

HERE'S WHAT TO 'LIKE' ABOUT FACEBOOK

THE SOCIAL MEDIA GIANT IS GAINING STEAM AND LOOKS TO KEEP MOMENTUM GOING IN 2016.

By: Lou Carlozo - December 23, 2015

Like few other tech companies in the world – Alphabet (ticker: GOOG) comes to mind – Facebook has taken off like a rocket soaring into cyberspace.

Facebook (FB) stock appears strong enough to withstand any interest rate hike or token competition from the struggling Twitter (TWTR). Let's put it in 140 characters or less: TWTR stock is down more than 50 percent since April.

Contrast that to Facebook, which trades at about \$105 a share – marking an increase of more than 40 percent from this time last year. Considering the anemic performance after its 2012 initial public offering, the recent performance of Facebook stock – and the smart acquisitions that undergird it – bode well for those who add a piece of FB stock to their portfolio in the new year.

"Three-and-a-half years after the IPO and 11 years after launch the results have been nothing short of impressive," says Peter Frawley, financial consultant and senior vice president of CoreCap Investments in Southfield, Michigan. "The management isn't sitting on their laurels watching cats ride around on Roombas."

And in a world where a web portal's advertising value is measured by the number of eyeballs it attracts, Facebook simply can't be beat. As of September, it tallied 1.55 billion monthly active users.

"Facebook's user base is five times that of Twitter's and Facebook is aggressively innovating its product portfolio to monetize it," says Todd Antonelli, managing director of the Berkeley Research Group in Chicago.

With its third-quarter 2015 earnings report, Facebook beat Wall Street expectations, posting earnings of 57 cents a share (beating analysts' expectations for 52 cents) on \$4.5 billion in revenue. "The valuation is moving closer to \$300 billion in less than four years of public trading," Frawley says. "Facebook has deep and broad penetration in the mobile space and has

proven the ability to monetize the social media experience."

What many investors know, but many Facebook users don't, is that key acquisitions have proved worthy of investors hitting the "like" button countless times. These include WhatsApp (a mobile messaging app), Oculus (which pioneered a virtual reality headset) and the ever-popular Instagram.

Facebook took a gamble when it paid \$1 billion for the photo-sharing app service in 2012. But by itself, Instagram now has more than 400 million monthly users – an amount that surpasses Twitter's tally of roughly 320 million users per month.

"Facebook has been demonstrating steady leadership, vision and execution," says James Gellert, CEO of Rapid Ratings International in New York. "All social media companies are striving for advertising revenue, mobile users and greater and greater innovation. And with Instagram beating out Twitter, Facebook has made a solid acquisition in terms of diversifying its user base and broadening the corporate reach."

That could prove crucial in the years ahead. As post-millennials ignore Facebook – often seen as the social media hangout parents and baby boomers hijacked – they have flocked to Instagram. By analogy, it's akin to dismissing McDonald's Corp. (MCD) for Chipotle Mexican Grill (CMG) a decade ago. The burger giant once owned 90 percent of the Mexican food chain before selling off its stake in 2005.

Still, it's not time for Facebook investors to launch a cyber-party just yet. Issues with valuation present some yellow flags, even for the stock's enthusiasts.

Compared to its current stock price, Facebook's price-to-earnings ratio is a sky-high 105. "The Standard & Poor's 500 index averages around 16 and is currently [near 22], so for Facebook's stock price to be equivalent to the index ratio it would need roughly a 500 percent increase in revenue," Frawley says. "That is unrealistic and reminiscent of the late '90s tech bubble."

The stock could be especially hurt if interest rate hikes slow the economy, but arguably that could put a ding in tech stocks of every stripe.

So call it bullishness or foolishness, but many predict that Facebook's steady stock price climb will show no signs of stalling in 2016. Many observers believe the Oculus Rift virtual headset will prove a game-changer, giving the social media company a lofty stake in tech product realm. In fact, Oculus represents "a crown jewel" in Facebook's stable of franchises, says Max Wolff, chief economist for Manhattan Venture Partners in New York.

Though the Oculus Rift headset missed the 2015 holiday shopping season, its targeted launch date is early 2016. And with no new iPhone release or other must-have gadgets on the horizon, the Rift could prove to be that revolutionary tech device that launches Facebook earnings into the stratosphere.

"Facebook is beloved," Wolff says. "Too many years of outsized returns and taking outsized risk have created nosebleed valuations across tech land. But Facebook will do very well for the next 12 to 18 months."

So no matter its page view rank, "Facebook is on top of the investment world," Wolff says, "and Wall Street loves Facebook."



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