



COMPANY UPDATE / ESTIMATE CHANGE TARGET CHANGE

Key Metrics

FB - NASDAQ - as of	1/31/18	\$186.89
Price Target		\$239.00
52-Week Range	\$130.30 -	\$190.66
Diluted Shares Outstanding (mm)		2,906
Market Cap. (\$mm)		\$543,067
1-Mo. Average Daily Volume		20,022,931
Institutional Ownership		59.9%
Debt/Total Capital (net) Q4'17		0%
ROE		23.8%
Book Value / Share		\$25.58
Price / Book Value		7.3x
Dividend Yield		0.0%
LTM EBITDA Margin		56.3%

GAAP EPS FY 12/31

	Prior 2017A	Current 2018E	Prior 2018E	Current 2019E	Current 2019E
1Q	\$1.04	\$1.27	\$1.31	\$1.52	\$1.66
2Q	\$1.32	\$1.53	\$1.58	\$1.77	\$2.01
3Q	\$1.59	\$1.59	\$1.81	\$1.84	\$2.17
4Q	\$2.21*	\$1.91	\$2.52	\$2.15	\$2.68
Year	\$6.16	\$6.31	\$7.22	\$7.29	\$8.53
P/E	30.3x		25.9x		21.9x

*Adjusted EPS figure resulting from TCJA

Revenue (\$mil)

	Prior 2017A	Current 2018E	Prior 2018E	Current 2019E	Current 2019E
1Q	\$8,032	\$10,692	\$11,014	\$13,436	\$14,580
2Q	\$9,321	\$12,147	\$12,469	\$14,824	\$16,270
3Q	\$10,328	\$13,108	\$13,754	\$15,653	\$17,459
4Q	\$12,972	\$15,188	\$16,825	\$17,947	\$21,042
Year	\$40,653	\$51,136	\$54,062	\$61,860	\$69,350

Facebook Inc – is the world's largest social network, with over 2 billion monthly active users. Facebook connects users with friends and family and allows users to share information. A majority of Facebook revenue is derived from mobile advertising, of which Facebook has become the market leader. Other Facebook brands include Instagram, WhatsApp, Messenger and Oculus. Facebook launched in 2004, by Founder, CEO & Chairman, Mark Zuckerberg and is headquartered in Menlo Park, California.

Facebook Inc.

FB - NASDAQ – Long-term Buy - 3

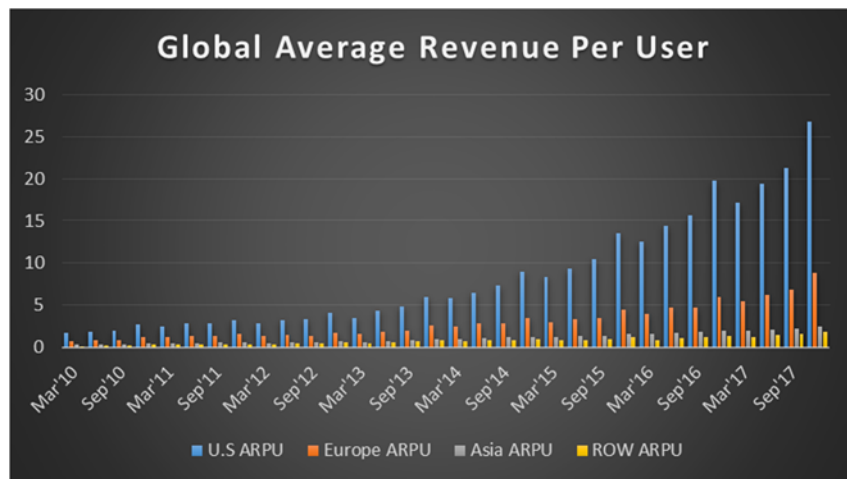
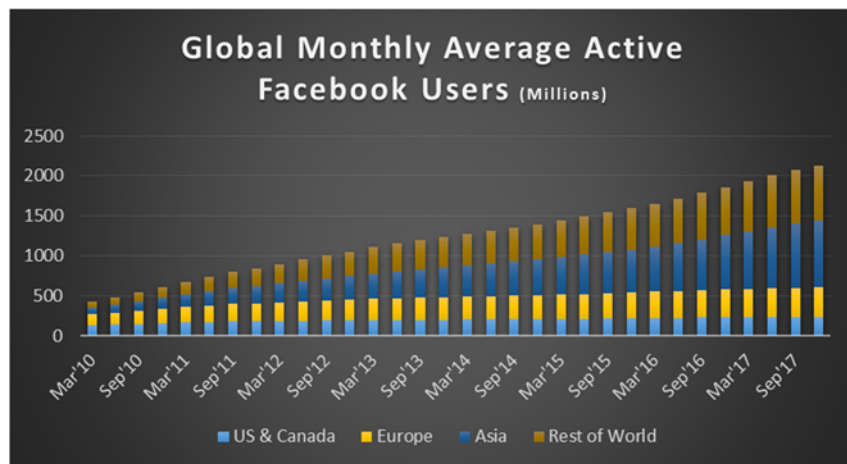
Strong Q4 Results; High FCF Generator; News Feed Changes Positive; Raising PT to \$239

- Key Metrics.** Facebook ended Q4 with a record 2.129 billion monthly active users vs. our estimate of 2.128 billion, up 14% y/y. Daily active users (DAUs) totaled 1.401 billion vs. 1.227 billion last year. However, DAUs declined in North America for the first time, the result of News Feed changes. The average revenue per user (ARPU) during the quarter was \$6.18 vs. our estimate of \$5.95, up 28% y/y. Mobile ad revenue increased 57% y/y and represented 89% of ad revenue, up from 84% last year. The average price per ad jumped a better than expected 43% y/y with ad impressions increasing just 4% y/y. 70 million businesses use Facebook. Recent News Feed changes implemented to curb addiction, fight fake news and hate speech, and other issues caused average daily usage times to decline by 2 minutes or 5% on average.
- Results.** The company reported adjusted EPS of \$2.21 vs. our \$1.90 estimate, up 82% y/y on revenue of \$12.972 billion vs. our \$12.226 billion view, up 47% y/y. Ad revenue of \$12.78 billion increased 48% y/y. Gross margin declined 50 bps to 87.6%, while operating margin reached a record 56.7%, increasing 490 bps y/y due to leverage gained by the higher revenue base. Facebook's cash balance was a record \$41.7 billion. Operating cash flow totaled a record \$7.67 billion, while free cash flow was \$5.41 billion, an increase of over 48% y/y. Free cash flow yield is at a record, above 3%.
- Outlook.** Expense growth guidance was as expected at 45% to 60% on higher platform spending and premium content. We expect advertising revenue growth to continue to moderate from lower News Feed ad load growth despite significantly higher ad prices from strength in video, Instagram, Messenger, and WhatsApp. We increase our outlook on improving ad rates despite higher expenses. Our Q1'18 EPS estimate increases to \$1.31 from \$1.27 on revenue of \$11.01 billion from \$10.69 billion. We raise our FY'18 outlook based on higher ARPU, increasing advertiser count, and continued growth in global users across products. We expect FY'18 & FY'19 EPS of \$7.22/\$8.53 on revenue of \$54.06/\$69.35 billion.
- Opinion.** We raise our FYE'19 price target to \$239 from \$211.

**Note Important Disclosures on Pages 7-8
Note Analyst Certification on Page 7**

ADDITIONAL DISCUSSION

From a geographic and total user basis, the Asia region monthly active user (MAU) base of 828 million was the largest and experienced the fastest user growth, up 23% y/y. Asia ad revenue of \$2.05 billion increased 53% y/y as ARPU increased 27%. Rest of World (ROW) segment MAUs of 692 million increased 14% y/y. ROW ARPU increased 32% y/y, an acceleration of growth from the year ago quarter. ROW ad revenue of \$1.26 billion increased a strong 52% y/y vs. 38% in the year ago quarter. The U.S. & Canada region experienced the slowest growing user count with 239 million MAUs, up 3%. Daily active users in the region actually declined for the first time on record, as management implemented News Feed changes that reduced usage rates. Average revenue per user increased 35% y/y to \$26.76. Europe generated the largest outperformance as ad revenue jumped 58% y/y, with ARPU jumping 48%, up from 33% last year. Monetization continues to improve as Facebook’s total average revenue per user was \$6.18 vs. \$4.83 last year, growth of 28% y/y. This was a result of the average price per ad increasing 43% y/y while ad impression growth slowed to 4%, as ad load growth decelerates and usage time fell as expected.



Source: Company data

OUTLOOK

We continue to believe Facebook has an industry leading mobile advertising position due to the network effect of the social media company's 2-plus billion monthly active user base. Other company-owned brands such as Instagram, Messenger, WhatsApp, and Oculus can boost revenue from traffic across its platform. Facebook's advertiser count stands around 6.25 million advertisers. Despite a very strong 39% y/y growth in advertiser count, the average revenue per advertiser increased 7% y/y. This is a very strong figure as new advertisers include many small businesses who spend less than large brands. We continue to expect advertising revenue growth rates to slow as ad load growth and usage time slows on News Feed.

Management provided FY'18 expense growth guidance to 45%-60%. We increase our outlook on improving ad rates and more advertisers despite concerns of lower ad load growth and higher expenses in FY'18. Our Q1'18 GAAP EPS estimate increases to \$1.31 from \$1.27 on revenue of \$11.01 billion from \$10.69 billion. We raise our FY'18 outlook based on higher ARPU, increasing advertiser count, expense growth offset by low tax rates, and continued growth in global users across products. We expect FY'18 & FY'19 EPS of \$7.22 and \$8.53, respectively.

VALUATION

In our opinion, shares of FB represent a long-term investment opportunity suitable for growth oriented investors. The company is a generator of significant free cash flow, currently yielding 3.3%, and due to the global scale of the business Facebook has been highly profitable with industry leading operating metrics. We continue to recommend shares of FB as we view Facebook as a leading beneficiary of the shift of advertising dollars away from traditional media and internet traffic and onto mobile and video ad platforms. We believe ad rates will continue to rise as the ROI for businesses is substantial.

We maintain our Long-term Buy rating and raise our price target to \$239 from \$211 per share.

Facebook posted another quarter of strong operating results including strong revenue growth, free cash flow generation, global user, advertiser, and ARPU growth. We continue to hold Facebook's management team in high regard and believe they can execute on Facebook's well communicated long-term strategy. We believe the recent fake news/hate speech controversy is an excellent example of strong leadership which is prepared to spend heavily to combat any potential risk to Facebook's platform and fundamentally improve the user experience. We believe this event will be a blip in Facebook's long-term history and will ultimately make the social network a safer place for users and make businesses more comfortable in their ad buying practices.

We derive our FYE'19 price target of \$239 by multiplying our FY'19 GAAP EPS estimate of \$8.53 by a forward P/E multiple of 28x, which is below our prior multiple of 29x and the current forward multiple. We reduce our earnings multiple as higher expenses are expected to slow growth to a degree. Our price target of \$239 offers a potential total return of 23% based on today's intraday price of \$194 through our FYE'19 investment timeframe. We believe this price target could be conservative if Facebook chooses to add a significant amount of premium content to the Watch tab, which could boost ad rates vs. historical norms, while also counteracting recent usage time slippage. While not within our current model if content has positive impacts to user engagement, revenue could inflect higher, offsetting higher expense growth. Our price target is conservative, in our opinion, as it does not include Facebook's \$41.7 billion cash position which can be used for share repurchases, future acquisitions, content acquisition, and other growth initiatives should opportunities arise. We expect Facebook's cash position to grow to over \$100 billion in four to five years, which alone would be worth nearly 20% of today's entire market value.

SUITABILITY

We assign shares of FB a suitability rating of 3 on our scale of 1-4 (1 = most conservative, 4 = most aggressive). A 3 rating is given based on Facebook's limited history as a public company while also incorporating the company's industry leading market position and management team; expanding product set; global reach; solid balance sheet; and significant free cash flow generation. We believe a suitability rating of 3 incorporates these attributes. Shares of FB are suitable for growth oriented investors seeking long-term capital appreciation, in our view.

RISKS & CONSIDERATIONS

Risks to our valuation include but are not limited to:

- Ad load growth is expected to materially slow as the mobile news feed product reaches saturation.
- Security risk regarding how users interact and use the Facebook platform.
- The ability to grow and/or retain the Facebook user base and their current level of engagement.
- Loss of advertising dollars, as advertising revenue generates a majority of Facebook revenue. We highlight ad blockers as one such potential threat to PC and ad mobile revenue.
- The inability by Facebook to further monetize mobile products, as users shift usage patterns.
- The threat of a new social network, website, or app that could draw internet users away.
- The lack of adoption of the Facebook platform and/or the lack of innovation and new products from platform partners.
- The threat of a Facebook infrastructure failure, causing site downtime, or ad server downtime, which could materially affect revenue.
- The unlawful distribution of user information, or the hacking of user information by an outside party and other privacy concerns that may drive users away from the site or create an unwillingness of users to share additional information.
- Regulations and restrictions imposed on Facebook by U.S. or foreign governments (China).
- The loss of key Facebook executives, including COO Sheryl Sandberg and CEO Mark Zuckerberg, who have a majority voting interest in the stock.
- Higher expenses due to legal fees resulting from patent lawsuits.

Additional information is available upon request.

Facebook Inc. Consolidated Statement of Income (in millions except per share data)

	2011	2012	2013	2014	2015	2016	Q1'17	Q2'17	Q3'17	Q4'17	2017	Q1'18E	Q2'18E	Q3'18E	Q4'18E	2018E	2019E
Advertising revenue	\$ 3,154	\$ 4,279	\$ 6,986	\$ 11,492	\$ 17,080	\$ 26,885	\$ 7,857	\$ 9,164	\$ 10,142	\$ 12,779	\$ 39,942	\$ 10,849	\$ 12,314	\$ 13,574	\$ 16,655	\$ 53,392	\$ 68,680
Payments and other fees revenue	557	810	886	974	847	753	175	157	186	193	711	165	155	180	170	670	670
Total Revenue	\$ 3,711	\$ 5,089	\$ 7,872	\$ 12,466	\$ 17,927	\$ 27,638	\$ 8,032	\$ 9,321	\$ 10,328	\$ 12,972	\$ 40,653	\$ 11,014	\$ 12,469	\$ 13,754	\$ 16,825	\$ 54,062	\$ 69,350
Cost of revenue	860	1,364	1,875	2,153	2,866	3,788	1,159	1,237	1,448	1,611	5,455	1,542	1,621	1,884	2,103	7,150	9,015
Research and development	388	1,399	1,415	2,666	4,817	5,908	1,834	1,919	2,052	1,949	7,754	2,588	2,743	2,751	2,692	10,774	15,476
Marketing and sales	427	896	997	1,680	2,724	3,768	1,057	1,124	1,170	1,374	4,725	1,509	1,683	1,857	2,187	7,236	9,199
General and administrative	280	892	781	973	1,295	1,730	655	640	536	686	2,517	881	973	935	1,010	3,798	4,832
Total Costs and Expenses	\$ 1,955	\$ 4,551	\$ 5,068	\$ 7,472	\$ 11,702	\$ 15,194	\$ 4,705	\$ 4,920	\$ 5,206	\$ 5,620	\$ 20,451	\$ 6,520	\$ 7,020	\$ 7,427	\$ 7,992	\$ 28,959	\$ 38,522
Income from Operations	\$ 1,756	\$ 538	\$ 2,804	\$ 4,994	\$ 6,225	\$ 12,444	\$ 3,327	\$ 4,401	\$ 5,122	\$ 7,352	\$ 20,202	\$ 4,494	\$ 5,449	\$ 6,327	\$ 8,833	\$ 25,103	\$ 30,828
Interest and Other Income	(61)	(44)	(50)	(84)		90	81	87	114	110	392	95	100	125	110	430	500
Income Before Provision for Income Taxes	\$ 1,695	\$ 494	\$ 2,754	\$ 4,910	\$ 6,194	\$ 12,534	\$ 3,408	\$ 4,488	\$ 5,236	\$ 7,462	\$ 20,594	\$ 4,589	\$ 5,549	\$ 6,452	\$ 8,943	\$ 25,533	\$ 31,328
Provision for income taxes	695	441	1254	1,970	2,505	2,794	344	594	529	3,194	4,661	688	832	1,032	1,431	3,984	5,639
Net Income	\$ 1,000	\$ 53	\$ 1,500	\$ 2,940	\$ 3,689	\$ 9,740	\$ 3,064	\$ 3,894	\$ 4,707	\$ 4,268	\$ 15,933	\$ 3,900	\$ 4,716	\$ 5,420	\$ 7,512	\$ 21,549	\$ 25,689
Net Income Attributable to Participating Securities	332	21	9	15	19	26	5	4	3	2	14	5	5	5	7	22	22
Net Income After Participating Securities	\$ 668	\$ 32	\$ 1,491	\$ 2,925	\$ 3,670	\$ 9,714	\$ 3,059	\$ 3,890	\$ 4,704	\$ 4,266	\$ 15,919	\$ 3,895	\$ 4,711	\$ 5,415	\$ 7,505	\$ 21,527	\$ 25,667
Diluted Shares Outstanding	1,508.00	2,166.00	2,517	2,664	2,857	2,916	2,944	2,951	2,956	2,954	2,951	2,973	2,981	2,986	2,984	2,981	3,011
Diluted GAAP EPS	\$ 0.46	\$ 0.01	\$ 0.59	\$ 1.10	\$ 1.28	\$ 3.33	\$ 1.04	\$ 1.32	\$ 1.59	\$ 1.44	\$ 5.39	\$ 1.31	\$ 1.58	\$ 1.81	\$ 2.52	\$ 7.22	\$ 8.53
Y/Y Percentage Change																	
Revenue	88%	37%	55%	58%	44%	54%	49%	45%	47%	47%	47%	37%	34%	33%	30%	33%	28%
Cost of Revenue	74%	59%	37%	15%	33%	32%	38%	35%	47%	54%	44%	33%	31%	30%	31%	31%	26%
Total operating expenses	144%	191%	0%	67%	66%	29%	40%	33%	29%	25%	31%	40%	47%	47%	47%	45%	35%
Total costs and expenses	108%	133%	11%	47%	57%	30%	40%	33%	34%	32%	35%	39%	43%	43%	42%	42%	33%
Operating income	70%	-69%	421%	78%	25%	100%	66%	60%	64%	61%	62%	35%	24%	24%	20%	24%	23%
Net income	65%	-95%	2730%	96%	25%	164%	76%	89%	98%	20%	64%	27%	21%	15%	76%	35%	19%
Diluted EPS	64%	-97%	3910%	85%	17%	159%	74%	87%	95%	19%	62%	26%	20%	14%	74%	34%	18%
Diluted share count	14%	44%	16%	6%	7%	2%	1%	2%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Percentage of Revenue																	
Advertising revenue	85%	84%	89%	92%	95%	97%	98%	98%	98%	99%	98%	99%	99%	99%	99%	99%	99%
Payments revenue	15%	16%	11%	8%	5%	3%	2%	2%	2%	1%	2%	1%	1%	1%	1%	1%	1%
Cost of Revenue	23%	27%	24%	17%	16%	14%	14%	13%	14%	12%	13%	14%	13%	14%	13%	13%	13%
Gross Margin	77%	73%	76%	83%	84%	86%	86%	87%	86%	88%	87%	86%	87%	86%	88%	87%	87%
Total costs and expenses	53%	89%	64%	60%	65%	55%	59%	53%	50%	43%	50%	59%	56%	54%	48%	54%	56%
Operating income	47%	11%	36%	40%	35%	45%	41%	47%	50%	57%	50%	41%	44%	46%	53%	46%	44%
Net income attributable to Class A and Class B common stockholders	18%	1%	19%	23%	20%	35%	38%	42%	46%	33%	39%	35%	38%	39%	45%	40%	37%

Source: Company data & Hilliard Lyons estimates.

Facebook Inc. Consolidated Balance Sheets (in millions except per share data)

	2012	2013	2014	2015	Q1'16	Q2'16	Q3'16	Q4'16	2016	Q1'17	Q2'17	Q3'17	Q4'17	2017
Assets														
Cash and cash equivalents	\$ 2,384	\$ 3,323	\$ 4,315	\$ 4,907	\$ 6,456	\$ 5,108	\$ 6,038	\$ 8,903	\$ 8,903	\$ 7,104	\$ 6,252	\$ 7,201	\$ 8,079	\$ 8,079
Marketable securities	7,242	8,126	6,884	13,527	14,165	18,185	20,102	20,546	20,546	25,202	29,200	31,088	33,632	33,632
Accounts receivable, net	719	1,109	1,678	2,559	2,348	2,801	3,070	3,993	3,993	3,415	3,897	4,424	5,832	5,832
Income tax refundable	451	-	-	-	-	-	-	-	-	-	-	-	-	-
Prepaid expenses and other	471	512	793	659	843	916	1,118	959	959	1,209	1,455	1,490	1,020	1,020
Total current assets	11,267	13,070	13,670	21,652	23,812	27,010	30,328	34,401	34,401	36,930	40,804	44,203	48,563	48,563
Property and equipment, net	2,391	2,882	3,967	5,687	6,467	7,104	7,899	8,591	8,591	9,462	10,628	12,158	13,721	13,721
Goodwill and intangible assets, net	1,388	1,722	21,910	21,272	21,096	20,922	20,787	20,657	20,657	20,486	20,315	20,263	20,356	20,356
Other assets	57	221	637	796	700	703	660	1,312	1,312	1,836	2,096	2,374	2,135	2,135
Total assets	15,103	17,895	40,184	49,407	52,075	55,739	59,674	64,961	64,961	68,714	73,843	78,998	84,775	84,775
Liabilities and stockholders' equity														
Accounts payable	65	87	176	196	149	130	260	302	302	170	323	383	380	380
Developer partners payable	169	181	202	217	216	232	239	280	280	278	278	314	390	390
Accrued expenses and other current liabilities	423	555	866	1,449	1,389	1,770	2,018	2,203	2,203	2,400	2,626	2,503	2,892	2,892
Deferred revenue and deposits	30	38	66	56	55	79	78	90	90	80	88	105	98	98
Current portion of capital lease obligations	365	239	114	7	-	-	-	-	-	-	-	-	-	-
Total current liabilities	1,052	1,100	1,424	1,925	1,809	2,211	2,595	2,875	2,875	2,928	3,315	3,305	3,760	3,760
Capital lease obligations, less current portion	491	237	119	107	-	-	-	-	-	-	-	-	-	-
Long-term debt	1,500	-	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	305	1,088	2,545	3,157	3,116	3,145	2,964	2,892	2,892	3,598	4,047	4,485	6,417	6,417
Total liabilities	3,348	2,425	4,088	5,189	4,925	5,356	5,559	5,767	5,767	6,526	7,362	7,790	10,177	10,177
Stockholders' equity:														
Common stock and additional paid in capital	10,094	12,297	30,225	34,886	36,129	37,405	38,756	38,227	38,227	38,639	39,291	40,199	40,584	40,584
Accumulated other comprehensive loss	2	14	(228)	(455)	(276)	(374)	(372)	(703)	(703)	(626)	(370)	(200)	(227)	(227)
Retained earnings	1,659	3,159	6,099	9,787	11,297	13,352	15,731	21,670	21,670	24,175	27,560	31,209	33,990	33,990
Total stockholders' equity	11,755	15,470	36,096	44,218	47,150	50,383	54,115	59,194	59,194	62,188	66,481	71,208	74,347	74,347
Total liabilities and stockholders' equity	15,103	17,895	40,184	49,407	52,075	55,739	59,674	64,961	64,961	68,714	73,843	78,998	84,524	84,524

Source: Company data

Analyst Certification

I, Stephen Turner, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Important Disclosures

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

Suitability Ratings

- 1 - A large cap, core holding with a solid history
- 2 - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks
- 3 - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage
- 4 - Speculative, due to small size, inconsistent profitability, erratic revenues, volatility, low trading volume or a narrow customer or product base

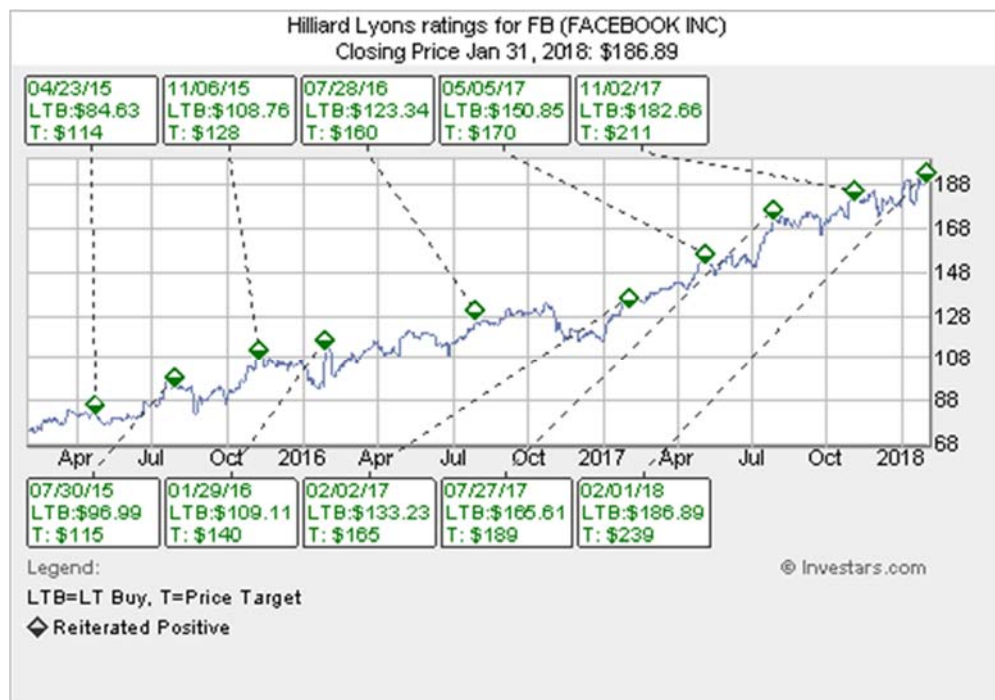
Investment Ratings

Buy - We believe the stock has significant total return potential in the coming 12 months.

Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.

Neutral - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.

Underperform - We believe the stock is vulnerable to a price setback in the next 12 months.



Note: Price targets accompanying Buy ratings reflect a one year time period while price targets accompanying Long-term Buy ratings generally reflect a two to three year time period.

	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Rating				
Buy	31	28%	10%	90%
Hold/Neutral	75	67%	9%	91%
Sell	6	5%	0%	100%

As of 8 January 2018

Other Disclosures

Opinions expressed are subject to change without notice and do not take into account the particular investment objectives, financial situation or needs of individual investors. Employees of J.J.B. Hilliard, W.L. Lyons, LLC or its affiliates may, at times, release written or oral commentary, technical analysis or trading strategies that differ from the opinions expressed here.

J.J.B. Hilliard, W.L. Lyons, LLC is a multi-disciplined financial services firm that regularly seeks investment banking assignments and compensation from issuers for services including, but not limited to, acting as an underwriter in an offering or financial advisor in a merger or acquisition, or serving as placement agent in private transactions.

The information herein has been obtained from sources we believe to be reliable but is not guaranteed and does not purport to be a complete statement of all material factors. This is for informational purposes and is not a solicitation of orders to purchase or sell securities. Reproduction is forbidden unless authorized. All rights reserved.