

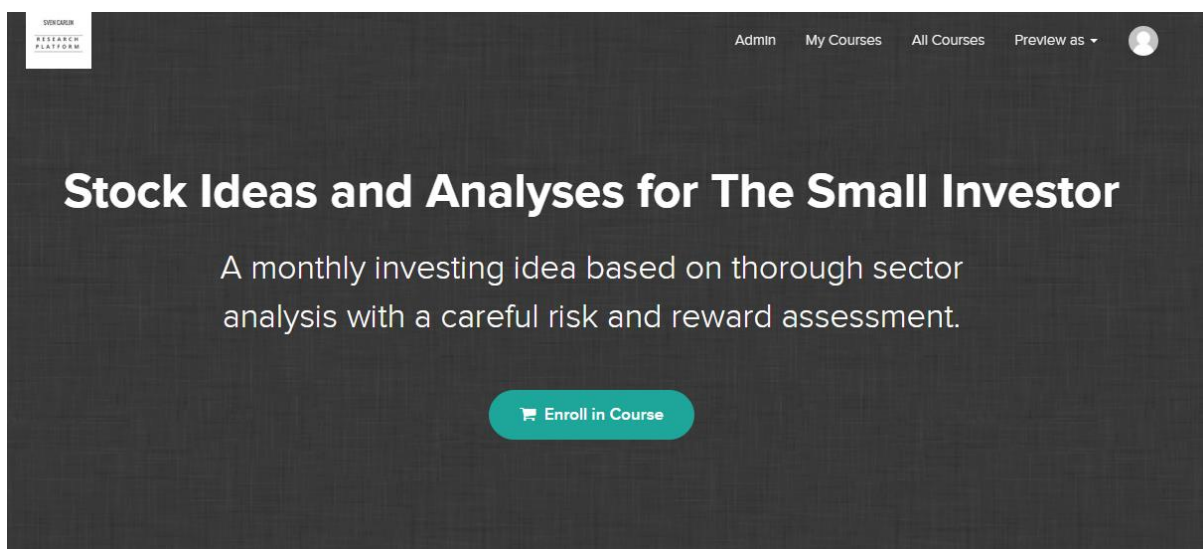
Introduction and Facebook Stock Analysis Report

Good day fellow investors,

Being a great investor means, first and foremost being a great businessman. Warren Buffett is first a businessman/entrepreneur, secondly an investor.

Being a great entrepreneur means first to listen to one's customers. I probably get one email a day asking for a cheaper product, something for students etc. because \$349 per year for my [Stock Market Research Platform](#) looks a high number for some, even if it is still an extreme bargain from a value perspective. So, I've decided to make something simple and easy for all of those who requested it.

In the Stock Idea and Analyses for The Small Investor course I'll discuss one stock per month, from the stocks I own or cover, explain it by focusing on the most important things, discuss the investment strategy, the risks and rewards, make it also a bit educational, make it a video and a report.

The image shows a dark-themed landing page for a course. At the top left is the 'STOCK MARKET RESEARCH PLATFORM' logo. At the top right are navigation links: 'Admin', 'My Courses', 'All Courses', and 'Preview as' with a user profile icon. The main heading is 'Stock Ideas and Analyses for The Small Investor' in large white text. Below it is a subtitle: 'A monthly investing idea based on thorough sector analysis with a careful risk and reward assessment.' At the bottom center is a teal button with a shopping cart icon and the text 'Enroll in Course'.

So, this will be a simple idea per month on where to invest. What should you expect?

- 12 ideas per year (I will clearly say which ones are stocks to buy for me, why I bought them, why I hold them and what is my strategy).
- Plus, I will do my best to put the analysis in an investment educational environment focusing on the risks and rewards. I'll also share my earnings model so that you can practice with it in excel.
- On the price, as many wanted something cheap, the price will be \$9 per month or \$89 per year! So, for less than two cups of coffee you will get a good long-term investing idea. Just a reminder, my full research, trades, insight into my portfolios is still just at \$349 per year, thus less than \$30 per month where you get everything I do, every trade, strategy etc.

The best way to explain how it will look like is to make an example. I have already uploaded the first stock, that I have never discussed on YouTube, on the idea platform, and I will now discuss a stock I publicly cover, Facebook, to show you what is the idea behind it.

Facebook Stock Analysis - 22 February 2019

- **Company overview**
- **Earnings expectations and models**
- **Risks**
- **Conclusion & investment strategy**

Company overview

Most of us know what FACEBOOK (NASDAQ: FB) does. It owns Facebook, WhatsApp, Instagram, Messenger and other interesting developments like VR, connectivity etc.



Menlo Park Headquarters

36 items



Offices Around the World

33 items



Data Centers

23 items



Executives

1 item



Events

1 item



Artists in Residence

1 item

Source: [FB](#)

Let me discuss the advantages FB has, that give it a moat when compared to others.

Data driven decision making

The biggest value I can add on FB, is by discussing what the market doesn't yet see and why I think FB is a good business and still at a good price.

The first thing with FB is the data driven decision-making process. Everything they do is first tested on a small batch, then on a bigger and bigger one, and only when countless tests have been confirmed, is the new idea rolled out globally. I think it is a big advantage, not to have someone say: "We do this and we count the dead later", like it is common in the corporate environment. To be able to continuously test things on such a scale, is something remarkable. Over time it gives the ability to build big businesses at low cost.

Unmonetized potential

Given FB's 2+ billion users, the strong network, and the longer people use it, the stronger the network is, the potential for monetization gets constantly bigger and bigger. FB has been very patient in monetizing this, but there is so much they can and will do in the future.

A simple, but potentially big revenue source is Instagram Shopping, and they don't even need to compete with Amazon, they can collaborate.



Source: [FB](#)

Another interesting thing that I, as an entrepreneur will start testing soon, are FB ads. It seems those are still extremely under priced as you can get in front of a 1,000 people that actually have an interest in your product, for less than \$20. If you put this into a normal advertising perspective, TV ads that get in front of 1,000 people, random people, cost much more, not to mention billboards, painted busses, magazine pictures etc. Therefore, there is a simple possibility that the price for FB ads increases 2 to 4 times over the next 10 years. Just this, with all other things stable, would double or quadruple FB's revenue and probably increase earnings 5 to 10x.

It is a long-term process, so no one is going to implement it now in one's model, but it is an opportunity.

The unknown

The third pillar for FB is the unknown. Who would have guessed that Instagram would be something in 2012 when FB went public? Therefore, there might be something brewing there, that we cannot even imagine, that might be something extremely big in 2029, something that might add another \$50 billion in revenue, thus another \$250 billion in market cap on top of everything else.

Earnings expectations and models

Now that we have the story, let's try to estimate the business earnings, that are the key drivers when it comes to investment returns. FB's earnings per share in 2018 have been \$7.57.

Diluted Earnings Per Share



In December 2017, the 2017 Tax Cuts and Jobs Act (the Tax Act) was enacted and significantly impacted the U.S. tax law. As a result of this legislation, our fourth quarter and full year 2017 provision for income taxes increased by \$2.27 billion, which impacted our effective tax rate, net income and diluted earnings per share (EPS) for such periods. Our diluted EPS decreased by \$0.77 for both the fourth quarter and full year 2017. As a result of the Act, starting in 2018, the U.S. statutory tax rate decreased from 35% to 21%.

facebook

Source: [FB](#)

Revenue growth over 2018 was 37%, while earnings grew 40%.

Fourth Quarter and Full Year 2018 Financial Highlights

<i>In millions, except percentages and per share amounts</i>	Three Months Ended December 31,		Year-over- Year % Change	Year Ended December 31,		Year-over- Year % Change
	2018	2017		2018	2017	
Revenue:						
Advertising	\$ 16,640	\$ 12,779	30 %	\$ 55,013	\$ 39,942	38 %
Payments and other fees	274	193	42 %	825	711	16 %
Total revenue	16,914	12,972	30 %	55,838	40,653	37 %
Total costs and expenses	9,094	5,620	62 %	30,925	20,450	51 %
Income from operations	\$ 7,820	\$ 7,352	6 %	\$ 24,913	\$ 20,203	23 %
<i>Operating margin</i>	<i>46%</i>	<i>57%</i>		<i>45%</i>	<i>50%</i>	
Provision for income taxes ⁽¹⁾	\$ 1,089	\$ 3,194	(66)%	\$ 3,249	\$ 4,660	(30)%
<i>Effective tax rate⁽¹⁾</i>	<i>14%</i>	<i>43%</i>		<i>13%</i>	<i>23%</i>	
Net income ⁽¹⁾	\$ 6,882	\$ 4,268	61 %	\$ 22,112	\$ 15,934	39 %
Diluted Earnings per Share (EPS)⁽¹⁾	\$ 2.38	\$ 1.44	65 %	\$ 7.57	\$ 5.39	40 %

(1) In December 2017, the 2017 Tax Cuts and Jobs Act was enacted and significantly impacted U.S. tax law. As a result of this legislation, our fourth quarter and full year 2017 provision for income taxes increased by \$2.27 billion, which impacted our effective tax rate, net income and diluted EPS for such periods. Our diluted EPS decreased by \$0.77 for both the fourth quarter and full year 2017.

Source: [FB](#)

For the future, it all depends on the growth rate but as value investors, we have to be conservative, estimate what is likely in a weak environment and then see whether the current stock price justifies the risk and reward.

I have my small earnings model, using current earnings and plotting a growth rate of 20% on earnings for the upcoming 5 years and 10% for the subsequent 5 years with a terminal stock price after 10 years having a valuation of 10 on the earnings. Why just 10 and not the current PE ratio of 20? Well, better to be conservative than sorry.

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	TERMINAL VALUE	GROWTH RATE			
Earnings	\$7.57	\$9.08	\$10.90	\$13.08	\$15.70	\$18.84	\$20.72	\$22.79	\$25.07	\$27.58	\$30.34	2029	1.2	next 5 year	
PV (15%)	\$7.90	\$8.24	\$8.60	\$8.97	\$9.37	\$8.96	\$8.57	\$8.20	\$7.84	\$7.50	\$65.21	0.15	1.1	5 to 10 years	
PRESENT VALUE SUM	\$149.35													PE RATIO	10

So, if FB grows its earnings by 20% up to 2023 and consequently by 10% up to 2028, its stock price will be \$303 in 2029 (PE ratio of just 10) and this model assumes the value of the earnings if paid out as dividends. However, the earnings will probably not be paid out, there will be buybacks that they have already started doing and perhaps dividends, plus more future potential growth. So, if I change the PE ratio from 10 to 15 in 2029, the present value using a crazy discount rate of 15%, but that is my required return, is already significantly higher.

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	TERMINAL VALUE	GROWTH RATE			
Earnings	\$7.57	\$9.08	\$10.90	\$13.08	\$15.70	\$18.84	\$20.72	\$22.79	\$25.07	\$27.58	\$30.34	2029	1.2	next 5 year	
PV (15%)	\$7.90	\$8.24	\$8.60	\$8.97	\$9.37	\$8.96	\$8.57	\$8.20	\$7.84	\$7.50	\$97.81	0.15	1.1	5 to 10 years	
PRESENT VALUE SUM	\$181.95													PE RATIO	15

The \$455 stock price in 2029 is the more likely scenario, the stock price return should be around 10.6% and if there are some dividends or buybacks, you quickly increase that to 15% on the current stock price in a conservative scenario.

So, I think FB is a company that might lead to 15% returns for investors, from the current stock price over the next decade. But, before discussing the investment strategy, let's discuss the risks.

Risks

The first risk I see is a recession. Advertising budgets get cut 90%, many go out of business, especially those selling shoes on FB or reselling things, and FB's revenue growth might stall. You will soon see headlines proclaiming the death of FB, like it has been many times the case for Apple.

Apple is preparing for the death of the iPhone

Kif Leswing Jul. 1, 2017, 8:45 AM

The iPhone may be the most successful product of all time, selling over 1 billion units and making Apple the most valuable publicly traded company in the world.

Yet Apple already has to face the possibility of a world where



AP

Source: [Businessinsider](#)

This would hit the stock severely as we have seen how just a bit of required increased spending on security, pushed the stock down during 2018.

Facebook, Inc. Common Stock
NASDAQ: FB

+ Follow

162,29 USD -0,21 (0,13%) ↓

Closed: 19 Feb, 19:59 GMT-5 · Disclaimer
Pre-market 162,29 0,00 (0,00%)

1 day 5 days 1 month 6 months YTD 1 year 5 years Max

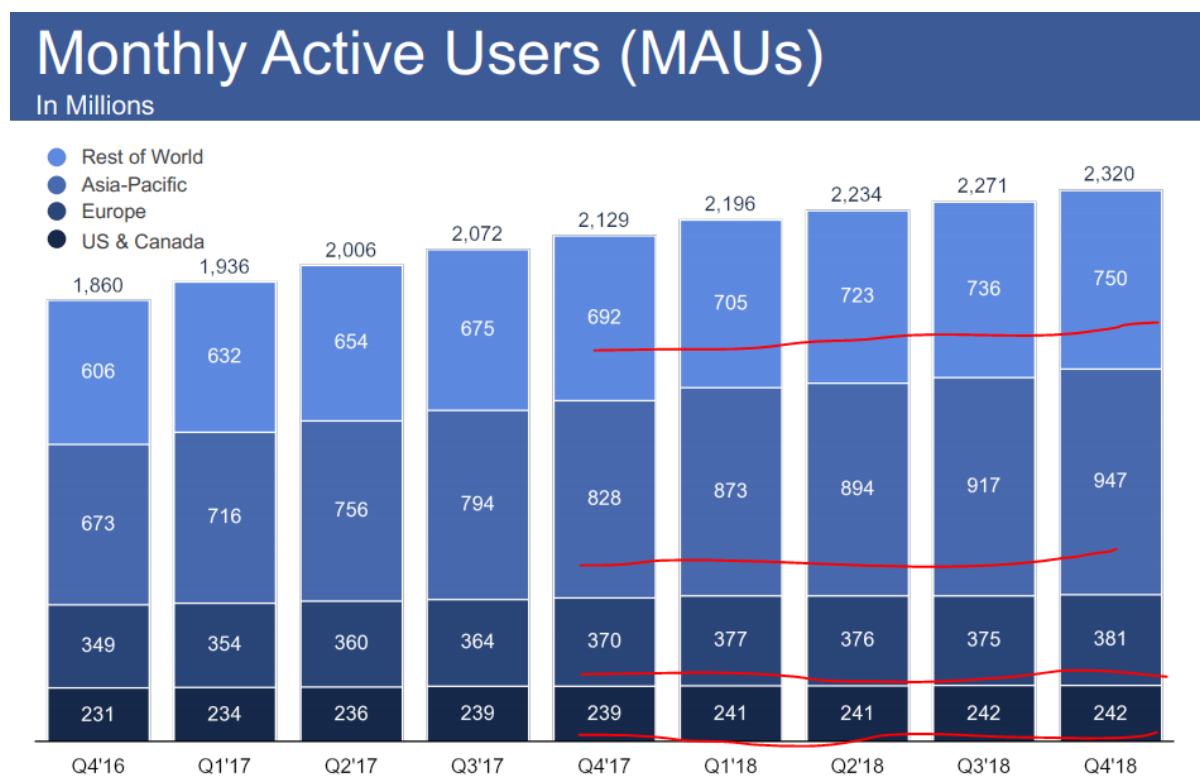


However, I would see that as another buying opportunity, as over time more would look for cheaper and more effective advertising, i.e. Facebook and Instagram.

Other risks include regulatory risks, when a company gets bigger, politicians feel they can get some points by fighting it, so you can always expect lawsuits, investigations, taxes etc. All mostly noise in the big picture as long as the consumer sticks, i.e. the biggest risk of all.

The biggest risk for FB is that it starts losing its users. It is not something essential in our lives and we can easily change it for something else without a meaningful change in the

quality of our life. As it is impossible to know how will the social media environment look like in 2029, it is also impossible to predict what will happen and one has to keep an eye on the real story. For now, we see a stable number of users in developed countries and a growing number in developing countries.



Source: [FB](#)

This is the key thing to watch, as long as the stickiness is strong, the above earnings story will remain intact, probably even better than what I used in my models, that might give you your investing return sooner and consequently make it higher. But we don't know the strength of the moat as it has never been tested in the past. I reiterate myself, this is the key thing to watch through revenue, earnings, number of users etc.

Conclusion and investment strategy

The last discussed risk, that doesn't really make FB a necessity in our life, is exactly what prevents me from making FB part of my fixed portfolio. Therefore, I keep FB only in my growth portfolio. I have first bought FB at \$174, when I was happy with the expected 15% return and I added to the position when it fell to \$136.



My plan is to keep doing that, if the stock goes up to a level where I expect only an 8 or 10% return, I would probably sell, somewhere between \$220 and \$250 in 2019.

Using a 10% discount rate on FB's earnings model my fair value is \$214 for the stock, so above that level it could be a sale.

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	TERMINAL VALUE	GROWTH RATE		
Earnings	\$7.57	\$9.08	\$10.90	\$13.08	\$15.70	\$18.84	\$20.72	\$22.79	\$25.07	\$27.58	\$30.34	\$303.37	1.2	next 5 year
PV (15%)	\$8.26	\$9.01	\$9.83	\$10.72	\$11.70	\$11.70	\$11.70	\$11.70	\$11.70	\$11.70	\$11.70	\$106.33	1.1	5 to 10 years
PRESENT VALUE SUM	\$214.32											0.1	Discount rate	
												PE RATIO	10	

This is it, you know what to watch and what to expect. As for where the stock price will go in the next 6 to 12 months, that is something nobody knows. The key is that you know what you can do with this 😊