

Pinterest (PINS)

\$36.08 (As of 08/03/20)

Price Target (6-12 Months): **\$38.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 07/06/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM: C

Value: F

Growth: A

Momentum: C

Summary

Pinterest's second-quarter 2020 results reflect user base expansion boosted by coronavirus-led lockdown. Features like Today and Shop tab are key catalysts. Additionally, the company's partnership with Shopify is helping smaller merchants to get on Pinterest. Moreover, enhanced product offerings, wider Pinner and advertiser base, simplified ad systems through Verified Merchant Program and Pinterest Partners Program for small businesses and improved advertisers' ability to measure the effectiveness of their ad spend are expected to drive advertising revenues in the near term. However, ARPU declined due to an increase in MAUs and a decrease in advertising demand due to the coronavirus pandemic. Moreover, growing expenses to expand domestically and internationally will weigh on profits in the near term.

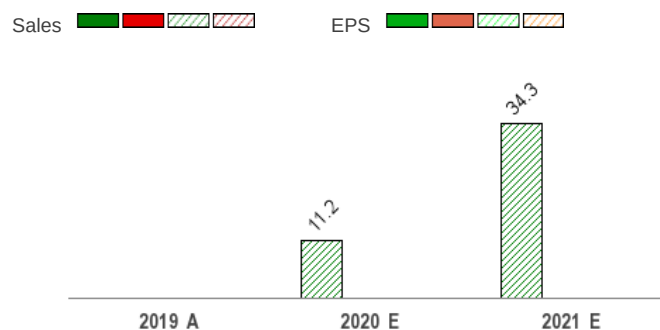
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$37.33 - \$10.10
20 Day Average Volume (sh)	17,688,030
Market Cap	\$21.2 B
YTD Price Change	93.6%
Beta	1.96
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Internet - Software
Zacks Industry Rank	Top 42% (107 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	53.3%
Last Sales Surprise	6.5%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	10/29/2020
Earnings ESP	-10.5%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	337 E	380 E	420 E	599 E	1,707 E
2020	272 A	272 A	298 E	450 E	1,271 E
2019	202 A	261 A	280 A	400 A	1,143 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	-\$0.08 E	-\$0.06 E	\$0.03 E	\$0.21 E	\$0.17 E
2020	-\$0.10 A	-\$0.07 A	-\$0.06 E	\$0.12 E	-\$0.12 E
2019	-\$0.32 A	-\$0.06 A	\$0.01 A	\$0.12 A	\$0.00 A

*Quarterly figures may not add up to annual.

P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	17.3

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/03/2020. The reports text is as of 08/04/2020.

Overview

Pinterest was incorporated in Delaware in 2008 and is headquartered in San Francisco. The company provides a platform to show its users (called Pinners) visual recommendations (called Pins) based on their personal taste and interests. Users then save and organize these recommendations into collections (called Boards).

Pinterest generates revenues by delivering ads on its website and mobile application. The company is helping advertisers reach millennials and Gen Z audience who are more active on immersive mobile platforms.

Pinterest went for an Initial Public Offering (IPO) on Apr 18, 2019. As of December 2019, the company's total audience includes 47% of internet users in the United States, according to data from Comscore based on total unique visitors to its platform. This includes eight out of 10 moms as well as more than half of all U.S. millennials aged 18-34.

Advertisers purchase ads directly or through their relationships with advertising agencies. The company recognizes revenues only after transferring control of promised goods or services to customers. This happens when a user clicks on an ad contracted on a cost per click (CPC) basis, views an ad contracted on a cost per thousand impressions (CPM) basis or views a video ad contracted on a cost per view (CPV) basis.

In 2019, Pinterest reported revenues of \$1.14billion. The company serves ads in 28 countries and had a headcount of 2,217 at the end of the fourth-quarter 2019.

Pinterest uses metrics like monthly active users (MAUs) to measure its user base. At the end of second-quarter 2020, MAUs were 416 million. While United States MAUs increased 13% to 96 million, International MAUs increased 49% to 321 million.

Pinterest faces significant competition from the likes of Amazon, Facebook (including Instagram), Google, Snap and Twitter and smaller companies including Allrecipes, Houzz and Tastemade.



Reasons To Buy:

- ▲ Pinterest is different from other social media platforms and popular digital advertising channels. Google and Amazon offer advertisers an audience that already knows what it wants. Pinterest, on the other hand, caters to discovery. People turn to the platform to get more information on a variety of subjects like weddings, fashion, or fitness but they're not necessarily looking for a specific item. They're there to discover, or to be inspired, and that presents an appealing opportunity to advertisers as users or Pinner, are often very open to purchasing. According to a survey firm Statista, 71% of global Pinterest users are female. In the United States, Pinterest reaches 83% of women between ages 25-54. That same group makes 80% of the buying decisions in U.S. households.
- ▲ Pinterest is increasingly establishing a unique value prop to advertisers that could provide a competitive advantage in the long haul. Through various innovations, Pinterest continues to dramatically improve its advertising platform, which presently appears to be one of the best ad platforms for consumer discretionary brands looking for new ways to reach customers and stretch smaller ad budgets. Pinterest's Verified Merchants Program allows brands to create a catalog of shoppable products on the app and use special re-targeting capabilities in their ads.
- ▲ Pinterest's initiative to improve user engagement by infusing visual search technology even in offline mode on its platform and introducing Pinterest Lite, especially in countries such as Peru, Argentina, Colombia, Chile and Mexico among others have accelerated conversion of searches into product purchases. Additionally, the company's global expansion in countries, including the UK, Ireland, Canada, Australia, Singapore, India, the Philippines, Hong Kong and New Zealand, is expected to have contributed to international user base growth in the near term, thus boosting the top line. In the second quarter of 2020, Global MAUs increased 39% year over year to 416 million.
- ▲ Pinterest has a strong balance sheet and generates significant cash flow, which makes it an attractive stock for investors. The company has cash and cash equivalents (including marketable securities) worth \$1.7 billion as of Jun 30, 2020 compared with \$1.74 billion as of Mar 31, 2020. Moreover, it has no financial debt and an undrawn \$500 million revolving credit facility. We believe Pinterest's strong liquidity position will enable it to make further investments in product development and acquisitions in the future.

Pinterest has been benefiting from its growing popularity among teenagers driven by the diverse content that the platform provides, growing adoption of its advertising platform and efforts to improve user engagement.

Reasons To Sell:

- ▼ Pinterest has experienced net losses and negative cash flows from operations for all annual periods of operating history. The company generated net losses of \$1.36 billion for the year ended Dec 31, 2019. Notably, the company had an accumulated deficit of \$2.21 billion in the same period against cash, cash equivalents and marketable securities of \$1.71 billion.
- ▼ The company anticipates operating expenses to increase substantially in the near term to expand operations domestically and internationally, enhance product offerings, broaden Pinner and advertiser base, expand marketing channels, hire additional employees and develop technology. These efforts may prove more expensive than currently anticipated, and are likely to weigh on the company's top-line growth in the near term.
- ▼ Pinterest faces significant competition from larger, more established companies such as Amazon, Facebook (including Instagram), Google, Snap and Twitter, which provide their users with a variety of online products, services, content (including video) and advertising offerings, including web search engines, social networks and other means of discovering, using or acquiring goods and services. In addition, the company also faces competition from smaller companies including Allrecipes, Houzz and Tastemade that offer users engaging content and commerce opportunities through similar technology, products, and features or services.

Negative cash flow, higher operating expenses amid increasing competition from web search engines and social networks are major concerns.

Last Earnings Report

Pinterest's Q2 Loss Widens Y/Y, Revenues Increase

Pinterest reported second-quarter 2020 non-GAAP loss of 7 cents per share, narrower than the Zacks Consensus Estimate of a loss of 15 cents per share. However, the figure was wider than loss of 6 cents reported in the year-ago quarter.

Revenues increased 4.3% year over year to \$272.4 million and beat the Zacks Consensus Estimate by 6.4%.

While revenues from the United States declined 2.5% to \$232 million, international revenues soared 70.8% year over year to \$41 million.

User Base & Advertising Business Details

Monthly active users (MAUs) Global increased 39% to 416 million. Users who began engaging in Pinterest during COVID-19 continued to have high levels of engagement even after shelter-in-place restrictions were eased in the reported quarter.

Moreover, overall engagement including saves, board creation and searches that peaked in mid-April and early May partially subsided as lockdowns ended but remained stable well above pre-COVID-19 levels for the rest of the quarter.

While United States MAUs increased 13% to 96 million, International MAUs increased 49% to 321 million.

In the United States, user growth was driven by strength coming from resurrected users (many who returned to Pinterest after a lapse of several years) as well as from users under age 25, who grew twice as fast as users 25 years old and above.

However, average revenue per user (ARPU) Global decreased 21% to 70 cents. This contraction in global ARPU was driven by the increase in MAUs and a decrease in advertising demand due to the COVID-19 pandemic.

While ARPU United States declined 11% year over year to \$2.5, ARPU International increased 21% on a year-over-year basis to 14 cents.

Key Q2 Developments

During the second quarter, total organic and paid daily video views grew over 150% year over year, while unique video uploads grew more than 600% year over year.

Catalog feed uploads increased 350% sequentially in the second quarter and grew 10X in the first half of 2020, boosted in part by the Shopify (SHOP) integration, which became available in early May, and also by infrastructure improvements to feed uploader.

Additionally, the company's partnership with Shopify is helping smaller merchants to get on Pinterest. Currently, the integration is live to all Shopify merchants in the United States and Canada.

With just a few clicks on the Shopify merchant dashboard, merchants can seamlessly set up their Pinterest Tag, upload their Product Catalogs to Pinterest and create Pinterest ad campaigns. However, the company does not expect this integration to significantly impact near-term revenues.

Moreover, features like the Shop tab and the ability to shop from boards have improved Pinners' ability to quickly discover the products in Pinterest's expanding inventory. Users who visited 'shopping only' surfaces grew more than 50% in the first half of 2020, and product-only searches grew 8X in the same period.

During second quarter, revenues from both conversion optimization (oCPM) and shopping ads continued to grow faster than the overall revenues while attributed conversions grew 2.7X year over year. The rapid progress in delivering conversions was driven by improved conversion capture (accelerated Pinterest Tag adoption and tag health) as well as consumer behavior (adoption of new shopping surfaces and increased online transactions due to shelter-in-place).

Operating Details

Pinterest's second-quarter 2020 total expenses declined 73.6% year over year to \$377 million, which includes \$62 million of share-based compensation (SBC) following its April 2019 IPO.

In the reported quarter, research and development expenses declined 83% to \$136 million. Sales and marketing expenses decreased 70.9% year over year to \$86.4 million due to COVID-19-related expense reductions, partially offset by higher headcount.

General and administrative expenses declined 79.6% year over year to \$45.6 million.

Adjusted EBITDA loss was \$34 million in second-quarter 2020. The company had reported adjusted EBITDA loss of \$26 million in the year-ago quarter.

Non-GAAP costs and expenses grew 7.2% year over year to \$314.6 million, attributable to headcount growth.

Loss from operations was \$104.5 million compared with loss of \$1.16 billion in the year-ago quarter.

Balance Sheet

The company ended Jun 30, 2020 with cash, cash equivalents, and marketable securities of \$1.7 billion compared with \$1.74 billion in the previous quarter and an undrawn \$500 million revolving credit facility.

Quarter Ending 06/2020

Report Date	Jul 31, 2020
Sales Surprise	6.50%
EPS Surprise	53.33%
Quarterly EPS	-0.07
Annual EPS (TTM)	-0.04

Guidance

Given the uncertainties related to the ongoing COVID-19 pandemic and the rapidly shifting macroeconomic conditions, the company did not provide guidance for 2020 revenues and adjusted EBITDA.

Pinterest expects revenue growth for the month of July to be more than 50% year over year through July 29 in third-quarter 2020. The company expects overall growth in the mid-30% range year over year.

Recent News

On Jun 1, Pinterest announced the launch of Shop tab on Lens visual search results. Users can click on the camera in the search bar, snap or upload a photo, and see a Shop tab with a feed of shoppable Pins based on in-stock products identified in that image. Every Product Pin links directly to the checkout page on the retailer's site.

On May 18, Pinterest announced the release of a new feature called shopping spotlights that bring expert recommendations of influential fashion and home tastemakers as well as publishers directly to pinners.

On May 7, Pinterest announced the launch of a new app with Shopify that gives their more than one million merchants a quick way to upload catalogs to Pinterest and turn their products into shoppable Product Pins, in just a few clicks.

On Apr 22, Pinterest announced adding Adobe Spark, Over, PicMonkey and Canva to the Pinterest Partners program to help make it easier for creators and small and medium businesses to identify trusted creative specialty partners.

On Apr 14, Pinterest announced the launch of a collection of products from sustainable brands on the Pinterest Shop for the 50th anniversary of Earth Day.

Valuation

Pinterest shares are up 2.2% in the past year. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 53.4% and 39% over the same period, respectively. Moreover, the S&P 500 index is up 16.2%.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$38 price target reflects 18.26X trailing 12-month (TTM) sales.

Industry Analysis Zacks Industry Rank: Top 42% (107 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
Facebook, Inc. (FB)	Neutral	3
Sina Corporation (SINA)	Neutral	3
Sogou Inc. Sponsored ADR (SOGO)	Neutral	3
Tencent Holding Ltd. (TCEHY)	Neutral	2
Twilio Inc. (TWLO)	Neutral	2
Twitter, Inc. (TWTR)	Neutral	3
Atlassian Corporation PLC (TEAM)	Underperform	5
Weibo Corporation (WB)	Underperform	3

Industry Comparison Industry: Internet - Software				Industry Peers		
	PINS	X Industry	S&P 500	FB	TWTR	WB
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Underperform
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	C	-	-	A	F	F
Market Cap	21.16 B	895.16 M	22.67 B	717.86 B	28.55 B	7.84 B
# of Analysts	4	5	13.5	12	9	2
Dividend Yield	0.00%	0.00%	1.77%	0.00%	0.00%	0.00%
Value Score	F	-	-	C	D	C
Cash/Price	0.09	0.09	0.07	0.08	0.27	0.30
EV/EBITDA	-14.71	-0.86	13.08	21.90	22.38	11.43
PEG Ratio	NA	6.17	2.94	1.72	NA	2.46
Price/Book (P/B)	11.10	7.68	3.10	6.50	3.66	3.39
Price/Cash Flow (P/CF)	NA	27.06	12.34	29.66	13.20	15.07
P/E (F1)	NA	81.75	21.71	33.30	NA	16.02
Price/Sales (P/S)	17.29	4.69	2.46	9.55	8.59	4.64
Earnings Yield	-0.33%	0.20%	4.38%	3.00%	-1.48%	6.23%
Debt/Equity	0.08	0.14	0.75	0.09	0.51	0.73
Cash Flow (\$/share)	-2.34	-0.00	6.94	8.49	2.76	2.31
Growth Score	A	-	-	B	D	F
Hist. EPS Growth (3-5 yrs)	NA%	16.26%	10.46%	42.58%	NA	99.92%
Proj. EPS Growth (F1/F0)	NA%	-4.00%	-7.08%	17.68%	-122.64%	-21.76%
Curr. Cash Flow Growth	3,062.97%	6.87%	5.47%	-8.33%	123.58%	-12.04%
Hist. Cash Flow Growth (3-5 yrs)	NA%	21.83%	8.55%	38.21%	55.36%	133.19%
Current Ratio	11.75	1.47	1.32	6.02	12.29	4.69
Debt/Capital	7.35%	19.99%	44.21%	8.02%	33.81%	42.14%
Net Margin	-32.88%	-17.05%	10.25%	31.29%	-32.54%	23.44%
Return on Equity	-20.50%	-14.52%	14.72%	22.90%	-12.11%	18.14%
Sales/Assets	0.53	0.60	0.52	0.56	0.26	0.38
Proj. Sales Growth (F1/F0)	11.18%	5.47%	-1.79%	12.54%	-5.46%	-5.82%
Momentum Score	C	-	-	A	F	F
Daily Price Chg	5.22%	0.73%	0.27%	-0.67%	-0.03%	0.84%
1 Week Price Chg	39.73%	1.98%	0.14%	9.95%	-3.04%	2.49%
4 Week Price Chg	39.74%	3.13%	2.96%	4.86%	12.52%	-12.39%
12 Week Price Chg	93.87%	20.27%	10.90%	18.19%	22.57%	-4.18%
52 Week Price Chg	7.00%	8.25%	2.35%	38.65%	-9.86%	-0.11%
20 Day Average Volume	17,688,030	568,602	2,043,624	22,027,900	27,342,176	1,579,070
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	5.38%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.82%	7.87%	-1,161.35%	0.00%
(F1) EPS Est 12 week change	7.32%	0.00%	0.59%	6.96%	-1,161.35%	-5.09%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.25%	13.97%	5.71%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	F
Growth Score	A
Momentum Score	C
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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