



Embedded Expectations Analysis Pinterest, Inc. (PINS:USA)

Market expectations are for material improvements in Uniform ROA, driven by PINS's potential to translate top-line growth into earnings expansion

Pinterest, Inc.

Sector: Communication Services

Sub-Industry: Interactive Media and Services

0.0 0.0

Market Cap.: \$0.0mn

Stock Price: \$0.00

52 Wk High/Low: \$0.00 / \$0.00

1-Qtr Earnings Momentum:

(\$56.7mn)

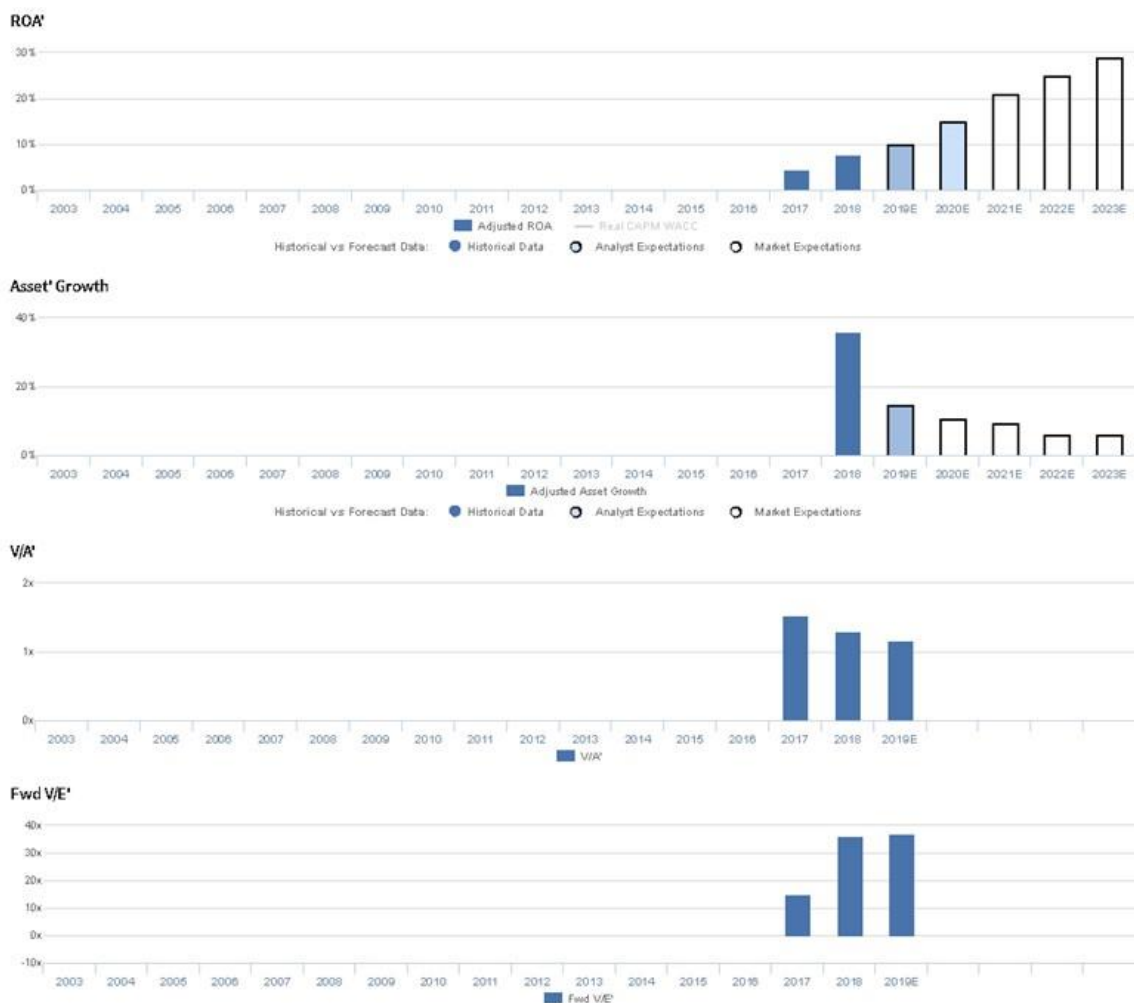
1-Qtr Earnings Momentum ROA' Impact:

(367.1bps)

– Assuming a \$16 share price, the midpoint of current price ranges, and an anticipated 529 million shares outstanding, Pinterest, Inc. (PINS:USA) will IPO with valuations well above corporate averages relative to UAFRS-based (Uniform) Earnings, with a 37.1x Uniform P/E. At these levels, the market is pricing in expectations for Uniform ROA to expand from 8% in 2018 to 29% through 2023, towards the high end of mature peer levels, accompanied by 6% Uniform Asset growth going forward

– To meet these market expectations, PINS must offset user engagement and historical profitability concerns with user growth, ad growth, and social e-commerce execution. However, if they fail to execute on these strategies, market underperformance is likely

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Assuming a \$16 share price, the midpoint of current price ranges, and an anticipated 529 million shares outstanding, PINS will IPO with valuations well above corporate averages relative to Uniform Earnings, with a 37.1x Uniform P/E (Fwd V/E'). At these levels, the market is pricing in expectations for Uniform ROA to expand from 8% in 2018 to 29% through 2023, accompanied by 6% Uniform Asset growth going forward.

For context into the reasonableness of these forecasts, estimates can be compared against social media peers listed by the company in their S1, including FB, TWTR, and SNAP. As the most mature peer, FB has seen the highest profitability, with an all-time peak Uniform ROA of 61%, and currently sitting at 45% in 2018. Meanwhile, TWTR has recently reached peak profitability with a Uniform ROA of 18% in 2018, while SNAP has yet to become profitable. Thus, expectations for Uniform ROA are high, towards the high-end of peer comps, but may not be completely unreasonable.

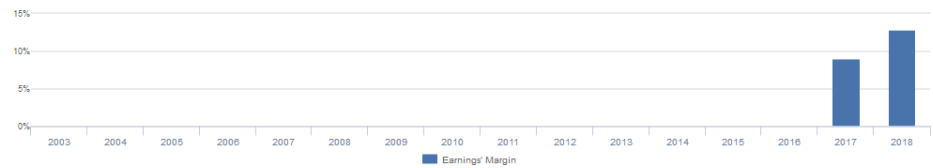
Historically, as a visual discovery platform focused more on growing its userbase than monetization, PINS has seen muted, but improving profitability. Since its initial filings, Uniform ROA has improved from 5% in 2017 to 8% in 2018. Meanwhile, Uniform Asset growth has been robust, at 36% in 2018, as the firm has invested in its platform and into growing its user base.



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Performance Drivers – Sales, Margins, and Turns

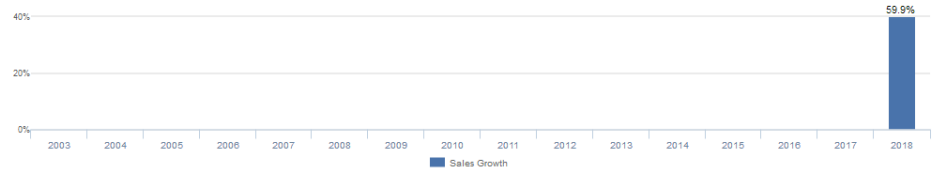
Earnings' Margin



Asset' Turns



Sales Growth



Improvements in Uniform ROA have been driven by improvements in both Uniform Earnings Margin and Uniform Asset Turns. Uniform Margin expanded from 9% in 2017 to 13% in 2018, while Uniform Turns have improved from 0.5x to 0.6x over the same time period. At current valuations, markets are pricing in expectations for further improvements in both Uniform Margin and Uniform Turns.



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Fundamental Analysis

Valens' fundamental analysis of PINS highlights that market expectations are for a material expansion in profitability, driven by growth opportunities offsetting potential downside risks

Specifically, markets are optimistic that the firm's unique value proposition, which leverages visual recommendations and peer engagement, can lead to sustained, robust user growth. Additionally, markets are confident their discovery platform can lead to attractive ad growth, in comparison to industry peers, as it can more organically redirect traffic to other sites. Furthermore, the market expects the increased shopping intent of their user base to drive the potential for a successful social e-commerce platform.

However, analysts are pessimistic about the platform's lower user engagement, in relation to social media peers, as it lacks a social interaction element. Moreover, analysts may be skeptical about the firm's ability to match the user growth and user base of other platforms, and may be concerned about the firm's historical profitability struggles, despite significant revenue and ad growth.

Ultimately, in order to justify current valuations and meet market expectations, PINS must offset user engagement and historical profitability concerns with user growth, ad growth, and social e-commerce execution. However, if they fail to execute on these factors, market underperformance is likely.

Company Profile:

Pinterest, Inc. provides a visual discovery platform that helps users to discover ideas for various projects and interests on the Internet. Its platform allows posting content, including daily activities, remodeling a house or training for a marathon, ongoing passions, and planning a wedding or a dream vacation. The company's platform shows visual recommendations called Pins, based on user personal taste and interests. It also provides Product Pins that make items shoppable with up-to-date pricing; Recipe Pins to cook a meal by bringing the relevant information; Shop the Look, which enables Pinners to shop for the individual products they see within fashion and home decor Pins; and Video Pins, short videos with topics like how-to content about cooking and beauty. Pinterest, Inc. was formerly known as Cold Brew Labs Inc. and changed its name to Pinterest, Inc. in November 2010. The company was incorporated in 2008 and is based in San Francisco, California.

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UAFRS VS As-Reported

Earnings' Margin



Uniform Accounting metrics also highlight a significantly different fundamental picture for PINS than as-reported metrics reflect. As-reported metrics can lead investors to view a company to be dramatically stronger or weaker than real operating fundamentals highlight. Understanding where these distortions occur can help explain why market expectations for the company may be divergent.

As-reported metrics significantly understate PINS's earnings margin, a key driver of profitability. For example, as-reported EBITDA margin for PINS was -7% in 2018, materially lower than Uniform Earnings Margin of 13% that year, making PINS appear to be a much weaker business than real economic metrics highlight. Moreover, since 2017, as-reported EBITDA margin has been materially negative, while Uniform Margin has been consistently greater than 5%, significantly distorting the market's perception of the firm's recent earnings trends.



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Glossary

Asset' – Net Asset' is calculated as Net Working Capital + Long Term Non-Depreciating Operating Assets (including Land and Non-Depreciating Operating Intangible Assets, excluding Goodwill and other acquisition-related Intangible Assets) + Inflation-Adjusted Net PP&E + Net capitalized R&D + Net Capitalized Leases + Net Depreciating Operating Intangible Assets

Earnings Call Forensics™ – Valens Equities analysis includes a powerful proprietary process for studying and evaluating representations made by management during quarterly earnings calls and other public events. Valens uses tools and systems that other sell-side firms and credit agencies have been either unwilling or unable to use. Their reluctance to use these technologies often stems from their fear of endangering their relationships with management teams.

iCDS – Valens calculates proprietary, Intrinsic CDS (Credit Default Swap) for thousands of firms as their fundamentals change. Early markers can be invaluable in predicting price movements, particularly when seeing credit quality changes where no CDS are traded, where speculative or illiquid CDS fails to provide reliable information, or where rating agencies are too slow.

Most Compelling Earnings Call Forensics™ Inflections – Companies where Earnings Call Forensics™ (ECF™) has identified large shifts in management sentiment from quarter-to-quarter. The ECF™ Ratio above highlights the rate of incidence of Highly Confident and Excitement markers relative to Highly Questionable markers. The higher on the list a name appears, the larger the recent inflection between their two most recent ECF™.

Most Compelling Long Ideas – The most compelling long ideas based on all five proprietary value drivers: ROA', Asset' Growth, V/A', V/E', and TSRr. These are companies that Valens maintains a positive outlook on, relative to current market valuations. The higher on the list a name appears, the more positive Valens' opinion of the name is, based on our fundamental factors.

ROA' – ROA' is a cleaned up Return on Asset ratio, used to understand the operating fundamentals of the company. ROA' is Earnings' divided by Asset'. Earnings' is calculated as Net Income + Special Items + Interest Expense + Depreciation and Amortization Expense + R&D Expense + Rental Expense + Minority Interest Expense + Pension Charges + LIFO to FIFO adjustments + Stock Option Expense + Purchase Accounting Cash Flow Adjustments - Non-Operating (Investment) Income - Asset Life Based Charge on Depreciating Assets. Asset' is Net Asset', or Net Working Capital + Long-Term Non-Depreciating Operating Assets (including Land and Non-Depreciating Operating Intangible Assets, excluding Goodwill and other acquisition related Intangible Assets) + Inflation Net PP&E + Net Capitalized R&D + Net Capitalized Leases + Net Depreciating Operating Intangible Assets.

ROA' Momentum – ROA' momentum is Valens' metric to understand the change in projected ROA' and earnings momentum. This metric analyzes what the first forecast year projected ROA' was one month ago, and what the projected ROA' is today. This helps in identifying companies where analyst expectations for fundamentals are improving, and companies where analyst expectations for fundamentals are growing more negative.

TSRr – Total Shareholder Returns (TSR) Relative are traditionally known as the capital gains of the stock, adjusted for any stock splits or similar action, plus dividends, over some period of time. No adjustments are made to the well-known standard calculation. TSRr calculates the TSR relative to the performance of the S&P 500 in the USA, or some other major market index if more relevant when examining companies in other countries.

V/A' – V/A' is a cleaned up Enterprise Value to Net Asset ratio, used to understand the multiple on Net Asset that the debt and equity markets value the company at. Generally, businesses that produce higher ROA's and have no credit concerns or other reasons to believe they are not "going concern" businesses trade at higher V/A'. V is Enterprise Value', defined as Market Cap + Minority Interest + Adjusted Book Debt - Excess Cash. A' is Net Asset', or Net Working Capital + Long-Term Non-Depreciating Operating Assets (including Land and Non-Depreciating Operating Intangible Assets, excluding Goodwill and other acquisition related Intangible Assets) + Inflation Net PP&E + Net Capitalized R&D + Net Capitalized Leases + Net Depreciating Operating Intangible Assets.



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$V/E' - V/E'$ is a cleaned up Enterprise Value to Earnings ratio, used to understand the value the debt and equity markets ascribe to the company's cash flows. V is defined as Enterprise Value', which is Market Cap + Minority Interest + Adjusted Book Debt - Excess Cash. E' is defined as Earnings Prime. Earnings Prime is calculated as Net Income + Special Items + Interest Expense + Depreciation and Amortization Expense + R&D Expense + Rental Expense + Minority Interest Expense + Pension Charges + LIFO to FIFO adjustments + Stock Option Expense + Purchase Accounting Cash Flow Adjustments - Non-Operating (Investment) Income - Asset Life Based Charge on Depreciating Assets.

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