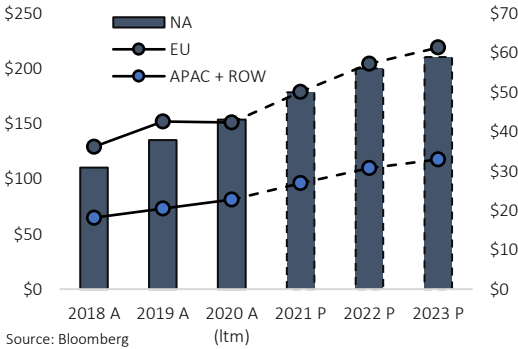
Antitrust/political: Since Trump's 2016 election, FB's trust never fully recovered, and it keeps appearing in the spotlight of scrutiny – giving them the appearance of a lightning rod for negative press. For FB to feel a shock from regulators, there would need to be unequivocal evidence of FB harming the consumers. FB does not appear to be doing any of the things which we'd expect a monopolist to be doing if it were flexing its market power: (1) FB doesn't try to maintain pricing above the market-clearing level (2) They don't limit the amount of advertising in order to increase the price and (cont'd)

Figure 2: Monthly Active Users YoY



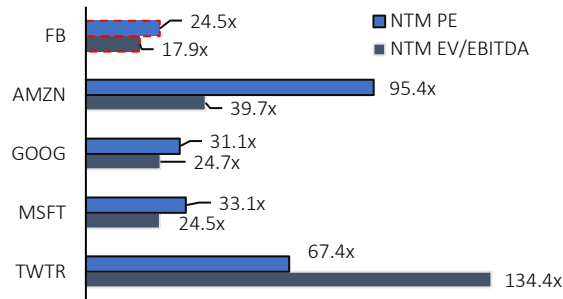
Source: Company Filings

Figure 3: Avg. Rev. Per User



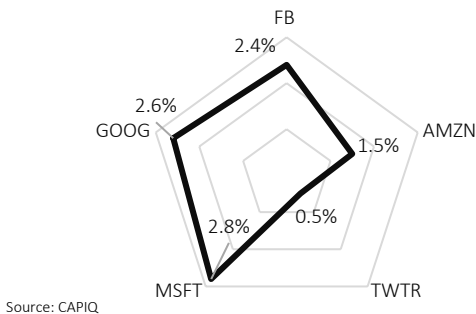
Source: Bloomberg

Figure 4: Comparable NTM Valuation Multiples



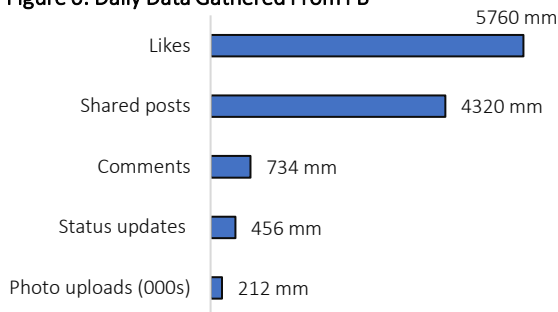
Source: Bloomberg

Figure 5: FY 2020 Comparable FCF Yield(s)



Source: CAPIQ

Figure 6: Daily Data Gathered From FB



Source: Statista

(3) consumer adds are set up in an auction format, leveling the playing field. If anything, FB saves advertisers a substantial amount by enabling them to increase their targeting precision.

Catalysts

Data: FB has a plethora of personal data – a resource that is akin to oil before the automobile. In short, FB's data removes a considerable element of competition due to the agility it gives them to personalize the experience user to user. The FB platform alone processes about 2.7B like actions 450mm photos per day, scanning nearly 105 terabytes of data each half-hour. The world is getting hungrier for data each year, and this is places FB near the top.

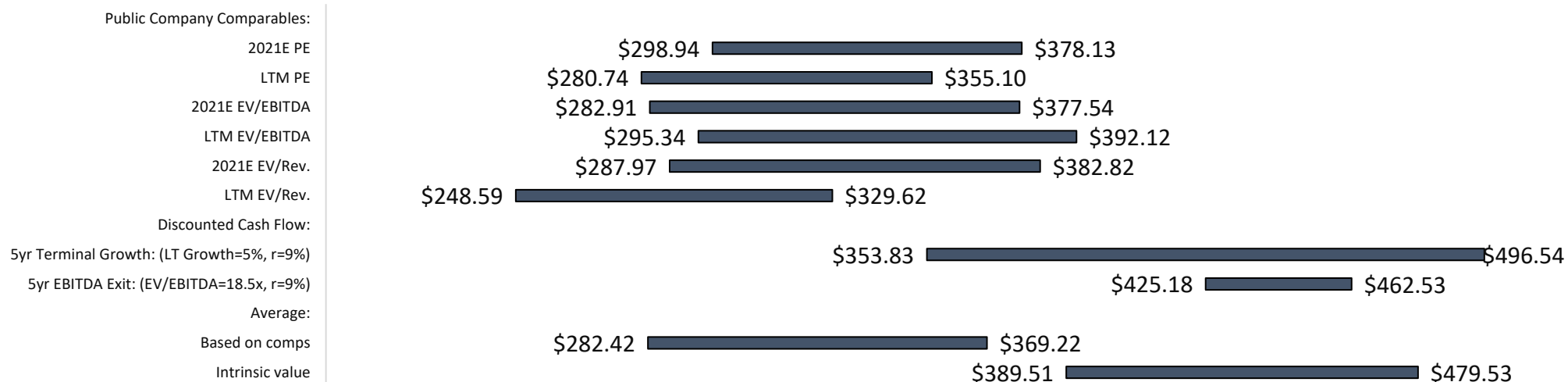
E-Commerce: FB already has a USD 100B impact on the US economy each year. Early this year, the social-networking firm announced a new feature called 'Shops' to Instagram and Facebook, allowing them to list and sell their goods directly on the platforms. More than 25mm business accounts are already connecting to customers on Instagram, with an estimated 75% of all US businesses having a presence on the photo-sharing platform. Instagram has some key advantages that will attract more businesses in the future for a couple of reasons (1) it provides a powerful platform for engaging marketing, (2) none or little start-up costs are involved, and (3) a massive audience of more than 1B users is already embeded in their platform.

APAC & ROW: US & Canada's advertising market has been FBs key profitability driver over the past years, despite only making up a fraction of FB's total user base. FB is still struggling to monetize its massive userbase in developing countries meaningfully, currently standing at an average of just \$3 per user, compared to \$40 in the U.S and Canada. If FB could triple its current ARPU in ROW & APAC to \$10, this would generate annual revenues of roughly \$84B, which is about the revenue guidance for FY 2021. This is very important. APAC currently has roughly 25% the revenue of Europe, but the region is rapidly becoming industrialized and it also has 3x as many users. Europe itself has 1.6x the users but 1/3 the revenue of the US & Canada. That means, even if FB's revenue stops growing, its ability to more efficiently monetize existing users is massive. To provide perspective, in the most recent quarter, the company had \$21B in revenue. If it earned the same in advertising per user globally as it did from the U.S. & Canada its revenue would be 5x its most recent revenue. This highlights the company's long term growth potential.

Valuation and Thesis

A 50/50 blend of a 5-year DCF and comparable analysis was used against peers (NASDAQ: AMZN, GOOG, TWTR, MSFT). The 5-year DCF followed the comparable analysis, and we incorporated a terminal growth rate of 5%, a WACC of 8.5%, and an NTM EV/EBITDA multiple of 17.9x to derive a target price of \$306. FBs current stock price seems to reflect more fear of regulatory scrutiny than necessary while neglecting the figures that most matter: FB is gushing cash while still growing sales and registered users rapidly. It becomes quite evident that FB remains undervalued, given current financial metrics and future growth estimates. While ad-growth might slow in Europe and North America due to stalling user numbers, explosive economic growth in developing regions of the world will be a catalyst for higher monetization figures per average user. FB is still adding hundreds of millions of users worldwide, dwarfing user additions from competing networks Snap, Twitter, and Pinterest. Furthermore, FBs recent push into E-commerce and strong ad-growth in the sector will drive the stock higher within the next few years. FB does have some concern for the anti-trust lawsuits, however, the larger concern at the immediate time is the cost of fighting those lawsuits. Overall, the company has the unique ability to drive strong long-term growth.

Facebook (NDAQ: FB) Implied Valuation per Share



Public Company Comparables:

- 2021E PE of 27.7x.** FB has typically traded in the ~24x–32x range. Our upper bounds target is 32x, and our lower bounds expectation is 24x. To justify this, FB's 2021E EPS is supposed to be (+)~10%, placing them roughly in line with the market, coupled with FB trading at about (-)~15x; this leads us to believe that the market is miss-pricing them.
- 2021E EV/EBITDA of 18.8x.** FB's EV/EBITDA ranges from ~18x-23x, with an average of ~21x. It is currently trading at 50% less than the peer median (excluding TWTR). This highlights potential since FB has double-digit sales/EBITDA growth rates and margins exceeding its comps' median metrics.
- 2021E EV/Sales of 8.7x.** FB trades within the 7x-9x range, so FB appears modestly undervalued here. From a comps perspective, FB is trading at the lower end of the ~10x median, where we believe it should be valued closer to the average of ~10x.

Comps Overview	Price	Mark. Cap.	TEV	Sales	EBITDA	EBIT	EPS	EV/Sales	EV/EBITDA	EV/EBIT	P/E
ALPHABET INC. (XNAS:GOOG)	\$2,036.2	\$1,371,768.0	\$1,251,611.0	\$182,527.0	\$54,903.0	\$41,224.0	\$58.61	6.9x	22.8x	30.4x	34.7x
Tencent Holdings Limited (XHKG:700)	\$80.4	\$765,736.9	\$693,296.9	\$69,829.2	\$54,903.0	\$41,224.0	\$2.51	9.9x	12.6x	16.8x	32.0x
TWITTER, INC. (XNYS:TWTR)	\$66.7	\$52,861.6	\$49,452.6	\$3,716.3	\$562.2	\$176.7	-\$1.44	13.3x	88.0x	279.9x	-46.3x
MICROSOFT CORPORATION (XNAS:MSFT)	\$230.7	\$1,737,349.0	\$1,679,513.0	\$153,284.0	\$71,687.0	\$60,155.0	\$6.71	11.0x	23.4x	27.9x	34.4x
High	\$2,036.2	\$1,737,349.0	\$1,679,513.0	\$182,527.0	\$71,687.0	\$60,155.0	\$58.6	13.3x	88.0x	279.9x	34.7x
Average	\$603.5	\$981,928.9	\$918,468.4	\$102,339.1	\$45,513.8	\$35,694.9	\$16.6	10.3x	36.7x	88.7x	13.7x
Low	\$66.7	\$52,861.6	\$52,138.8	\$3,716.3	\$562.2	\$176.7	\$176.7	7.1x	14.2x	19.0x	-46.3x
FACEBOOK, INC. (XNAS:FB)	\$278.6	\$826,137.5	\$775,497.5	\$85,965.0	\$39,533.0	\$32,671.0	10.09	9.0x	19.6x	23.7x	27.6x

Discounted Cash Flow (DCF):

5-year TEV/EBITDA exit: We exited with a multiple of 18.5x and used a WACC of 9%. We selected a figure on the lower end of our 18x to 23x range for various reasons. (1) This multiple isn't considering CAPEX spending, which will become more relevant as regulations are inevitably placed on this industry, but these costs are mainly unknown. (2) Nothing like FB truly exists; therefore, it is tough to value. We are taking an under-promise, over-deliver stance to our expectation for the share price because of the looming fear of tighter regulations on the industry at large.

		Terminal EBITDA Multiple:					
		17.5x	18.0x	18.5x	19.0x	19.5x	20.0x
Discount Rate (WACC):	8.3%	\$436.34	\$447.03	\$457.72	\$468.40	\$479.09	\$489.78
	8.5%	430.90	441.44	451.99	462.53	473.08	483.63
	8.8%	425.53	435.94	446.35	456.75	467.16	477.57
	9.0%	420.25	430.52	440.79	451.06	461.33	471.60
	9.3%	415.04	425.18	435.32	445.45	455.59	465.73
	9.5%	409.92	419.92	429.93	439.93	449.93	459.94

5-year Terminal Growth Exit: We exited this model with a 9% WACC and a 5% terminal growth rate. FB is still a "growth company". We based our 5% terminal growth rate on the fact that FB will eventually see a deceleration in their double-digit growth, but we are unsure when this will come to fruition, as the 5-year mark arrives, it is something that we will be paying attention to. We believe that this model produced a modest valuation for FB, whose FCF has a 5-year CAGR FCF growth rate of ~23%.

		Terminal FCF Growth Rate:					
		4.5%	5.0%	5.3%	5.5%	5.8%	6.0%
Discount Rate (WACC):	8.3%	\$411.41	\$467.04	\$501.81	\$542.91	\$592.22	\$652.49
	8.5%	384.76	432.66	462.14	496.54	537.18	585.96
	8.8%	361.25	402.87	428.14	457.30	491.32	531.53
	9.0%	340.36	376.82	398.69	423.69	452.53	486.18
	9.3%	321.68	353.83	372.92	394.56	419.29	447.82
	9.5%	304.87	333.41	350.19	369.08	390.48	414.94

Conclusion:

Current Share Price: FBs current price of about ~\$290 shows signs that it is substantially undervalued relative to its peers and based on its intrinsic value. We believe a share price closer to ~\$432 reflects FB's 5-year value. As touched on above, this target price reflects FBs growth rates, clean balance sheet, strong FCF growth, and consistent outperformance of analyst expectations.