

FTC Adds to the Facebook and Zuckerberg “White Knuckle” Period Ahead with the Street Fearing the R Word (Regulation)

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Today's news that the FTC is further investigating Facebook's data collection practices, along with various other lawsuits and states/attorney generals getting into the mix, added further agita to the Cambridge inferno that has created a dark cloud over Facebook's stock. This has just created more worries around the "Nightmare on Elm Street week" that Facebook and Zuckerberg encountered post the Cambridge Analytica debacle which has unleashed a 14% sell off in shares, regulatory chatter/noise coming from the Beltway and EU, Zuckerberg now likely testifying in front of Congress on the near-term horizon, the launch of an FTC investigation, and a #Delete Facebook user campaign which appears to be gaining steam worldwide. With a data leak of 50 million+ users potentially exposed in the Cambridge Analytica situation and growing worldwide criticism of Facebook's handling of this situation, we would characterize this as a "defining period" for Facebook, Zuckerberg, and the Street's ability to navigate through this hurricane-like storm with the company's business model still well intact. While many will fret around near-term user growth/defections and advertising worries with the noise growing louder over the coming weeks, we ultimately believe Facebook can still manage this risk during this hand holding period, however this dark chapter has opened up a Pandora's box of bad news that will clearly weigh on shares in the near-term. In a nutshell, 1) this is either a golden buying opportunity to own a unparalleled social media user base of 2 billion+ and advertising fortress of \$50 billion annually, ~30% top-line grower the next few years, with \$10+ of earnings power in 2020 and a fair value valuation range we believe is between \$210 to \$240 per share in a year OR 2) the Cambridge fiasco represents a seminal negative moment that will change the future business model and growth trajectory of Facebook with a modest/significant regulatory oversight on the horizon and therefore fair value is in the \$150-\$170 range. While this is a fluid situation and Zuckerberg & Co. will be heavily tested over the coming months as they navigate this PR minefield situation and we will also be keeping a close eye on user defections/engagement and advertising trends through consumer surveys in our GBH Tech Tracker during this crucial period, we ultimately believe Facebook will emerge from this crisis with minimal regulatory changes and limited financial damage to its user base and advertising kingdom as we remain bullish on the name

with a compelling risk/reward in shares at current levels. While the stock could be range bound as Facebook and Zuckerberg walk regulators, users, and advertisers through its data privacy/content procedures and making sure the Cambridge issue will never be repeated, we believe the stock will make the climb back to the \$180-\$200 range as the dust settles over the next few quarters with fundamentals remaining on track despite this representing the darkest chapter for Facebook and Zuckerberg in its 14-year history. **We maintain our Highly Attractive rating and \$225 price target.**