From: Richard Kahn <[redacted]>
Sent: Thursday, February 2, 2017 2:27 PM
To: jeffrey E.
Subject: Fwd: FB US: Facebook: Price Objective Change - Beat and raise, and more raises likely if expense pattern holds - BUY - United States

Facebook Stock

own 17,500 shares from =nbsp;IPO 5/17/2012 at $38 per share stock =remarket 133.5 unrealized gain 1,671,250 position value 2,336,250

Richard =ahn
HBRK Associates Inc.
575 Lexington =venue 4th Floor
New York, NY 10022
tel =[redacted]
fax [redacted]
cell =[redacted]

Begin forwarded message:

From: =/b>"Ens, Amanda" <[redacted]>

Subject: =/b>FB US: Facebook: =rice Objective Change - Beat and raise, and more raises likely if =xpense pattern holds - BUY - United States

Date: =/b>February 2, 2017 at 9:06:14 AM =ST

To: =/b>"Rich [redacted]>

Reply-To: =/b>"Ens, Amanda" <[redacted]>

Global Research

Facebook

Beat and raise, and more raises likely if =xpense pattern holds

Reiterate Rating: BUY

PO: 165.00 USD | Price: 133.23 USD

Equity | 02 February =017

Key takeaways

· =/span>Strong 4Q beat with positive user =etrics across the board. User growth should soothe potential =ompetitive concerns.

· =/span>Raising estimates, but more room =o go with 2H upside potential on pricing, GDP acceleration, and cost =iscipline.

· =/span>Raising non-GAAP EPS by 6% in =017E and 2018E; raising PO to $165 (24% upside) on 24x non-GAAP EPS and =7x GAAP EPS.

FULL REPORT

Clean beat; with revenue =pside offsetting higher '17 spend

Revenue/EPS of =8.81bn/$1.41 was well above the Street at $8.51bn/$1.31. Advertising =evenue growth ex-FX decelerated 560bps vs 3Q to 54% (on a 900bps =ougher comp), but was better than the 48% we had modeled. User and =ngagement metrics exceeded our expectations yet again driven by =ontinued Instagram momentum and video. =he 2017 expense and capex outlooks were higher than expected, but =trong revenue trends more than offset, and the outlook leaves room for =PS upside over the next three quarters.

No signs of Snap =rosion; strong user growth

User growth metrics exceeded our =xpectations, with MAUs up 17% y/y to 1.86bn (est. 1.83bn) and DAUs up =8% y/y to 1.23bn (est 1.21bn). DAU/MAU =eld at 66%, unchanged from the prior three quarters. Management =ndicated that overall sharing on the platform is up y/y, and Instagram Stories traction (150mn DAUs in first =ive months) should help alleviate concerns of time share loss to =merging competitors like Snap.

Raising FY17E EPS 6% =espite higher expense forecast

Management =rovided 2017 non-GAAP expense forecast for 47-57% growth vs our =stimate for 41%, though close to the 45-55% forecast we anticipated. We =re increasing expense growth to 47%, but still raising estimates =eaningfully on the stronger revenue. We raise 2017E revenue and =on-GAAP EPS to $38.55bn/$5.67 from $36.7bn/$5.34 and 2018 to =48.88bn/$7.01 from $45.91bn/$6.59. Our GAAP EPS in 2018E is $6.02, only = 14% discount to non-GAAP, aided by a lower tax rate from new SBC =ccounting.

Growth and competitive =osition intact; raising PO to $165

Post quarter we think the Street will =ave more confidence in Facebook's =ompetitive position given the strong engagement and user growth =etrics. While we would have liked to see more pricing growth (up 3% =/y), we are still optimistic about acceleration potential in 2H17 as =upply growth moderates and newer ad formats continue to ramp (video, =ynamic product). Moreover, we see potential for EPS upside on better =ost discipline (see Chart 1 for guide vs actual history). We are =aising our PO to $165 from $150 based on 24x 2018 non-GAAP EPS or 27x =AAP EPS, in-line with expected growth.

Justin Post <[redacted]>
Research Analyst
MLPF&S
[redacted]

</=able>

This report is intended for [redacted] =o:p class="">

Click here to access the =esearch Library

Read the research report, available through the link above, =or complete information including important disclosures and analyst =ertification(s).

The research report and the link to such report are for the =se of Bank of America Merrill Lynch customers only and all copying, =edistribution, retransmission, publication, and any other dissemination =r use of the contents thereof are prohibited. There may be more recent =nformation available. Please visit one of the electronic venues that =arry BofA Merrill Lynch Global Research reports or contact your Bank of =merica Merrill Lynch representative for further information. "Bank of =merica Merrill Lynch" is the marketing name for the global banking and =lobal markets businesses of Bank of America Corporation.

Click here to stop or =odify the delivery of Research via Emails.

Publication: 60325452-11707022.pdf

Recipient: [redacted] <mailto:[redacted]>

http://rsch.baml.com/r?q=RYlVkjsvBp33KPS1IMbqQw&e=richa=dkahn12%40gmail.com&h=udXI0w

2218662

=