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Year-end sale

Interactive Media and Services: Mid cap growth

Pinterest, Inc. (PINS)

Pinterest has rapidly grown into one of the world's most important Internet names over the past few years. Investors towards focusing on the company's monetization instead of user growth. Indeed, the company emphasized user monetization in its 3Q earnings, which, is the most important catalyst for the company going forward. It is because of this and a multitude of other reasons that we are bullish on the stock.

Pinterest is on track to considerable returns, in our view. While the social media company has some near-term risks mostly related to the reopening of economies, which includes a decline in casual MAUs, and lower ad budgets by some companies because of issues related to the supply chain and labor. That said, we see these as short-term events, which have created opportunities as the stock has been unfairly punished with failed acquisition by PayPal. Pinterest shares are now trading at a bargain valuation and should be considerably higher if we look beyond the overly conservative consensus and take into account growth expectations. In short, Pinterest should provide investors substantial alpha from the current price level. Pinterest reported 3Q earnings on Nov 4. 3Q has proven a challenging quarter for social media and ad companies, which were negatively impacted to Apple's (AAPL) policy change on iOS privacy issues. That said, Apple's (AAPL) privacy changes evidenced even further that Pinterest is simply different and should not be directly compared to these companies. Unlike after Q2 Earnings, the stock did have a good reaction this quarter, climbing almost 7% after the earnings.

Stock pick for the third week of December

Pinterest, Inc. (PINS)

About Pinterest, Inc. (PINS)

San Francisco, California-based Pinterest is a visual discovery engine company. The company offers various Pins to help users them take action, including standard pins, product pins, collections, video pins and story pins. Its standard pins includes images with links that leads back to the original content from around the web, used to highlight products, recipes, style, and home inspiration, and do it yourself (DIY). Product pins make items shoppable with up-to-date pricing, information about availability and links that go directly to the checkout page of a retailers website. Collections allows Pinners to shop for the individual products they see in the inspiring scenes on fashion and home decor Pins. Video Pins are short videos on topics like how-to content about cooking, beauty and DIY. Story Pins are multi-page videos, images, text and lists that are natively created on Pinterest. In addition, it provides online marketing services to brands across the globe.

Rationale

When Pinterest was launched in 2010, it was apparent that it knew how to attract users, however, was not as apparent was how it would generate revenues. At the time, ads placed into web pages of user interests did not seem to be much of a business model. Over time, however, Pinterest proved that its model works. Once the company establishing a base of followers and refined its 'promoted pins' it saw a breakout year for ad revenue in 2015. Indeed, Pinterest reported its top line for 2015 was approximately 5x higher than 2014's ad sales. And it continues to tweak its advertising medium. 3Q's revenue of USD633mn was up 43% YoY, but the number of monthly users grew a paltry 1%. At first glance, such user growth is unimpressive compared to platforms like Meta's (FB) Facebook or Snap's (SNAP) Snapchat. However, we point to the fact that Pinterest's user base's growth spike took place in the middle of 2020, when millions of people were sheltering-in-place. Worldwide ARPU per quarter climbed from USD1.03 in 3Q20 to USD1.41 in 3Q21, but this was still paltry compared to Facebook's 3Q global ARPU of USD10, and USD3.49 for Snap.

Small businesses generally have limited ad budgets, and as such demand advertising that offers best ROI. And this is where Pinterest trumps rivals. Its platform is an online pinboard, which is perfect for finding new products

While Pinterest is generally viewed as just another social media platform. From an investing perspective, however, Pinterest differs in key areas from other social media platforms such as Facebook or Twitter (TWTR), and as such its business model should be evaluated differently. Indeed, we have identified three key areas which we believe makes it a compelling investment. As with other social media companies, Pinterest generates revenue from advertising, and it is in this area where its offerings differ. Small businesses generally have limited ad budgets, and as such demand advertising that offers best ROI. And this is where Pinterest trumps rivals. Its platform is an online pinboard, which is perfect for finding new products. According to a study done in 2018, 83% of users made purchases after discovering content on Pinterest. The company's platform is ideal for e-commerce, making it a perfect to sell products. Indeed, a 2020 survey revealed that Pinterest is the number one social media platform

for shopping by American consumers, ahead of Facebook and Instagram. Pinterest offers ads, and companies put their catalogs on the platform. Catalog uploads skyrocketed 350% from 1Q to 2Q as adoption surged. Pinterest's success with its ad platform is also because it caters to SMBs. The company's conversion-tracking tools makes it easy for advertisers to measure ROI on their ads. As such, it one of, in not the most attractive platform for SMBs to get the biggest impact from smaller ad budgets. This is evidenced in the fact that SMBs contributed roughly 50% of revenue in 2Q. With around 31mn small businesses in the US alone, the company has a blue ocean of advertisers to grow ad spend. And as an advertising platform in the US, it expanded from below 25% in 2016 to approximately 36% in 2020. The more eyeballs Pinterest secures, the more valuable it grows. That said, its 3Q MAU for the US shed 10% and also declined in 2Q. Because of its underperformance in this metric, the market punished the stock in 2H. However, what the market seems to be ignoring, though, is Pinterest's growing ARPU, which expanded 44% to USD5.55 in 3Q, driving 43% revenue growth. In contrast, Meta's US ARPU was USD52.34. If Pinterest continues to grow ARPU like in 3Q, it will move closer to Meta's value from 2022. And with this would come a turnaround for the stock. What is more, we see the partnership with Shopify (SHOP) driving revenue growth from the discovery of smaller merchants by users. Indeed, Pinterest's revenue per user, not MAUs are the key metric to watch, we believe.

While 2021 has been great for some stocks, others seemed to have missed the boat. For Pinterest, the market has readjusted the stock's valuation and created a buying opportunity. Furthermore, the MAU is going in the wrong direction and the market is overly focused this while ignoring its potential revenue. We, however, believe 2022 be a rebound year. Since Pinterest hit an all-time high of USD90 in Feb, the stock has been on a steady decline, and is now priced below USD40. The company's app lets users discover ideas and save them to personal boards. Visitors use the app for ideas, making it great advertising platform, which is the company's unique edge. Going into 2022, Pinterest is well-positioned to reward shareholders. While there is some risk, the potential far outweighs it when considering the potential for red-hot growth. Volatility comes with this stock, as seen in 2021, but investors who can stomach some turbulence, the skies of opportunity are abundant and could bring multibagger returns. In short, investors should consider buying if they are able to handle the challenging periods, because the upside is potentially massive. In short, Pinterest has plenty of room for growth.

Pinterest translates well across borders

Pinterest management pointed to the increasing monetization in the international segment as a factor behind improved revenue. Going forward, we expect the company to expand its international business and to close the ARPU gap with other leading social media companies with greater international content and the addition of more region-specific advertisers.

The challenge lies in the low ARPU in international markets compared the US. That said, the company is hyperfocused on improving international ARPU and taking the requisite steps to make do so. In 2019, the company hired a European sales team to grow revenue, and it is making progress as evidenced in 3Q results in which international ARPU rose 21%. Improved international user monetization represents a significant upside opportunity for the company and it is making good progress to realize this

opportunity.

Investing in innovation

Pinterest's Creators Rewards is its first in-product monetization program for creators, and the latest initiative to pay creators for content. Creators can access Creator Rewards through the global Creator Hub, where they can manage their Pinterest presence. Through its Creator Rewards, Pinterest offers micro-grants for creator projects. The company is investing USD20mn in Creator Rewards and other initiatives for creators. Pinterest also launched its Creator Fund, a program that helps creators from underrepresented communities with educational and financial support. The company introduced more ways for creators to earn money on the platform. And the company is now expanding its product-tagging tool to include the Amazon Associates Program so creators can add affiliate links from Amazon and earn commission.

Pinterest becoming even more shoppable than other social media

Research shows consumers who visit Pinterest outspend non-Pinners by 2x every month and have an 85% larger basket size .

And Pinterest continues to make Idea Pins more shoppable, now integrating them with AR Try on, its AR beauty system. This allows creators to tag their Idea Pins. The shop similar feature utilizes Pinterest's visual search technology to recommend Product Pins that are visually similar to the content within the Pin, giving visitors the ability to shop what they see. With this feature, Pinterest is enabling visual search on video content.

In addition to the many technological innovations being rolled out by Pinterest, the company is working with celebrities to further inspire Pinners and creators to be more proactive when inspired. | Its Create Your Take program features celebrities such as Jennifer Lopez, Megan Thee Stallion, Storm Reid, and others. The company is rolling out the service from Oct 21-Mar 22 in the US, UK, Canada, Australia, France, and Germany. Its Creator Originals, a new content series featuring over 100 of the hottest emerging creators from 10 countries.

A leader in visual search

Human culture is reliant on images, and so visual search has become one of the most important areas for the world's biggest tech companies. And while the pace of progress is accelerating but it remains to be seen who will win this fast-growing market. While the search industry has evolved, yet the power of the image remains untapped. This makes visual search potentially the most lucrative domain for search, which remains contested.

Visual search has been around for several years and is built into several popular search engines and social media platforms, such as Pinterest, Microsoft (MS) Bing, Snapchat, Amazon (AMZN), and, of course, Google. According to research by ViSenze, 62% of millennials and Gen Z prefer visual search to

other search types. Visual search utilizes AI to help users search via real-world imagery, instead of text. The technology is useful for eCommerce and brands, and with the use of optimized content, they are easily discovered by users, which for popular search queries could prove very lucrative the advertiser. While visual and image search are based on imagery, the key difference is that people use text to conduct an image search, and image to conduct a visual search.

Visual search works via a combination of computer vision (CV) and machine learning (ML) tech. CV helps machines see, and it assists them in interpreting what they are seeing, before reaching a decision about what to do with the information. CV has been around for years, but the advancement of ML tech made it possible to use it for visual search. In short, ML provides information that CV requires to understand what is in an image. The USP of Pinterest's visual search app is that users can take a picture of nearly anything, and they will be able to find, save, or shop for the items in the picture. Pinterest's list of fashion brands, retailers, and home decor customers is growing, and the company claims that that 90% of users' purchasing decisions are the result of information obtained through its technology. With marketers increasingly optimizing for visual search, Pinterest should capture sales from this growth area. With the majority of Gen Z now discovering brands solely through social applications and purchasing directly off the back of the platforms, Pinterest is perfectly positioned to capitalize on its visual search tech for massive growth in the years ahead.

Pinterest is not only innovating internally but making strategic acquisitions to accelerate its growth. In 3Q it announced the acquisition of Vochi, a video creation and editing app for creators. Vochi's unique technologies gives creators the ability to instantly apply effects based on CV on objects in a video We expect the Vochi acquisition to help creators generate more quality video content for the platform. More inspiring content provides users more ways to watch, make, and shop.

Market outlook

Despite executing on its key KPIs and strong quarterly results, it continues to be a challenging year for the share price of Pinterest. Indeed, the share price has been steadily declining all year. Then news of a possible merger with PayPal emerged and the share price skyrocketed only to plummet a few days later when PayPal announced that it would not make the acquisition. Then the share price jumped Nov 4 when 3Q revenues posted a 43% jump YoY. But the surge was short-lived and as of Dec 16 the price closed at USD36.05.

One of the key indicators for Pinterest is its MAU. Globally this was up 1% but it was down 10% in the US to 89mn, which has caused some to question its future growth prospects. Pinterest users typically search for Pins associated with keywords, like "living room decor". Entering a term in the search bar will pull up ideas for living room furniture, designs, and more. So, the question many are asking is whether there will be enough spending to put Pinterest's share price back on a growth trajectory.

Pinterest remains in its

We believe the company's offerings are unique and that it is still in the early stages of global growth. As

early days of growth as the company continues to demonstrate its importance to ecommerce digital marketing overall.

such its outlook is favorable, although it might take some time to start to grow exponentially. As consumers were sheltering-in-place at the start of the pandemic, they shifted en masse online shopping online, and Pinterest benefitted from the rapid shift to e-commerce. Consumers invested time and money to improve their homes following with the growth of working-from-home economy. And Pinterest was and remains the ideal place to look for home-improvement ideas. MAU growth was 37% in 3Q20. But the summer months of 2021 saw the stock fall back to the USD25 level, which is where it was 2020. 2Q results' 454mn MAU was below the 482mn consensus, but this was largely due to the success of vaccination campaigns in the US and the subsequent rush to spend more time socializing outside, dining out, and other outdoor activities 3Q results crushed expectations, and shares 3Q results crushed expectations, and shares popped more than 25% in a day after 3Q results revealed a 58% YoY jump. Nevertheless, Pinterest remains in its early days of growth as the company continues to demonstrate its importance to ecommerce digital marketing overall.

3Q earnings results

For 3Q results, Pinterest announced good financials with USD633mn revenues and impressive 43% YoY growth, beating the consensus estimate of USD631mn. Despite a decline in MAU growth, monetization more than made up for it, driving revenues. For the I/S, the company also crushed estimates with an adjusted EBITDA of USD202mn against the consensus estimate of USD168mn. Adjusted EBITDA margins were solid at 32% vs. the 27% consensus estimates. And its bottom line was healthy with a USD0.28 non-GAAP EPS vs. the consensus of USD0.23.

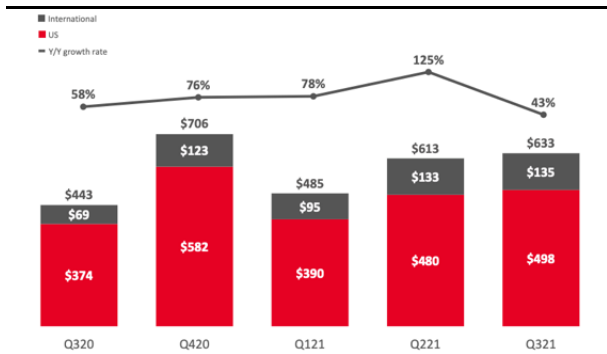
Management guided 4Q revenue growth in the high-teens percentage YoY. Pinterest recorded USD705.6mn in revenues in the 4Q20. If it grows by roughly 17.5%, it will amount to 4Q21 revenues of around USD830mn, far less than the pre-announcement consensus estimate of USD874.6mn. And we think that guidance, coupled with the weaker MAU are behind the negative stock price reaction despite solid results. MAUs do matter but are unclear due to the pandemic. Barring a nosedive in MAUs, core users using Pinterest as a search engine and not as a social media platform is bodes well for the platform. Having users visit to the platform as they do to an e-commerce platform is what should fuel future growth in the stock, and performance is fantastic and should continue to be so with the ongoing innovations.

Coming quarters may experience high volatility, but the stock could reward patient investors with years of alpha once the company overcomes its current challenges.

On balance, 3Q was superb in terms of metrics, with the exception of MAUs. Having said that, the MAU decline was anticipated problem but improvements in key KPIs were carried out as planned. For monetization, which we believe is key, Pinterest delivered stellar ARPU growth, which reached 37% globally. US, ARPU jumped 44%, which is also positive since the US has the most profitable per-user metrics for all social networks. And while there are some near-term risks, Pinterest offers considerable upside going forward. Coming quarters may experience high volatility, but the stock could reward patient investors with years of alpha once the company overcomes its current challenges.

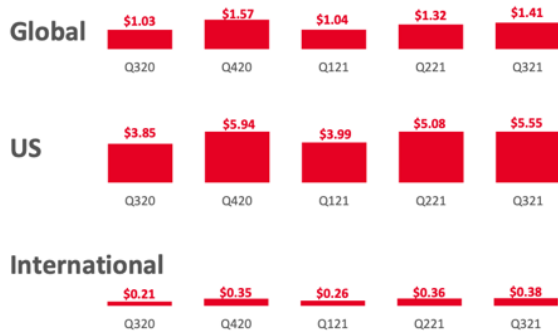
Fig 1. 3Q revenue up 43% YoY globally (USD mn)

Fig 2. MAU (mn) up 1% YoY globally



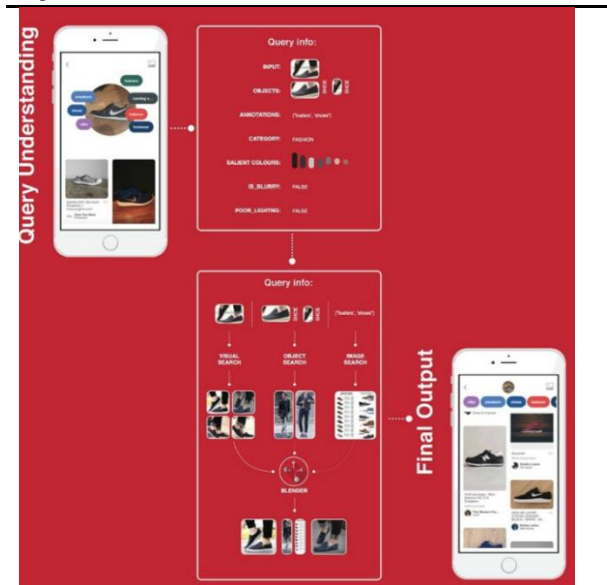
Source: Pinterest, Hyundai Motor Securities

Fig 3. ARPU up 37% YoY

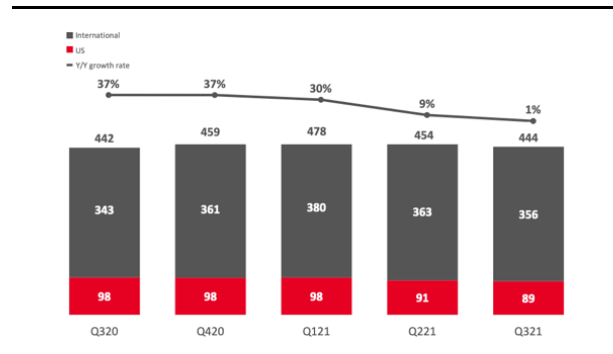


Source: Pinterest, Hyundai Motor Securities

Fig 5. How Pinterest visual search works

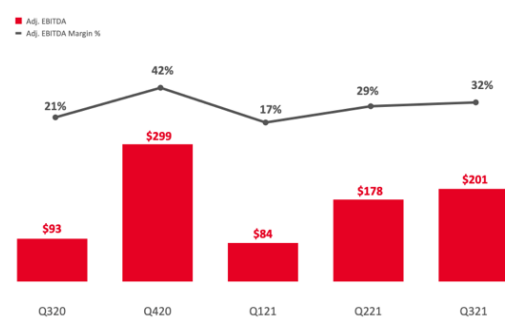


Source: Clark Boyd, Hyundai Motor Securities



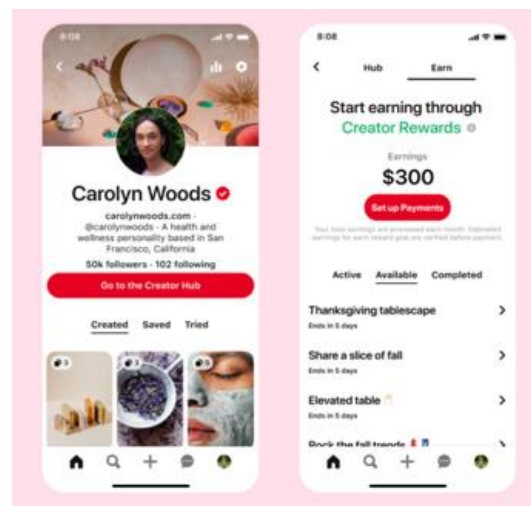
Source: Pinterest, Hyundai Motor Securities

Fig 4. Adjusted EBITDA up 117% YoY



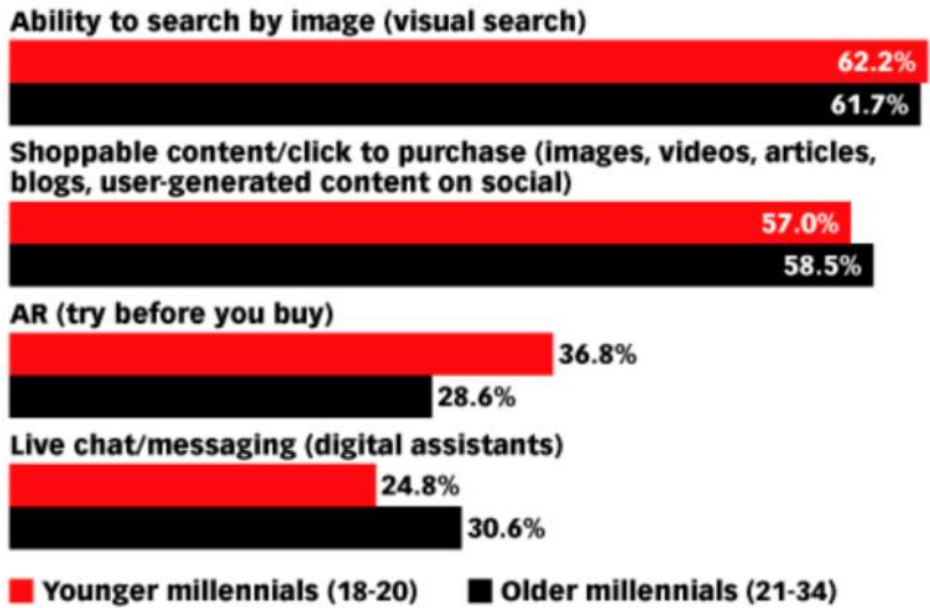
Source: Pinterest, Hyundai Motor Securities

Fig 6. Pinterest launched its Creative Rewards in Q3



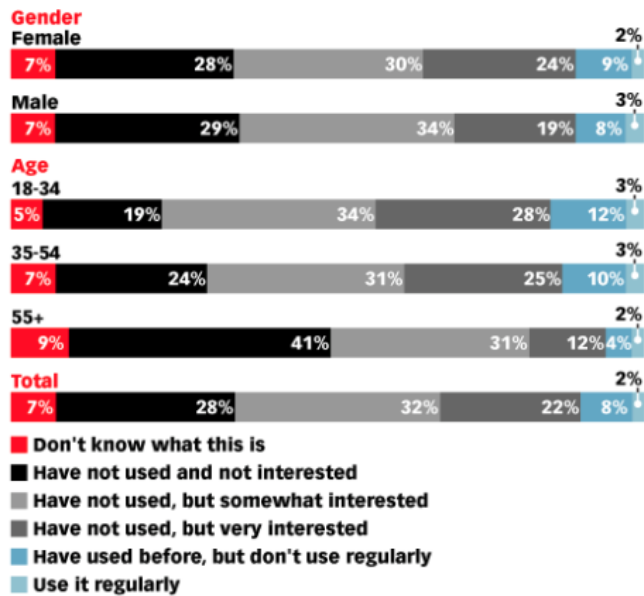
Source: Pinterest, Hyundai Motor Securities

Fig 7. What new technologies would UK and US younger vs. older millennial Internet users be comfortable for their digital shopping experience? (% of respondents, by age)



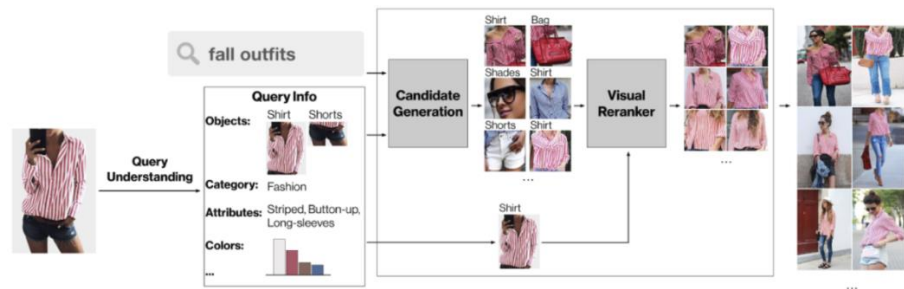
Source: ViSenze, Aug 29, 2018, Hyundai Motor Securities

Fig 8. How interested are US Internet users in using visual search retail technology? (% of respondents, by demographic)



Source: eMarketer, Hyundai Motor Securities

Fig 9. Unified search



Source: Pinterest Engineering, Hyundai Motor Securities

Valuation and risks

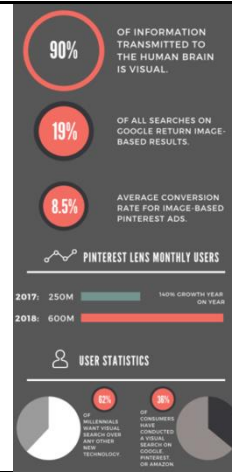
Pinterest's market cap as of Dec 15 is USD23.2bn. As Pinterest is in the Interactive Media & Services industry and has positive earnings, PE and PB are the most appropriate valuation measures. PS is less instructive than PE as the company has positive earnings. Accordingly, Pinterest appears pricey with a PE of 66.24x, above the Interactive Media & Services industry median PE of 25.27x. Pinterest is one of the more profitable companies in the Interactive Media & Services industry with a net margin of 14.34%. Its operating margin and net margin are among the strongest in the industry while its gross margin is above the industry median. The recent earnings trend for the company has been positive. During the past twelve months, Pinterest has reversed the prior period's loss to show a profit of USD0.54/sh, which was expected, as most Interactive Media & Services companies also posted better results. Pinterest is very efficient when compared to its peers with a RoA, Revenues Per Employee, and RoE of 12.82%, USD957,560, and 15.09% respectively. The company is among the best among peers at generating revenues from employees and at managing resources and is above average at managing OE. Pinterest holds a considerable amount of cash and cash equivalents on its BS, which can be used to fuel growth, limit financial risk, and pay dividends. With adjusted EBITDA margins growing from 21% to 32% YoY, the valuation multiple appear inexpensive, in our view. As such, we remain bullish on the stock.

The bottom line

As Pinterest and other platforms push the boundary of what search is, it site owners and marketers are preparing for future of search, which will be increasingly focused on visuals. With technologies such as AR going mainstream, younger Internet users will want to interact with sites that offer these features and expect them.

The current headwinds which Pinterest faces are in our view, temporary and should not be a concern to long-term investors. Accordingly, we believe that buying the dip with a long-term horizon could reward patient investors with outsized returns.

Fig 10. Visual search statistics



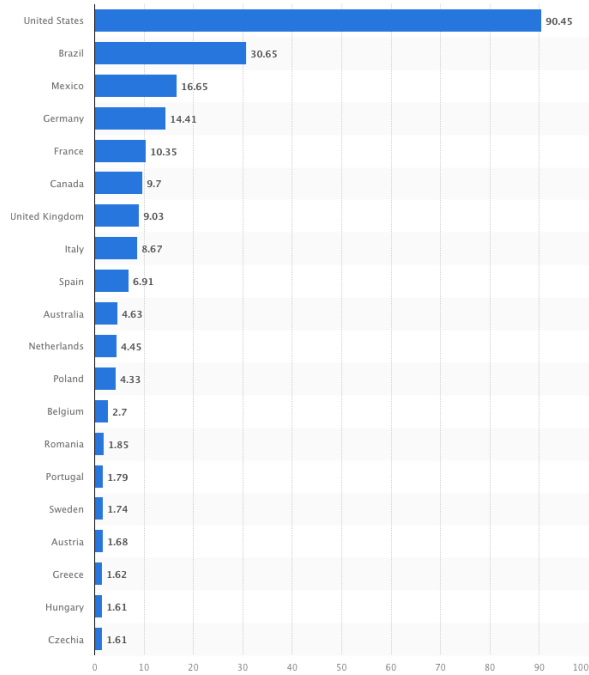
Source: Clark Boyd, Hyundai Motor Securities

Fig 11. How Pinterest Lens visual search works



Source: The Startup, Hyundai Motor Securities

Fig 12. Pinterest audience size by country as of Oct 2021 (mn)



Source: Statista, Hyundai Motor Securities

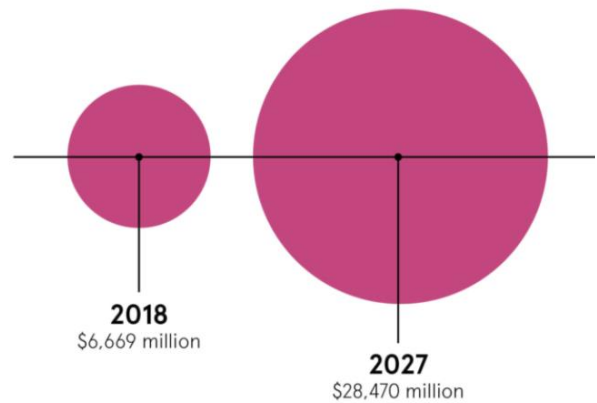
Fig13. Celebrities encourage Pinners to generate ideas



Source: Pinterest, Hyundai Motor Securities

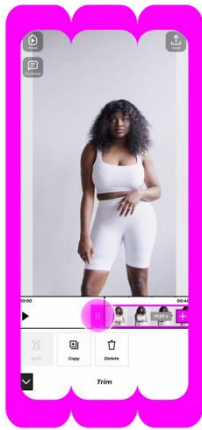
Fig 15. Video creation and editing app Vochi acquisition announced in Dec

Fig 14. Global visual search market



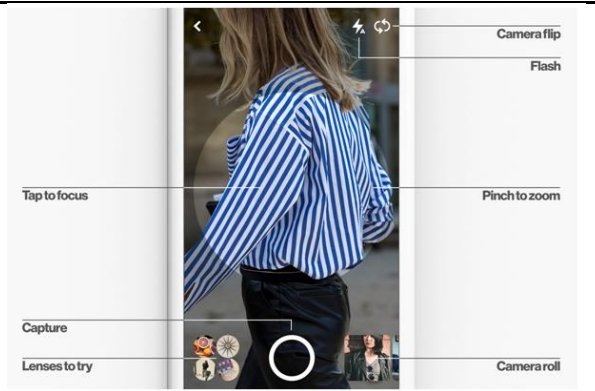
Source: Raconteur, Hyundai Motor Securities

Fig 16. Pinterest TV, a fresh dose of live, original and shoppable creator shows



Source: Pinterest, Hyundai Motor Securities

Fig 17. Pinterest visual search for f



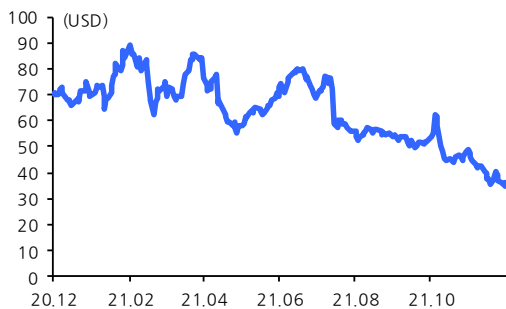
Source: Pinterest, Hyundai Motor Securities

Fig 19. Peer Valuation

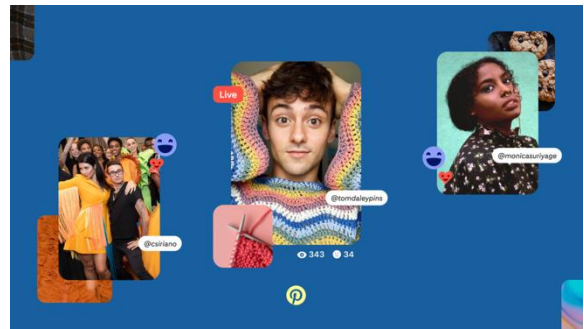
Company	Ticker	Market Cap(USDmn)	P/E Ratio	P/S Ratio	EV/EBITDA	Sales Growth (%)
Pinterest, Inc.	PINS	22,781	68.09	10.30	57.58	N/A
Alphabet Inc.	GOOGL	1,920,000	27.83	8.42	18.92	N/A
Meta Platforms, Inc.	FB	931,611	23.97	8.46	15.92	N/A
Twitter, Inc.	TWTR	34,487	N/A	7.56	145.57	N/A
Snap Inc.	SNAP	71,958	N/A	20.83	-177.85	N/A
Bumble Inc.	BMBL	6,241	145.11	8.28	50.31	N/A

Source: Thomson One, Hyundai Motor Securities

Fig 20. PINS Stock Price

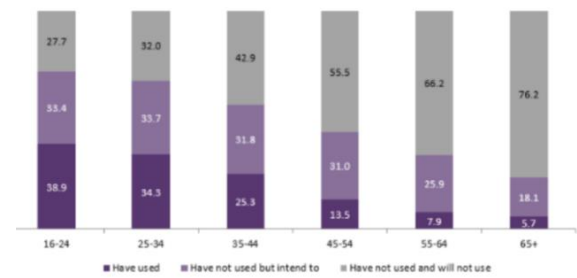


Source: Bloomberg, Hyundai Motor Securities



Source: Pinterest, Hyundai Motor Securities

Fig 18. Online shoppers' usage of visual search tools, by age group



Source: Retail Insight Network, Hyundai Motor Securities

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