

# Buy Pinterest

Maria Gallagher | January 23, 2020 | [Buy Recommendation](#)

CURRENT PRICE: [PINS](#) \$ 22.58 -\$ 0.59 (-2.5%) C<sup>o</sup><sup>n</sup>G<sup>i</sup> Y<sup>r</sup> B<sup>≈</sup>ÅÖG<sup>"</sup>Å<sup>ñ</sup>Å<sup>ñ</sup>Å<sup>ñ</sup>Å<sup>ñ</sup> iN<sup>ü</sup>

For many of us, 2020 began with a host of resolutions based on getting fit, eating right, and starting healthier habits. Where can we look for inspiration? Instead of going to Facebook or Instagram — where you might compare yourself to people who are seemingly better off and come away feeling worse than ever — you might want to try **Pinterest** ([NYSE: PINS](#)).

Pinterest is gaining traction as a more helpful social media outlet, a virtual corkboard for users to share aspirational images and come up with concrete plans to turn these dreams into reality. Whether that means planning a wedding or remodeling a garage, this positive mindset seems to be working — 91% of users say Pinterest is filled with positivity, and 89% say they leave feeling empowered.

We think there's another good feeling to be had with Pinterest — the warm feeling of a fat bank account. As advertising continues its shift to digital channels, Pinterest is poised to profit. It's still just getting started monetizing its huge audience, recently ticking over \$1 billion in 12-month revenue for the first time. We think profits are soon to follow. But for all the ways Pinterest differs from **Facebook** ([NASDAQ: FB](#)), it does have one thing in common — it, too, is off to a slow start following its initial public offering, trading a little below its \$23.75 share price on April 19, 2019. Facebook was likewise trading underwater for a little over a year post-IPO — and we know what's happened since, right?

These are two different companies, of course, and the social-media world is much different today than it was when Facebook went public in 2012. But Pinterest has a clear opportunity in front of it, and it's meeting that opportunity with a potentially powerful business wrapped up in a positive message. We think Pinterest is an excellent way to get the new year started right.

## Don't Just Put a Pin in It

### PINTEREST IN 1 MINUTE

#### WHAT IT DOES

Pinterest is a social media platform in the form of a "visual discovery engine" that people use to find inspiration for their lives, including recipes, home and style ideas, travel destinations, and more.

#### WHY BUY

- Pinterest has a fast-growing social media platform with a uniquely positive vibe that encourages engagement — and avoids the criticisms heaped on other platforms.
- It is by design a visual platform, blending seamlessly with the ability to place ads that are clicked by, and even courted by, users.
- The stock is trading below its IPO price as the market has shrugged off international growth and the potential to better monetize users.

#### BUYER'S GUIDE

- **Industry:** Advertising
- **Size:** Mid Cap
- **Region:** Global
- **Jan. 22 Price:** \$22.42
- **Allocation:** Many Fools choose to fill out their positions incrementally, starting with a small amount — 2% of their portfolio's overall value, for

With a focus on visual imagery, Pinterest's appeal is pretty easy to grasp. Wherever users find ideas or inspiration images — typically on the site itself — they can pin them to specific collections, called boards. Machine learning suggests different pins for different users based on past interests and more. Some of these are advertisements, and since ads tend to be visual already, this is a natural match — when looking through suggested pins for inspiration, users are able to go directly to an advertiser's website. This is how Pinterest makes its revenue.

Founded in 2009, Pinterest spent its first decade prioritizing user growth. According to consulting firm Prophet's 2019 Brand Relevance Index, Pinterest is the 10th-most relevant brand in the U.S., leading all companies in making users feel inspired and engaging them "in new and creative ways." Breaking this down further, Pinterest said in its prospectus last year that more than half of millennials use Pinterest, and 8 in 10 moms are avid Pinners.

Pinterest now has 322 million monthly active users, 2 billion monthly searches, and over 175 billion pins saved. And its growth is extending internationally. In just the four years since Pinterest set its sites offshore, it has amassed 235 million monthly active international users, meaning its audience is mostly outside the U.S. Now it needs to monetize them — and the precedent is inspiring.

In the third quarter of 2019, average revenue per user (ARPU) in the U.S. was \$2.93. Outside the U.S.? ARPU was just \$0.13. That gives us an idea of how far the company can go. Pinterest is selling ads in 28 countries, but it's still early in ramping this business. Even including the U.S., 97% of the top 1,000 searches on Pinterest are unbranded, and users are likely to spend 29% more than typical households, so it's not like ARPU has topped out anywhere.

## Built for Advertising

As advertising becomes more and more focused in digital channels, Pinterest should increasingly be an option for advertisers leaving magazines, TV, and other traditional advertising areas. In fact, total worldwide digital ad spending is projected by Juniper Research to grow at a compounded annual growth rate (CAGR) of 15% from 2019 through 2023, up to \$520 billion. Within that, social-media advertising is one of the fastest-growing segments. This sets Pinterest up for success.

Mixing ads into the user experience has been productive for Pinterest so far, but it's not stopping there. For example, its "Shop the Look" feature lets users simply click through an image and buy what they see. Additionally, it is building out its capabilities for advertisers to track the return on investment from their advertising dollars.

Those and other investments have prevented the company from reaching profitability, but that should come, at least on an adjusted basis, in 2020. You may notice that expenses took a huge leap higher in 2019, resulting in a large reported loss. That's actually a one-time accounting for historical expenses related to the company's restricted stock units. This is essentially company stock issued to employees over

instance — and adding a little at a time.

### KEY DATA

- **Headquarters:** San Francisco, California
- **Website:** [Pinterest investor relations](#)
- **Market Cap:** \$12.4 billion
- **Cash/Debt:** \$1.7 billion / \$161.2 million
- **Revenue (2017/'18/TTM):** \$472.9 million / \$755.9 million / \$1.0 billion
- **Earnings (2017/'18/TTM):** (\$130.0 million) / (\$63.0 million) / (\$1.3 billion)

### Add PINS to Your Favorites

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### GET MORE INFO

#### Talk About PINS

Talk about how PINS fits into RB here

- [See why Pinterest scores a 10 on our unique 25-point Risk Rating.](#)
- [See how you can tell if this investment is going right — or wrong.](#)

the years in lieu of cash payment; when those vested upon the IPO, they had to be valued as an expense. Stock-based compensation will continue to be a significant expense, but the company has positive operating cash flow from which it is funding its investments in future growth.

Pinterest's market cap today is a little less than half of that of **Snap** ([NYSE: SNAP](#)) or **Twitter** ([NYSE: TWTR](#)), both around \$26 billion, and a tiny portion of Facebook's \$631 billion. Its ARPU is lower, but because advertising is so organic on Pinterest's platform, we think this represents room for further improvement. As Pinterest keeps up its fast sales growth — it's ahead of Twitter and Facebook, and Snap only recently pulled even — and advertisers see a strong return on investment, Pinterest's market cap has a massive runway ahead.

## Risks and When We'd Sell

As with many growing platforms that boast strong network effects, the happiness of users is paramount to success. If Pinterest begins to scale and monetize in a way that hurts the general feeling of positivity and inspiration it's promoted, users may start to leave. As of now, users seem loyal, with 57% of monthly active users doubling as weekly active users.

On the other hand, a large portion of Pinterest's users are international, and if it is not able to effectively monetize them, its path to profitability is fuzzy. Pinterest needs to find the sweet spot between profitable and authentic that many companies crave.

Finally, the three co-founders combined still retain a 15% share in the company, with two of them still working there. Co-founder and CEO Ben Silbermann has created a strong culture at the company, and we would be concerned if he left the helm.

## The Foolish Bottom Line

After a brief pop post-IPO, Pinterest's stock has slumped. But we don't think that will last. Pinterest has a user base that's both loyal and willing to spend, making the platform an attractive partner for many advertisers. Retaining a positive mindset in today's world is difficult, but Pinterest wants to leave users feeling better than when they logged on. That's a mission we can get behind.

*Karl Thiel contributed to this report.*

**DAVID CALLED IT:** Do you agree that Pinterest will beat the market over the next 3-5 years?  
(After voting, buy shares to invest right away or add PINS to your Favorites for alerts later.)

**Yes**

**No**

**Not Sure**

*Randi Zuckerberg, a former director of market development and spokeswoman for Facebook and sister to its CEO, Mark Zuckerberg, is a member of The Motley Fool's board of directors. [David Gardner](#) owns shares of Facebook. [Karl Thiel](#) owns shares of Facebook. [Tom Gardner](#) owns shares of Facebook and Twitter. The Motley Fool owns shares of Facebook, Pinterest, and Twitter. The Motley Fool has a [disclosure policy](#).*

## See the Trends

The Motley Fool thinks buying and holding for at least 3-5 years sets you up for success.



## From the Company Page

Last updated June 25, 4:15 p.m.

<b>Current Price</b>	\$22.58	<b>Today's Change</b>	-\$0.59 (-2.5%)
<b>Exchange / Symbol</b>	NYSE: PINS	<b>Market Cap</b>	\$14B
<b>Earnings Per Share</b> (Trailing 12 Months)	-\$2.74		



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Market data provided by FactSet and Web Financial Group.