Seeking Alpha α

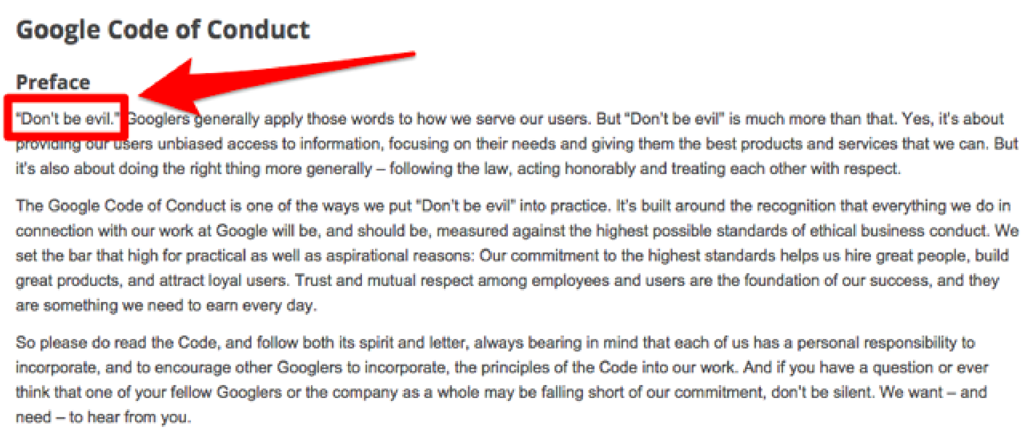
Techpocalypse 2018: Expect Tech Company Valuations To Eventually Mean Revert

May 23, 2018 10:24 AM ET34 comments | 2 likes
by: Seven Corners Capital Management

Summary

- Google's original corporate motto was "Don't Be Evil"
- Many large tech companies have failed this test in the eyes of the public.
- Their respective business models should come under increasing regulatory and public pressure over time.
- Meanwhile, tech company valuations remain quite stretched and are likely to mean revert.

Back in the early days of the Internet, an ingenious company started by a couple of Stanford grad students allowed humanity to effectively navigate what was then know as the Worldwide Web (now known as the Internet). The company was, obviously, Google (GOOG) (NASDAQ:GOOGL). Interestingly, when contemplating taking their company public in 2004, founders Larry Page and Sergey Brin decided that the first sentence of Google's corporate code of conduct should be "Don't be evil". It was simple and straight to the point, and it reflected the idea that Google and its revolutionary technology was supposed to help, not hurt, humanity. Below is the original text of Google's code:



Google Code of Conduct

Preface

"Don't be evil." Googlers generally apply those words to how we serve our users. But "Don't be evil" is much more than that. Yes, it's about providing our users unbiased access to information, focusing on their needs and giving them the best products and services that we can. But it's also about doing the right thing more generally – following the law, acting honorably and treating each other with respect.

The Google Code of Conduct is one of the ways we put "Don't be evil" into practice. It's built around the recognition that everything we do in connection with our work at Google will be, and should be, measured against the highest possible standards of ethical business conduct. We set the bar that high for practical as well as aspirational reasons: Our commitment to the highest standards helps us hire great people, build great products, and attract loyal users. Trust and mutual respect among employees and users are the foundation of our success, and they are something we need to earn every day.

So please do read the Code, and follow both its spirit and letter, always bearing in mind that each of us has a personal responsibility to incorporate, and to encourage other Googlers to incorporate, the principles of the Code into our work. And if you have a question or ever think that one of your fellow Googlers or the company as a whole may be falling short of our commitment, don't be silent. We want – and need – to hear from you.

Headline Risk Skyrockets For Big Tech

Fast forward to today and it seems as if not only Google, but many other leading tech companies have broken this basic social contract with their users, "Don't be evil". It has slowly dawned on people that technology is not necessarily always a force for good; rather, it can be exploited by evildoers (including sometimes even those working at the tech companies themselves) just as easily as by decent people. We have seen a tsunami of negative news coverage on this front, including the following examples.

Google: Google is under negative scrutiny on numerous fronts. The company has come under harsh criticism from its own employees for entering into an artificial intelligence partnership with the U.S. military called Project Maven (despite assurances from corporate HQ, employees believe that Google will be assisting with offensive, rather than defensive, operations). Google's search ads are seemingly being overwhelmed by what are characterized as "bad ads", rife with malware, phishing schemes and other fraudulent behavior. In addition, the company's popular Youtube video site has repeatedly been cited for offensive and divisive videos (including conspiracy theory videos), resulting in an odd plan to enlist the help of Wikipedia to assist in debunking irrationality on the platform (note, however, that Google will still host the videos and generate ad revenue from them). Shockingly, there was even a shooting recently on the company's campus by a Youtuber angry about her compensation from the site. And just this past weekend 60 Minutes did a full segment on how Google effectively monopolizes large swathes of the Internet:

HOW DID GOOGLE GET SO BIG?

60 Minutes reports on the power of Google, a company whose critics say has stifled competition

2018 MAY 21 | CORRESPONDENT STEVE KROFT | FACEBOOK | TWITTER | REDDIT | FLIPBOARD

This past week the Federal Trade Commission was asked to investigate the data collected by Google on its Android operating system, which powers most of the world's smartphones. It was a tiny blip in the news cycle but another sign of Washington's and Europe's growing concerns about the enormous, largely unchecked power accumulated by tech giants like Facebook, Amazon and Google over the last two decades. Of the three, Google, which is part of a holding company called Alphabet is the most powerful, intriguing, and omnipresent in our lives. This is how it came to be.

Most people love Google. It's changed our world, insinuated itself in our lives, made itself indispensable. You probably don't even have to type Google.com into your computer, it's often the default setting, a competitive advantage Google paid billions of dollars for. No worry. Google is worth more than three-quarters of a trillion dollars right now and you don't get that big by accident.

Facebook (FB): Facebook, like Google, has come under increasing scrutiny for its massive Internet market power and exploitation of private data, where it has essentially become the Google of social networking. CEO Zuckerberg was forced to appear in front of a Senate committee in April to explain how and why Facebook sold users' personal information that ended up being indirectly used by the Trump campaign for targeting voters in the 2016 election; see hearing highlights here, on (you guessed it) Google's Youtube video service. In addition, Zuckerberg appears this week to testify in front of the European Parliament:

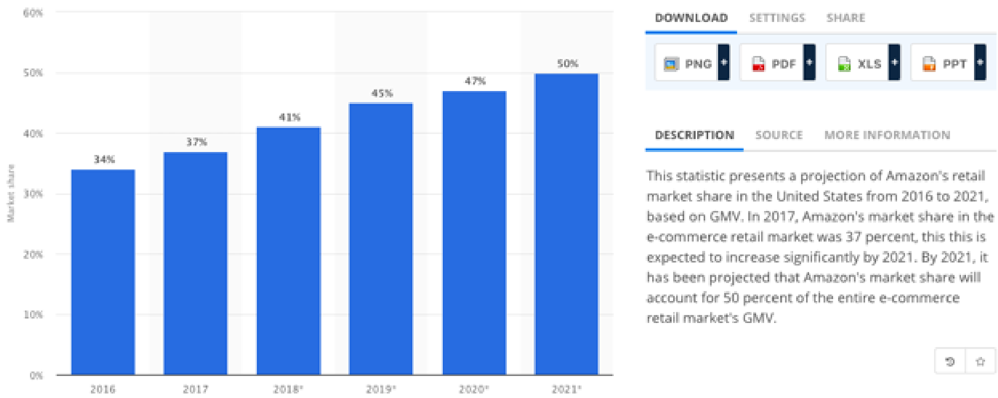
> Mark Zuckerberg is set to testify before the European Parliament on Tuesday, and the Facebook CEO is likely to face tough questioning.
>
> It might prove more challenging than his hearing in the Congress last month. Data privacy is a much bigger priority in Europe, especially this week. And Facebook has been in Europe's crosshair for a while.
>
> Here's why:
>
> ## In Europe, privacy is a big thing
>
> Privacy is a big issue for Europeans. The EU has been fighting with big US tech companies over data privacy for years.
>
> It even went into open conflict with the US government in 2015, when it withdrew a data sharing agreement because of "mass indiscriminate surveillance and interception" of personal data by the US authorities.

Interested viewers will be able to see the testimony live:

> Mark Zuckerberg has agreed to have his testimony in the European Parliament Tuesday live streamed, after pressure from senior European officials.
>
> The Facebook (FB) CEO originally agreed to meet a handful of senior European lawmakers behind closed doors. Parliament officials said the public would only find out about what was said in the meeting from a press conference by the European Parliament's President Antonio Tajani following the session.
>
> But the decision not to make the meeting public was widely criticized, among others by other members of parliament and Europe's top justice official, European Commissioner Vera Jourova.
>
> "Pity this will not be a public hearing," Jourova tweeted. "There are more EU users on FB than there are in the US [and] Europeans deserve to know how their data is handled."
>
> Jourova's tweet was rebuked by the European Parliament's President Antonio Tajani, who said it is not her "job to control and criticize the European Parliament."
>
> But that reaction sparked even wider criticism and ultimately forced Tajani and Zuckerberg to agree to a live stream of the meeting.

Amazon (AMZN): Finally, we have Internet retailing behemoth Amazon, which has taken over 40% of all Internet retailing in the United States, which number is expected to increase to 50% in the next few years:

Projected retail e-commerce GMV share of Amazon in the United States from 2016 to 2021



Amazon has come under criticism for, among other things, evading taxes, putting local small businesses out of business, bankrupting the U.S. Postal Service, mistreating its workers, etc.:

THE NEW REPUBLIC

Is Amazon Too Big to Tax?

The e-commerce giant paid zero federal taxes in 2017. And it's being rewarded with further tax breaks at the state and local level.

By **ALEX SHEPHARD** | March 1, 2018

This year, like every other year, is shaping up to be a triumphant one for Amazon. It is on the cusp of becoming the first trillion dollar company ever. In the coming months it will announce the opening of a second headquarters—and likely bank billions in tax breaks and other incentives from the lucky city it chooses to grace with its presence. The company's founder and CEO Jeff Bezos will continue to be the richest person in the history of the world. Amazon will continue to grow at a rapid clip, gobbling up e-commerce market share and posting staggering revenues. It will even post profits. And it will pay next to nothing, and possibly nothing at all, in federal taxes.

BRINGING INNOVATION TO MARKET

Amazon's War on Small Business

Amazon's purchase of Whole Foods is bad news for entrepreneurs and small businesses in the grocery business.

By Geoffrey James *Contributing editor, Inc.com* @Sales_Source

THE WALL STREET JOURNAL.

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Wasn't Spying | but Is There Room? | Their Professional Networks | Sho Bull

OPINION | COMMENTARY

Why the Post Office Gives Amazon Special Delivery

A Citigroup analysis finds each box gets a $1.46 subsidy. It's like a gift card from Uncle Sam.

By Josh Sandbulte
July 13, 2017

In my neighborhood, I frequently walk past "shop local" signs in the windows of struggling stores. Yet I don't feel guilty ordering most of my family's household goods on Amazon. In a world of fair competition, there will be winners and losers.

But when a mail truck pulls up filled to the top with Amazon boxes for my neighbors and me, I do feel some guilt. Like many close observers of the shipping business, I know a secret about the federal government's relationship with Amazon: The U.S. Postal Service delivers

7 Examples of How Amazon Treats Their 90,000+ Warehouse Employees Like Cattle

By Jacob Weindling | December 4, 2017 | 3:30pm
Photo by Peter Macdiarmid/Getty

POLITICS > LISTS > AMAZON

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Jeff Bezos is the richest man in the world thanks to his ownership of Amazon—an online book store that morphed into a company that replaced Walmart, disrupted grocery stores and builds

Much of the backlash revolves around the fact that Big Tech has simply gotten too powerful and too insinuated in Americans' everyday lives. Most importantly, there exists a fundamental conflict of interest: namely, companies such as Google, Facebook and Amazon make money exploiting our personal information. Incentives therefore dictate that they will prioritize exploiting our information over protecting individual privacy. In other words, the idea that those in control of the Big Three will consistently pass up the opportunity to make money out of the goodness of their hearts simply doesn't pass the laugh test. Self-policing thus will likely never be effective - only government intervention (via regulation) will do. In addition, these companies have gained incredible market share in their respective industries. Google and Facebook combined control almost two-thirds of digital ad revenues (source) and, as shown above, Amazon is closing in on controlling half of all online retailing in the U.S. These companies ruthlessly crush competition, much in the way that 100+ years ago Standard Oil stomped on smaller oil and gas producers and refiners in order to maintain its monopoly status. As the old saying goes, "Absolute power corrupts absolutely." (Of course, this behavior will always come under the guise of "serving and delighting the customer", but the end result is the same.)

How The Backlash Against Big Tech Could Sting Investors

We have seen recently the first hints that the government domestically and abroad will be asserting a measure of control over Big Tech. President Trump has been Tweet-shaming Amazon, for instance:

Donald J. Trump @realDonaldTrump

While we are on the subject, it is reported that the U.S. Post Office will lose $1.50 on average for each package it delivers for Amazon. That amounts to Billions of Dollars. The Failing N.Y. Times reports that "the size of the company's lobbying staff has ballooned," and that...

8:45 AM - Mar 31, 2018

81.7K 45.8K people are talking about this

Donald J. Trump @realDonaldTrump

...does not include the Fake Washington Post, which is used as a "lobbyist" and should so REGISTER. If the P.O. "increased its parcel rates, Amazon's shipping costs would rise by $2.6 Billion." This Post Office scam must stop. Amazon must pay real costs (and taxes) now!

8:52 AM - Mar 31, 2018

89.2K 52.6K people are talking about this

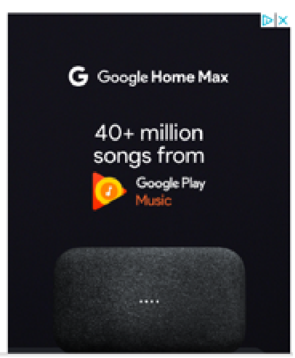
Just a few days ago a news report surfaced that Trump may go beyond use of the bully pulpit to reign in Amazon:

It looks like President Trump's attacks on Amazon go beyond tweets: He reportedly lobbied the USPS to double delivery rates

A new revelation in the president's battle against Jeff Bezos and his e-commerce giant.

By Jason Del Rey | @DelRey | May 18, 2018, 4:25pm EDT

SHARE



In addition, in the wake of the Cambridge Analytica scandal the Senate has introduced a bill to regulate online privacy:

© Greg Nash

Sens. Amy Klobuchar (D-Minn.) and John Kennedy (R-La.) on Tuesday introduced a bipartisan internet privacy bill that would give users more control over what websites can do with their data.

The new bill, the Social Media Privacy Protection and Consumer Rights Act, comes just weeks after Congress threatened Facebook CEO Mark Zuckerberg with tougher regulations when he testified in back-to-back hearings earlier this month.

Note that the European Union is already ahead of the curve in this respect, with its new General Data Protection Regulation going into effect this Friday, May 25th. This regulation provides, among other things, for the following:

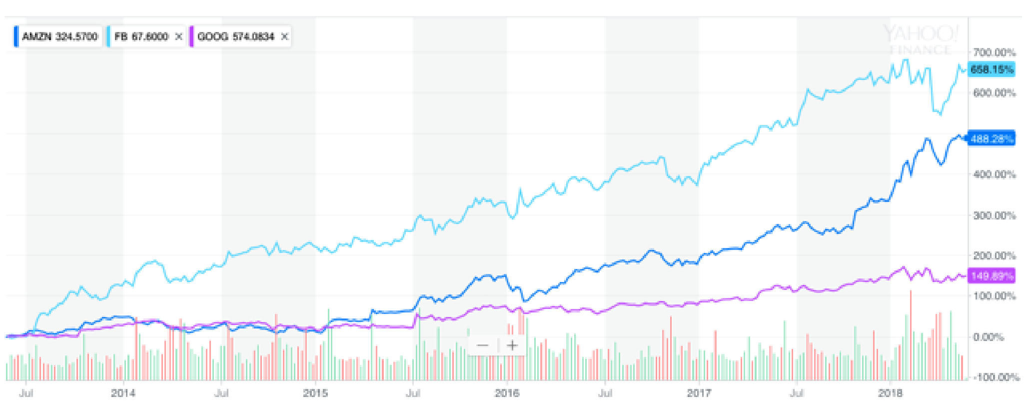
> Business processes that handle personal data must be built with privacy by design and by default, meaning that the system must be designed to adhere to principles of data protection with the highest level of safeguards from the start, so that the data is not available publicly without explicit consent, and cannot be used to identify a subject without additional information stored separately. Personal data may not be processed unless it is done under a lawful basis specified by the regulation, or the data controller or processor has received explicit, opt-in consent from the data's owner-which may be withdrawn at any time.

None of the aforementioned developments seems particularly bullish for Big Tech's profitability or share prices going forward. Indeed, in the late 1990s another tech icon, Microsoft (MSFT), came under intense scrutiny for its dominant market position in PC operating systems and applications. The company was sued by the Justice Department and 20 individual state attorneys general for anticompetitive behavior in May 1998; in April 2000 the trial court judge ruled that Microsoft was guilty of monopolization, attempted monopolization, and tying in violation of Sections 1 and 2 of the Sherman Antitrust Act (Microsoft appealed); finally, in November 2001 the company and the government settled (see summary of litigation here). What is notable for today's tech investors is how Microsoft's stock fared following the issuance of the monopoly verdict, namely dropping 45% over the immediately succeeding five years (from $44.50/share to $24.50/share):

True, MSFT's share price has more than doubled since April 2000, however even so the stock's CAGR during the 18 years since the antitrust verdict has been a relatively meager 4.5% plus a modest dividend (hardly a going-forward return that today's investors in GOOG, AMZN and FB are likely expecting).

Big Tech Is Not Cheap; Buyer Beware

So it is increasingly likely that earnings could be somewhat depressed due to government regulation of Big Tech in the future. Does this mean investors should necessarily avoid or cut exposure to these names? First we would state that even with respect to the giants Amazon, Facebook and Google, valuations are not cheap by any stretch of the imagination. Below is a chart showing how much share prices of the Big Three have catapulted up over just the past five years:



From this we find that AMZN has climbed 658%, FB 488% and GOOG just a pedestrian 150% since May 2013. In comparison the S&P 500 as a whole is up just 66% (or about 75% including dividends) during the same period. Moreover, the combined market cap of the Big Three is now a mind-boggling $2.07 TRILLION, which is approximately 7.4% of the entire S&P 500 market cap. If we include AAPL and MSFT in the group, this Fab Five of Tech constitute nearly 15% of the total S&P 500 market cap. To put this in perspective, the Fab Five of Tech's combined market cap is about $250 billion greater than the cumulative market cap all of the companies in the bottom half of the S&P 500; companies 251-500 ranked by market cap only constitute about 13.3% of the S&P 500's aggregate capitalization. (Note: see here for data regarding S&P 500 weighting by company.)

So at over $2 trillion the Big Three have a massive combined market cap in the context of the overall market. Fine, but is this number warranted by their respective fundamentals? Consider the following data points:

1. Net income on a combined basis for the Big Three in 2017 was $31.63 billion, meaning that collectively the Big Three are trading at a trailing P/E ratio of 65.4X ($2,070B / $31.63B);

2. Average yearly net income on a combined basis for the Big Three for the 2015-2017 period was $27.93 billion, meaning that collectively the Big Three are trading at a 3-year average trailing P/E ratio of 74.1X ($2,070B / $27.93B);

3. Free cash flow on a combined basis for the Big Three in 2017 was $44.92 billion, meaning that collectively the Big Three are trading at a trailing FCF ratio of 46.1X ($2,070B / $44.92B); and

4. Average yearly free cash flow on a combined basis for the Big Three for the 2015-2017 period was $41.17 billion, meaning that collectively the Big Three are trading at a 3-year average trailing FCF ratio of 50.3X ($2,070B / $41.17B).

Here are the numbers summarized (dollar amounts in millions, except per share amounts):

Company	Ticker	PPS 5/21/18	Shs O/S	Market Cap	2017 NI	2016 NI	2015 NI	3-yr Ave NI	3-yr Ave P/E	2017 FCF	2016 FCF	2015 FCF	3-yr Ave FCF	3-yr FCF multiple
Amazon	AMZN	1,585	493	781,405	3,033	2,371	596	2,000	390.7	3,719	10,496	7,185	7,133	109.5
Google	GOOG	1,084	695	753,380	12,662	19,478	15,826	15,989	47.1	23,719	25,078	16,421	21,739	34.7
Facebook	FB	185	2,894	535,390	15,934	10,217	3,688	9,946	53.8	17,483	11,617	7,797	12,299	43.5
TOTAL				2,070,175	31,629	32,066	20,110	27,935	74.1	44,921	47,191	31,403	41,172	50.3

Note that the main reason that the FCF multiples look a bit more reasonable than the P/E ratios is because each of the Big Three pays billions in stock-based compensation, which does not count against the company in terms of "free cash", but does count when determining net income. Of course, a company has the choice of paying employees in stock or cash and in either case it is a real expense (thus, the P/E ratios represent a more accurate picture of real economic earnings than the FCF ratios).

With respect to some of the lesser (yet still marquee) tech names such as, for example, Tesla (TSLA), Netflix (NFLX) and Snapchat (SNAP), valuations are MASSIVELY more stretched than for the Big Three (which are themselves quite lofty). These are what we would call the "profitless growth" tech companies, that show huge top-line revenue growth yet never seem to generate much in the way of profits or free cash flow. Below we have summarized past 3-year financial performance for a sample of this genre of tech companies, which evidence absolutely stratospheric current valuations (dollar amounts in millions, except per share amounts):

Company	Ticker	PPS 5/21/18	Shs O/S	Market Cap	2017 NI	2016 NI	2015 NI	3-yr Ave NI	3-yr Ave P/E	2017 FCF	2016 FCF	2015 FCF	3-yr Ave FCF	3-yr FCF multiple
Netflix	NFLX	332	434	144,071	559	187	123	289	498	-2,013	-1,659	-919	-1,530	N/A
Salesforce	CRM	126	723	91,098	127	180	-47	87	1052	2,195	634	1,368	1,399	65
Tesla	TSLA	284	170	48,280	-1,961	-675	-889	-1,175	N/A	-3,514	-1,333	-2,163	-2,337	N/A
Splunk	SPLK	115	144	16,560	-258	-350	-287	-298	N/A	223	156	57	145	114
Shopify	SHOP	145	106	15,370	-40	-35	-19	-31	N/A	-17	-5	118	32	482
Snap	SNAP	10.7	1,258	13,461	-805	-515	-373	-564	N/A	-956	-713	-351	-673	N/A
Grubhub	GRUB	104	90	9,381	99	50	38	62	151	1	39	9	16	574
Wayfair	W	86	89	7,654	-245	-194	-77	-172	N/A	-113	-65	73	-35	N/A
Athena Health	ATHN	153	40	6,181	53	21	14	29	210	65	18	-35	16	383
Zendesk	ZEN	56	105	5,880	-111	-104	-84	-99	N/A	13	-2	-37	-9	N/A
Wix	WIX	86	47	3,999	-56	-47	-51	-52	N/A	60	36	15	37	109
TOTAL				361,934	-2,637	-1,483	-1,653	-1,924	N/A	-4,056	-2,894	-1,866	-2,939	N/A

Conclusion

While the likes of AMZN, FB, GOOG, TSLA and NFLX have indeed been stellar performers in the stock market in recent years, as their investors are fond of pointing out to skeptics: "What matters is the future, not the past". We agree, however the future does not bode well for their respective share prices. For one, the Big Three appear to be increasingly likely to be subject to government regulation over their core operations. Normally, increased government regulation translates into lower overall profitability (see, e.g., what happened to the money center banks after the passage of Dodd-Frank). Moreover, even without increased regulation the valuations of the Big Three discount a very optimistic future, which means that massive future profits are already baked into the current market valuations. Finally, the cohort of "profitless growth" tech companies listed above, with an aggregate market cap of $362 billion, managed as a group to actually lose $2.6 billion last year while burning over $4 billion in free cash flow. Things will need to go incredibly well for these companies over the coming decade, otherwise there should be a significant contraction in their stock prices. Tech investors beware!

Disclosure: I am/we are short NFLX, SNAP.

I wrote this article myself, and it expresses my own opinions. I am not receiving compensation for it (other than from Seeking Alpha). I have no business relationship with any company whose stock is mentioned in this article.

Comments (34)

EmeraldRun
Bear in mind that it is big tech themselves who will probably be the ones writing the regulations, or at the very least have significant input. This is just the way things work. Like how it was big health insurance companies who mostly wrote the Obamacare legislation (to use just one example).

I'm less bullish on big tech just because a run like this doesn't go on forever, and it's been a long run. I can't tell you when it will run out of gas, but I'm certain it will.

Other sectors of the market have already crashed. Telecom, utilities, REITs, energy, consumer staples, pharmacy/biotech. Not necessarily in that order. Although it has been big tech's resilience which has propped up the market averages while these others have declined, it is not immune to such a downturn. And some or all of these may be the beneficiaries of a rotation out of tech when, not if, it does happen.

But I decided to hang onto my MSFT shares for 20 years regardless. I do not own any FANGs and do not wish to buy at these prices. However, if I owned FB or GOOGL I would be very reluctant to sell. My only other positions which could be associated with big tech, V and PYPL, I also decided to hang onto for 20 years.

23 May 2018, 10:38 AM

StrattonOakmont
You should reconsider entering apple and amazon. They are both just ramping up.

23 May 2018, 02:36 PM

Joe Beresford
I agree, Amazon is also a great steal at pe of 348 for 2017. The guys in the know are predicting a 300% growth in earnings! It's almost too good to be true!

24 May 2018, 02:43 AM

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rgard64
I believe you should have stressed that by tech company here you meant the software side and the hardware sides such as INTC, MU, IBM, AMD and the rest. I believe the hardware side of undervalued.

23 May 2018, 10:55 AM

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p9000
Some really sloppy reporting on this article. Google doubling the amount of malicious ads they remove is a positive, it means they are doing a better job of policing their ad service. Facebook does not sell user data. And Amazon is not bankrupting the USPS, the contract they have with Amazon is profitable - most of their losses are from health and retirement benefits.

23 May 2018, 11:31 AM

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harryfuku
TSLA is not a tech company.

It has zero technology that is not available to every competitor.

They simply take financial and safety risks with early implementation, and create a thin illusion of leading technology.

BEV technology is a subset of HEV tech that every auto company has, but with the profitability challenge of a larger battery. They are far behind Waymo and others in autonomous driving.

23 May 2018, 11:38 AM

Value Investigator, Contributor
Facebook and google are cheap at PEs of less than 30 given their growth. If mean reversion occurs, it will be a boost to their valuation. Don’t be too surprised if these companies grow EPS for many years to come.

23 May 2018, 12:17 PM

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azimov
TSLA 3 outselling BMW 3 SERIES. TESLA 3 outselling Mercedes C Class. Be wary of shorting consumer preference.

23 May 2018, 12:45 PM

RedFalcon
Comparing model to model sales is irrelevant. Total company profits are what count. In 2017 BMW sold over 2 million vehicles and had earnings in excess of 8 billion Euros. Mercedes sold over 3 million vehicles and earned over 14 billion Euros.

Tesla...lost $$$billions.

23 May 2018, 02:49 PM

Nodak Millennial
We understand Tesla makes cars. But can they make money?

23 May 2018, 04:03 PM

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azimov
RedFalcon
... what is a red falcon? I've watched a Perigrine Falcon take a duck in air.

In response to your response it's not where you been it's where your going. The electric typewriter was cats meow until computer came along. IBM controlled that market until it didn't. World is littered with garbage that is OBSOLETE.
BET your mortgage RedFalcon.
Awesome name !

23 May 2018, 05:49 PM

RedFalcon
what is a red falcon?

www.facebook.com/...

23 May 2018, 06:25 PM

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azimov
RedFalcon
....I will not use FB.... it's a place of puppy pics. Narcissistic.

23 May 2018, 06:28 PM

RedFalcon
Regarding FB, saw an article today that said FB active users increased during and since the data "scandal".

Most people either realize it was a bogus story or don't care.

24 May 2018, 09:04 AM

TomasViewPoint
FB is cheap and likely will roll out a paid member service where people don't receive ads and kick out the bad developers looking to harvest personal data. Then government can only complain that they are too big.

GOOG may have crossed the Rubicon as their model is very entrenched and they no longer serve up unbiased information in spite of what they said originally.

23 May 2018, 01:21 PM

Oiltech

"bad developers looking to harvest user information" - I think you mean the entire management team up to and including Zuck

23 May 2018, 02:21 PM

HasHaqSak
Facebook always has it written on top, "Facebook is and always will be free." while they will be trying to find out newer revenue streams, I bet Google and Facebook will never charge users for anything. That is the whole point for them, letting general users access their platform and charging vendors for the user data - to which extent, now that is the question.

23 May 2018, 03:07 PM

TomasViewPoint
Oil dude

What's your problem? They offer a no charge service in return for targeted ads. Open your mailbox. It's full of targeted ads by companies using your data. This model is as old as the hills.

23 May 2018, 03:26 PM

TomasViewPoint
Wrong. Google already offers a service on YouTube free from ads.

FB can maintain the promise but give people an option. If you want to pay for a service like "ad free" then have at it.

23 May 2018, 03:27 PM

Seven Corners Capital Management, Contributor
Author's reply » Will Amazon's facial-recognition tech enable mass surveillance?

Washington, U.S., January 29, 2018. REUTERS/Lindsey Wasson - Amazon has been selling a facial-recognition system to police, sparking fears that the technology will one day power mass surveillance.

On Tuesday, the American Civil Liberties Union and 35 other advocacy group sent a letter to the company's CEO Jeff Bezos, demanding that he stop providing the technology to law enforcement.

The technology, called Amazon Rekognition, can identify people's faces in digital images and video. Police in Oregon and Florida have been using the system to help them solve crimes, but the ACLU argues that it's ripe for abuse.

"With Rekognition, a government can now build a system to automate the identification and tracking of anyone," the ACLU said in a blog post.

The organization is worried the technology will be incorporated into police body cameras and surveillance feeds to track protestors, immigrants, or anyone a city wishes to monitor. "People should be free to walk down the street without being watched by the government," the ACLU said.

Amazon didn't immediately respond to a request for comment.

The concerns highlight the growing debate over facial-recognition systems and their potential role in crime-fighting. Will the technology do more harm than good?

Amazon has focused on the positives, marketing the technology in Florida and Oregon as a "public safety" tool. It's helped law enforcement, for example, identify criminal suspects from security camera footage by comparing a suspect's face with available mugshots. Police in Oregon say the technology allows officers to identify suspects in minutes as opposed to two or three days.

In one case, the system identified a shoplifter who was captured in a photo walking out of a hardware store. In another incident, Oregon police identified a man who used a stolen credit card, despite the low-resolution image of the suspect.

However, the ACLU is worried the same technology could facilitate a creepy surveillance state. For example, Rekognition can detect and index up to 100 faces in a single image, a feature that Amazon openly touts.

www.foxnews.com/...

23 May 2018, 01:29 PM

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grover73

SPOT didn't make the hyper rev growth - no earnings list?

23 May 2018, 01:45 PM

Seven Corners Capital Management, Contributor
Author's reply » No, but should go on as well - thanks for pointing out.

23 May 2018, 02:23 PM

RiverGarden
All in US and Chinese Big Tech

23 May 2018, 02:51 PM

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yellowpage
@Seven Corners Capital Management, how is your below $200 NFLX short doing right now?

I get it's a long term investment. So you may lose 9X instead of just 70% I guess.

23 May 2018, 03:32 PM

MLian
MSFT all time high today. Long and DRIP MSFT!.

23 May 2018, 06:27 PM

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greenzebra
Perhaps the laziest article I've ever read on SA. If you can't even define what you mean by "tech" you have no business making sweeping proclamations about valuations.

23 May 2018, 09:09 PM

Seven Corners Capital Management, Contributor
Author's reply » Recent headlines on VF - bashing big tech, but with a sprinkling of Trump hate:

HIVE
Elon Musk Melts Down, Blames Scumbag Tesla Critics for Electing Trump
"You lost your credibility a long time ago," he tweeted at reporters.
MAY 23, 2018 6:15 PM
BY MAYA KOSOFF
Donald Trump Twitter
HIVE
Judge to Trump: Blocking Haters, Losers on Twitter Is Unconstitutional
A New York judge ruled the president's social-media practices violate the First Amendment.
MAY 23, 2018 4:37 PM
BY MAYA KOSOFF
ARC0007560_12
HIVE
The Dark Truth About Cambridge Analytica's Ties to Trumpworld
A partnership between an Israeli entrepreneur and the Mercer-backed analytics firm may connect two key threads in Robert Mueller's investigation.
MAY 23, 2018 12:28 PM
BY MAYA KOSOFF
MCDROBO EC012
HIVE
Could Jeff Bezos's Royal Wedding Tech Power a New Surveillance State?
The A.C.L.U. is calling on Amazon to stop selling its facial-recognition technology to law enforcement.

MAY 22, 2018 6:30 PM
BY MAYA KOSOFF

HIVE
Trump's Unsecured iPhones Make Clinton's Basement Server Look Like Fort Knox
Cyber-security protocols, the president has complained, are "inconvenient."
MAY 22, 2018 10:18 AM
BY MAYA KOSOFF
FACEBOOK DATA SHARING 3
HIVE
The Push to Break Up Facebook Just Got Serious
The left launched a major ad campaign demanding Mark Zuckerberg's head.
MAY 21, 2018 2:21 PM
BY MAYA KOSOFF
MUSK BORING
HIVE
Why Can't Investors Just Let Elon Musk Have Fun?
At a pep rally-style presentation in Los Angeles, the Tesla C.E.O. plays the hits.
MAY 18, 2018 10:54 AM
BY MAYA KOSOFF
GOOGLE DEVELOPERS
HIVE
Uh, Did Google Fake Its Big A.I. Demo?
The tech press has questions, and Google isn't providing any answers.
MAY 17, 2018 11:52 AM
BY MAYA KOSOFF
Cambridge Analytica HQ
HIVE
The Justice Department Is Investigating Cambridge Analytica
How involved is Robert Mueller?
MAY 16, 2018 10:49 AM
BY MAYA KOSOFF
AFP_14Q2L6
HIVE
Is Uber's Woke Makeover for Real?
And will the tech giant's decision to nix its arbitration clause force an optics arms race in Silicon Valley?
MAY 15, 2018 6:29 PM
BY MAYA KOSOFF

www.vanityfair.com/...

23 May 2018, 11:07 PM

NV_1790
unfortunatelly, while the author repeatedly says how the "big three" are incredibly expensive he fails to mention that a significant part of that "overvaluation" it's due to Amazon rather than FB or GOOG. these stocks are so expensive that currently FB (27.15) and GOOG (28.75) have lower P/Es than KO (36.57) and are in line with WMT (28.20).

There are too many errors to clarify here. moving on. GLTA.

26 May 2018, 03:30 AM

Seven Corners Capital Management, Contributor
Author's reply » NV - you appear to have some math issues. GOOG is trading at a trailing P/E of 59X (not 29X, as you state) and FB at 34X (not 27X, as you state). Yes, AMZN is completely off the chart in comparison, but the other two are still high by historical standards.

Note that over the past 50 years, the average P/E for an S&P 500 company is probably around 15X, so GOOG and FB are well over double this benchmark.

Also, if you go back and look at earnings ratios over the past century, you will see that we are currently in a VERY elevated period. Thus, the current high multiples are unlikely to last - which is the very point of the article (mean reversion). See www.multpl.com/...

26 May 2018, 12:41 PM

NV_1790
It seems we are getting a bit confused here. I wrote P/E not trailing P/E. Even your numbers are off for Trailing P/E when it comes to FB (Trailing P/E of 30.6, not 34 finance.yahoo.com/...). Also, you have to note that Forward P/Es will be in the low 20s.

"Note that over the past 50 years, the average P/E for an S&P 500 company is probably around 15X, so GOOG and FB are well over double this benchmark." FB is a company whose revenue just jumped 49%. while I am not certain, I am pretty sure that would be more than most of the members of the S&P 500. GDPR or not there are too many opportunities in front of them that are not based on targeted advertising to cause them to slow down meaningfully. (e-commerce, payments, driverless cars for example)

if you want to say that there are stocks that are highly priced that is ok. I am talking issue of having FB & GOOGL in the same category with Amazon (and saying that FB sells user data). Finally, even if the market can be considered overvalued and will experience a mean reversion it doesn't mean that FB or GOOGL are overvalued or will experience a mean reversion. GLTY.

26 May 2018, 01:20 PM

Seven Corners Capital Management, Contributor
Author’s reply » Forward P/Es are not reliable. They are based on analysts' adjusted EPS numbers that often are bogus. How did forward P/E ratios look in late 2007? Or late 1999?

As for FB and GOOG, their combined market cap is around $1,280,000,000,000. Do you not realize the amount of FCF they will need to produce in the next 10 years in order to justify this number? How much upside could possibly be left at this point?

27 May 2018, 12:18 PM

RedFalcon
"Forward P/Es are not reliable"

Nothing that tries to predict the future is reliable. Heck, my local weather guy can't even tell me if it will rain tomorrow with any degree of certainty.

That said, some companies have a forward PE higher than trailing...red flag! Forward looking forecasts are only one part of the valuation puzzle.

27 May 2018, 12:20 PM

TomasViewPoint
Forward P/E's are very useful to better understand an investment scenario of a fast growing company. Saying they are "not reliable" makes no sense coming from a professional investment company that's trying to position investments for the future of which they know very little about.

Your second point is much more worthy of pondering although I would separate the analysis. These companies may be tech but they are very different unless you think all tech is the same.

28 May 2018, 08:26 PM

EliasMouawad
Hey Seven Corners, thanks for the article. If tech stocks are going to crash, a nice contrarian company would be Simon Property. Can you please write an article on SPG ?

27 May 2018, 02:16 PM