

Completed Pitch/Recommendation

Facebook's Overall Value Proposition: Facebook's competitive moats boil down to their core competencies, their disciplines, and their owner operator.

Core Competencies:

- Inbound logistics
- Advanced Technology
- Marketing Strategy
- Acquirer of Competitor Service
- Customized services for special groups

Key Value Disciplines of Facebook:

- Customer intimacy
- Product leadership
- Operational excellence

Owner Operator: Mark Zuckerberg

- Founder and CEO
- Owns 30% of company
- Passion for business permeates through the entire company
- Long-term leader focused on long-term growth

Company Overview

I. History

Facemash, a social media website, served as Facebook's predecessor and launched in October 2003. Initially created by Harvard student, Mark Zuckerberg, and three of his peers, Facemash was organized like a "hot or not" game for Harvard students. The website permitted users to compare student pictures side-by-side and let them choose who was "hot" or "not." Zuckerberg populated the site by stealing pictures of his peers from an online Harvard database and was eventually expelled from Harvard. Zuckerberg decided to expand upon the initial website and began to write the software to develop Facebook. In a *TechCrunch* interview, Zuckerberg shares, "I wanted to make something that would make Harvard more open." The website's membership was preliminary limited to Harvard students, but was expanded to other colleges in the Boston area, the Ivy League, and eventually to most universities in Canada and the United States, and corporations. By September 2005, Facebook was available to everyone of age 13 and older with a valid email address.

II. Overview of Business

Facebook operates as a mobile application and website that enables people to connect, share, discover, and communicate each other on mobile devices and personal computers worldwide. It offers online and mobile-based platform for people to share their opinions,

ideas, photos and videos, and to engage in other activities. The company's products include Facebook, Instagram, Messenger, and WhatsApp.

III. Highlight of Important Product(s)

Facebook is the company's most important product. Available across the world, Facebook has over 890 million daily active users. Facebook has several features including the news feed, friend groups, personal wall, timeline, like options, messages and inbox, notifications, and networks and groups. In addition to the features, Facebook has an intensive array of applications for users as well. A few include: events, marketplace, notes, and places.

IV. Bios of E-Suite

Mark Zuckerberg: Founder, Chairman and Chief Executive Officer

- Mark is the Founder, Chairman and CEO of Facebook, which he founded in 2004. Mark is responsible for setting the overall direction and product strategy for the company. He leads the design of Facebook's service and development of its core technology and infrastructure. Mark studied computer science at Harvard University before moving the company to Palo Alto, California

Sheryl Sandberg: Chief Operating Officer

- Sheryl Sandberg is chief operating officer at Facebook, overseeing the firm's business operations. Prior to Facebook, Sheryl was vice president of Global Online Sales and Operations at Google, chief of staff for the United States Treasury Department under President Clinton, a management consultant with McKinsey & Company, and an economist with the World Bank. Sheryl received a BA summa cum laude from Harvard University and an MBA with highest distinction from Harvard Business School. Sheryl is the author of the bestsellers *Lean In: Women, Work, and the Will to Lead* and *Lean In for Graduates* and founder of *LeanIn.Org*, a global community committed to empowering all women to achieve their ambitions. Sheryl serves on the boards of Facebook, the Walt Disney Company, Women for Women International, ONE, and SurveyMonkey. Sheryl lives in Menlo Park with her son and daughter.

Dave Wehner: Chief Financial Officer

- Dave is Chief Financial Officer of Facebook, where he leads the finance, facilities and information technology teams. Prior to becoming CFO in June 2014, Dave served as Facebook's Vice President, Corporate Finance and Business Planning, since he joined Facebook in 2012. From 2010 through 2012, Dave served as Chief Financial Officer of Zynga Inc. Before Zynga, Dave was a Managing Director at Allen & Company, an investment bank focused on media and technology, which he joined in 2001. Dave holds a B.S. in Chemistry from Georgetown University, and a M.S. in Applied Physics from Stanford University.

Mike Schroepfer: Chief Technology Officer

- Mike is responsible for harnessing the organization's culture of speed, creativity and exploration to build products, services and infrastructure that support the more than 1 billion people worldwide who use Facebook. Before coming to Facebook, Mike was the Vice President of Engineering at Mozilla Corporation, where he led the global, collaborative, open and participatory product development process behind Mozilla's popular software, such as the Firefox web browser. Mike was formerly the Chief Technology Officer for Sun Microsystems' data center automation division ("N1") and founder, Chief Architect and Director of Engineering at CenterRun. Mike holds a bachelor's degree and a master's degree in computer science from Stanford University.

Chris Cox: Chief Product Officer

- Chris leads Facebook's Product Management, Design, and Marketing functions globally. He is responsible for the core products and features that shape the social experience for the over 1.2 billion people who use Facebook every month. Chris joined Facebook in 2005 as a software engineer and helped build the first versions of key Facebook features, including News Feed. He then became director of human resources, where he set the tone for Facebook's culture and drove the development of its mission, values and people strategy. Chris holds a bachelor's degree in symbolic systems with a concentration in artificial intelligence from Stanford University.

V. Porters Five Forces

Current Competitors:

While there have been some competitors who have tried to break into the space, including Alphabet's Google Plus network and Yahoo's Tumblr, none have put a dent in Facebook's user numbers or usage. However, that does not mean that Facebook is not vulnerable. Facebook is in competition with a variety of social networks, from full-featured ones such as Google Plus or Tumblr to more niche sites such as Twitter and LinkedIn. Facebook has several different platforms, which helps it compete more directly with those competitors, but they do not appeal to all demographics equally. For instance, many younger users prefer Facebook's WhatsApp or its rival Snapchat, while professional users may look more towards LinkedIn, Twitter or Facebook Pages. In this sense, Facebook faces a moderately high risk.

To provide some color on other competitors:

PE Ratio:

- Twitter: -25.97 (2015 Actual) -41.95 (2016 Estimate)
- LinkedIn: -711.44 (2015 Actual) -437.81 (2016 Estimate)

Customer Bargaining Power:

Moreover, many people have and use accounts on several different social media platforms. The more a user engages outside the Facebook family, the less time he or she spends on Facebook or its other platforms. This gives Facebook's customers quite a fair

amount of bargaining power. As a reminder, Facebook is free to use, so it does not cost anything for a user to switch networks. The company needs users to be actively using the site if it is to make any money on ad space or the market research that can come from all the data Facebook collects. Facebook has to work adamantly to keep users actively using its serves. That can mean limiting the number of ads, spending money on research and development to create more robust features and working hard to create integrations with Facebook and other sits or services.

Threat of New Entrants

The world of smartphone applications and platforms is fairly inexpensive to enter, so the threat of new entrants is definitely present. All you need is a superior programmer and a secure server. The trick is in getting enough brand recognition to attract users, inspiring enough confidence that users feel safe to share their personal information on the platform, and creating enough economies of scale to compete effectively with a company as large as Facebook. So far, Facebook has ruled this space, but all it takes is one new entrant to beat the odds. If an app comes out that trends with the youth, then that could be all it takes to impact Facebook's successful business. However, the risk here is moderately low.

Supplier Bargaining Power

Facebook's suppliers also have bargaining power. Suppliers include everyone from the people who build and maintain their servers to the software that runs Facebook's different social media platforms. Facebook is large enough and powerful enough that supplier bargaining power is less of an issue than it may be for a smaller company, but that does not mean the issue is completely ignored. Suppliers in this sense can also be complements that allow Facebook to operate as it does, such as the Internet. For instance, if Internet usage becomes capped or very expensive after reaching a set limit, users could be forced to reduce the time they spend on social media, even if Facebook does everything right. The cost and availability of fast Internet speeds could impact the amount of time Facebook users spend on the site. Another factor could be the sites and services that offer Facebook login for identification purposes. This helps provide Facebook with new information every time a user logs into an outside site this way, but if that technology were to go out of favor or be replaced by a more secure identifier, Facebook could lose out on that integration.

Threat of Substitutes

Facebook has a gigantic user base, but social networking as a whole is very vulnerable to new technologies and shifting trends. If social networking becomes unfashionable, Facebook will lose many of those current participants. Similarly, much of Facebook's competition comes from niche sites. It could happen that instead of users switching to a more direct competitor, they simply choose a substitute. Companies such as Apple could develop services that allow families and groups to share photos and messages easily among themselves, some close-knit groups may be less likely to use Facebook and

choose this type of inter-family messaging instead.

VI. SWOT

Strength:

Facebook is the world's largest social network and is consistently profitable on a GAAP basis. Mobile advertising revenue accounts for approximately 73% of Facebook's advertising revenue, which has steadily increased year over year. Research firm emarketer estimates that Facebook generating 3.53 billion in mobile display ad revenues in the U.S. in 2014, more than triple Google's 1.13 billion. Facebook is expanding its video delivery platform for video ads. It launched its own embedded video system to challenge Google's Youtube.

Weaknesses:

Facebook's conversion rates have been questioned, which measures whether or not purchases or marketer-specified action occur after an ad is clicked. Research firm Marin Software reported that 63% of clicks on Facebook ads came from mobile devices during the fourth quarter of 2014, but only 34% of conversions occurred on smartphones and tablets. Meanwhile, the click through rate (CTR) of Facebook ads is consistently lower than the CTR for Google AdWords. Those two weaknesses, combined with soaring ad prices, have caused smaller businesses to question the price effectiveness of Facebook ads. Another potential weakness is Facebook's concern on growth. Can they continue to grow or will they reach a plateau?

Opportunities:

Investors should remember that Facebook's ecosystem already extends far beyond its News Feed. Facebook also owns WhatsApp, which has 800 million MAUs, and Instagram, which had 300 million MAUs at the end of 2014. WhatsApp relies on nominal \$1 annual fees, but unlike Facebook or Instagram, *it isn't banned in China*. This gives it a possible backdoor into the massive Chinese market.

Facebook also recently expanded into LinkedIn's backyard with "Facebook at Work," which lets businesses create their own social networks. Facebook's Oculus VR could also launch its long-awaited Rift VR headset later this year, and the company is launching Internet.org in new markets to tie more developing market users to its ecosystem.

Threats:

Facebook also faces four near-term threats. First, a strong dollar could weigh down Facebook's top and bottom line over the next few quarters. Second, Facebook faces ongoing questions about privacy in the EU, which could lead to a damaging probe of its business strategies.

Third, data breaches could eventually turn hacked Facebook accounts into "skeleton keys" for SSO connected apps and websites. Lastly, the rise of ad-blocking extensions like Facebook AdBlock could reduce the profitability of Facebook ads. According to research firm PageFair, a similar extension, AdBlock Plus, cost Google \$887 million in

potential ad revenues in 2012. Facebook's strengths and opportunities outweigh its weaknesses and threats. It's the world's largest social network, it's profitable, and its ecosystem is growing in multiple directions.

In my opinion, I believe Facebook's strengths and opportunities outweigh their weaknesses and threats. It's the world's largest social network, it is profitable, and its ecosystem is growing in multiple directions. FB is laying the groundwork for a platform that can make FB a part of just about every social interaction that takes place around the world. The fact that FB is customized but also standardized has made it a premiere company and a platform on which many businesses rely.

	Facebook	Industry (Internet Information Providers)
PE Ratio	88.64	49.60
Total Debt/Equity (mrq-most recent qtr)	0.71	9.35
Revenue	17.93B	-
Profit Margin	20.57%	17.30%
Market Cap	336.42B	36,321B
Operating Cash Flow	8.60B	-
Current Beta	0.72	0.92

Sources: Yahoo Finance,

http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/totalbeta.html,

Top 10 News Stories

1.) Asian Market Provides Huge Opportunity for Facebook

<http://finance.yahoo.com/news/asian-market-provides-huge-opportunity-130726425.html>

The Asian market provides a large opportunity for Facebook. User growth in Asia is rising much faster than in other parts of the world. Although Asia has a lower ARPU rate than the United States and Canada, the former has more growth potential than the latter due to its large population. Moreover, MAU growth from the United States and Canada has become saturated, as very few users remain untapped in this region compared to other parts of the world.

Dan Neary, Vice President of Facebook, says that revenue from Asia has been rising at a rate of 25% as organizations and businesses learn the value of advertising over the Facebook platform. The company is putting all its efforts toward growing connectivity in

Asia.

2.) Facebook Reactions, the Totally Redesigned Like Button is Here

<http://www.wired.com/2016/02/facebook-reactions-totally-redesigned-like-button/>

Facebook has taken it upon itself to examine the usefulness of emojis. Nearly 70 percent of meaning derived from spoken language comes from nonverbal cues like body and facial expression. So, Facebook is now using “Facebook Reactions” which utilize emojis to provide users with an option to convey their reactions using images. This addition was made after years of feedback collected from users who wanted to be able to use images to convey their reactions to a post rather than words.

3.) Facebook: Oculus Rift Makes FB Stock Even Better

<http://money.usnews.com/investing/articles/2016-03-30/facebook-oculus-rift-makes-fb-stock-even-better>

Facebook has now entered into the virtual reality space. This confirms the idea of Facebook building their network into a global empire full of never-ending innovations.

4.) Facebook Inc Stock-Will It Continue To Surge?

<http://www.valuewalk.com/2016/03/facebook-inc-fb-stock-surge/>

5) Facebook The Best Channel For Retail Customer Service

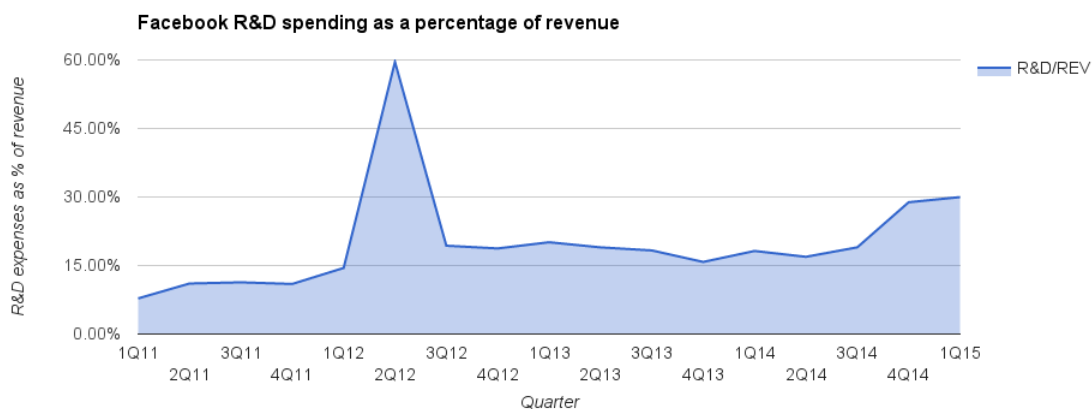
<http://www.itproportal.com/2016/03/17/facebook-the-best-channel-for-retail-customer-service/>

6) Video Ads Are Coming To Facebook Instant Articles

http://www.wsj.com/articles/video-ads-are-coming-to-facebook-instant-articles-1459371404?mod=yahoo_hs

7) Why Facebook’s R&D Spend Is So Huge Right Now

<http://venturebeat.com/2015/04/22/why-facebooks-rd-spend-is-huge-right-now/>



“Facebook has been making advancements when it comes to mining videos, pictures, and text for information. And in the domain of speech, Facebook picked up formidable technology through the Wit.ai deal. Facebook has been improving its AI systems and even sharing them with the world. All this activity takes money. Deep learning talent is

highly sought after. So Facebook has been digging into its deep pockets for this sort of expertise.”

8) Crossing the Line: How Tech Firms Are Pushing To Control the Internet

<http://venturebeat.com/2016/03/25/crossing-the-line-how-online-firms-are-pushing-to-control-the-internet/>

Facebook has been pushing to connect large parts of the world — last October (2015) it revealed a partnership with French company, Eutelsat Communications, to bring broadband to Africa through satellites.

9) Live, On Your Mobile Device, It’s Facebook

http://www.nytimes.com/2016/04/01/technology/live-on-your-mobile-device-its-facebook.html?_r=0

Facebook has conjoined elements of Twitter and Youtube by creating a live video option for users. This is a newly distinguishable feature of Facebook.

10) Why Facebook Cares So Much About India

<http://fortune.com/2015/10/28/facebook-zuckerberg-india/>

“There are a billion people in India who do not have access to the Internet yet and if you care about connecting everyone in the world, you can’t do that if there are so many people who don’t even have access to basic connectivity,” However, Zuckerberg acknowledged that “more than 130 million people in India use Facebook,” making it his company’s second-largest market behind the U.S.”

11) Facebook’s Most Promising Chart

<http://www.fool.com/investing/general/2016/03/12/facebook-incs-most-promising-chart.aspx>

“Europe had a FY 2015 ARPU of \$14.32 -- above the Worldwide figure, but well below U.S. & Canada -- and a year-over-year growth rate of 23%. European economies are mature, but Facebook's presence is less ubiquitous. In Germany, only around 30% of the population is on the service. In France, the number is around 37%.

Overall revenue will increase as more users join the service, but so too should ARPU.

Advertisers want to be where the most possible customers are. Facebook will be able to charge clients more, provide more targeted ads, and generate a higher ARPU in Europe as the penetration level of its service approaches the 50% level found in the U.S. This revenue will help drive the company in the medium term as the U.S. & Canada become mature markets.”

This means that Europe remains to be a growth opportunity for Facebook. They have yet to capture this market, but are working to increase their presence.

Facebook (FB)-NDQ		FUNDAMENTAL STOCK VALUATION	
WEIGHTED AVERAGE COST OF CAPITAL			
Value Line Beta	0.90	Market Value of Equity	
Yahoo Beta	0.683689	Long Term Debt	
Average Beta	0.79	Long Term Interest	
Adjusted Beta	0.86	Cost of Debt	
Treasury Bill Return	3.50%	Income Tax Rate (2018-2019)	
Expected Market Return	12.07%	Proportion of Equity	
Market Risk Premium	8.57%	Proportion of Debt	
Cost of Equity	10.88%	Weighted Average Cost of Capital	
Shares Outstanding	2,290,000,000	Average Annual P/E Ratio	
Stock Price	\$107.92		

(Millions of Dollars)				
Current and Projected Amounts	12/31/15	12/31/16	12/31/17	12/31/18
Working Capital	\$19,727	\$21,500	\$23,125	\$24,750
Capital Spending per Share		\$1.00	\$1.10	\$1.20
Common Shares Outstanding		2,875	2,831	2,788
Long-Term Debt	107	120	140	160
Interest Payment		11	13	15

FINANCIAL PROJECTIONS		12/31/16	12/31/17	12/31/18
Net Profit		4,750	5,878.75	7,007.50
+ Depreciation		2,100	2,262.50	2,425.00
- Increase In Working Capital		(1,773)	(1,625)	(1,625)
- Capital Spending		2,875	3,114	3,345
+ New Borrowing		13	20	20
+ After-tax Interest Payment		7	8	9

DISCOUNTED FCFTE VALUATION		Date	12/31/16	12/31/17	12/31/18
Fractional Years from Current Date		04/20/16	0.70	1.70	2.70
Free Cash Flows to Equity (FCFTE)			7,965	9,651	11,173
Terminal Value of FCFTE					
Total FCFTE			7,965	9,651	11,173
Present Values of FCFTE			7,412	8,099	8,456
Market Value of Equity (FCFTE Method)	253,758				
Stock Value (FCFTE Method)	\$0.00				

DISCOUNTED FCFTF VALUATION		Date	12/31/16	12/31/17	12/31/18
Free Cash Flows to Firm (FCFTF)		04/20/16	7,959	9,638	11,161
Terminal Value of FCFTF					
Total FCFTF			7,959	9,638	11,161
Present Values of Total FCFTF			7,406	8,089	8,448
Enterprise Value	253848.8119				
Total Cash	4,907,000				
Market Value of Firm	4,907,000				
Total Debt	2,032,000				

Market Value of Equity (FCFTF Method)	2,875,000
Stock Value (FCFTF Method)	\$0.00

COMPARABLES VALUATION	COMPETITORS		INDUSTRY
Market Value Ratios	GOOG	MSFT	
PEG Ratio	1.22	1.99	0.85
Company's Earnings and Growth			
Earnings per Share (TTM)	1.29		
Next 5 Years' Annual Growth Estimate (%)	32.36		
Stock Value (Comparables Method)			
Estimated Stock Value		\$0.00	Brokers' Price Target & Recommendation
2-Month Target Price	\$0.00		High
Projected 1-Year Gain	-100.00%		Mean
Forward Annual Dividend Yield	0.00%		Median
Projected 1-Year Return	-100.00%		Low
Treynor Index	-1.20		No. of Brokers
Excess Return	-110.88%		Mean Recommendation
Investment Recommendation	STRONG SELL		