

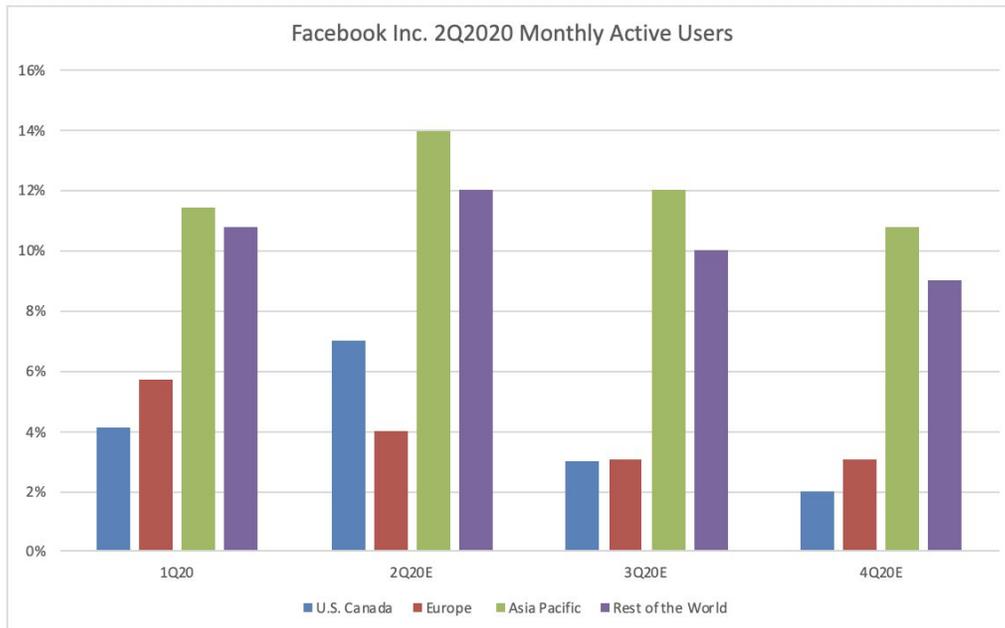
Facebook Inc.
2020, 2nd Quarter Earnings Report
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Bullish Viewpoint

Facebook Earning Report:

- A. Facebook Q12020 Outlook:** The revenue in 1Q2020 grew almost 17% compared to 1Q2019. This put Facebook in a strong financial position before the impact of the pandemic kicked in. The MAUs increased globally during 1Q2020 due to the quarantine and shelter in place guidelines beginning to be enforced around the world; whereas the ARPU decreased significantly around the world as companies and advertisers pulled back from advertising given the hard circumstances in keeping businesses afloat during the pandemic. R&D and Marketing increased 40% and 38% respectively. R&D increased because Facebook invested in more initiatives by increasing innovation efforts in 2020. Marketing Expense increased because of an increase in consumer & growth.
- B. Effects of COVID 19:** This global pandemic has had a large impact in all aspects throughout the world. As shelter in place guidelines were strictly enforced by countries where Facebook operates the effects are seen throughout the companies' earnings model, specifically, in the Monthly Active Users (MAUs) section. Depending on the severity of Covid-19 within each region, the prediction of MAUs changes. For example, European countries, such as Italy, were affected by Covid-19 in the duration of 1Q2020 therefore there were more users using Facebook's products and services due to the shelter in place guidelines; the recovery period in Europe began 2Q2020 hence, the MAUs in Europe declined.
- C. Monthly Active Users (MAUs):**
- a. U.S. and Canada:** 2Q2020 was the prime of Covid-19 U.S. and Canada. Due to the shelter-in-place guidelines held by this region many people were working remotely from home, students were sent home, and SMB were operating either virtually or not operating at all. People had more time on their hands which we predicted would lead to the increased engagement on Facebook's products such as Facebook, Instagram, Whatsapp and Messenger. Additionally, the advocacy of the Black Lives Matter movement increased social media presence and engagement during 2Q2020. Therefore, we increased MAU in 2Q2020. We expect that as shelter-in-place guidelines subside during 3Q2020 and 4Q2020 the MAU will return to its previous performance. Our predictions for 2021, replicate U.S. and Canada's historic trends for MAUs.
 - b. Europe:** Countries in Europe including Italy and the United Kingdom began to lift their shelter-in-place restrictions during 2Q2020 which will decrease the amount of user engagement hence, we decreased the MAUs for this region.

During the 1Q2020 Earnings Call, Mark Zuckerberg mentioned that “In Italy, we’ve seen up to 70% more time spent across [Facebook] apps, Instagram and Facebook Live views doubled in one week, and group video calling increased by more than 1000% over March.” Next, we predicted that the 3Q2020 and 4Q2020 MAU will remain the same 3% growth, replicating the historical trend. For 2021, we predicted the MAU will remain similar to its historical results.

- c. Asia-Pacific:** We increased the MAU in Asia-Pacific in 2Q2020 because the impact of Covid-19 hit Asian countries – India, Thailand, etc– in which Facebook operates very hard during this time period. Once again the shelter in place restrictions result in an increase of user engagement. Specifically, India – which, in the earnings call 1Q2020 was referred to as the largest Whatsapp community– will have a large impact in the user engagement in the Asia Pacific region during 2Q2020. Additionally, in the earnings call Facebook mentioned that they are increasing ways to connect and increase SMB digital presence in Asian countries through the range of apps Facebook provides. In 3Q2020 and 4Q2020 we predicted that the user engagement would gradually decrease and the impact of Covid-19 would subside. For the 2021 forecast, we decided to increase growth slightly due to their recent partnership with India’s JIO Platform which, according to management, will begin to show effects in the long term. The partnership between Facebook and JIO Platforms will essentially connect millions of SMB and get them on a single network to communicate and pay through Whatsapp. The pattern for 2021 forecast, resembles the historic trend
- d. Rest of World:** We predicted that the rest of the world would increase in 2Q2020 due to Covid-19 impacts. However, we felt that by 3Q2020 and 4Q2020 the effect of Covid-19 will subside. For 1Q2021 forecast, we decided to start 1% higher than 1Q2019 because in the 1Q2020 earnings call, management mentioned that they plan to expand JIO Platforms’ mission to the rest of the world also, we believe the effects of this will kick in 2021.

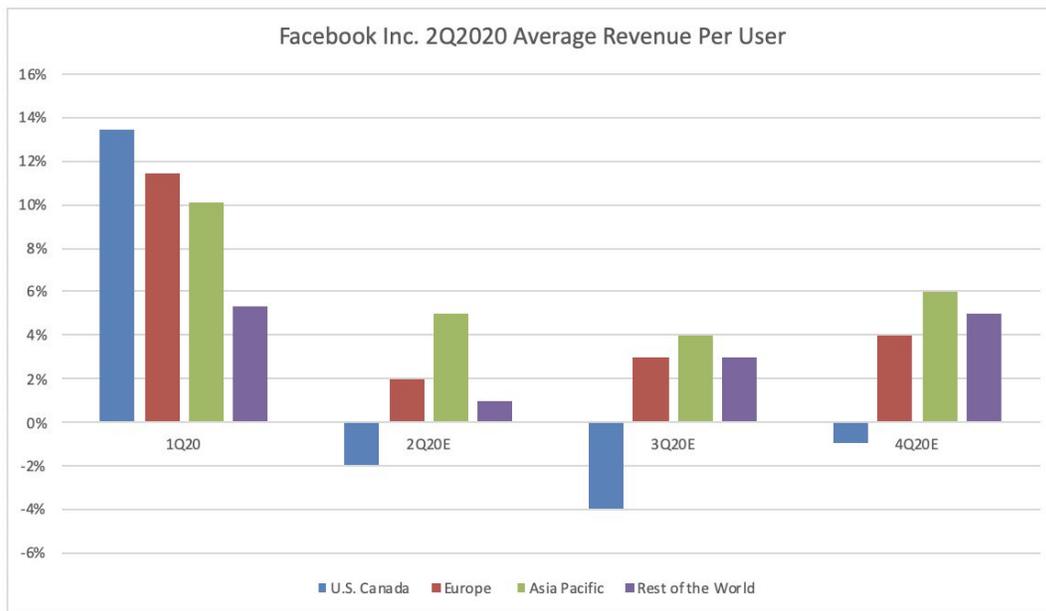


D. Average Revenue Per User (ARPU)

- a. **U.S. and Canada:** The magnitude of Covid-19 was felt during 2Q2020 as cases increased exponentially in the U.S. During this time advertisers pulled back and reduced spending and Facebook's business performance was very low. Although there was strength in gaming, technology, and ecommerce during the last 3 weeks of March, this only accounts for about 1.5% of Facebook's revenue. Therefore, we predicted the revenue in 2Q2020 to decrease significantly. In 3Q2020, we forecasted the revenue to decrease even more due to major companies boycotting their advertisements on Facebook because of the lack of policing of hateful content. Over 30 major companies are boycotting for the month of July which marks the first month of 3Q2020, and 19 major companies including Chipotle, Dunkin Donuts, Hershey, Microsoft, Starbucks, and many more are planning to cease advertising till the end of 2020. By 2021, we forecast Facebook's ARPU to gradually increase back to 13% which is the same as 1Q2020.
- b. **Europe:** Due to Covid-19 and the boycott of global advertisements for 6 large scale companies we forecast Europe's YoY Growth in ARPU to decrease in 2Q2020. For smaller businesses which are the bulk of Facebook advertising, we predicted it would take 3Q2020 to regain balance and towards the end of 2020, the impact of Covid-19 will subside and ARPU will increase. In 2021, ARPU will recover and go back to original 2019 YOY growth.
- c. **Asia Pacific:** The Chinese economy began to regain balance by the 2Q2020; however, the rest of Asia, specifically India felt the impact of Covid-19 during 2Q2020 and 3Q2020. By the end of 2020, we predict the ARPU to begin to increase slightly. During 2021, we predicted the ARPU to increase due to the JIO

Platform partnership which will increase advertisements on Facebook platforms such as Whatsapp. Additionally, during the 1Q2020 earnings call Facebook’s management mentioned that they are investing more money into Oculus and AR/VR technology, which has a lot of users in the Asia – Pacific region and will show results in future years.

- d. **Rest of the World:** We forecasted the ARPU to decrease in 2Q2020 due to the impact of Covid-19. By the end of 2020 and throughout 2021, we expected the ARPU for the rest of the world to increase and the impacts of Covid-19 to subside and return to its normal level pre-Covid.



E. Ratio Analysis

- a. **Gross Margin:** As per management guidance our forecasts for gross margin decreased as Facebook Inc will invest more in their business. In the 1Q earning report and management guidance Facebook anticipates that they will invest more in their data center capacity, network infrastructure, and office facilities overall would increase the gross margin. During the Covid 19 pandemic Facebook is willing to invest more in initiatives to support the growth of the company and to continue to drive expenses in 2020 increasing the gross margin by 0.5 from 2Q2020 to 4Q2020. The earnings call stated that facebook would like to maintain their high gross margins even during these periods assuming that gross margin will decrease but not by a lot; forecasting our 1Q2021 to 4Q2021 stagnant at 79%.
- b. **R&D Expense (as a % of revenue, GAAP):** In Facebook Inc 1st quarter earnings call R&D expenses grew 40% year quarter-- year over year because of Facebook's innovations efforts particularly in AR and VR. This would allow for an increase in R&D Expense 2Q2020 and 3Q2020. As R&D decreased by the 4th

quarter historically in 2019 we assumed that in 4Q2020 it would decrease. For our assumptions in 2021, we based our forecasts on the historical trends and increased the 1Q2021 because Facebook is planning to invest more money into R&D in coming years. As historically in 2019 R&D increased 2Q and 3Q and decreased in 4Q we assumed the same would occur in 2021.

- c. **Marketing (as a % of revenue, GAAP):** In 1Q2020 Marketing and sales grew 38%. We believe that there may be an increase in Marketing Expense 2Q2020 because of the increase in consumer and growth marketing. However, Facebook believes that there will be an expected realized savings and a possible decrease in headcount making our assumption that in 3Q2020 and 4Q2020 it will decrease. We based our 2021 forecasts on historical trends in 2019 as it decreases in 2Q and stays stagnant till 4Q.
- d. **G&A Expense (as a % of revenue, GAAP):** G&A in 1Q2020 increased by 49% because of possible estimated credit losses during the COVID 19 pandemic. We project that there will be an increase in G&A as we believe that that bad debt will increase and credit losses will continue because the effects of Covid 19 will continue on till 4Q2020. Our assumptions for 2021 are based on the historical trends seen in 2019. We project that in the 1Q2021 G&A Expense will increase to 13%, then decrease by 1% in 2Q2021, continue to decrease in 3Q2021 by 3%, and remain stagnant at 9% by 4Q2021.
- e. **Effective Tax Rate:** In the 1Q earnings call Facebook leaders stated that the effective tax rate would remain in the high teens. We projected that in 2020 and 2021 the Effective Tax rate would remain at 18%.

F. Share Count Analysis

- a. **Share Count Analysis:** We project that the share repurchase assumptions: average price will increase as we are seeing an inflation in stock prices in 2Q2020 the stock market because of the Covid 19 Pandemic. We increased the stock price from 2Q2020 to the 4Q2020. In 2021 we assume that the stock market will not be inflated and will return to an average price of \$210 in 1Q2021 and increase slowly throughout 2021. As average stock price increases we believe that there will be an increase in the share repurchase amount.