

Zuckerberg Responds to Cambridge Data Leak; A Step in the Right Direction

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A few minutes ago CEO Mark Zuckerberg in a blog post gave his first public statements on the Cambridge Analytica data leak crisis after radio silence over the last few days, which has frustrated investors and users alike. With shares down 10%+ since the Cambridge data leak news came to light, we are glad to hear Zuckerberg finally address this issue sooner rather than later as this uncertainty has been a major overhang on Facebook shares. In his blog post, Zuckerberg gives a relatively detailed time line of the events around the Cambridge Analytica situation from 2013 until learning of the breach last week. The most important data points from his blog post in our opinion is: Facebook is maintaining it only learned last week the user data was not deleted vs. knowing in 2015 which some media reports indicated. Facebook contends Mr. Kogan (the Cambridge University researcher) certified in 2015 along with Cambridge Analytica they had deleted all improperly acquired data. In his blog post Zuckerberg walks through steps that have already been taken to assure data security and user content are not at risk with future actions around investigating/auditing all apps to make sure other developers did not improperly use data. While this is still a developing situation that will take time to fully understand what happened and future actions, we believe Zuckerberg took a “big step forward” today in addressing this situation and taking ownership for the Cambridge debacle saying “I started Facebook, and at the end of the day I’m responsible for what happens on our platform.” While this Cambridge situation will remain a dark cloud over the Facebook name in the near-term, breaking his silence and the actions outlined in his blog post should help users, advertisers, and investors feel more comfortable that Facebook and Zuckerberg are starting to get their arms around this issue. Although this has been a dark chapter in the Facebook story, we continue to believe the Cambridge risk is “manageable” if handled well by Zuckerberg & Co. with breaking his silence a good first step to putting this PR nightmare slowly in the rear view mirror. There is still more work to be done for Facebook to restore confidence and make sure regulatory crosshairs do not meddle with its business both in the Beltway and EU, however we continue to be buyers on weakness in shares of Facebook as we believe a lot of this bad news is now priced into the name. We maintain our Highly Attractive rating and \$225 price target.