

Facebook (FB)

Highly Attractive

Daniel Ives, Head of Technology Research | 917.210.3220 | daniel.ives@gbhinsights.com

Initial Look at FB Results; Robust Results and Major Tailwinds Heading into 2018 Despite News Feed Clouds

Facebook delivered robust 4Q17 (December) results which handily beat Street expectations. Total revenues and pro forma EPS of \$12.97 billion and \$2.21 (tax benefit) came in ahead of the Street's \$12.55 billion estimate and \$1.94, respectively. All-important MAUs were 2.13 billion in the quarter and in line with expectations, which were very strong, but some of the bulls may be disappointed this was not a "blow out" quarter on the MAU front and will have a knee jerk reaction. While there continues to be evolution around Facebook's ad growth model and monetization strategy, based on these 4Q results and trends heading into 2018 it appears the company is executing extremely well in the field (e.g. engagement, MAU growth, ad growth) as pricing power and unparalleled MAUs remains Facebook's golden ticket. With MAUs currently north of 2 billion total users, Facebook will continue to grow its massive global installed base while importantly monetizing users especially on the Instagram side of the house, which remains the "core 1-2 punch" that underlies our bullish thesis on the name. We note that Instagram remains a "key jewel" in Facebook's platform in our opinion with healthy monetization and ad growth set to play out which looked to gain steam ahead this quarter and has a long runway of growth heading into 2018. The higher investment profile for 2018 with expenses up 45%-60% could be a lingering cloud over Facebook's shares in the near term (further clarity expected on the call) and a small speed bump until investors can get further comfort that these investments are fueling the next phase of the growth story for 2018 and beyond with margin improvement set to kick in for 2019. The News Feed overhaul and any near-term engagement issues on the platform is ultimately the "right medicine at the right time" as we believe this strategy will drive higher advertising pricing/monetization trends in the long-term for Facebook and was a move Zuckerberg & Co. needed to make. **We maintain our Highly Attractive rating and \$225 price target.**