



November 18, 2020

PINTEREST (PINS)

5 Year Price Target of \$165 or annualized IRR of (+21.9%)

Blue Hawk Investment Group, LLC

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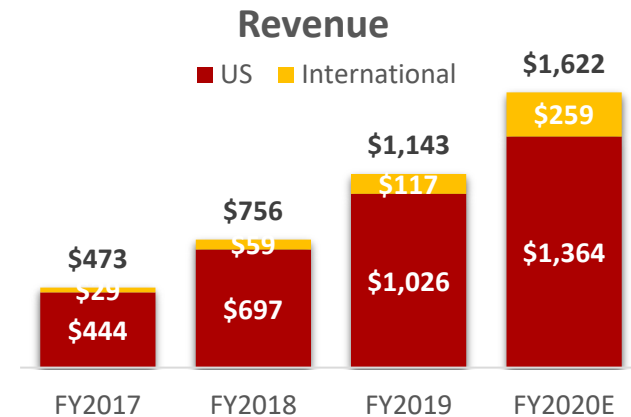
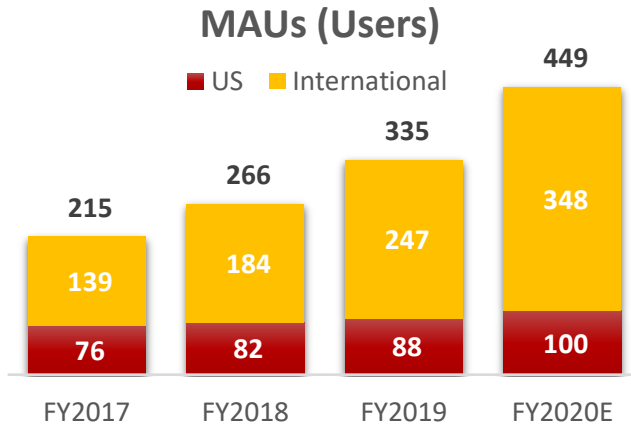
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Executive Summary

Please note Pinterest is a current holding and represents somewhere between a 2%-7% weight, meaning our portfolio consists of 93%-98% other investments. We present the investment idea to you to illustrate how we think about investing, but we ask that undue weight is not placed on the outcome of this one example. That being said, we stand by our work.

1. PINS offers some of the most valuable real estate for e-commerce advertising in the world
 - Consumers with high purchase intent searching for inspiration/ideas prior to making up their minds, meaning they can be influenced – aka *true digital shopping*
2. Previously focusing on the user experience and user growth, the company has begun its transition to the next step in the social media roadmap - building out the business side of the equation and developing tools to ramp up monetization
 - Focusing on advertiser self-service, tools to demonstrate advertising ROI, and partnerships to improve and increase clickable inventory
3. We are in the early days for PINS monetization, as they have become a massive lead generation engine for SMBs and large CPGs alike, touching all stages of the marketing funnel
4. We believe the stock is worth \$165 over 5 years and \$377 over 10 years, for an IRR of 21.9% and 22.4% respectively

Company Overview



- Company was founded in 2009 by Ben Silbermann, who continues to run the company today (Chairman, President & CEO)
- Sits at the intersection of e-commerce and true online “shopping” (most e-commerce is transactional versus PINS & ETSY which aim to be digital malls)
- Users spend an average of 25 minutes per day¹ per Daily Average User (DAU), in line with social media peers, with 3.3 sessions per day, in line with e-commerce peers – suggesting a longer, more engaged user experience

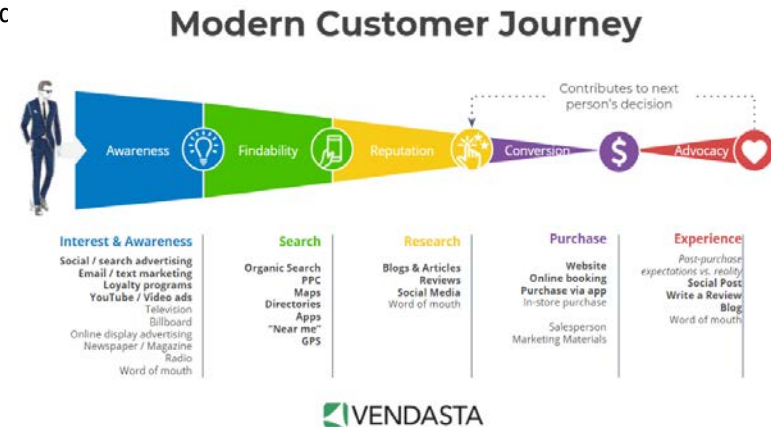
- 442 million users as of most recent quarter-end with \$1.6B in revenue estimated as of upcoming fiscal year-end
 - US represents 22% of user mix and 84% of revenue as of periods listed above

¹ Morgan Stanley Research, Sensor Tower, Company Data

Thesis 1 – Valuable Audience

Unique Consumer and Advertiser Use Case Offers Highly Attractive Real Estate for Advertisers

- 442 million MAUs, growing y/y in the high 30's%, actively engaged, aspirational, and looking for products or services to buy
 - PINS' user behavior resembles a Social Media & e-commerce hybrid
 - Best reach of “Deciders”, a unique and sought-after audience comprised of women ages 25-54, who are responsible for 80% of household decisions and control 50% of wealth in the US¹
 - PINS reaches 83% of women 25-54 in the US, the highest amongst social media companies²
- Commercial content from retailers and advertisers central to the platform – meaning relevant ads are additive to the platform instead of distractive/competitive
- Ability for advertisers to reach users at all steps along the funnel – from idea, to interest and awareness, search, research, and eventually purchase
- Interest areas include many high spend categories, including home décor, wedding, gift ideas, etc.



¹ Ketchum, Marketing to Women, Jan-Oct 2017

² Pinterest, 2018

Thesis 2 – Heavy Investment on the Business Side

Following the same roadmap as FB and SNAP

Roadmap: 1) Build unique user experience to driver user growth and engagement 2) Demonstrate use case to advertisers on a small scale 3) Develop suite of advertiser tools to measure ROI and allow self-service 4) Scale advertising business

PINS Developer Tools Timeline

	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20 and Beyond
Pinner Experience	Improvement to Machine Learning Models	Launched Personalized Search Suggestions	Upgraded Ranking Algorithms	Improved and Simplified Shopping Close-Ups	Rolled out Pinterest Lite Globally	Launched New Shopping Features to Make Shopping Easier
	More Personalized Shopping Recommendations	Introduced a New Video Uploader	Introduced New Home Feed Controls and Improved Landing Page Quality	Launched Verified Merchants Program	Launched "Today" Tab	Introduced "Pinterest Creators"
	Expanded Availability of Search Feature	Increased Number of Shoppable Products	Tuned Recommendation Engine to Drive Use Case Expansion	Introduced "Try On" Lens	Launched Ability to Add Dates to Event-Specific Boards	Launched "Shopping Spotlights"
		Improvement to User Interface for Shopping	Rolled Out Global Redesign on iOS and Android	Launched Video Reactions for iOS and Android	Launched "More Ideas" on Top of the Home Feed	Launched a Shop Tab on Lens Camera Results
Pinterest for Business	Enabled Businesses to Upload Full Catalogs	Launched Mobile Ad Tools (Mobile Ads Manager)	Added a Video-View Objective for Bidding	Rolled Out Standard-Width Video Ads on Desktop	Improved Automation of Ads Manager	Launched Automatic Bidding for Conversion Optimization
	Expanded Conversion Optimization Capabilities	Integration of Pinterest Tag with Google Tag Manager and Other Platforms	Improved Dynamic Retargeting and Rolled Out Age Targeting to Int'l Markets	Enabled Trim and Crop Functionality in PinBuilder Tool	Expanded Shopify Partnership to All NA Merchants	Launched Pinterest App on Shopify
	Rolled Out Video for All Advertising Objectives		Expanded Number of Merchants Using Pinterest Tag	Launched Automatic Bidding for Traffic Objectives		
			Launched New Business Profiles	Improved the Quality of Tag Integrations		
		Expanded Catalogs and Shopping Ads to Select Int'l Markets	Launched Simplified Reporting and Pinterest Academy for SMB Advertisers			

Source: Morgan Stanley

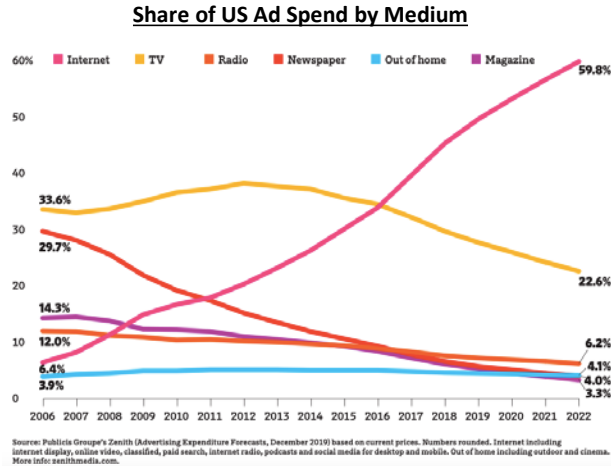
SNAP Ad Infrastructure Timeline

Date	SNAP Product/Initiative	Description
Jan-18	Deep Linking for Brands	Drives traffic to a specific section by targeting users who have already downloaded/opened an app
May-18	Commercials	Increases ad inventory in an unskippable format
Jun-18	Collection Ads	Allows users to buy merchandise without leaving the app via a carousel ad
Sep-18	Product Catalogs	Allows retailers to import their product catalog feeds automatically into Story, Snap, & Shoppable Ads
Apr-19	App Stories	Further integration with other platforms & brings Snap ads to 3P apps
Apr-19	Snap Games	Entry into new business line with notable partnership with Zynga
Apr-19	Reach & Frequency Product One-Day Buys	Previous minimum offered was three-day buys & expanded to UK, Canada, France
Apr-19	New Android App	Released rebuilt Android app
Apr-19	Shopify Integration	Allows Shopify merchant to buy and manage Snapchat story ad campaigns directly on Shopify's platform
Jul-19	Instant Create	Allows advertisers to easily create vertical ads
Oct-19	Dynamic Ads	Advertisers can create ads in real-time based on extensive product catalogs
Nov-19	Extended Play Commercials	Gives advertisers ability to extend their content for up to three minutes
Mar-20	Audience Network	Beta-testing Snapchat's audience network with brands
Apr-20	First Commercial	Brands can be the first commercial any users sees within the first Snap show they watch that day
Jun-20	Snap Minis	Suite of miniature apps made by third-party developers that run inside of Snapchat

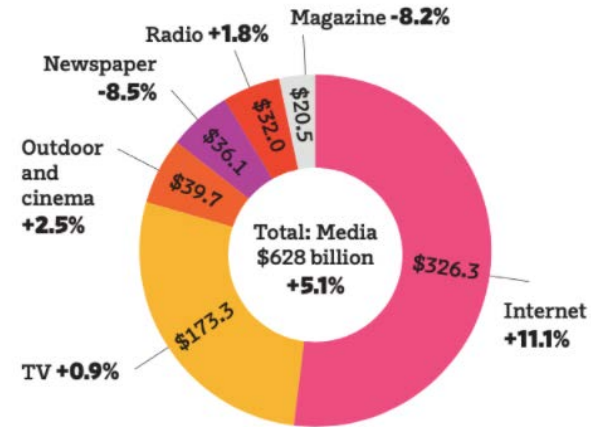
Source: Morgan Stanley

Thesis 3 – Industry Tailwinds

1) Shrinking TV advertising slots, driven by shift to commercial-less streaming video on demand



Worldwide Ad Spend by Medium from GroupM

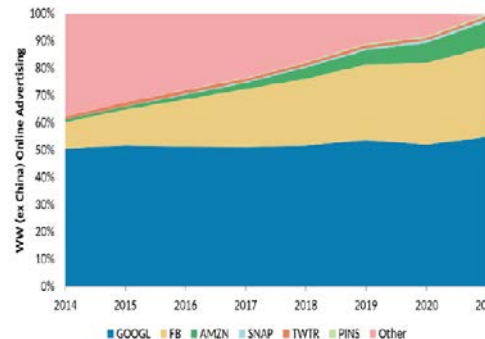


2) Social media ability to target at the micro level far better ROI for advertisers with years of tailwinds ahead

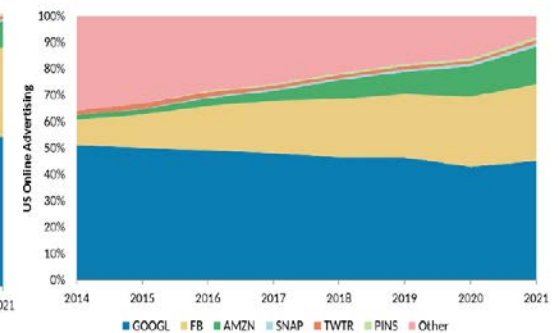
3) PINS penetration still very, very early

- Amazon has demonstrated the value of monetizing internal native search once becoming an e-commerce destination

PINS Online Ad Penetration - Worldwide



PINS Online Ad Penetration - US



Source: Morgan Stanley

Financial Model

Price Target, IRR, and Revenue Drivers

- 5Y Price Target of \$165 (22% IRR annually)
 - Assumes 30% FCF/Rev or Revenue to FCF conversion, in line with FB FCF conversion at same level of revenue
 - 35x NTM (FY'26) EV/FCF assumed
- 10Y Price Target of \$377 (22% IRR annually)
 - Assumes 35% FCF/Rev (FB's peak FCF/Rev at 43% and currently 30%) – PINS does not have disinformation risk and associated costs
 - 30x EV/FCF (FY'30) assumed – S&P500 currently trades at 26x EV/FCF NTM growing ~10% (PINS >20% FCF growth FY'30 in Blue Hawk estimates)

Revenue Drivers:

	FY2020E	FY2025E	FY2030E	CAGR		
				5Y '20-'25	5Y '25-'30	10Y '20-'30
Active Users (MAUs):						
US	100	117	126	3.1%	1.5%	2.3%
International	348	794	1,134	17.9%	7.4%	12.5%
Total	449	911	1,260	15.2%	6.7%	10.9%
Average Revenue per User (ARPU):						
Calculated: due to MAU reported as EOP						
US	\$14.48	\$34.68	\$51.40	19.1%	8.2%	13.5%
International	\$0.87	\$4.49	\$13.65	38.9%	24.9%	31.7%
Total	\$4.14	\$8.52	\$17.50	15.5%	15.5%	15.5%
Revenue by Geography:						
US	\$1,364	\$4,018	\$6,454	24.1%	9.9%	16.8%
International	\$259	3,373	15,108	67.1%	35.0%	50.2%
Total	\$1,622	\$7,390	\$21,561	35.4%	23.9%	29.5%

5- and 10-Year IRR Calculations:

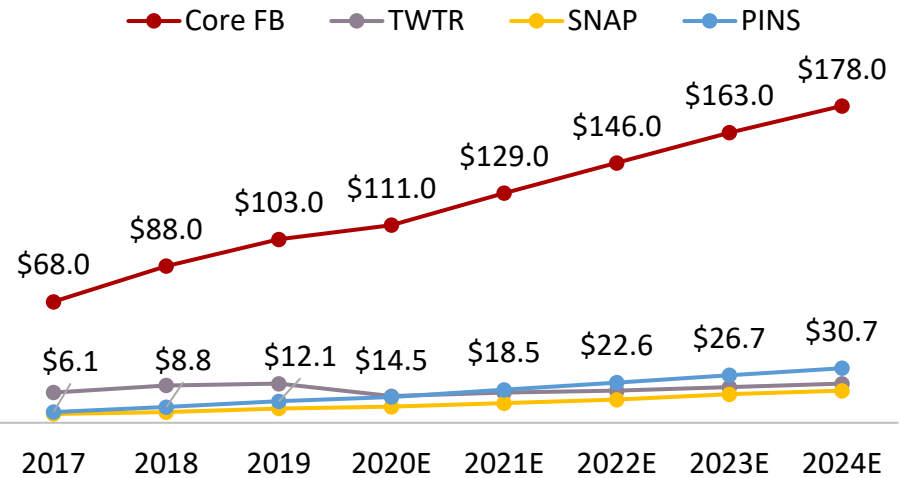
		5Y IRR				10Y IRR			
CUR EV:	\$36,743	'26E FCF/Rev:	30.0%	\$2,826	+/-	'30E FCF/Rev:	35.0%	\$7,546	+/-
EV/Sh	\$61.2	'26E EV/FCF:	35.0x	\$165	21.9%	'30E EV/FCF:	30.0x	\$377	22.4%
Shares:	600	'26E EV/FCF:	40.0x	\$188	25.2%	'30E EV/FCF:	35.0x	\$440	24.5%

Financial Model

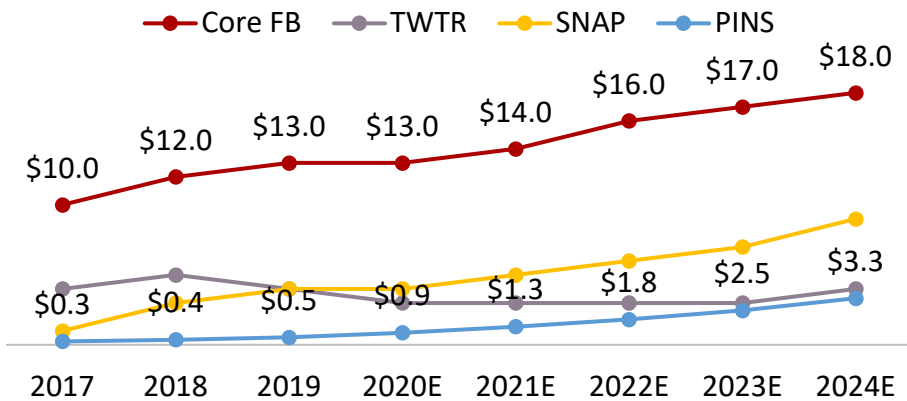
Ad Pricing Most Important Driver

- PINS has significantly lower ad pricing than FB due to perceived lower ROI by advertisers – advertisers historically overvalue the *last click*, which is starting to change
- Investment in suite of ad tools, such as self-service, ROI measurability, etc., has driven recent growth in pricing
- Most significant tools were rolled out in '19/'20, which we believe will allow PINS to drive rapid ad pricing growth as we are in the very early days
- We have modeled PINS US ARPU of ~\$51 by 2030 and International ARPU of \$13.65, both we believe to be very conservative and significantly below Core FB's ARPU today despite similar ad load

US ARPU (Data labeled for FB and PINS)



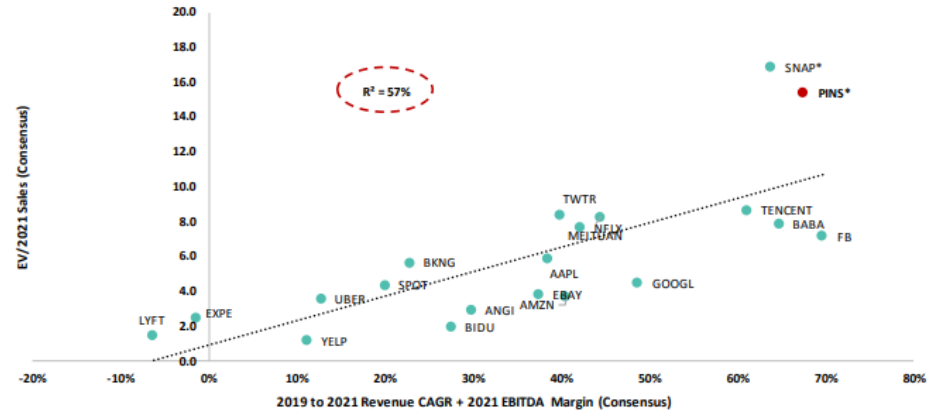
OUS ARPU (Data labeled for FB and PINS)



Source: PINS estimates are Blue Hawk, non-PINS estimates are Morgan Stanley

Systematic Investor Underestimation of Geometric Growth:

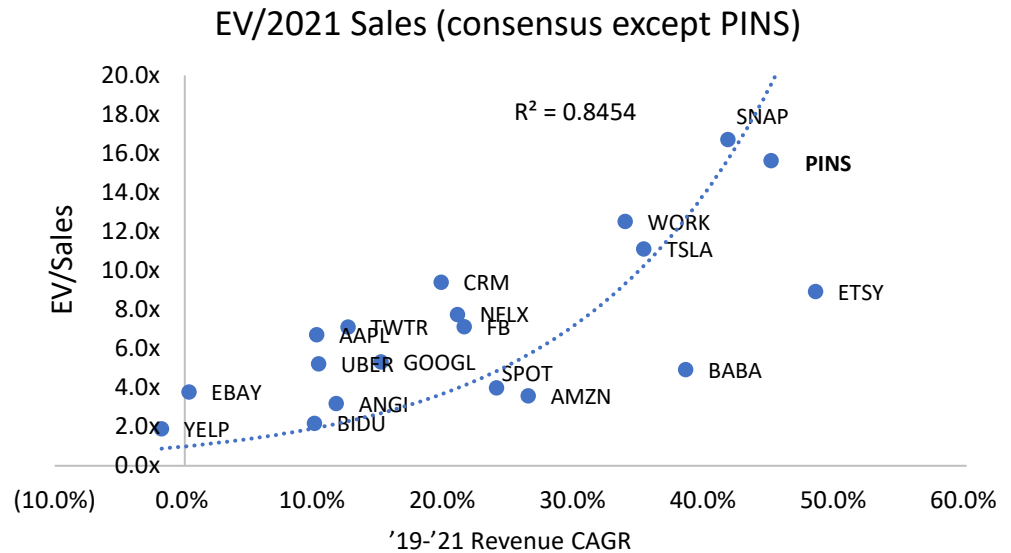
EXHIBIT 10: High multiple and high expectations - PINS and SNAP out on their own in the top right corner.



Note: PINS* has been adjusted for the 32% after market move on 10/28/20 post earnings and uses our revised estimates; SNAP* based on our estimates as we are significantly above consensus
Source: Bloomberg, Bernstein estimates and analysis

Valuation in Perspective

The Correct Way to Evaluate Geometric Growth:



Source: FactSet/IBES except for PINS, which is Blue Hawk estimates

Risks | Metrics to Monitor

Risks

- Opportunity is not the same as execution
 - Long list of disappointing stocks that had great opportunities
- Privacy Regulation
 - Significant regulation of data privacy could materially disrupt PINS' business model
- COVID-19 Uncertainty
 - Risk that engagement suffers permanently as restrictions ease
- Competition for attention is highly competitive
 - Competition within social media and competition across genres such as video games, streaming, etc., all competing for limited attention, is intense

Metrics to Monitor

- ARPU (Pricing)
 - Does the suite of tools and unique value proposition lead to better pricing?
- User Growth
 - Can PINS continue to drive robust user growth organically, particularly internationally?
- Total Pins (User Engagement)
 - Assuming some engagement decrease as COVID-19 restrictions ease, can Pinterest maintain a highly engaged and ready to buy user in a normalized environment?
- Cash Flow Conversion
 - The company is still young and in investment mode so cash conversion will remain low in the near-term, but will we start seeing clues of increased cash conversion as the company gains scale and operating leverage?

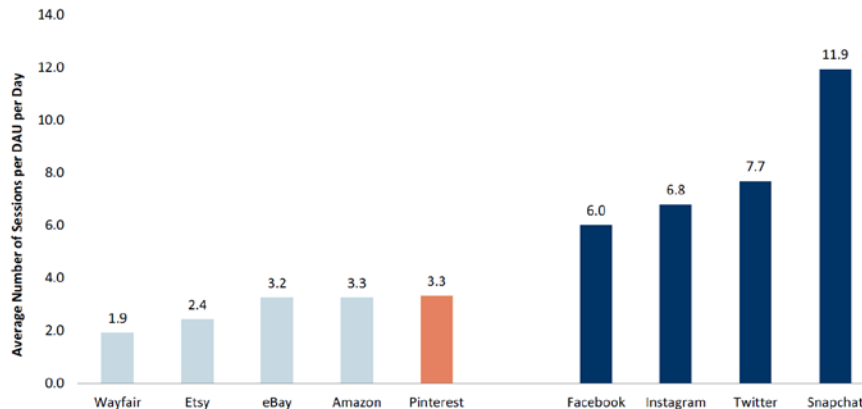
Questions?

Appendix

Time Spent per DAU and Number of Sessions

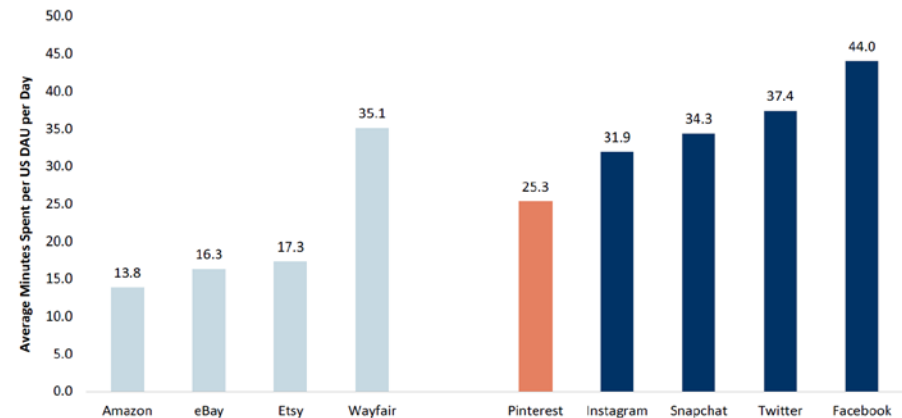
Hybrid E-Commerce / Social Media Characteristics

Exhibit 4: ...as do its engagement metrics, with login frequency more closely resembling e-commerce platforms...



Source: Sensor Tower, Company Data, Morgan Stanley Research
Note: All Sensor Tower data shown are based off iOS usage and do not capture Android trends

Exhibit 5: ...and time spent per user per day closer to social networks



Source: Sensor Tower, Company Data, Morgan Stanley Research
Note: All Sensor Tower data shown are based off iOS usage and do not capture Android trends

Financial Snapshot (Historical)

Quarterly Avg Revenue Per User:

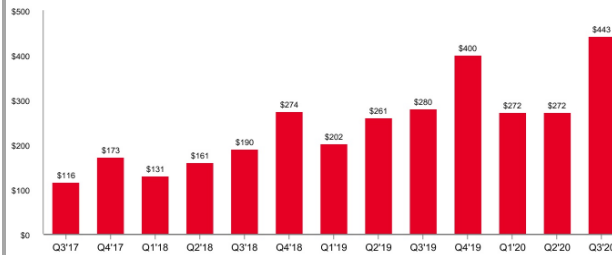
Global



23

Quarterly Revenue :

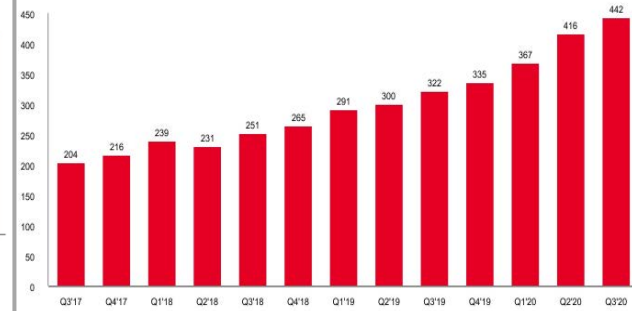
Global



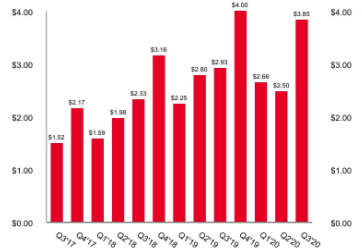
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Quarterly Monthly Active Users (MAUs):

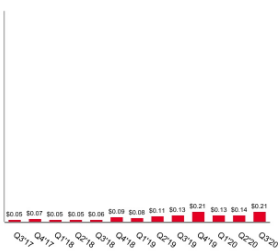
Global



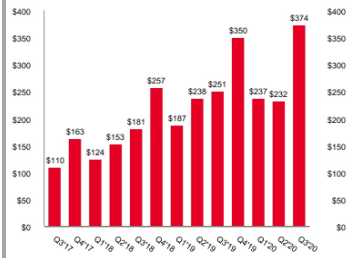
United States



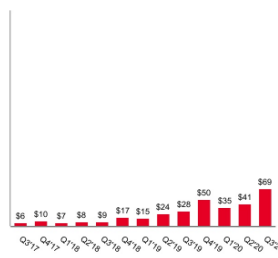
International



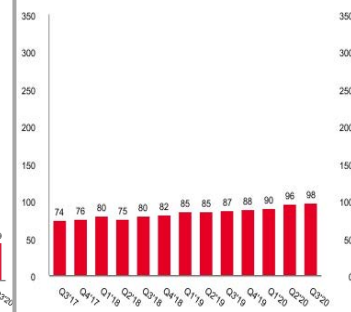
United States



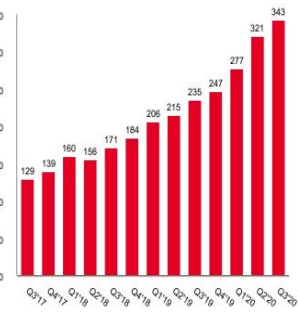
International



United States



International



Source: Company Filings

Ad Formats

- **Standard ad:** A static image used to showcase content in a simple vertical image format.
- **Video ad:** Used by advertisers to capture attention and tell a story with a visually engaging format. Three video ad formats currently offered: standard video, performance video and max width video.
- **Shopping ad:** Similar to a standard ad, used to reach people when they are deciding what to buy. Shopping ads are exclusive to advertisers who upload their product catalog to Pinterest.
- **Carousel ad:** Multiple static or video in one carousel, used by advertisers to showcase more than one image or video at a time.

Source: Company Filings