

# Facebook's Huge New Opportunity in Instagram Checkout, Reiterating Fair Value Estimate ~\$230

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Image Source: [Facebook's Instagram](#)

**We continue to like Facebook, and we're huge fans of Instagram Checkout. Many may not know it yet, but Instagram Checkout may mark the beginning of retailers' websites becoming obsolete. The sell-off last summer in Facebook was a big gift for those that stuck with our thesis.**

Brian Nelson, CFA

I think one of the things that financial advisors and financial planners do extremely well is explain the concept of patience to their clients. Can you imagine if a client cashed out upon every 15%-20% decline? That'd be a recipe for continuous disaster.

On the path to the market setting broader market highs in 2018, there have been many disappointments along the way. [There have been flat-out crises](#), too, not the least of which was the one 10 years ago that shook the markets to their core. Did you know that the S&P 500 ([SPY](#)) hit a closing low of 676.53 on March 9, 2009?

The S&P 500, today, is trading at 2,800+. Markets are going to be volatile, but [enterprise valuation](#) acts as the magnet to share prices over time. Price-to-fair value convergence doesn't happen overnight either. From our experience, it sometimes takes as long as a few years, if not longer. Read our white paper [here \(pdf\)](#).

I'm writing you today to express my continued excitement over Facebook ([FB](#)). I know – it's a name that gets terrible press. But regardless of one's opinion, stock values are based on a company's net cash position on the balance sheet and their future expected free cash flows discounted back to today. For Facebook, these two items offer considerable support to our estimate of its intrinsic value.

Recent news regarding [Instagram's Checkout feature](#) further buttresses our fair value estimate for shares. I think Facebook's Instagram may have changed the face of online retail forever, and [lots of companies](#) have already signed up for Checkout. This is exactly the path that we thought Facebook would pursue, on the trajectory of becoming what could be the "new Internet." Most are myopically focusing on Facebook's PR troubles of today, but the long-term looks incredibly bright at Facebook. Here's how Checkout works:

...(Facebook is) introducing checkout on Instagram. When you find a product you love, you can now buy it without leaving the app.

When you tap to view a product from a brand's shopping post, you'll see a "Checkout on Instagram" button on the product page. Tap it to select from various options such as size or color, then you'll proceed to payment without leaving Instagram. You'll only need to enter your name, email, billing information and shipping address the first time you check out.

Once your first order is complete, your information will be securely saved for convenience the next time you shop. You'll also receive notifications about shipment and delivery right inside Instagram, so you can keep track of your purchase.

[Some are saying](#) the Instagram Checkout feature alone can bring in \$10 billion in incremental expected revenue by 2021. That might even be conservative when it comes to what Facebook could do to make online retail even easier by that time. If shoppers don't have to leave social media websites to buy, are retailer's websites now on the path to obsolescence? Instagram's Checkout may mark the beginning of a huge migration to online shoppers buying on social media sites, and frankly, Facebook/Instagram is best positioned to capitalize.

Love or hate Facebook (the company), it may not matter. Even with all the negative PR and regulatory overhang, during the fourth quarter, the company still grew faster on the top line (+32%) than Amazon ([AMZN](#)), Netflix ([NFLX](#)), and Twitter ([TWTR](#)), some of the fastest-growing tech names out there. Facebook is a free-cash-flow cow, too, and its balance sheet is pristine, overflowing with net cash. Facebook had some missteps last summer relative to expectations as it tweaked its cost structure, but I think investors may be in store for new highs yet again.

Let the good news continue! Why hold on to Facebook and certain companies when they are declining, but remove others? Read more on this at "[How To Think About Our Methodology in Action](#)."

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