

FACEBOOK, INC. (FB-NASDAQ)

Internet | Online Advertising

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IDFA Headwinds Though Not as Bad as Feared; Strong Buy; PT to \$410

RECOMMENDATION

Facebook reported 3Q results below consensus, but better than feared following last week's commentary from SNAP on the impact of Apple's App Tracking Transparency changes. The company expects ATT headwinds to persist, though is taking steps to mitigate half of the measurement impact by the end of the year (targeting impacts likely a longer-term fix). FB also guided to opex of \$91-97B for 2022 (vs. our \$88B) though we believe initial guidance could prove overly conservative. Positively, the high losses in 2021 for Facebook Reality Labs (\$10B) imply operating margins for core were much higher than expected and FB plans to break out Core FB vs. FB Reality labs beginning next quarter. **We maintain our Strong Buy rating** as: 1) we continue to expect solid long-term revenue growth; 2) monetization of newer platforms is increasing; and 3) we believe valuation is attractive at ~19x our 2022E Core GAAP EPS (~17.5x ex cash) vs. 15-20% LT EPS growth.

Positives: 1) Core operating margin higher than expected. FB noted that it expects its investment in Facebook Reality Labs to reduce overall operating profit by \$10B in 2021. Adding back the \$10B (a slight oversimplification but directionally correct) implies that core Facebook Apps operating margins are approximately 49% in 2021E. **2) Additional \$50B buyback authorization.** In addition to the \$14.4B repurchased in 3Q, FB announced a \$50B increase in the company's repurchase authorization.

Neutral/Negative: 1) Ad revenue shortfall, but not as bad as feared. FB ad revenue grew 33% y/y (+32% y/y FX-neutral), slightly below consensus, driven by impacts from Apple's App Tracking Transparency measures. The company called out headwinds to both targeting and measurement. **2) Guide implies 4Q revenue deceleration and meaningful step up in opex investment in FY22** as the company leans into its new Facebook Reality Labs segment. The 4Q guide implies growth of 12-21% y/y as ATT headwinds persist. The company expects to cut the impact of measurement issues in half by the end of the year, but the remaining measurement and targeting issues are likely longer-term fixes.

Guidance: FB gave 4Q21 revenue guidance of \$31.5-34.0B (+12-21% y/y) and noted increased uncertainty around the impact of Apple ATT changes and macro factors, with non-ad revenue down y/y comping the launch of the Oculus Quest 2. For 2021 expenses, FB now expects \$70-71B (from \$70-73B), with initial 2022 expense guidance of \$91-97B (vs. our prior \$81B). We believe opex guidance could prove overly conservative. FB also expects 2022 capex of \$29-34B.

Estimates: Our 2021E/2022E revenues decrease by 3.0%/5.5% and our adjusted EBITDA estimates decrease by 6.5%/16.3%. Our GAAP EPS estimates for 2021E/2022E move to \$13.92/\$14.17 from \$14.88/\$17.89.

VALUATION

Our price target of \$410 (from \$450) reflects ~23x 2022E core EPS (~22x ex cash), implying a P/E of ~1.5x (in line with peer group).

OCTOBER 25, 2021 | 9:16 PM EDT
COMPANY COMMENT

Strong Buy 1

Target Price \$410.00 ↓ old: \$450.00

Suitability

M/ACC

MARKET DATA

Current Price (Oct-25-21)	\$328.69
Market Cap (mln)	\$939,724
Current Net Debt (mln)	\$(58,075)
Enterprise Value (mln)	\$881,649
Shares Outstanding (mln)	2,859.0
30-Day Avg. Daily Value (mln)	\$7,332.0
Dividend	\$0.00
Dividend Yield	0.0%
52-Week Range	\$244.61 - \$384.33

KEY FINANCIAL METRICS

	1Q	2Q	3Q	4Q
GAAP EPS (\$, Dec FY)				
2020A	1.71	1.80	2.71	3.88
2021E	3.30	3.61	3.49	4.47
new	3.30 A	3.61 A	3.22 A	3.80
2022E	3.85	4.31	4.29	5.42
new	3.05	3.39	3.46	4.26
	2020A	2021E	2022E	
GAAP EPS (\$, Dec FY)				
old	10.09	14.88	17.89	
new	10.09	13.92	14.17	
P/E (GAAP EPS)	32.6x	23.6x	23.2x	
Adj. EBITDA (mln) (\$, Dec FY)				
old	46,069	68,902	82,940	
new	46,069	64,438	69,422	
Non-GAAP EPS (\$, Dec FY)				
old	11.70	17.54	20.96	
new	11.70	16.59	17.35	
Revenue (mln) (\$, Dec FY)				
old	85,966	120,842	146,259	
new	85,966	117,264	138,233	

Source: Thomson One, Raymond James & Associates. Quarterly figures may not add to full year due to rounding.

Non-GAAP EPS excludes non-cash items. UR: Under Review

Estimates: Our 2021E/2022E revenues decrease by 3.0%/5.5% and our adjusted EBITDA estimates decrease by 6.5%/16.3%. Our GAAP EPS estimates for 2021E/2022E move to \$13.92/\$14.17 from \$14.88/\$17.89.

Raymond James Estimate Changes									
Period	Revenue (\$ Mil)			Adjusted EBITDA (\$ Mil)			GAAP EPS		
	From	To	% Change	From	To	% Change	From	To	% Change
1Q21	\$26,171	\$26,171	0.0%	\$15,180	\$15,180	0.0%	\$3.30	\$3.30	0.0%
2Q21	\$29,077	\$29,077	0.0%	\$16,900	\$16,900	0.0%	\$3.61	\$3.61	0.0%
3Q21	\$29,959	\$29,010	-3.2%	\$16,630	\$14,797	-11.0%	\$3.49	\$3.22	-8.0%
4Q21E	\$35,635	\$33,006	-7.4%	\$20,192	\$17,561	-13.0%	\$4.47	\$3.80	-15.1%
FY21E	\$120,842	\$117,264	-3.0%	\$68,902	\$64,438	-6.5%	\$14.88	\$13.92	-6.4%
FY22E	\$146,259	\$138,233	-5.5%	\$82,940	\$69,422	-16.3%	\$17.89	\$14.17	-20.8%

Source: Company reports, Raymond James research.

3Q21 Summary: Total revenue of \$29.0B was 3%/2% below our/Street estimates and increased 34% y/y FXN vs. 50% in 2Q. Ad revenue of \$28.3B (4%/2% below our/Street estimates) increased 32% y/y FXN (vs. 51% y/y in 2Q). Adjusted EBITDA of \$14.8B was 11%/5% below our/Street estimates of \$16.6B/\$15.6B. GAAP EPS of \$3.22 was below our estimate of \$3.49 but above Street /\$3.19.

Actuals vs. Estimate Summary Table						
\$ in millions, except EPS	Actual	RJ Est	Diff	% Diff	Street	% vs. Street
Advertising Revenues	\$28,276	\$29,560	(\$1,284)	-4.3%	\$28,960	-2.4%
Payments & Other Revenues	<u>\$734</u>	<u>\$398</u>	<u>\$336</u>	<u>84.2%</u>	<u>\$473</u>	<u>55.2%</u>
Total Revenues	\$29,010	\$29,959	(\$949)	-3.2%	\$29,570	-1.9%
y/y						
Advertising Revenues	33.2%	39.3%	-6.1%			
Payments & Other Fees	194.8%	60.0%	134.8%			
Total Revenues	35.1%	39.5%	-4.4%			
Cost of Revenues	\$5,624	\$5,632	(\$8)	-0.1%		
Gross Profit	\$23,386	\$24,327	(\$941)	-3.9%	\$23,894	-2.1%
<i>Gross Margin</i>	<i>80.6%</i>	<i>81.2%</i>	<i>-0.6%</i>		<i>80.8%</i>	
Operating Expenses						
Marketing & Sales	\$3,336	\$3,295	\$41	1.2%		
Research & Development	\$4,467	\$4,569	(\$102)	-2.2%		
General and Administrative	\$2,781	\$1,887	\$894	47.3%		
SBC	<u>\$2,379</u>	<u>\$2,518</u>	<u>(\$139)</u>	<u>-5.5%</u>		
Total Operating Expenses	\$12,963	\$12,270	\$693	5.7%		
GAAP Operating Income	\$10,423	\$12,057	(\$1,634)	-13.6%	\$10,891	-4.3%
<i>GAAP Operating Margin</i>	<i>35.9%</i>	<i>40.2%</i>	<i>-4.3%</i>		<i>36.8%</i>	
Adjusted EBITDA	\$14,797	\$16,630	(\$1,833)	-11.0%	\$15,572	-5.0%
<i>y/y</i>	<i>29.1%</i>	<i>45.1%</i>	<i>-16.0%</i>			
<i>EBITDA Margin</i>	<i>51.0%</i>	<i>55.5%</i>	<i>-4.5%</i>		<i>52.7%</i>	<i>-1.7%</i>
GAAP EPS	\$3.22	\$3.49	(\$0.28)	-8.0%	\$3.19	1%
Ad Revenues by Geography						
US & Canada	\$13,094	\$13,767	(\$673)	-4.9%		
Europe	\$6,821	\$7,262	(\$441)	-6.1%		
APAC	\$5,398	\$5,520	(\$122)	-2.2%		
ROW	<u>\$2,963</u>	<u>\$3,012</u>	<u>(\$49)</u>	<u>-1.6%</u>		
Total	\$28,276	\$29,560	(\$1,284)	-4.3%		
User Metrics						
MAU	2,910	2,939	(29)	-1.0%		
<i>y/y</i>	<i>6.2%</i>	<i>7.3%</i>	<i>-1.1%</i>			
DAU	1,930	1,939	(9)	-0.5%		
<i>y/y</i>	<i>6.0%</i>	<i>6.5%</i>	<i>-0.5%</i>			
DAU/MAU	66.3%	66.0%	0.3%	0.5%		

Source: Company reports, Raymond James research.

Facebook (FB) Income Statement

Raymond James

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(\$ in millions)	2019	2020	1Q21	2Q21	3Q21	4Q21E	2021E	1Q22E	2Q22E	3Q22E	4Q22E	2022E
Advertising Revenues	69,655	84,169	25,439	28,580	28,276	32,387	114,682	29,790	32,727	33,715	39,195	135,427
Payments & Other Revenues	1,042	1,797	732	497	734	620	2,583	586	447	844	929	2,806
Total Revenues	70,697	85,966	26,171	29,077	29,010	33,006	117,264	30,376	33,174	34,559	40,124	138,233
Cost of Revenues	12,393	16,245	5,013	5,236	5,624	6,370	22,243	6,683	6,967	7,257	8,225	29,132
Gross Profit	58,304	69,721	21,158	23,841	23,386	26,636	95,021	23,693	26,207	27,302	31,899	109,101
Operating Expenses												
Research & Development	10,112	13,530	3,789	4,129	4,467	4,951	17,336	5,164	5,640	5,962	6,520	23,285
Marketing & Sales	9,308	10,899	2,669	3,020	3,336	3,878	12,903	3,189	3,446	3,940	4,674	15,249
General and Administrative	10,063	6,085	1,492	1,777	2,781	2,310	8,360	2,339	2,389	2,488	2,889	10,105
SBC	4,835	6,536	1,830	2,548	2,379	2,454	9,211	2,554	3,004	2,954	3,004	11,516
Total Operating Expenses	34,318	37,050	9,780	11,474	12,963	13,594	47,811	13,246	14,478	15,343	17,088	60,155
COGS + Cash OpExp	41,876	46,759	12,963	14,162	16,208	17,510	60,843	17,375	18,440	19,647	22,309	77,771
GAAP COGS + OpExp	46,711	53,295	14,793	16,710	18,587	19,964	70,054	19,929	21,444	22,601	25,313	89,287
Operating Income	23,986	32,671	11,378	12,367	10,423	13,042	47,210	10,447	11,730	11,959	14,811	48,946
Adjusted EBITDA	40,062	46,069	15,180	16,900	14,797	17,561	64,438	15,136	16,939	17,188	20,160	69,422
Other income	826	509	125	146	142	147	560	152	157	162	167	638
Pre-Tax Income	24,812	33,180	11,503	12,513	10,565	13,189	47,770	10,599	11,887	12,121	14,978	49,584
Taxes	6,327	4,035	2,006	2,119	1,371	2,308	7,804	1,855	2,080	2,121	2,621	8,677
GAAP Net Income	18,485	29,145	9,497	10,394	9,194	10,881	39,966	8,744	9,807	9,999	12,357	40,907
Non-GAAP Net Income	21,953	33,803	11,008	12,511	11,264	12,828	47,610	10,785	12,210	12,361	14,745	50,102
GAAP EPS	\$6.44	\$10.09	\$3.30	\$3.61	\$3.22	\$3.80	\$13.92	\$3.05	\$3.39	\$3.46	\$4.26	\$14.17
Non-GAAP EPS	\$7.64	\$11.70	\$3.82	\$4.35	\$3.94	\$4.48	\$16.59	\$3.76	\$4.23	\$4.27	\$5.09	\$17.35
GAAP Diluted Shares	2,860	2,888	2,882	2,877	2,859	2,864	2,871	2,869	2,889	2,894	2,899	2,888
Non-GAAP Diluted Shares	2,872	2,888	2,882	2,877	2,859	2,864	2,871	2,869	2,889	2,894	2,899	2,888

	2019	2020	1Q21	2Q21	3Q21	4Q21E	2021E	1Q22E	2Q22E	3Q22E	4Q22E	2022E
Y/Y%												
Advertising Revenues	26.6%	20.8%	45.9%	56.0%	33.2%	19.1%	36.3%	17.1%	14.5%	19.2%	21.0%	18.1%
Payments & Other Revenues	26.2%	72.5%	146.5%	35.8%	194.8%	-30.0%	43.7%	-20.0%	-10.0%	15.0%	50.0%	8.7%
Total Revenues	26.6%	21.6%	47.6%	55.6%	35.1%	17.6%	36.4%	16.1%	14.1%	19.1%	21.6%	17.9%
Gross Profit	24.7%	19.6%	47.2%	59.2%	34.5%	15.9%	36.3%	12.0%	9.9%	16.7%	19.8%	14.8%
Non-GAAP OperExp (incl COGS)	56.4%	11.7%	23.4%	28.4%	38.4%	29.6%	30.1%	34.0%	30.2%	21.2%	27.4%	27.8%
GAAP COGS plus OpExp	51.0%	14.1%	24.9%	31.3%	38.4%	30.5%	31.4%	34.7%	28.3%	21.6%	26.8%	27.5%
GAAP COGS + OpExp (normalized)	33.3%	14.1%	24.9%	31.3%	38.4%	30.5%	31.4%	34.7%	28.3%	21.6%	26.8%	27.5%
GAAP Operating Expenses	57.0%	8.0%	15.3%	27.3%	38.6%	33.2%	29.0%	35.4%	26.2%	18.4%	25.7%	25.8%
Non-GAAP OpExp	66.6%	3.5%	11.3%	22.0%	38.7%	32.3%	26.5%	34.5%	28.5%	17.1%	26.4%	26.0%
Operating Income	-3.7%	36.2%	93.1%	107.4%	29.6%	2.1%	44.5%	-8.2%	-5.2%	14.7%	13.6%	3.7%
Adjusted EBITDA	20.0%	15.0%	72.0%	80.5%	29.1%	6.9%	39.9%	-0.3%	0.2%	16.2%	14.8%	7.7%
GAAP Net Income	-16.4%	57.7%	93.7%	100.7%	17.2%	-3.0%	37.1%	-7.9%	-5.7%	8.8%	13.6%	2.4%
GAAP EPS	-15.1%	56.8%	92.8%	100.9%	18.5%	-2.1%	38.0%	-7.5%	-6.0%	7.4%	12.2%	1.7%
Non-GAAP EPS	-13.3%	53.1%	82.0%	89.4%	35.2%	1.5%	41.7%	-1.6%	-2.8%	8.4%	13.6%	4.6%
Expenses - % of revenues												
Cost of Revenues	17.5%	18.9%	19.2%	18.0%	19.4%	19.3%	19.0%	22.0%	21.0%	21.0%	20.5%	21.1%
Research & Development	14.3%	15.7%	14.5%	14.2%	15.4%	15.0%	14.8%	17.0%	17.0%	17.3%	16.3%	16.8%
Marketing & Sales	13.2%	12.7%	10.2%	10.4%	11.5%	11.8%	11.0%	10.5%	10.4%	11.4%	11.7%	11.0%
General and Administrative	14.2%	7.1%	5.7%	6.1%	9.6%	7.0%	7.1%	7.7%	7.2%	7.2%	7.2%	7.3%
SBC	6.8%	7.6%	7.0%	8.8%	8.2%	7.4%	7.9%	8.4%	9.1%	8.5%	7.5%	8.3%
Depreciation	8.1%	8.0%	7.5%	6.8%	6.9%	6.3%	6.8%	7.0%	6.6%	6.6%	5.8%	6.5%
Total Operating Expenses	48.5%	43.1%	37.4%	39.5%	44.7%	41.2%	40.8%	43.6%	43.6%	44.4%	42.6%	43.5%
Operating Expenses (ex SBC)	41.7%	35.5%	15.9%	16.5%	21.1%	18.8%	32.9%	18.2%	17.6%	18.6%	18.9%	35.2%
COGS plus Cash OpExp	59.2%	54.4%	49.5%	48.7%	55.9%	53.1%	51.9%	57.2%	55.6%	56.8%	55.6%	56.3%
Tax Rate (GAAP)	25.5%	12.2%	17.4%	16.9%	13.0%	17.5%	16.3%	17.5%	17.5%	17.5%	17.5%	17.5%
Margins												
Gross Margin	82.5%	81.1%	80.8%	82.0%	80.6%	80.7%	81.0%	78.0%	79.0%	79.0%	79.5%	78.9%
EBITDA Margin	56.7%	53.6%	58.0%	58.1%	51.0%	53.2%	55.0%	49.8%	51.1%	49.7%	50.2%	50.2%
Non-GAAP Operating Margin	40.8%	45.6%	50.5%	51.3%	44.1%	47.0%	48.1%	42.8%	44.4%	43.2%	44.4%	43.7%
Operating Margin	33.9%	38.0%	43.5%	42.5%	35.9%	39.5%	40.3%	34.4%	35.4%	34.6%	36.9%	35.4%

COMPANY DESCRIPTION

Facebook, Inc. is the leading social network, with more than 2 billion monthly active users (MAUs) and over 1.4 billion daily active users (DAUs). Facebook enables users to stay connected with friends and family, discover what is going on in the world around them, and share and express with others what matters most to them. Facebook operates a number of leading sites and apps, including Facebook, Messenger, WhatsApp, and Instagram.



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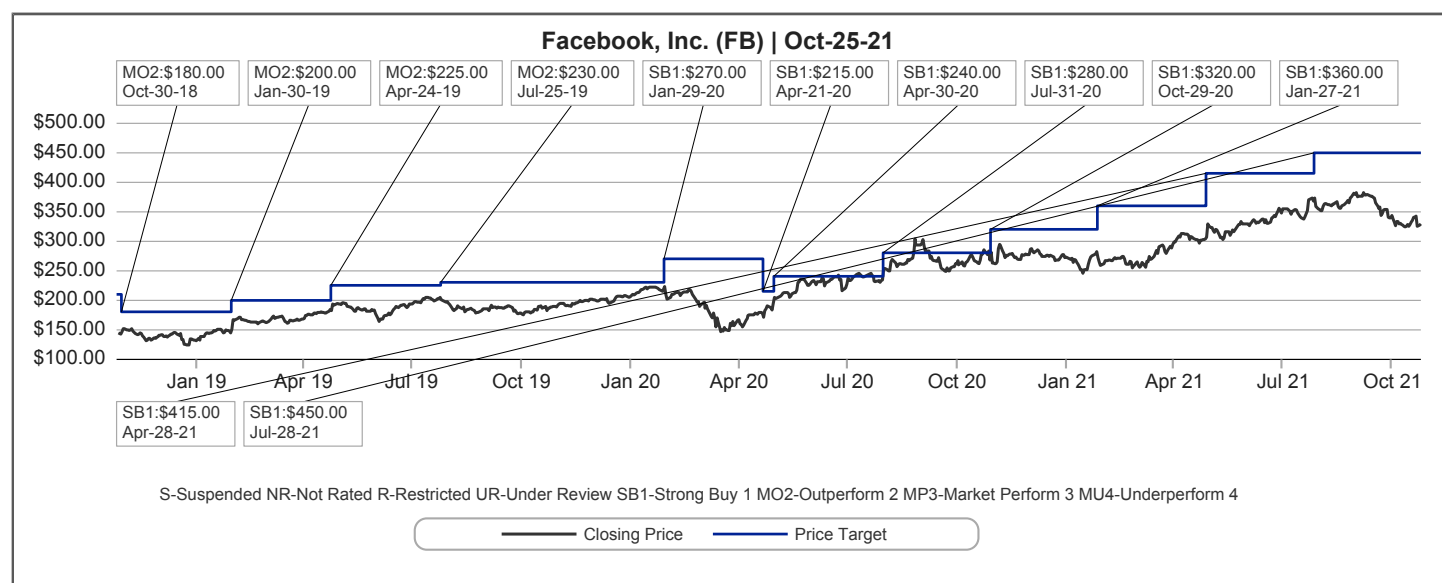
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Target Prices: The information below indicates Raymond James' target price and rating changes for any subject companies over the past three years.



Valuation Methodology

Facebook, Inc.

Our valuation methodology for shares of Facebook is based on a combination of EV/EBITDA, EV/EBITDA/growth, P/E, PEG, and EV/revenue ratios relative to the most relevant peer group.

General Risk Factors

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Company Specific Risk Factors

Facebook, Inc.

User Engagement Facebook's success depends on adding, retaining, and engaging active users. We note that a number of other social networking companies that achieved early popularity have since seen their active user bases decline significantly.

Competition Facebook faces competition from a variety of companies offering Internet products, services, content, and online advertising offerings, including Google, Microsoft, Pinterest, and Twitter, as well as from mobile companies and smaller Internet companies that offer products and services that may compete with specific Facebook features. Additionally, Facebook faces competition from other social network offerings as well as other regional social networks that have strong positions in particular countries.

Government Restrictions It is possible that governments may seek to censor content available on Facebook in their country, restrict access to Facebook from their country entirely, or impose other restrictions that may affect the accessibility of Facebook in their country for an extended period of time or indefinitely. For example, access to Facebook has been, or is currently, restricted in whole or in part in China, Iran, North Korea, and Syria.

Concentration of Voting Power Mr. Zuckerberg controls a majority of the company's voting power, and as such, shareholders have essentially no input in the direction of the company.

For reasons cited above, we assign FB a **Moderate Risk/Wealth Accumulation(M/ACC)** suitability rating.

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Company Name	Disclosure
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