Twitter Thread by MI Capital



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THREAD $FB

I see a lot of flippant bearish FB tweets. Typically they are politically motivated or lack data. I love hearing the other side, but haven't seen a thoughtful bear case so I thought I'd try build it myself.

Summary: 1) Users Fall; 2) Competition; 3) IDFA; 4) Opm% fall.

1) Despite the popular narrative I see of "I don't use FB anymore and neither do my friends," unless you think FB is flat out lying about their User #s, the data doesn't support this. FB Blue DAUs have been going up every year World Wide and in the more mature NA market.

Note, FB reports MAUs/DAUs for Facebook blue app, and only recently started reporting the FB Family of apps in aggregate (Facebook, Instagram, Messenger, WhatsApp) which has ~2.54bn DAUs vs. FB Blue at 1.82bn.

But NA Users DID FALL sequentially in 3Q20 (after robust additions during the earlier periods of COVID) and have been fairly stagnant since 2018 when the Cambridge Analytica news hit (3Q17-1Q19, over 6 quarters FB only added 1mn net DAUs and the stock was down over this period).

NA is 10% of FB users but 50% of Revs so it is a key geo to watch for. Admittedly, at 195mn DAUs in NA and 255mn MAUs, there likely aren't a lot of users left to acquire. If you're not on FB now, you probably won't be in the future (unless you're a teenager and you "age up").

If users don't grow and Ad Rev = Users x Price, this means ad revenue growth will be entirely dictated by PRICE and growth investors in my experience much prefer VOLUME growth over pricing growth.

2) Competition. One of the reasons FB users stagnated is Competition. I find it funny that FB gets called out for being a monopoly. Out of all the FAAMG stocks, Facebook is the only one that regularly sees real competitors emerge. First there was Snapchat. And now TikTok.

Notably, because of this dynamic, I think it is actually fair that despite superior growth, FB gets a lower multiple than the rest of megacap Tech.

In my opinion, there are no real competitors now or in the foreseeable future to the Apple iPhone (Duopoly where Android largely fits the lower income niche); Google Search; Windows and Office, Amazon as the everything eCommerce store (debatable).

I think social media is a new and fluid medium that has and will continue to evolve. There is no one size fits all way to express yourself. Some people like sending disappearing messages/stickers. Some short form video. Some pictures. Some just want an overall online persona.

The real obvious risk is that FB isn't cool. Snapchat is cool. TikTok is cool. And younger audiences (or people in general) like cool. FB can't lose a whole generation, and hopefully as these kids become adults, they will need (want?) to assimilate with other adults on FB/IG.

A good personal example I can think of is Groups. I'm in a lot of Groups. My town's babysitters/nannies group is one. Last summer, a bunch of teenagers posted in the group looking for work as COVID had given them a lot of free time.

One time, a mom posted in the group that her teenage son was available to teach younger kids soccer for $ if anyone was interested. I noted that if this teenager couldn't bother himself to sign up for FB to look for work, I'm not sure what that would say about him as a teacher.

I don't like personal anecdotes, but the point here is if younger people want to find older people, FB is a great place. If they can't be bothered to do so, that is not good for FB user trajectory over time.

3) IDFA - Identifier for Advertisers on Apple mobile devices. Apple will be implementing new rules early this year. I haven't done enough work here, but FB has the best data on its users and the best network to get that data.

If FB is limited in its ability to get data on its users, advertising effectiveness will go down.
The EU implemented GDPR in May 2018 and there was a very clear impact to Revenue growth in Europe after this.

While the bull case that IDFA hampers all digital advertisers but FB/GOOGL will be better off may be true, investors don't get excited about "decel-ing less than the competition." Digital rights/privacy are important for FB. AAPL/Govts have the power to handicap FB's ad ability.

4) Op Margins continue to compress. Most investors don't like margin compression. Even if accompanies great revenue growth. Just ask $GOOGL investors. Rewind to pre-CA, FB was a beast. Growing 50% with 60% incr adj. EBITDA margins.

Looking back, they obviously did not invest hard enough.
Not necessarily in ROI generating initiatives but risk initiatives like privacy, moderators, risk mgmt, etc.

The buyside has always been ahead of the sell side on FB EPS, but over the past few years, those positive estimate revisions just haven't happened. Look at 2021 GAAP EPS estimates over time below. Excuses are 2018-2019 it was CA, and 2020 was COVID.

Note, FB has again guided to big 2021 Opex growth suggesting '21 again won't be a margin expansion year. FB typically guides conservatively, but bullish investors have an expectation that margins will one day (soon) be flat or even go up and the past 3 years don't support that.

As always, I welcome feedback. If you think any of the above analysis is faulty, please let me know. OR if you have additional bear points, I'd love to hear it!