**Street Takeaways - Facebook Q1 Earnings**
**Thursday, April 26, 2018 02:19:11 PM (GMT)**

- **Overview:**
  - Shares are trading +7.5% this morning following FB's Q1 print, in which revenue of $11.97B beat by 4.9%, OI of $5.45B beat by 17.5%, and EPS of $1.69 beat by $0.34. Margin wise, OM of 45.5% beat by +480 bps [+410 bps y/y].
  - Most analysts tended to view the Q positively, with the main theme being the easing of concerns as results showed that growth trends have not been materially impacted from the recent string of bad PR Facebook has endured. Both MAUs and DAUs were +13% and Advertising revenue accelerated 200bps sequentially to 50% y/y. User trends will be closely watched in Q2 to confirm the Q1 numbers of users not leaving the network following the user data misuse. Aside from the impressive growth, the company continues to produce substantial FCF, further supporting many bulls' cases for buying shares.
  - Despite expenses coming in lower than expected in Q1, management increased their expense guidance for the year, raising the bottom of their guided range 5% to now +50-60% growth y/y. Capex will also guided to finish at the top of their previously expected range around $15B. These higher costs tended to be something bears talked focused on. This higher level of opex is expected given the increased spend due to regulations and to protect user data, but how much of this increase will be new norm is unknown, as some thing part of the spend could be more ST given the extent of the increase and management trying to address recent hiccups in a quick and timely manner.
  - A quick look at sell-side sentiment shows that firms are upbeat as 91% of firms have a buy-equivalent rating. The average target rose 0.9% to $218.27 following the quarter and implies +27.2% upside.
- **Analyst Commentary:**
  - **Piper Jaffray** analyst Sam Kemp
    - Highlights the revenue beat and points to a broad base of advertisers, regions, and industries driving the strong performance.
    - Notes opex coming in lower than expected, but adds that it has been accelerating for a number of Qs as the company ramps headcount and resources.
    - Comments on no further news around the Cambridge Analytica scandal coming about, with management also downplaying the GDPR impact; thinks concerns around the data breaches will begin to fade for investors and top-line growth and the attractive valuation will once again be the main focus.
    - Maintains Overweight and $210 target - ~26x FY19 FCF.
  - **KeyBanc** analyst Andy Hargreaves
    - Encourages investors to buy shares as the company continues to produce strong user growth and increase effectiveness for advertisers, something which should support revenue gains for the foreseeable future.
    - Credits advertiser demand for driving the impressive results.
    - Touches on the rising capital intensity and is unsure whether this is structural or cyclical, as increased opex is expected given the additional regulatory and security costs, but given the extent of the increase with capex nearly doubling y/y per avg DAU, they expect that at least a portion could be temporary.
    - Lowers their EV/EBITDA multiple on the likelihood the regulatory scrutiny continues, but their target itself saw no change.
    - Maintains Overweight and $245 target - 20x (prev 22x) NTM EV/EBITDA.
  - **Evercore ISI** analyst Anthony DiClemente - raises target
    - Sees the Q helping ease the elevated concerns over the past few weeks, with results showing revenue growth remains impressive only slowing 200 bps to +43% and ad revenue actually accelerating to +50%.
    - Mentions user and engagement metrics also remaining steady, with the US and Canada DAUs increasing 1M q/q, believes this should reduce any worries around user growth, but admits some skeptics may require another Q of trend data.
    - Raises target to $215 from $200 - 23x FY19 EPS.
    - Maintains Outperform.

    - **Pivotal** analyst Brian Wieser
        - Acknowledges the solid revenue and profit trends seen in the Q, but sees them offset by higher than anticipated expense growth and capex spend.
        - Believes a number of advertisers (potentially most) who use data such as email addresses will begin to alter their digital media spend in Europe post-GDPR.
        - Expands on how their broader concerns around FB remain and they did not see anything in the Q which forces them to alter their view, including how negative usage trends remain with time spent per user falling through Feb-2018 and Instagram being too small to make up the difference and recent missteps by management possibly being a sign of a larger systematic problem.
        - Maintains Sell and $138 target - DCF.
- **Estimate Revisions:**
    - *Prior consensus vs updated estimates only*
    - **FY18** (Dec '18):
        - Sales +2.3% to $56.57B, +39.2% y/y
        - OI +4.1% to $25.86B, +28.0% y/y
        - OM +80 bps to 45.7%, (400) bps y/y
        - EPS +5.8% or +$0.42 to $7.65
        - FCF (2.7%) to $15.13B
    - **FY19** (Dec '19):
        - Sales +3.0% to $72.11B, +27.5% y/y or +77.4% on a two-year stack
        - OI +4.2% to $31.90B, +23.4% y/y or +57.9% on a two-year stack
        - OM +50 bps to 44.2%, (150) bps y/y or (550) bps on a two-year stack
        - EPS +4.9% or +$0.43 to $9.16
        - FCF (0.1%) to $20.30B
- **Implied Valuation:**
    - *Shares are currently trading at*
    - **P/E** - 22.4x FY18 & 18.7x FY19
    - **EV/EBITDA** - 12.9x FY18 & 10.1x FY19
    - **EV/FCF** - 29.3x FY18 & 21.3x FY19

**Industries:** Computer & Internet Services
**Primary Identifiers:** FB-US
**Related Identifiers:** FB-US
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