



UConn Student Managed Fund

FACEBOOK (NSADAQ: FB)

SEPTEMBER 22, 2021

Target Price: \$448.72
 Current Price: \$344.20
 Stop loss: \$292.00
 52 Week High/Low: \$244.61/\$384.33

Market Cap (\$B): \$1,060.8 B
 Dividend Yield: N/A
 Beta: 1.03
 ROE: 28.16%

P/E Ratio (TTM): 27.87
 EV/EBITDA: 18.67
 EBITDA Margin: 47.61%
 Gross Margin: 80.58%

Company Overview

Facebook, Inc. operates a social networking website. The Company website allows people to communicate with their family, friends, and coworkers. Facebook develops technologies that facilitate the sharing of information, photographs, website links, and videos. Facebook users have the ability to share and restrict information based on their own specific criteria.

Facebook is the face of social media, for good and bad. The social networking juggernaut, which continues to grow even as it struggles with public relations issues related to privacy, security, and fake news, lets users share information, post photos and videos, play games, and otherwise connect with one another online. The site, which allows outside developers to build apps that integrate with Facebook, boasts 2.8 billion monthly active users. In addition to its namesake platform, Facebook owns photo and video sharing site Instagram, messaging applications Messenger and WhatsApp, and virtual reality platform Facebook Reality Labs. The company generates approximately 55% of total sales accounts outside the US.

Investment Thesis

Facebook (FB) is probably no stranger to many of us. Its mission is to connect the world and build community. They operate with 5 main business units.

Facebook: People can connect, communicate, share and discover with each other via their mobile and desktop applications. Products include Facebook News Feed, Stories, Groups, Shops, Marketplace, News, and Watch.

Instagram. Instagram is a place where people can express themselves through photos, videos, and private messaging, and connect with and shop from their favorite businesses and creators. They can do this through Instagram Feed, Stories, Reels, IGTV, Live, Shops, and messaging.

Messenger. Messenger is a messaging application for people to connect with friends, family, groups, and businesses across platforms and devices through chat, video, and Rooms.

WhatsApp. WhatsApp is a secure messaging application that is used by people and businesses around the world to communicate and transact in a private way.

Facebook Reality Labs. Facebook Reality Labs' augmented and virtual reality products help people feel connected, anytime, anywhere. Oculus Quest provides cutting-edge virtual reality (VR) hardware, software, and content, while Portal helps friends and families stay connected and share the moments that matter in meaningful ways.

Facebook's revenue is generated mainly from the advertising revenue of Marketers. Marketers purchase ads that can appear in multiple places including on Facebook, Instagram, Messenger, and third-party applications and websites.

The company generate substantially all its revenue from selling advertising placements to marketers. Its ads enable marketers to reach people based on a variety of factors including age, gender, location, interests, and behaviors. Marketers purchase ads that can appear in multiple places including on Facebook, Instagram, Messenger, and third-party applications and websites.

Yes, Facebook's business model is extremely scalable. It's also crucial to see how they're trying to diversify outside of advertising revenue as they build for the next wave of innovation like VR/AR. For Q4'2020, Facebook saw a year over year increase in revenue of 31% for 3 months ended in Dec 2020. They've ended the 2020 year strong with a 21.6% YoY increase. This is a massive success for such a huge company.

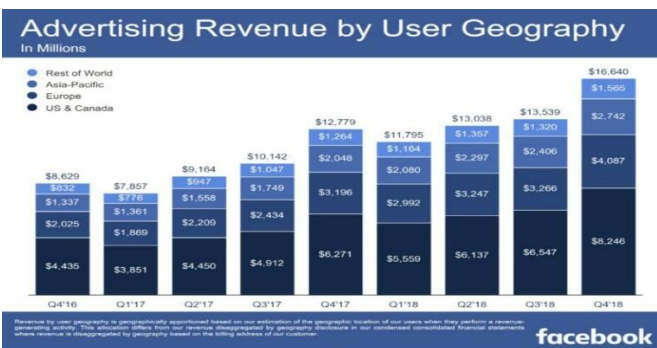
Investment Risk

Our ability to add and retain users and maintain levels of user engagement with our products.

The COVID-19 pandemic, including its impact on our advertising business.

Volatile or slower user and revenue growth rates in the future.

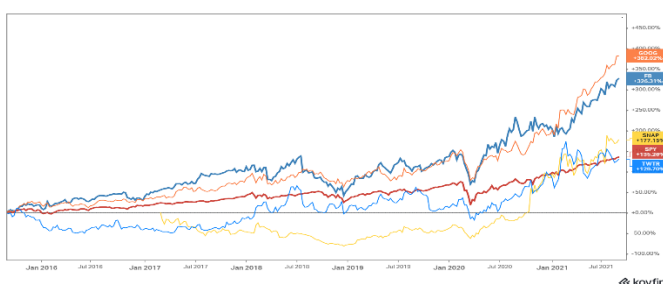
Government restrictions on access to Facebook or our other products, or other actions that impair our ability to sell advertising, in their countries.



Industry Outlook

The social media market consists of sales by entities (organizations, sole traders or partnerships) that enable customers to interact, create and share content and information. Social media enables users to share pictures, video and audio files. This market includes revenues from sales from advertisement and other services offered on social media platforms. The social media market is segmented into social media advertising and social media subscriptions.

The global social media market is expected to grow from \$94.83 billion in 2020 to \$102.62 billion in 2021 at a compound annual growth rate (CAGR) of 8.2%. The growth is mainly due to the companies rearranging their operations and recovering from the COVID-19 impact, which had earlier led to restrictive containment measures involving social distancing, remote working, and the closure of commercial activities that resulted in operational challenges. The market is expected to reach \$309 billion in 2025 at a CAGR of 32%.



Financial Performance

Facebook has experienced exponential growth over the past few years, enabling it to dominate the social networking world as the most trafficked site of its kind in the US. Its revenue grew from about \$2.5 billion in 2016 to nearly \$86 billion in 2020, while its net income grew from \$10.2 billion to \$29 billion. Despite record-breaking business, the company cannot rest on its laurels. Revenue in 2020 increased \$15.27 billion, or 22%, compared to 2019. The increase was mostly due to an increase in advertising revenue as a result of an increase in the number of ads delivered, partially offset by a decrease in the average price per ad. Monthly active users grew 12% and the average price per ad increased by 10% (versus the increase of 5% in 2019). Average price per ad. Monthly active users grew 12% and the average price per ad increased by 10% (versus the increase of 5% in 2019). Net income increased by 58% from \$18.4 billion in 2019 to \$29.1 billion in 2020 on the jump in cost and expense. (The prior year profits fall 16%). Operating expenses consist primarily of expenses associated with the delivery and distribution of their products, research and development, marketing, and sales, and general and administrative.

Breakdown	TTM	12/31/2020	12/31/2019	12/31/2018	12/31/2017
> Total Revenue	104,790,000	85,965,000	70,697,000	55,838,000	40,653,000
Cost of Revenue	19,934,000	16,692,000	12,770,000	9,355,000	5,454,000
Gross Profit	84,856,000	69,273,000	57,927,000	46,483,000	35,199,000
> Operating Expense	40,296,000	36,602,000	33,941,000	21,570,000	14,996,000
Operating Income	44,560,000	32,671,000	23,986,000	24,913,000	20,203,000
> Net Non Operating Interest Inc...	521,000	672,000	904,000	652,000	392,000
> Other Income Expense	123,000	-163,000	-78,000	-204,000	-1,000
Pretax Income	45,204,000	33,180,000	24,812,000	25,361,000	20,594,000
Tax Provision	6,247,000	4,034,000	6,327,000	3,249,000	4,660,000
> Net Income Common Stockhold...	38,957,000	29,146,000	18,485,000	22,111,000	15,920,000

Valuation Assumptions & Key Financials

We recommend a BUY rate for FB based on a target price of \$448.75 per share. This target price reflects a 32.72% margin of safety based on its closing price of \$378.69 on September 10, 2021. We calculated WACC as 6.94%, assuming a terminal growth rate of 3.5% and a 15x exit EV/EBITDA.

Perpetuity Growth Method - Value per Share		Terminal EBITDA Method	
Free Cash Flow at Year 2025	50,422.48	Terminal EBITDA at year 2025	105,065
WACC	6.94%	WACC	6.94%
Perpetuity Growth Rate	3.50%	Exit Enterprise Value / EBITDA	15
Perpetuity Value at End of Year 5	1,514,885.66	Terminal Value in 5 years	1,575,973.93
Present Value of Perpetuity (@ WACC)	1,082,874.60	Present Value of Terminal Value (@ WACC)	1,126,541.88
(+) Present Value of Free Cash Flows (@ WACC)	157,121.03	(+) Present Value of Free Cash Flows (@ WACC)	157,121
(-) Current Enterprise Value	1,239,995.63	(-) Current Enterprise Value	1,283,662.91
(-) Long Term Debt	10,100.00	(-) Long Term Debt	10,100
(+) Cash and Marketable Securities	61,954.00	(+) Cash and Marketable Securities	61,954
(=) Equity Value	1,291,849.63	(=) Equity Value	1,335,516.91
Shares outstanding	2,826.00	Shares outstanding	2,826.0
Estimated Value per Share (USD)	457.13	Estimated Value per Share (USD)	472.58
Current Price (USD)	344.44	Current Price (USD)	344.44
Estimated Upside	112.69	Estimated Upside	128.14
	MOS 32.72%		MOS 37.20%

ESG Considerations

In the case of Facebook, its overall S&P DJI ESG Score was 21, out of a range of 0 to 100, with 100 being best. This low score resulted in Facebook not being selected as part of the approximately 75% of the Media & Entertainment industry group's market capitalization included in the S&P 500 ESG Index

Facebook Inc

Industry Group: Software & Services

Country: United States

Identifier: NAS:FB

ESG Risk Rating

28.0 Medium Risk

Negl. Low **Med.** High Severe

0-10 10-20 20-30 30-40 40+

Last Update: Jun 10, 2021

Ranking

INDUSTRY GROUP
Software & Services

752 out of 850

UNIVERSE
Global Universe

7062 out of 13650