

- **Overview:**
  - Heading into FB's Q4 report on 30-Jan after the close, we take a look at a number of analyst previews to get a better sense of how they feel and what they'll be keeping an eye on. The majority of analysts are positive on shares of FB heading into the print, still bullish on the long-term potential. A quick look at sell-side sentiment shows that firms are upbeat as 82% of firms have a buy-equivalent rating. The average target of \$185.51 implies +24.3% upside.
- **User Metrics**
  - MAU 2.31B, +8.5% y/y, (120) bps deceleration q/q
  - DAU 1.52B, +8.6% y/y, (20) bps deceleration q/q
  - Engagement 65.8%, +20 bps q/q & +10 bps y/y
  - User metrics are expected to be mixed, as the deceleration in user growth continues and expectations are for growth to be under 10% for the second straight Q. What remains to be seen is if the pace of deceleration continues to slow, with forward estimates implying growth of ~+8% and ~7% for MAU/DAU in FY19/20 respectively. Bulls focus on how Instagram should continue being a significant driver and offsetting much of the deceleration in core FB growth.
- **Transition to Stories from Feed**
  - Advertising \$16.19B, +26.7% y/y
    - Mobile advertising \$14.97B, +31.6% y/y
    - Desktop advertising \$1.25B, (11.6%) y/y
  - ARPU - Total \$7.16, +15.9% y/y
  - ARPU - Advertising \$7.07, +16.1% y/y
  - The transition to Stories from Feed will also be monitored closely, as management focuses on monetizing stories and increasing engagement. Stories are seen to be monetizing at a price lower than Feed, explaining the further deceleration in ARPU as it had grown at over 30% in 1Q18. Analysts think advertisers are finding Stories attractive and will be watching pricing trends.
- **Perception, advertiser trends, & regulatory concerns**
  - A number of analysts touched on they do not think the perception of FB from advertisers is as bad as much of the media makes it seem. Many added that they do not believe users are leaving the platforms after the data breaches, especially outside of core FB. As a result, Facebook still offers access to a large audience with a high ROI and it's difficult to find an alternative which is as compelling.
  - Regulatory concerns will continue to be something which overshadows shares as there is not much clarity around what rulings or fines could eventually come down. Most do not think Facebook will be forced to split from Instagram, as no clear antitrust argument is seen.
- **Opex growth**
  - More clarity around the opex outlook would be appreciated, as guided +40-50% y/y in FY19 is a large range. Though much of the impact of this increased spend should now be priced in as forward estimates. If management was taking a bit of a cautious approach as some believe and ends up coming in towards the lower end of the range, there could be room for additional earnings power.
- **Other items**
  - A few brought up the potential of FX weighing on the top-line.
- **Forward Estimates:**
  - **FY18** (Dec '18):
    - Sales \$55.32B, +36.1% y/y
    - Opex \$24.66B, +39.2% y/y
    - OI \$24.46B, +21.1% y/y
    - OM 44.2%, (550) bps y/y
    - EPS \$7.37, +19.7% y/y
    - DAU 1.50B, +9.5% y/y
    - MAU 2.29B, +12.3% y/y
    - Engagement 65.7%, (40) bps y/y
    - Capex \$14.39B, +113.7% y/y

- **FY19** (Dec '19):
  - Sales \$68.49B, +23.8% y/y
  - Opex \$24.94B, +44.4% y/y vs guidance of +40-50% growth
  - OI \$24.94B, +2.0% y/y
  - OM 36.4%, (780) bps y/y
  - EPS \$7.41, +0.5% y/y
  - DAU 1.62B, +8.1% y/y
  - MAU 2.47B, +7.8% y/y
  - Engagement 65.9%, +20 bps y/y
  - Capex \$18.53B, +28.8% y/y vs guidance of \$18.0-20.0B.
- **FY20** (Dec '20):
  - Sales \$82.96B, +21.1% y/y
  - Opex \$29.16B, +45.1% y/y
  - OI \$29.16B, +16.9% y/y
  - OM 35.1%, (130) bps y/y
  - EPS \$8.44, +13.9% y/y
  - DAU 1.74B, +6.9% y/y
  - MAU 2.64B, +7.2% y/y
  - Engagement 65.6%, (30) bps y/y
  - Capex \$20.65B, +11.5% y/y
- **Implied Valuations**
  - *Shares are currently trading at*
  - **P/E** - 20.2x FY18 & 20.1x FY19
  - **EV/EBITDA** - 11.6x FY18 & 10.8x FY19

**Industries:** Computer & Internet Services

**Primary Identifiers:** FB-US

**Related Identifiers:** FB-US

**Subjects:** Street Takeaways, Street Takeaways - Earnings

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