Meta Platforms Inc

2024 PM level outlook

Reiterate Rating: BUY | PO: 425.00 USD | Price: 390.70 USD

25 January 2024

Equity

Key Changes

(US$)	Previous	Current
Price Obj.	405.00	425.00

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What's next after a big 2023?

In 2023, Meta stock (up 194%) outperformed Online Media group and NASDAQ (up 43%) driven by both revenue upside, cost discipline and optimism on AI capabilities. With a favorable macro backdrop for advertising, Reels contribution turning positive in 2024, a large messaging revenue ramp in progress, strong AI assets driving results, and still plenty of costs to cut if needed, we remain constructive on the stock. We also expect a 4Q revenue and EPS beat with rev. growth at ~24% (vs Street at 21%), and given multiple expansion in the broader market, we are increasing our PO to $425 (from $405) based on 20x (vs 19x previously) our 2025E GAAP EPS of $20.43 (22x 2025E FCF). See our bull and bear valuation cases on page 4 and our 2024 Online media year ahead for more of our views on Meta's relative positioning in the Online Media sector.

We think stock can overcome revenue deceleration in '24

We expect 4Q'23 to be peak revenue growth (we expect a 4Q beat on Dec. ad sector strength), and there is risk that revenue deceleration in 2024 will weigh on the stock. Bulls suggest '24 revenue will beat estimates and deceleration is expected/priced in the multiple, while bears may prefer perceived acceleration stocks with easier comps, including PINS/SNAP. We think Meta is in a solid position with IG usage growth leading the sector and see the Reels/Messaging/AI ad revenue cycle as still early given ad checks.

Positives for the stock

1) Early in Reels monetization cycle with upside potential, 2) New AI/ML integrations to boost usage and ad spend, 3) Strong AI & messaging assets and growing evidence that Meta is an AI beneficiary, 4) EPS upside on conservative expense outlook and cont'd cost discipline, 5) Improved competitive outlook vs TikTok with Instagram growth leading the sector, and 6) Constructive valuation at 14x P/E excluding Metaverse losses (vs S&P 18x).

Risks/negatives for the stock

1) Deceleration in revenue growth could impact stock multiple, 2) Introduction of "commodity" Reels content lowering value of Meta's social networks, 3) Ad targeting risk from platform changes by Google (Cookies) & Apple, 4) Increasing regulatory headwinds (DMA/DSA enforcement in Europe, FTC challenges in US, etc.), 5) Growing investment losses in Metaverse, and 6) New competition and potential for slowing ad spend by Chinese ecommerce advertisers.

Estimates (Dec) (US$)	**2021A**	**2022A**	**2023E**	**2024E**	**2025E**
EPS	16.53	12.79	19.56	23.29	26.30
GAAP EPS	13.79	8.61	14.78	18.11	20.43
EPS Change (YoY)	42.7%	-22.6%	52.9%	19.1%	12.9%
Consensus EPS (Bloomberg)			14.86	17.67	20.06
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	23.6x	30.5x	20.0x	16.8x	14.9x
GAAP P/E	28.3x	45.4x	26.4x	21.6x	19.1x
EV / EBITDA*	16.2x	20.8x	14.4x	11.9x	10.4x
Free Cash Flow Yield*	3.8%	1.9%	3.6%	4.2%	4.9%

* For full definitions of *iQmethod*SM measures, see page 28.

Stock Data

Price	390.70 USD
Price Objective	425.00 USD
Date Established	25-Jan-2024
Investment Opinion	C-1-9
52-Week Range	140.31 USD - 396.15 USD
Mrkt Val (mn) / Shares Out (mn)	1,031,839 USD / 2,641.0
Free Float	99.9%
Average Daily Value (mn)	6534.26 USD
BofA Ticker / Exchange	META / NAS
Bloomberg / Reuters	META US / META.OQ
ROE (2023E)	36.5%
Net Dbt to Eqty (Dec-2022A)	9.5%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

IDFA: Identifier for Advertisers
CAGR: Compound Annual Growth Rate
DAU: Daily Active User
Int'l: International
AI: Artificial Intelligence
ML: Machine Learning
Gen-AI: Generative Artificial Intelligence
DMA: Digital Markets Act
DSA: Digital Services Act
IG: Instagram
FB: Facebook
PINS: Pinterest
SNAP: Snap Inc

Refer to important disclosures on page 29 to 31. Analyst Certification on page 27. Price Objective Basis/Risk on page 27. 12650462

Timestamp: 25 January 2024 05:00AM EST

iQprofile SM Meta Platforms Inc

iQ*method SM – Bus Performance

(US$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	32.6%	22.2%	28.3%	27.8%	26.1%
Return on Equity	37.3%	27.5%	36.5%	35.1%	31.6%
Operating Margin	48.3%	36.2%	46.3%	48.3%	48.3%
Free Cash Flow	39,116	19,119	37,570	43,026	50,408

iQ*method SM – Quality of Earnings

(US$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.2x	1.5x	1.3x	1.2x	1.3x
Asset Replacement Ratio	2.3x	3.6x	2.5x	2.2x	2.0x
Tax Rate	16.7%	19.5%	17.7%	17.4%	17.4%
Net Debt-to-Equity Ratio	-2.2%	9.5%	-0.9%	-12.1%	-21.9%
Interest Cover	NA	NA	NA	NA	NA

Income Statement Data (Dec)

(US$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	117,929	116,609	134,040	152,394	170,314
% Change	37.2%	-1.1%	14.9%	13.7%	11.8%
Gross Profit	95,857	92,128	109,627	123,487	136,641
% Change	37.5%	-3.9%	19.0%	12.6%	10.7%
EBITDA	64,157	49,982	72,218	87,281	99,521
% Change	38.7%	-22.1%	44.5%	20.9%	14.0%
Net Interest & Other Income	530	(126)	530	830	890
Net Income (Adjusted)	**47,182**	**34,469**	**51,315**	**61,091**	**68,158**
% Change	**41.4%**	**-26.9%**	**48.9%**	**19.1%**	**11.6%**

Free Cash Flow Data (Dec)

(US$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	39,370	23,199	38,788	47,481	52,935
Depreciation & Amortization	7,966	8,686	11,083	14,572	18,302
Change in Working Capital	701	5,682	(2,221)	608	387
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	9,646	12,908	17,419	12,588	14,498
Capital Expenditure	(18,567)	(31,356)	(27,499)	(32,222)	(35,714)
Free Cash Flow	**39,116**	**19,119**	**37,570**	**43,026**	**50,408**
% Change	**65.5%**	**-51.1%**	**96.5%**	**14.5%**	**17.2%**
Share / Issue Repurchase	0	0	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	0	9,921	8,455	0	0

Balance Sheet Data (Dec)

(US$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	16,601	14,681	37,642	59,442	88,590
Trade Receivables	14,039	13,466	16,092	18,101	19,924
Other Current Assets	36,026	31,402	29,093	27,707	28,296
Property, Plant & Equipment	57,809	79,518	96,740	114,390	131,802
Other Non-Current Assets	41,512	46,660	46,139	46,199	46,259
Total Assets	**165,987**	**185,727**	**225,706**	**265,838**	**314,871**
Short-Term Debt	1,127	1,367	1,460	1,460	1,460
Other Current Liabilities	20,008	25,659	25,507	28,597	31,257
Long-Term Debt	12,746	25,224	34,757	34,757	34,757
Other Non-Current Liabilities	7,227	7,764	8,163	8,363	8,563
Total Liabilities	**41,108**	**60,014**	**69,887**	**73,177**	**76,037**
Total Equity	**124,879**	**125,713**	**155,819**	**192,662**	**238,835**
Total Equity & Liabilities	**165,987**	**185,727**	**225,706**	**265,838**	**314,871**

* For full definitions of *iQmethod* SM measures, see page 28.

Company Sector

Internet/e-Commerce

Company Description

Meta Platforms is the largest social network with over 3 billion monthly active users across its properties. The company generates revenue from advertising and payments, with over 95% of revenue from advertising. Meta's revenues are split at rough 50% in North America, and 50% in International markets.

Investment Rationale

Meta is an investment in increasing social and mobile Internet usage, and also offers exposure to the increasing use of AI/ML technology and potential long-term Metaverse opportunity. With the new efficiency mentality, we believe Meta is positioned strong EPS growth when advertising environment improves.

Stock Data

Average Daily Volume	16,775,058

Quarterly Earnings Estimates

	2022	2023
Q1	3.50A	3.37A
Q2	3.58A	4.30A
Q3	2.75A	5.54A
Q4	2.94A	6.31E

Contents

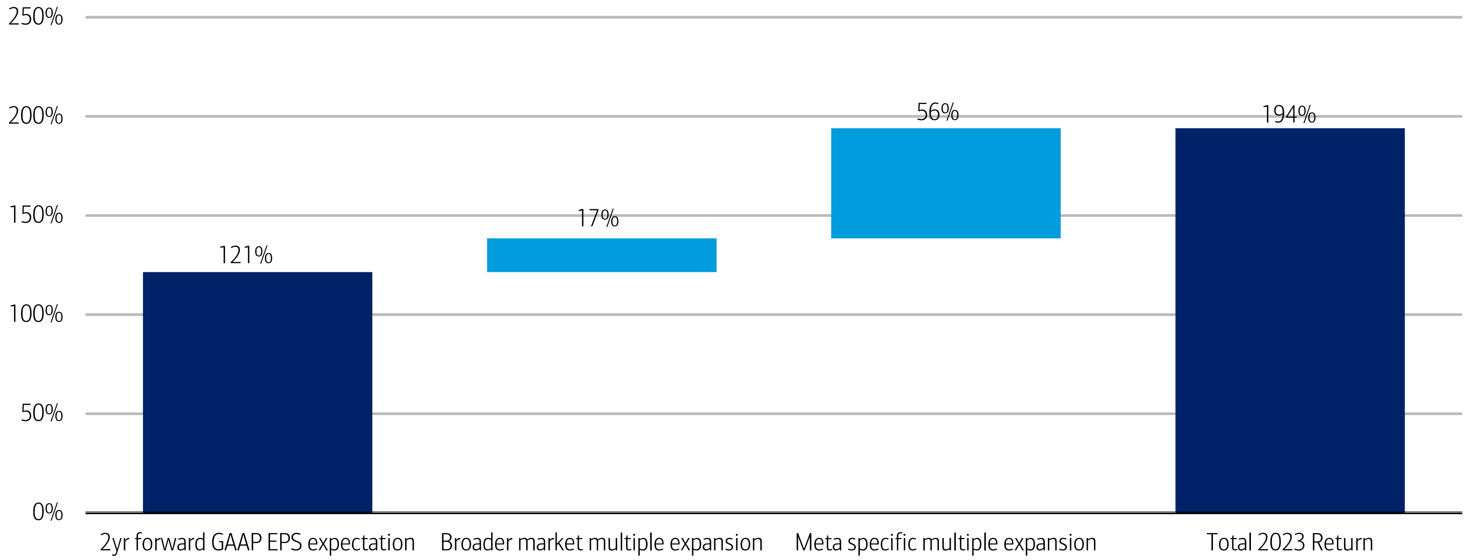
Meta 2024 PM Summary

In 2023, Meta stock was up 194% y/y, significantly outperforming the Online Media group (equal weighted up 99% y/y) and NASDAQ (up 43% y/y), driven by ramping Reels and messaging monetization, renewed cost discipline and growing optimism on AI/ML capabilities. With declining inflation and an improving macroeconomic outlook advertiser sentiment steadily improved throughout the year. In addition to more resilient consumer spending (strength in eCommerce & retail vertical), AI/ML integrations and new ad conversion tracking technology drove higher ROI and incremental ad spend on the platform. In 2024, we think Meta will remain a beneficiary of an improving digital ad market and lower interest rate environment.

Majority of Meta's 2023 stock returns were driven by improvement in company's 2yr forward EPS expectations (up 121% from start of 2023) as aggressive cost cutting and improving topline growth led to upward revisions in Street estimates. The S&P 500 market multiple increased 17%, and we estimate that the remaining 56% of Meta's total returns were driven by company specific multiple expansion from improved sentiment.

Exhibit 1: Analysis of Meta 2023 Stock Returns (%)

In 2023, Meta stock (up 194% y/y) significantly outperformed Online media group (equal weighted up 99% y/y) and broader market.



Source: BofA Global Research

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Key drivers for 2024 include an improving advertising industry spending due to improving macro sentiment (lower rates), ramping Reels revenues to catch up to usage, AI/ML integrations aiding site usage and targeting (growing Advantage+ adoption, new Gen-AI features, etc.), and continued cost discipline. While we aren't expecting cuts to Metaverse spend, we do see spending as ahead of the opportunity given limited hardware sales. Ramping monetization of messaging assets (both WhatsApp and Messenger have more than 2bn+ monthly users and room to significant grow ARPU) and new AI products/services could also drive growth. Long-term Metaverse evolution remains an uncertain pivot for the core business.

Given multiple expansion in the broader market, we are increasing our PO to $425 (from $405) based on 20x (vs 19x previously) our 2025E GAAP EPS of $20.43 (22x 2025E FCF). The multiple reflects a slight premium to S&P 500 (at ~18x) and we believe is justified given Meta's higher growth profile.

Select bull and bear cases for 2024

Exhibit 2: Our top bull and bear cases for Meta

Below we highlight major potential positives and risks for Meta in 2024.

Bull Points	Bear Points
Industry leading growth at Instagram driven by Reels integration and AI	**Decelerating revenues could impact stock multiple**
Instagram is seeing strong traction from effective integration of short-form videos and AI, driving higher usage and ROI. Recent Sensor Tower data suggests Instagram time spent per user grew 6% y/y in the US and 11% y/y Internationally, well above peers. Instagram is now capturing 62minutes of avg. daily time spent per user, compared to avg. 50mins two years ago.	In 2023, Meta revenue growth accelerated from 3% y/y in 1Q'23 to 23% in 3Q'23 driven by improving advertiser sentiment and ramping Reels & messaging monetization. However, in 2024 we expect growth to decelerate given difficult comps. Historically, in periods of decelerating growth, Meta's P/E has also compressed.
Reels still in very early stages of monetization	**Less proprietary content with Reels, more competition**
On 3Q'23 earnings call, Meta noted that Reels is now net neutral to overall company ad revenue and will be a modest tailwind to revenue growth in 4Q and 2024. We estimate Reels could grow to represent 30-35% usage on Instagram and Facebook vs 12% of total ad revenues exiting 2023. We expect ad loads to increase significantly over the next two years, potentially driving a 5-6% annual uplift in total revenues.	Reels content is less proprietary to Meta vs social content and is subject to more competition for users and creators. Unlike user posts and Stories content which drives social connections, majority of the Reels' content targeted to users is from unconnected accounts and can be replicated by competing platforms. Also, Meta may need to sign exclusive content deals to generate proprietary Reels content, which could lower margins.
AI/ML integrations drive higher site performance and ad spend, more AI coming	**Platform privacy changes and new regulations could impact revenues**
For users, Meta's AI/ML engine is aiding content optimization, driving increasing usage. For advertisers, Meta's AI/ML capabilities are aiding campaign optimization (higher ROI), enhancing measurement, and driving back-end cost savings for advertisers. We expect more visibility for Meta's AI assets and capabilities in 2024, which should include new content for users (AI bots) and capabilities for corporations (including video campaigns built on Meta's AI).	In early Jan'24, Google phased out third-party cookies for 1% of chrome users and plans to completely phase out cookies by 3Q'24. These changes, and other changes for Android or iOS could impact ad targeting and reduce spend on Meta. Also, regulatory changes, such as the Digital Services Act in Europe, could open Meta to higher costs, new liabilities, or loss of revenues. Expectations for FTC antitrust case against Meta could be shaped by Google-DoJ trial outcome in 2H'24.
Growing messaging monetization and corporate use of Messaging for customer service	**Growing Metaverse losses a drag on EPS and stock valuation**
Meta has more than 2bn monthly users on each of its two messaging platforms (WhatsApp and Messenger), but street has limited visibility (but improving) on the format's monetization potential. We estimate a $40bn+ opportunity and increasing advertiser of click-to-message ads and ramping messaging monetization should help drive ad growth. We also see an opportunity for Meta to develop a recurring revenue base around messaging licensing for customer service.	Meta has guided to growing y/y RL losses in 2024. Given the massive investment until breakeven, potential loss of focus on core business, disappointing usage traction, and uncertain competition (Apple Vision Pro), investor's view Reality Labs as having a negative value with potential for a growing multiple discount on the stock. Tax adjusted (assuming 17% tax benefit), we estimate RL losses will grow to $5.60 in EPS in 2024 (~24% of Meta's potential GAAP EPS).
EPS upside on conservative outlook & cont'd cost discipline	**Risk to Chinese advertiser spend**
Meta has a history of guiding expense conservatively, leaving potential for expense cuts during the year and driving EPS upside. For 2023, Meta initially guided expenses at $96-$101bn, but the company has lowered its total expenses outlook to $87-$89bn (flat y/y). For 2024, Meta has guided total expenses in the range of $94-$99bn (up 10% y/y assuming $87.4bn in 2023). We think there is opportunity for costs to come in below this range given $2-3bn in 1x expenses in 2023, and our estimate for headcount to be down 21% y/y in 4Q'23.	Chinese advertisers have rapidly increased ad spend on Meta to help distribute shopping apps, potentially adding 3-4pts to Meta's 2H'23 growth rate. While we expect TikTok to be aggressive with ad spend, and Temu to grow spend, n 2024 there are three risks: 1) Comps get increasingly tougher starting in 2Q'24, 2) marketing spend could shift from app distributing to in-app promotions, and 3) US could change de minimus laws, curtailing imports and ad spend.

Source: BofA Global Research

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BofA Estimates vs Street Consensus

For 4Q we expect upside to Street estimates, with potential for 24% revenue growth vs Street at 21% on ad sector rebound post Oct. In 2024, we are above Street for both revenue and EPS. We assume revenue growth at 13.7% (vs Street at 12.6%), GAAP expenses at $95.7bn (vs Street at $96.0bn & guidance of $94-$99bn), and GAAP EPS of $18.11 (vs Street at $17.54). We assume 17% tax rate & share count to decline 1% y/y.

Exhibit 3: Meta Platforms Estimate Summary

We are above Street for 2024 revenue and EPS estimates.

	4Q23E	1Q24E	2024E	2025E
Total Revenue				
BofA Ests.	$39,250	$33,431	$152,394	$170,314
Street Ests.	$38,875	$33,604	$150,978	$167,551
BofA vs Street	Above	Below	Above	Above
EBITDA				
BofA Ests.	$22,821	$18,218	$86,813	$98,996
Street Ests.	$21,907	$18,020	$83,826	$94,604
BofA vs Street	Above	Above	Above	Above
GAAP EPS				
BofA Ests.	$5.18	$3.64	$18.11	$20.43
Street Ests.	$4.89	$3.56	$17.54	$19.98
BofA vs Street	Above	Above	Above	Above

Source: BofA Global Research, Visible Alpha

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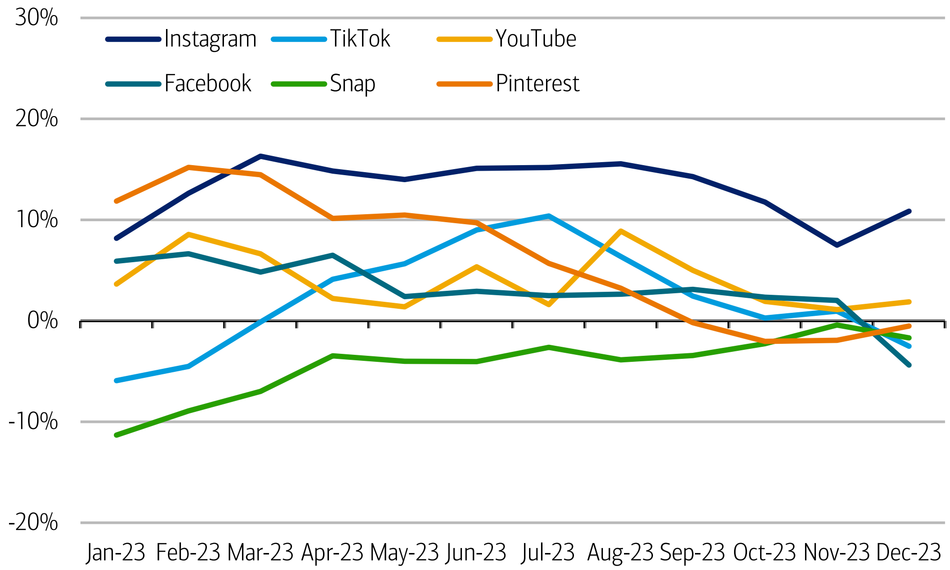
Positives for 2024

#1) Instagram has industry leading revenue growth

Instagram has become a cornerstone of Meta's success with industry leading user and usage growth driven by the effective integration of short-form videos. Meta has highlighted that in 2023, Instagram saw 6% increase in time spent as a result of recommendation improvements. According to Sensor Tower, in 2023, Instagram had the highest y/y growth in usage among social peers. Daily time spent per user on IG grew to 62mins in Dec'23 from 50mins two years ago.

Exhibit 4: Y/Y Growth in Avg. daily time spent per user (Global, %)
In 2023, Instagram had the highest y/y growth in usage among social peers



Source: Sensor Tower

BofA GLOBAL RESEARCH

Furthermore, AI is playing an increasingly important role in complementing Reels to drive higher usage and ad spend on Instagram. In recent earnings calls, Meta has noted that AI driven ranking and product improvements in Reels have driven more than 40% increase in time spent on Instagram since launch. We estimate Instagram will contribute approx. 41% of Meta' advertising revenues but will drive approx. 55% of the total ad dollar growth in 2024.

Exhibit 5: Meta and Instagram Ad Revenues Estimates & Growth ($ bn, %)
We estimate Instagram will contribute approx. 41% of Meta' advertising revenues but will drive approx. 55% of the total ad dollar growth in 2024.

	2020	2021	2022	2023E	2024E	2025E
Meta Advertising Revenue ($ bn)	$84	$115	$114	$131	$149	$167
Y/Y Growth (%)	*21%*	*37%*	*-1%*	*16%*	*13%*	*12%*
Estimated Instagram Revenues ($ bn)	$23	$37	$43	$51	$61	$71
Y/Y Growth (%)	*62%*	*57%*	*16%*	*20%*	*19%*	*16%*
Meta Ad Revenue (ex-Instagram)	$61	$78	$71	$80	$88	$96
Y/Y Growth (%)	*10%*	*29%*	*-9%*	*13%*	*10%*	*9%*
Instagram share of Meta Ad Revenue	28%	32%	38%	39%	41%	42%

Source: BofA Global Research Estimates

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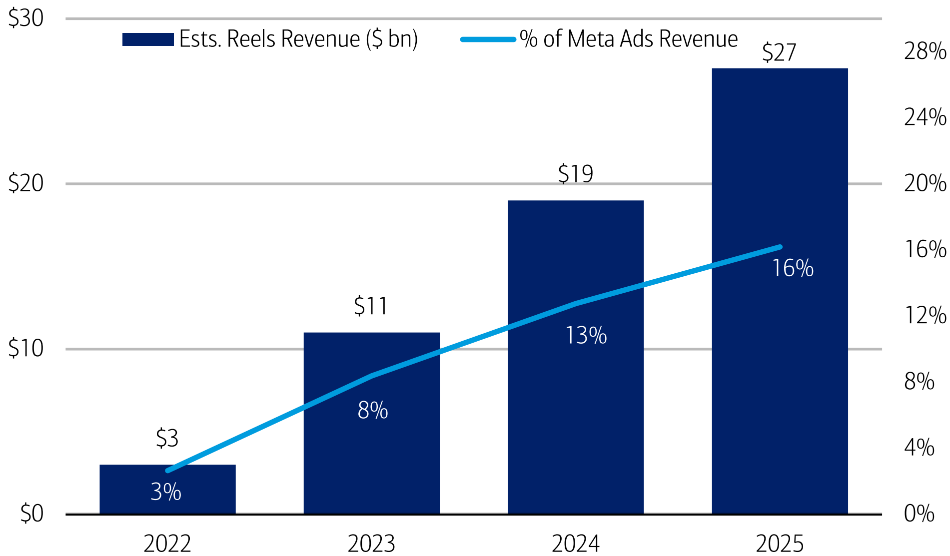
#2) Reels turning into a tailwind for growth

We think the Reels monetization cycle is still early. On 3Q'23 earnings call, Meta noted that Reels is now net neutral to overall company ad revenue (earlier than expected) and will be a modest tailwind to revenue growth in 4Q and 2024. The format is benefitting from improving targeting and a favorable placement in newsfeed and is seemingly capturing increasing user traction on FB and IG. Our recent channel checks also suggest rapid advertiser adoption and spend growth on the format.

For 2024, we estimate, Reels will represent an estimated 30-35% usage on Instagram and Facebook vs around 10-11% of Meta ad revenues (entering the year). We estimate that Reels revenues will grow to $19bn, up 70% y/y in 2024 and contribute a 4-6pt uplift in total Meta revenues. An even faster monetization ramp of the format, supported by Meta's new video ad creation tools for advertisers, could drive upside to Street ests.

Exhibit 6: Estimated Reels Revenue ($ bn) and % of Meta Ads Revenue

We estimate 2024 Reels revenue ~ $19bn, up 70% y/y.



Source: BofA Global Research Estimates

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#3) AI/ML integrations drive higher ad performance & spend

New AI/ML integrations are playing a crucial role in boosting ad spend at Meta, aiding in four key areas: 1) Creative Enhancement, 2) Campaign Optimization, 3) Enhanced ad measurement, and 4) Back-end Cost Savings for advertisers. Meta's growing AI/ML capabilities and increasing advertiser adoption of Advantage+ products will help the company: 1) continue grow core engagement and usage with better recommendations, 2) introduce new creative products that add new usage, 3) increase advertiser ROI and drive back-end cost savings driving incremental ad spend, and 4) possibly drive multiple expansion if Meta can evolve into a content and business services (ad creative, messaging customer service) platform/ecosystem. In 2024, Meta also plans to roll out an updated LLM model which, according to press reports, is expected to be as powerful as OpenAI's GPT 4.0, and several times more powerful than the company's Llama 2. Specific examples of AI's impact on Meta include:

AI/ML integrations aiding usage and engagement

On the 3Q'23 earnings call, Meta noted that AI driven ranking and product improvements in Reels have driven more than 40% increase in time spent on Instagram since launch. Management also emphasized that AI recommended content from unconnected accounts is increasingly incremental to engagement in the US and Canada.

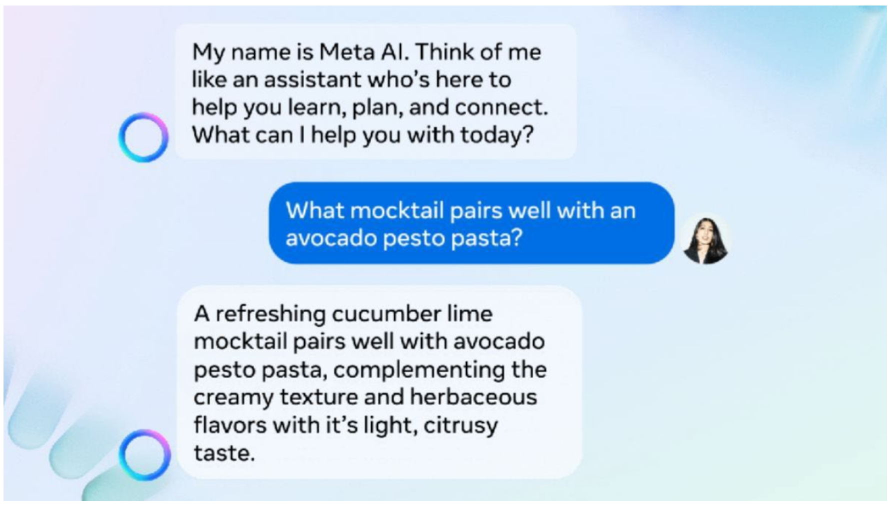
Advantage+ adoption growing rapidly

Meta noted strong traction of Advantage+ shopping solutions, particularly from online commerce & CPG advertisers and highlighted that more than half of Meta advertisers are using the Advantage+ tools to optimize images and text in their ads creative. The company also highlighted that Advantage+ shopping campaigns have reached $3bn annual run rate in 3Q'23.

Growing focus on building leading Gen-AI capabilities

Meta's CEO has highlighted that he is committed to building next-gen AI products. In 2H'23 Meta launched 'Meta AI', a Gen-AI virtual assistant chatbot that generates comment suggestions for posts, answer search queries, make recommendations, and perform virtual tasks. Meta has also partnered with Bing to provide real-time information in text based chats. The company has integrated the AI feature on Instagram, WhatsApp, and Messenger and plans to integrate it further within Meta ecosystem in 2024.

Exhibit 7: Meta AI chatbot response example
Meta AI can answer search queries, make recommendations, and perform virtual tasks.



Source: Company Website

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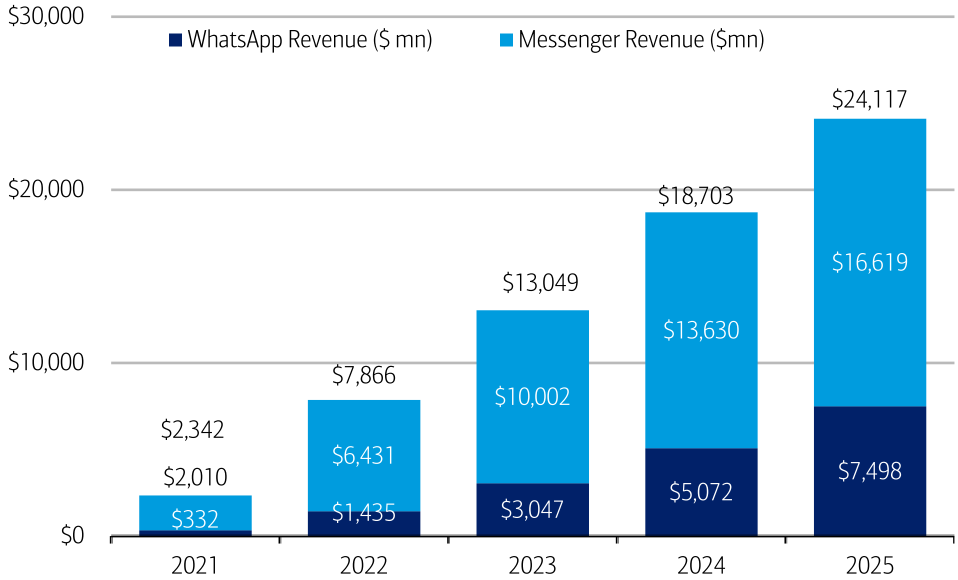
#4) Messaging monetization a strong 3-year growth driver

Meta has more than 2bn monthly users on each of its two messaging platforms (WhatsApp and Messenger), but street has limited visibility on the format's long-term monetization potential. Meta did update the street on the 1Q'23 earnings call that Click-to-WhatsApp ad revenue continues to grow very rapidly and already at a multibillion-dollar annual run rate (with all of messaging at a $10bn annual run rate). On 3Q'23 earnings call, Meta highlighted that business messaging continues to grow at a healthy pace and will be a major pillar for company's growth in coming quarters. Meta also indicated that the company will add new generative AI features into chat experiences on enhance the engagement and monetization potential of the format.

We estimate advertising and other service revenues from WhatsApp and Messenger can grow at a CAGR (22-25) of 45% to reach $24bn by 2025, up from ~$8bn in 2022. We expect the rapid growth in messaging revenues to be driven by increasing adoption of click-to-message ad formats, paid messaging products, and integration with new AI messaging automation tools. We expect Messenger global revenue to grow at a CAGR (22-25) of 37% to reach $16.6bn by 2025 from $6.4bn in 2022 and WhatsApp global revenue to grow at a CAGR of 74% to reach $7.5bn by 2025 from $1.4bn in 2022. Long-term, as Meta adds AI services, payments, eCommerce, gaming, etc., we see opportunity for messaging ARPU to increase to $8.5 with revenues of ~$60bn by 2030. Given Meta's messaging platforms are already operating at scale, we think this revenue will come through at high relative margin.

Exhibit 8: Meta Global Messaging Revenue Estimates & Growth ($ mn, %)

We estimate Meta messaging revenues to grow at a CAGR of 45% to reach $24bn by 2025.



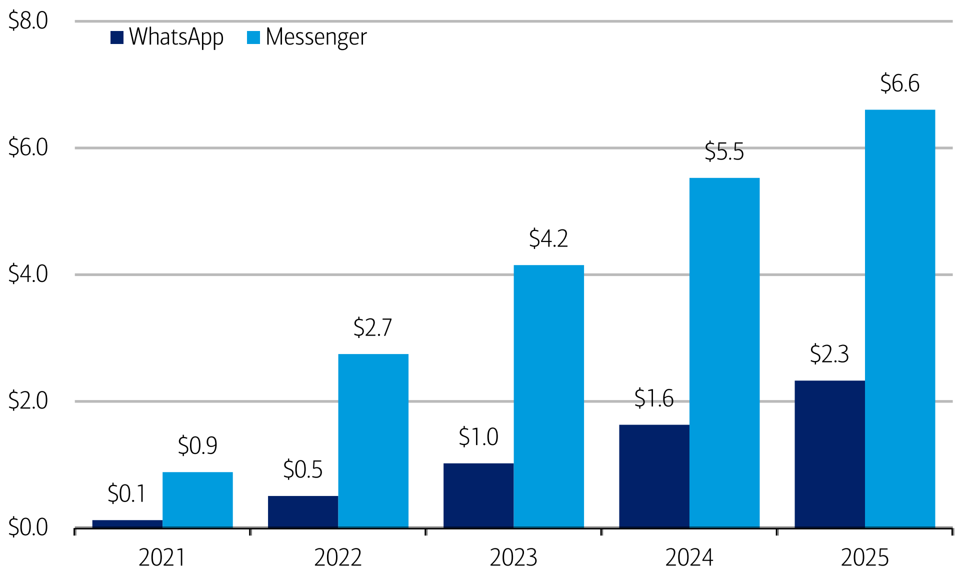
Source: BofA Global Research Estimates

BofA GLOBAL RESEARCH

Our 2025 estimates suggest WhatsApp global ARPU of $2.3 and Messenger $6.6, significantly below that of peers (currently in the range of $15-$25). If Meta add AI services, payments, eCommerce, etc. to its messaging platforms, we believe both WhatsApp's and Messenger's ARPU could increase 2x-3x by 2030.

Exhibit 9: Estimated WhatsApp and Messenger Global ARPU ($)

Our 2025 estimates suggest WhatsApp global ARPU of $2.3 and Messenger ARPU of $6.60.



Source: BofA Global Research Estimates

BofA GLOBAL RESEARCH

We estimate Messaging accounted for an estimated 10% of overall revenues in 2023 and will grow to approx. 14% of total revenues by 2025. We expect messaging to add 3-4pts to Meta's overall growth from 2022-2025.

Exhibit 10: Meta Messaging and Ex-Messaging Revenue ($ mn)
We estimate Meta (ex-messaging) revenues to grow in the range of 9-11% y/y till 2025.

	2021	2022	2023E	2024E	2025E
Meta Total Revenue	$117,929	$116,609	$134,040	$152,394	$170,314
Y/Y Growth (%)	*37%*	*-1%*	*15%*	*14%*	*12%*
Est. Messaging Revenue	$2,342	$7,866	$13,049	$18,703	$24,117
Y/Y Growth (%)		*236%*	*66%*	*43%*	*29%*
Meta Revenue (ex-Messaging)	$115,587	$108,743	$120,991	$133,691	$146,197
Y/Y (%)		*-6%*	*11%*	*10%*	*9%*

Source: BofA Global Research Estimates, Company Filing

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#5) EPS upside on conservative outlook & cont'd cost discipline

Excluding the reopening year of 2021, where revenue growth accelerated above Street estimates and contributed to additional investment spend, Meta has a history of guiding expense conservatively, leaving potential for expense cuts during the year. Our chart below compares the initial year ahead expense guidance vs actual full year results. Meta has generally come in at the lower end of the range or below guidance.

Exhibit 12: Meta Y/Y Expense Growth Forecast vs Actual
In most years, expense growth is below original company guidance

Year	Forecast Date	Non-GAAP		GAAP	
		Management Forecast	Actual	Management Forecast	Actual
2024	3Q23	NA	-	8-13%	
2023	3Q22	NA	(3%)	12-18%	0%
2022	3Q21	NA	19%	30-37%	21%
2021	3Q20	NA	31%	28-35%	32%
2020	3Q19	NA	13%	29-41%	15%
2019	3Q18*	NA	58%	53-61%	51%
2018	3Q17	NA	63%	45-60%	51%
2017	4Q16	47-57%	43%	40-50%	34%
2016	4Q15	45-55%	41%	30-40%	30%
2015	4Q14	50-70%	51%	55-75%	57%

Source: BofA Global Research Estimates, Company Report
Note: 2019 GAAP full-year expense guidance was initially provided in 3Q18 at 40-50% and revised in 2Q19 to 53-61% reflecting FTC fine.

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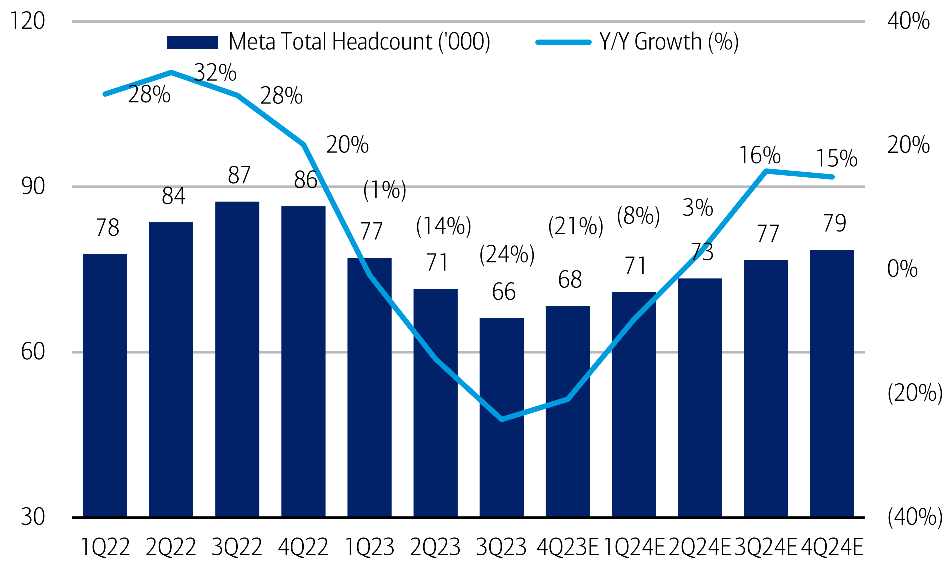
For 2024, Meta has guided total expenses in the range of $94-$99bn (estimated up $8.3bn y/y, or 10% y/y assuming $87.4bn in 2023). Midpoint of 2024 expense guide ($96.5bn) was roughly in line with Street estimates at $96bn. Management commentary from 3Q'23 earnings call also suggested slower pace of hiring in 2024/25 and continued focus on containing expenses. We think there is opportunity for costs to come in below this range given $2-3bn in 1x expenses in 2023, and our estimate for headcount to be down 21% y/y in 4Q'23. After declining 21% y/y in 2023, we expect 15% y/y growth in headcount (approx. 10,000 additions) in 2024, which could be conservative and leave room for lower spending.

Exhibit 12: Meta Total Headcount by Quarter ('000)

After declining 21% y/y in 2023, we expect 15% y/y growth in headcount (~10,000 additions) in 2024.



Source: Company Filing, BofA Global Research Estimates

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#6) Other tailwinds: Improving macro, US Elections & Olympics

Improving macro outlook could open up more brand budgets

Our BofA Economists expect a soft landing globally and worldwide GDP to grow 2.8% y/y in 2024, a mild deceleration vs 2023. For US, our economists' estimates a gradual disinflation and a slowdown in employment should slow GDP growth and allow the Fed to start cutting rates by middle of the year. We think outlook for economic stability in 2024, which follows a year of uncertainty in 2023, could encourage more advertising investment.

Exhibit 14: GDP Growth Estimates

BofA Economists expect a global soft landing, with inflation moving gradually lower.

	GDP Growth Estimates			
	2022	2023F	2024F	2025F
Global	3.50	3.00	2.80	3.00
US	1.90	2.40	1.40	1.30
Euro Area	3.40	0.50	0.50	1.20
Japan	0.90	1.70	0.80	1.00
China	3.00	5.30	4.80	4.60
Developed Markets	2.60	1.50	0.90	1.20
Emerging Markets	4.20	4.20	4.20	4.30
Emerging Asia	4.20	5.00	4.80	4.80
Emerging EMEA	4.60	2.10	3.50	3.80
Latin America	4.00	2.20	1.80	2.10

Source: BofA Global Research

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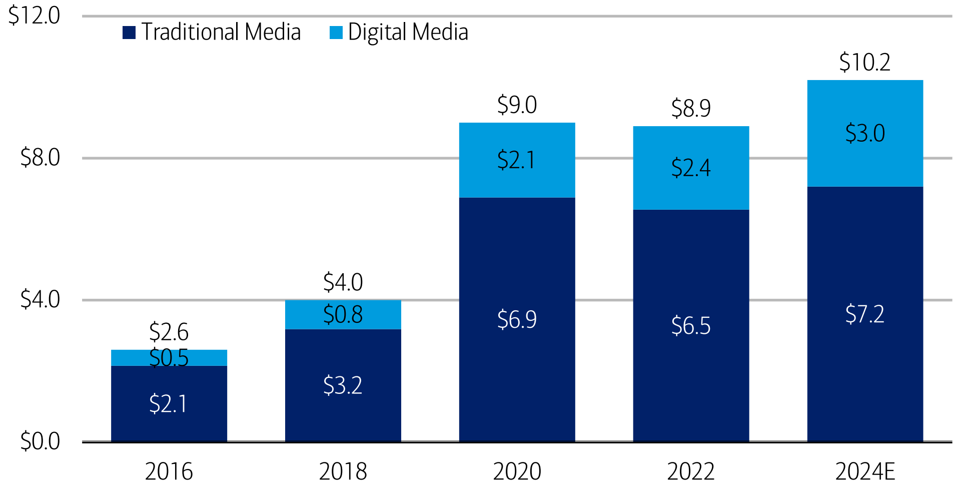
US Elections and Olympics

In 2024, two major events (Olympics in 3Q and US elections in 4Q) should provide modest benefit to ad spending on Meta surfaces. Major sports events such as Olympics offer advertisers an opportunity to capitalize on heightened attention, engagement, and audience reach in a positive news/content safe environment, while political ad spending in the US can have a substantial uptick during presidential election years. While traditional media formats such as linear TV and local television still account for dominant share of ad spend during the two events (given the extensive coverage by broadcasting networks), largest social platforms such as Meta are becoming increasingly integral to these events and getting allocated a larger percentage of ad spend. Advertisers are increasingly leveraging social media promotions, targeted online ads, and interactive content, to develop a more immersive and dynamic advertising landscape during these events.

According to AdImpact, total political ad spending in the US is expected to grow to $10.2bn in 2024 ($1.2bn higher vs 2020) with digital expected to account roughly 25-30% of the total budget (~$3bn or ~1% of sector revenue). According to BIA Advisory Services 2024 political ad dollars in digital will be allocated to local search (~46%) and local video (~34%) and buying will lean heavily toward data-driven programmatic ad platforms to reach specific audience segments likely to register and vote.

Exhibit 14: Estimated US Political Ad Spend ($ bn)

Digital advertising is expected to account for roughly 25-30% of the total political ad budget.



Source: AdImpact, BIA Advisory Services, BofA Global Research

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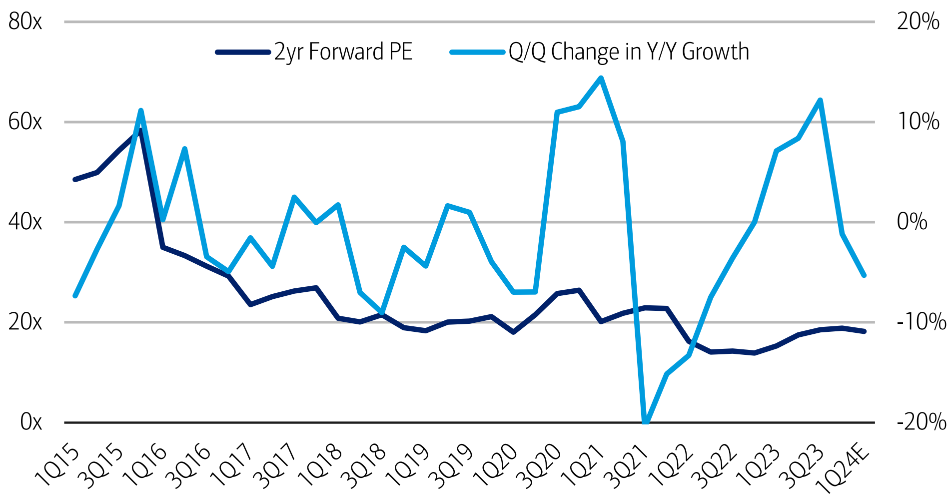
Risks and concerns for 2024

#1) Decelerating revenue growth

In 2023, Meta revenue growth accelerated from 3% y/y in 1Q'23 to 23% in 3Q'23 driven by improving advertiser sentiment and ramping Reels and messaging monetization. However, in 2024 we expect growth to decelerate given a larger base of revenues and much more difficult comps. We expect peak revenue growth in 4Q'23, and expect deceleration in future quarters, which could weigh on sentiment and limit upside for the stock. Historically, in periods of decelerating growth (light blue line below 0 below), Meta's multiple expansion has been limited.

Exhibit 15: Meta 2yr forward GAAP PE and Q/Q change in Y/Y total revenue growth since 1Q'15
Historically, in periods of decelerating growth, Meta's multiple expansion has been limited.



Source: Bloomberg, Company Filings, BofA Global Research Estimates

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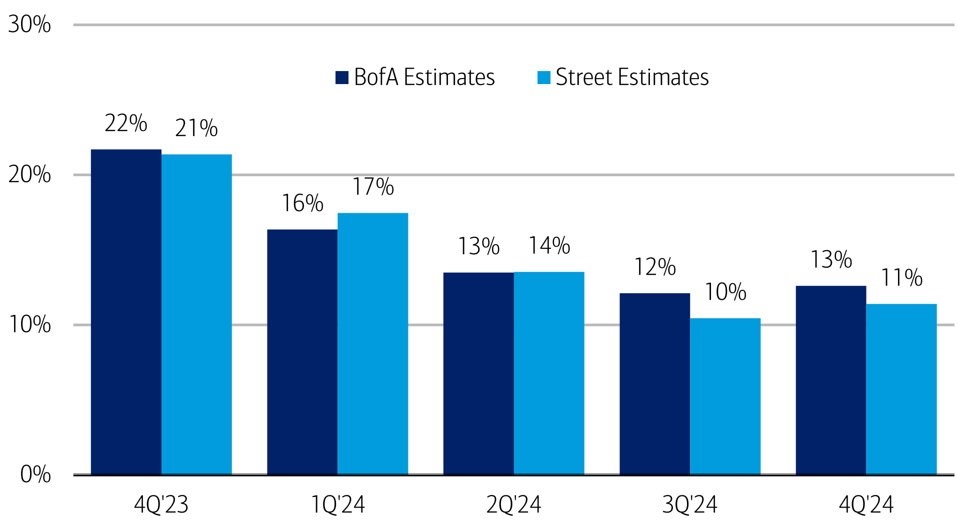
For 4Q, we see upside to BofA and Street estimates given a strong rebound in ad spending in December following a soft November. We believe Meta's revenue growth could come in around 24%. However, even with 4Q upside, we expect deceleration in revenue growth in future quarters in 2024.

Exhibit 16: Meta Y/Y Revenue Growth Estimates (BofA & Street, %)
We estimate Meta's ad revenue will decelerate in 2024.



Source: BofA Global Research, Visible Alpha

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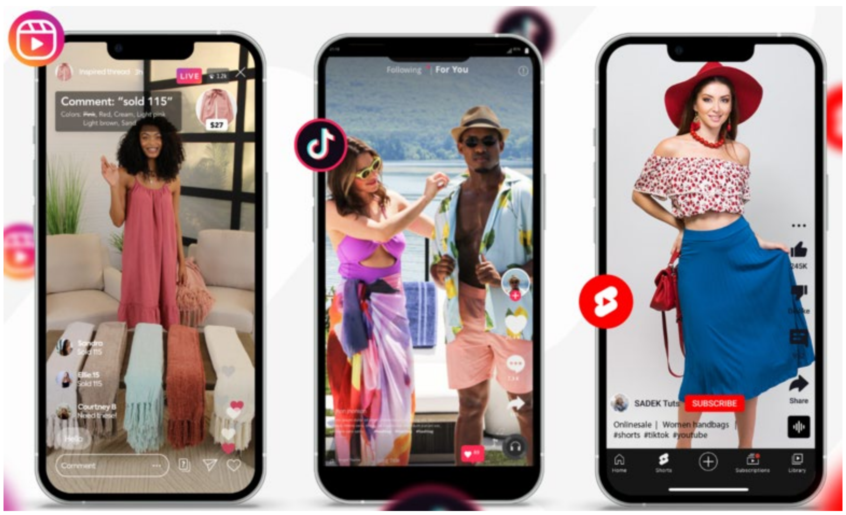
#2) Less proprietary content with Reels, more competition

Short-form video (Reels) content is less proprietary to Meta vs user posts in Newsfeed and Stories and seems likely to provide less positive network effect (social connections) benefits. Now Reels' content is generally targeted to users is from unconnected accounts and can be replicated by competing platform as creators frequently cross-post their content. This cross-platform content sharing could commoditize Meta over time.

We also believe that competition for top creator talent could increase, leading to bigger revenue sharing deals with top creators. YouTube rolled out a new partner program, where the platform shares ~55% of the ad revenue with creators. We believe Meta may need to increase creator payouts to retain top creators, which could weigh on long-term margin expectations.

Exhibit 18: Content on Reels, TikTok and Shorts
Creators frequently cross-post their content across various platforms to maximize reach.



Source: try.commentsold.com

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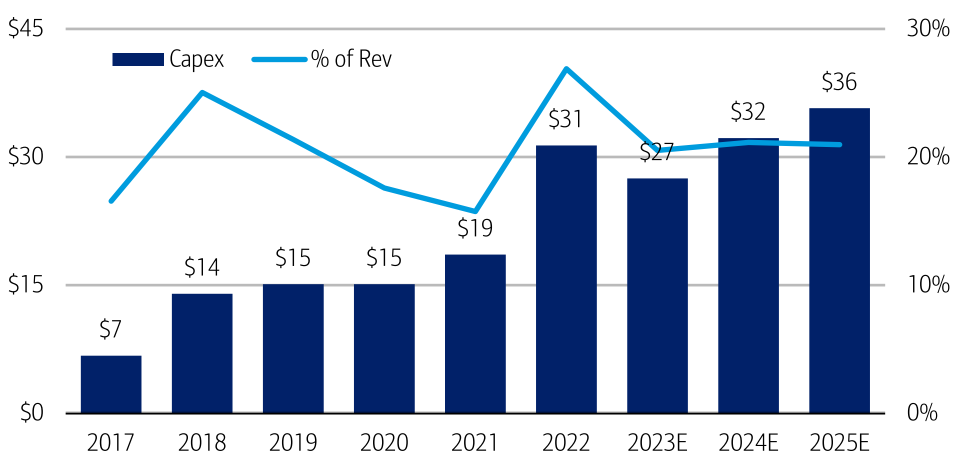
Also, the capital intensity of Reels is likely higher than other content in news feed. Reels content has higher storage and server costs than images and has multiple frames per second that need to be analyzed. We note that capex as a percent of revenues has increased over the past two years with the Reels rollout. We estimate Meta's Capex will increase by $4.7bn y/y in 2024 to $32bn, representing 21% of revenues.

Exhibit 18: Meta capex and as % of total revenue
In 2024, we estimate Meta will increase by $4.7bn y/y.



Source: Company Filings, BofA Global Research

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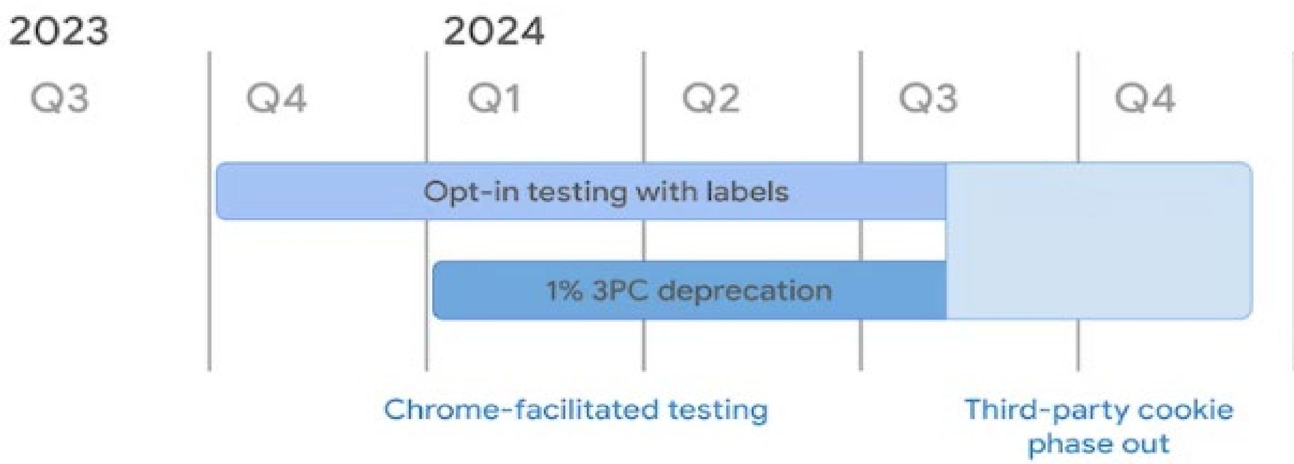
#3) Platform privacy and regulatory changes impact revenues

Google cookies phase out and app tracking changes

In early Jan'24, Google phased out third-party cookies for 1% of chrome users (~30mn). The company plans to phase out cookies for 100% of Chrome users by 3Q'24. In preparation, Google has developed the Privacy Sandbox set of replacement standards and measurement API, enabling developers to test privacy APIs with live traffic. We see some potential risk for Meta from cookie deprecation (1-2% of total revenues) but do not expect a major adverse impact similar to Apple's ATT changes (which was up to 15% of Apple ad revenues). Going forward, Google could make more changes to Android app tracking, which could have a bigger impact.

Exhibit 20: Timeline for phasing out third-Party cookies on Chrome
Starting in 3Q'24, Google plans to expand the third-party cookie deprecation to 100% of Chrome users globally.



Source: Alphabet Website

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Apple introducing more privacy changes but not expected to be disruptive

Since the Apple app tracking changes went live with iOS14.5 update in April 2021, the company appears to be taking a more measured and advertiser friendly approach with SKAdNetwork4.0 addressing some of the limitations on measurement (such as attributing app installations to specific ad campaigns and providing additional information while maintaining user privacy). iOS 15 & 16 had relatively minor impacts on the ad ecosystem, while iOS 17 (released in Sep'23) has also added some new privacy features that could have minor impacts.

iOS 17's Link tracking protection feature automatically removes tracking information from web addresses that can be used to uniquely identify a device and track a user across the web. This makes it more difficult for websites and advertisers to see which other sites a user accesses. Another feature, Privacy Manifests, provides websites with a standardized way to declare the data they collect and how they use it. The feature is designed to give app developers full transparency into how the third-party SDKs they work with collect and use data. According to Apple, Privacy manifests are, "a property list that records the types of data collected by your app or third-party SDK, and the required reason APIs your app or third-party SDK uses.

Regulatory initiatives

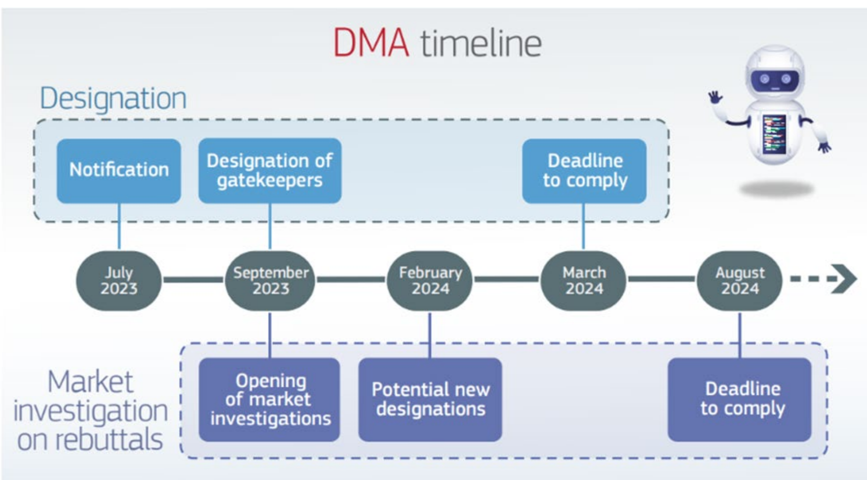
New regulatory initiatives are a constant threat and could open Meta to higher costs, new liabilities, or loss of revenues from reduced ROI. Lately, the EU has taken a more aggressive stance on privacy and with DMA gatekeeper obligations also expected to be enforced by early 2024. In US, while we do not see a big shift in big tech antitrust efforts as the DOJ/FTC has already launched cases against Meta, there is a chance that changes to the FTC consent order could impact Meta's operations in the US.

Major regulatory changes expected in Europe include:

- **Digital Markets Act (DMA):** The EU Digital Markets Act entered into force on Nov'22 and has been applicable since May 2023. Designated gatekeepers have until March 6, 2024, to comply with the Act's requirements. The DMA restricts how gatekeeper platforms (Meta included) can use the data gathered through their activities which could impact ad targeting. DMA also obliges gatekeepers to give competitors and end users access to different types of data which could increase competition. Gatekeepers in violation of the DMA can be fined up to 10% of annual global turnover, or up to 20% for repeated infringements.

- **Digital Services Act (DSA):** DSA imposes new obligations on digital services companies operating in the EU. The law entered into force on Nov'22 and most companies have 15 months to comply. The DSA's general date of applicability is 17 February 2024. Very large online platforms i.e., with over 45mn users in the EU, will have to comply with stricter obligations, Obligations for online platforms include stopping targeting based on sensitive data, prohibition of dark patterns, offer notice mechanisms for users to report illegal content, and additional ad transparency requirements.

Exhibit 21: Timeline for DMA Implementation
Gatekeepers have to ensure full compliance of their platform services with DMA by March '24.



Source: European Commission Website

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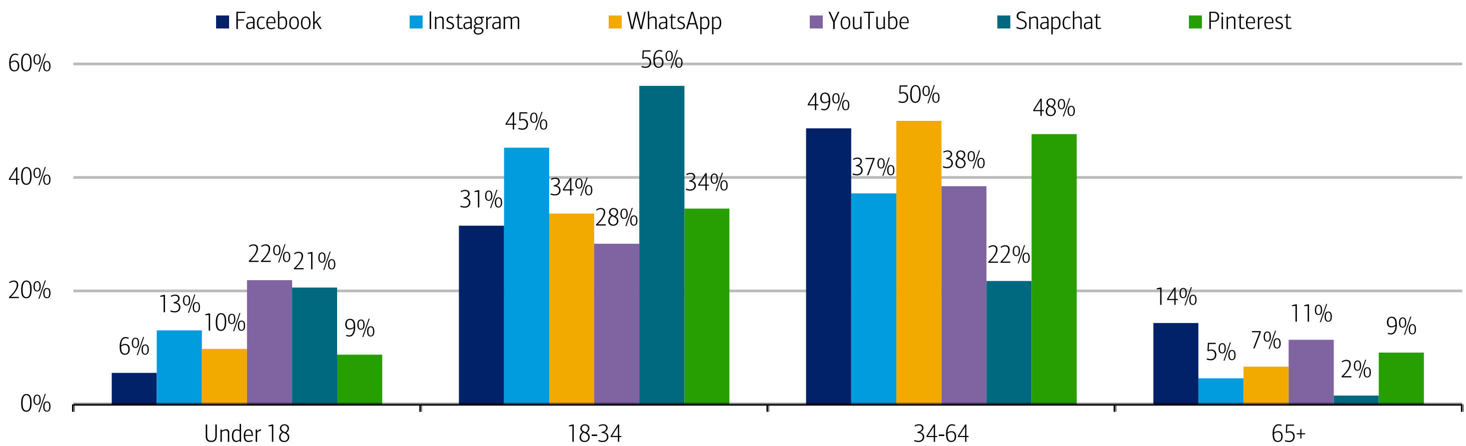
Some of the major regulatory concerns in the US are:

- **FTC consent order:** Meta has indicated that the FTC is seeking to substantially modify its existing consent order and impose additional restrictions on how Meta operates. In May 2023, FTC proposed changes to its 2020 order against Meta, prohibiting the company from monetizing data on users under 18. The FTC proposes expanding the 2020 order, affecting FB, IG, WhatsApp Oculus, to add the following: 1) Total prohibition of monetizing data from anyone under 18; 2) No launching new or modified products or services without the independent assessor confirming that the new features are in compliance; 3) Rules also apply to any Meta acquisitions; 4) Expanded limitations on facial recognition, requiring disclosure and affirmative consent; 5) Strengthened requirements throughout relating to privacy review, data inventory, access controls, etc. The FTC has twice before settled with Meta over privacy violations.

Exhibit 21: Percentage of total US by Age (%), 2022
Under 18 users represented 6% of total FB US users, 13% of total IG US users and 10% of total WhatsApp US users.



Source: eMarketer

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- **Antitrust lawsuit:** In Dec 2020, the FTC and attorneys general from 48 states filed antitrust lawsuits against Meta; The suits allege that Meta engaged in anticompetitive behavior and has imposed anticompetitive conditions on third-party software developers' access to interconnections to its platform; In June 2021, a federal court dismissed the FTC's antitrust complaint against Meta; However, in Aug 2021, FTC filed an amended complaint, which is still ongoing.

#4) Increasing Metaverse Spend and Losses

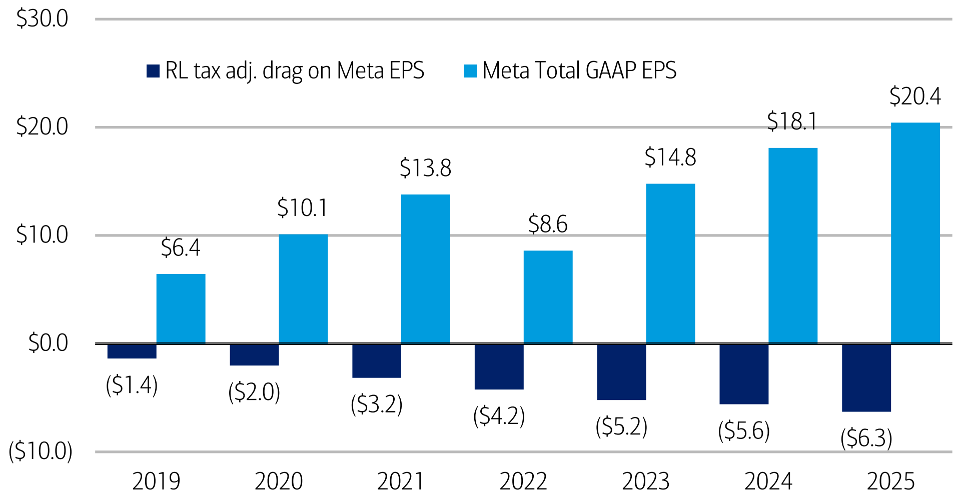
Growing Metaverse losses adds uncertainty

Metaverse is a transformational pivot for Meta, adding a new market opportunity, but also adding core business uncertainty (investors uncertain on need for Metaverse) and uncertain returns on capital. Given the massive expected investment until breakeven, potential loss of focus on core business (Facebook and Instagram), disappointing Quest usage traction, and uncertain competition (Apple Vision Pro), some investors view Reality Labs as having a negative value with potential for a growing multiple discount on the stock.

In 2022 (down 5% y/y) and 2023 (down 19%e y/y), Reality Labs revenue growth has been below Street expectations. 3Q'23 Reality Labs revenue also missed Street expectations primarily due to lower-than-expected Quest sales (ahead of the Quest 3 launch). Despite the Quest 3 launch IN 2023, management reiterated that it expects RL operating losses to further increase in 2024 due to our ongoing product development efforts and investments to further scale the ecosystem. Moreover, Apple has launched its VR headset, Vision Pro (priced at $3,499 vs Meta Quest 3, priced at $500). The company started taking pre-orders from January 19, with the sales starting on February 2. With increasing competition in the VR market, there is possibility that Meta could further increase its RL investments to build ecosystem and drive adoption of its headset.

Tax adjusted (assuming 17% tax benefit), we estimate RL's EPS headwind will grow to $5.60 in 2024 (~24% of Meta total potential GAAP EPS).

Exhibit 22: Reality Labs Tax Adjusted Drag on Meta GAAP EPS
We estimate RL's drag on Meta's EPS and will grow to $5.60 in 2024.



Source: Company Filing, BofA Global Research Estimates

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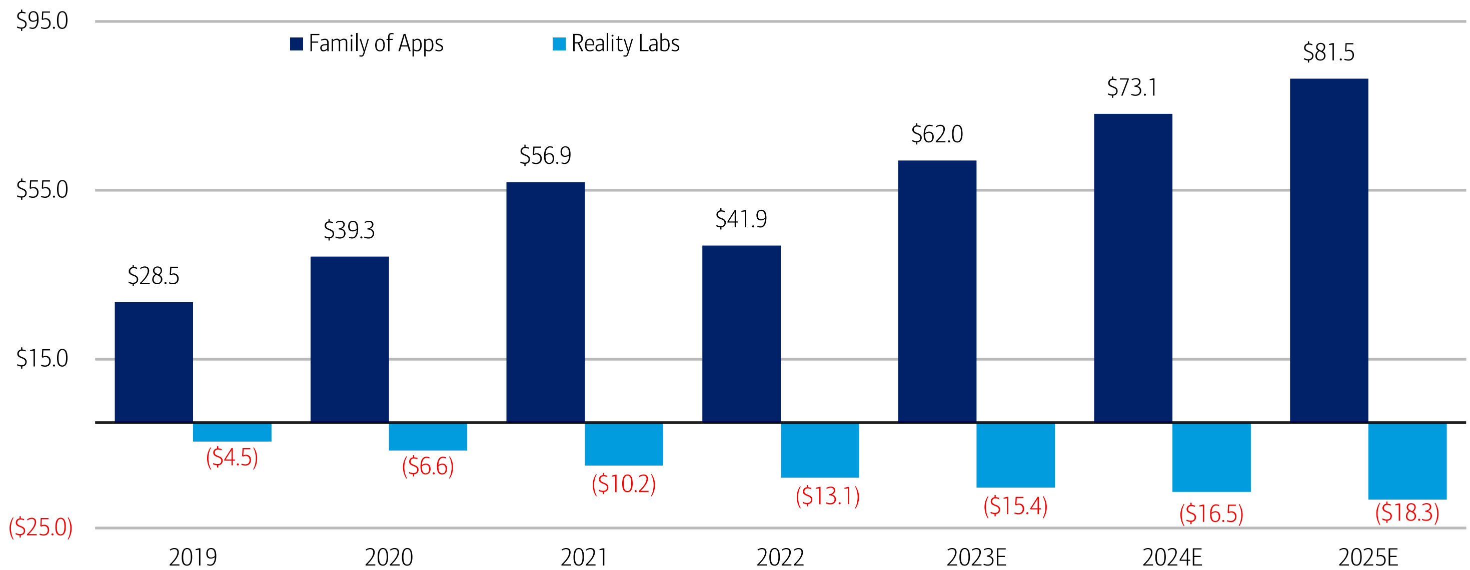
In 2024, we expect Meta to generate $73bn (49% margin) operating profit from its core business (Family of Apps), and $16.5bn in losses from Reality Labs.

Exhibit 23: Meta Operating Profit/Loss by Segment ($ bn)
We estimate Reality Labs operating losses can increase to $18bn/year by 2025.



Source: BofA Global Research Estimates

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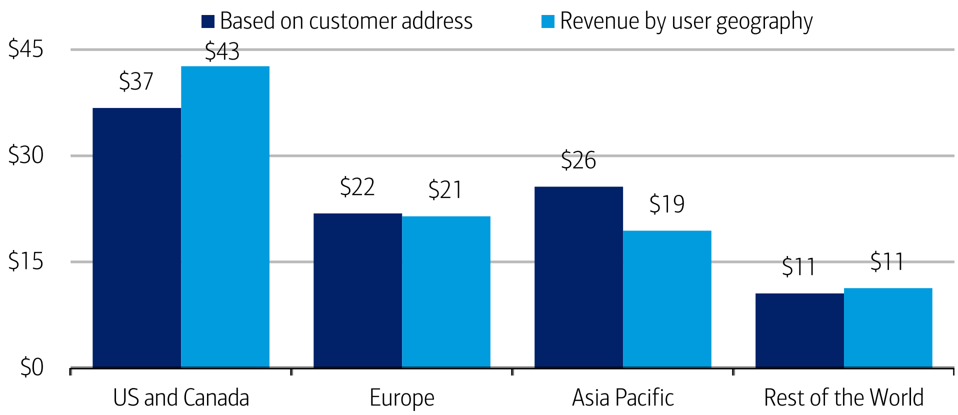
Assuming $18bn of losses annually from 2026-2030, Meta could have approximately $176bn of total investment in Reality Labs, and well over $200bn assuming a 10% cost of capital.

#5) Risk to Chinese advertiser spend

Chinese advertisers have rapidly increased ad spend on Meta to help distribute shopping apps, potentially adding 2-4pts to Meta's 2H'23 ad revenue growth rate. While we expect TikTok to be aggressive with ad spend in 2024, and Temu to also grow its advertising spend in 2024, there are a few unique risks for this spend: 1) Comps on the ad ramp get increasingly tougher, starting in 2Q'24, which could slow Meta's overall ad ramp, 2) marketing spend could shift from app distribution to in-app promotions, creating a new headwind for Meta, and 3) US could change its de minimus laws import, curtailing Chinese imports and ad spend.

In the below chart segmenting Meta 2023 revenue (through 3Q) based on customer address and user geography, we note advertisers spent $43bn to reach US users, $37bn of that ad spend generated from US while the remaining $6bn was from International advertisers (which we believe is partially attributable to Chinese advertisers – given $7bn gap between Asia pacific numbers).   We note that the US difference has grown from $4.4bn for all of 2022.

Exhibit 24: Meta 2023 Revenue (through 3Q) based on customer address and use geography ($ bn)
Chinese advertisers potentially added 3-4pts to Meta's 2H'23 growth rate.



Source: Company Filings. Note, full year difference in US in 2022 was $4.4bn.

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On 3Q'23 earnings call, regarding ad spend from Chinese based advertisers in other geographies, Meta management highlighted:

- "Online commerce and gaming benefited from strong spend among advertisers in China reaching customers in other markets"
- "Spend from Chinese advertisers further accelerated for us in Q3"
- "In North America, we saw (revenues) accelerate by 7points due primarily to strong demand from China advertisers."
- "We've also seen generally broader-based strength from other China advertisers, and we believe factors such as lower shipping costs and easing regulations on the gaming industry have served as tailwinds here."
- "On the sustainability of the China advertising revenue - even though we've seen particularly strong growth this year, I would say that there has been a longer-term trend of overall growth with this segment dating back to past years and also periods of volatility in the past, like in the last two years, we've seen periods with higher shipping costs, with lockdowns, with regulation weighing on demand. So, we recognize there's the potential for volatility in the future as well and especially given that there are so many macro factors at play that are quite hard to predict"

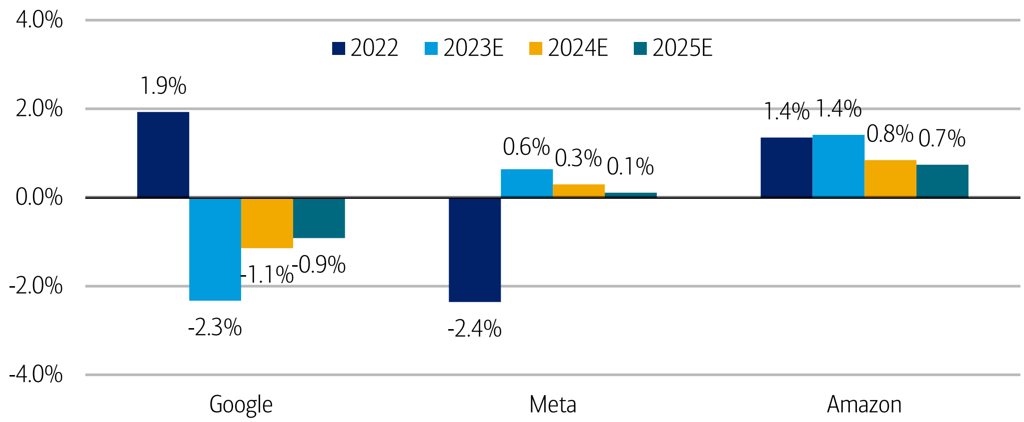
#6) Increasing competition

Meta is facing increasing competition for ad dollars from TikTok, eCommerce and food delivery platforms (Amazon, Walmart, Doordash, etc.) and AVOD platforms (Netflix, Disney+, Hulu, etc.). These platforms are making significant investments into building digital advertising businesses to expand revenue streams and boost margins, which could potentially weigh on Meta's growth outlook and multiple.

TikTok - The exponential growth of TikTok and short-form video usage overall has transformed the social media landscape. TikTok now has more than 1bn MAUs globally, and the platform is still in early stages of its monetization ramp with potential to take revenue share given 98mins daily time per user on the platform, well above YouTube (78mins), Instagram (61mins), Facebook (49mins) and Snap (20mins). With growing DR capabilities, eMarketer estimates a TikTok's US ad growth CAGR at 28%, to $11bn by 2025 from $6.6bn in 2023. Even if TikTok ad growth is below expectations, an infusion of new ad inventory to boost revenues could put downward pressure on ad pricing.

eCommerce platforms –. Platforms such Amazon, Walmart, Uber, Doordash and others are seizing the opportunity to position themselves as not just eCommerce destinations but also as advertising ecosystems with strong measurement capabilities and high ROI. Moreover, privacy and measurement changes favor platforms with 1st party data, improving eCommerce platform's relative position. Amazon has gained significant share in the industry, with US ad revenues expected at $42.3bn in 2024 (up 18% y/y), and industry share increasing from 3% in 2018 to 12% in 2024, & Walmart's platform is growing faster than Amazon.

Exhibit 25: estimated US online media market share change (%, y/y)
Looking ahead, Amazon is expected to continue take market share



Source: BofA Global Research

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AVOD platforms - The growth of ad-supported tier on major CTV platforms such as Netflix, Disney+, Hulu, and Peacock poses a threat to incumbent Online media platforms including Meta. With more time spent on CTV, there's potential for a substantial monetization ramp of AVOD (ad supported video platforms), which could be more targeted than linear TV. According to eMarketer, total advertising spend on major CTV platforms is expected to grow to $10.6bn by 2024, representing 19% growth, above overall digital ad growth. We note AVOD ad dollar growth is limited vs overall digital ad budgets, the expected $1.8bn incremental growth is ~0.3% of global Online ad market.

Exhibit 27: US Advertising Revenues of Major AVOD platforms
Major CTV platforms are expected to add $1.8bn in US ad revenues in 2023 and 1.4bn 2024.

	2023E	2024E	2025E
Hulu	$3.8	$4.4	$4.9
Disney+	$0.8	$0.9	$1.1
Peacock	$1.3	$1.5	$1.7
Netflix	$0.7	$1.0	$1.1
Pluto TV	$1.0	$1.2	$1.3
Tubi	$1.0	$1.2	$1.5
Paramount+	$0.4	$0.5	$0.5
Total	$8.9	$10.6	$12.0
Y/Y Dollar Growth		*$1.8*	*$1.4*

Source: eMarketer

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Valuation

Sum of the Parts Valuation

Using current stock price of ~$390.70, Meta is currently trading at 19x our 2025 GAAP EPS estimate (or 18x ex-cash). On Price/FCF basis, the stock is trading at 21x. However, if we back out $15bn in estimated 2025 Metaverse losses, we get to an adjusted valuation at 14x 2025 GAAP earnings (vs S&P at 18x).

Exhibit 28: Meta sum-of-the-parts analysis

Meta is currently trading at 19x our 2024 GAAP EPS estimate (18x ex-cash).

2025E Sum of Parts P/E

$mn, except per share data

Stock Price	$390.70	Comments
+ Net Cash (YE'23)	$43,492	
+ Facebook Reality Labs	$0	Taking a conservative view, we assume no value for Reality Labs
Total Adjustments	$43,492	
Diluted shares	2,641	
Total Adjustments per share	$16.47	
Adjusted stock price for cash	$374.23	
2025E non-GAAP EPS	$26.30	
FB core Adjusted non-GAAP EPS (ex-Facebook Reality Labs)	$31.97	Adding back $16bn in losses and assuming a 18% tax rate
2025E GAAP EPS	$20.43	
FB core Adjusted GAAP EPS (ex-Facebook Reality Labs)	$26.10	Adding back $16bn in losses and assuming a 18% tax rate
2025 FCF/Share	$19.09	
Current GAAP 2025E P/E	19x	
Core FB Adjusted GAAP 2025E P/E	14x	
Current GAAP 2025E ex-cash P/E	18x	
Price/FCF	20x	

Source: BofA Global Research

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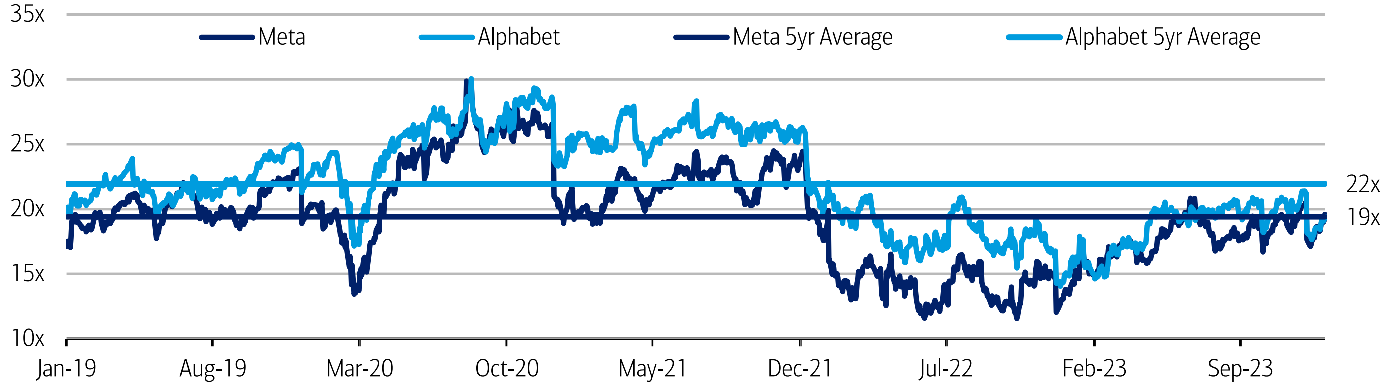
Given multiple expansion in the broader market, we are increasing our PO to $425 (from $405) based on 20x (vs 19x previously) our 2025 GAAP EPS of $20.43 (22x 2025 FCF). The multiple reflects a slight premium to S&P 500 (at 18x) and we believe is justified given Meta's higher growth and AI assets.

On 2yr forward GAAP PE basis, Meta and Alphabet are currently trading at 19x Street estimates. Meta's multiple is in line with its 5yr historical average while Alphabet's is 12% below its 5yr average of 22x.

Exhibit 28: Meta and Alphabet 2yr Forward GAAP PE
Meta is currently trading at a 2yr forward GAAP PE multiple of 20x.



Source: Bloomberg

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Online Media Comps

Meta is expected to grow a slightly higher rate compared to Alphabet in 2024 and has relatively higher EBITDA margin but lower FCF margin. On 2024 GAAP P/E basis, the stock is trading in line with Alphabet while on EV/EBITDA basis, Meta is trading at slight discount, potentially due to higher capital intensity.

Exhibit 30: Online Media Multiples
Meta is trading at a marginal discount to Alphabet (higher FCF margin).

	Price	2024E					2025E				
Company	24-Jan-24	EV/S	EV/GP	EV/EBITDA	GAAP P/E	P/FCF	EV/S	EV/GP	EV/EBITDA	GAAP P/E	P/FCF
Meta	$390.70	6.7x	8x	12x	22x	24x	5.9x	7x	11x	19x	21x
Alphabet	$148.70	6.3x	10x	13x	22x	22x	5.7x	9x	11x	19x	19x
Snap	$16.32	5.7x	10x	96x	NM	NM	4.9x	8x	42x	NM	48x
Pinterest	$36.52	6.4x	8x	25x	NM	30x	5.4x	7x	19x	NM	23x
Median		6.4x	9x	19x	22x	24x	5.5x	8x	15x	19x	22x

Source: Bloomberg, Visible Alpha

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Exhibit 31: Online Media Consensus Metrics
Meta has highest EBITDA margins among social peers.

	Price	Sales Growth		Gross Margin		Operating Margin		EBITDA Margin		FCF Margin		SBC as % Revenue	
Company	24-Jan-24	2024	2025	2024	2025	2024	2025	2024	2025	2024	2025	2024	2025
Meta	$390.70	13%	12%	80%	80%	37%	38%	55%	56%	28%	29%	10%	10%
Alphabet	$148.70	11%	11%	62%	62%	34%	35%	49%	50%	30%	32%	9%	9%
Snap	$16.32	14%	16%	56%	58%	(14%)	1%	6%	11%	6%	10%	27%	25%
Pinterest	$36.52	17%	19%	78%	79%	15%	18%	25%	28%	23%	26%	21%	18%
Median		14%	14%	70%	70%	25%	27%	37%	39%	26%	27%	15%	14%

Source: Bloomberg, Visible Alpha

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2024 stock upside/downside scenario analysis

We calculate the following upside and downside scenarios, based on Meta's historical P/E range and growth profile:

- **Upside scenario - $488.** Our upside scenario valuation is based on 12% higher 2025 GAAP EPS of $22.88 (current estimates $20.43), multiple expansion to 21x

P/E. EPS upside could come from improving macro conditions, accelerating monetization of Reels, messaging, AI/ML integration driving incremental ad spend or lower-than-expected expense growth. Multiple expansion could come from sustained usage growth from Reels and new AI driven content, or optimism on growing AI/ML capabilities and possibility of new business/services.

- **Price Objective - $425.** Our $425 price objective is based on 20x our 2025E GAAP EPS of $20.43 (22x 2025 FCFE), a multiple that reflects a slight premium to S&P 500 (at ~18x).

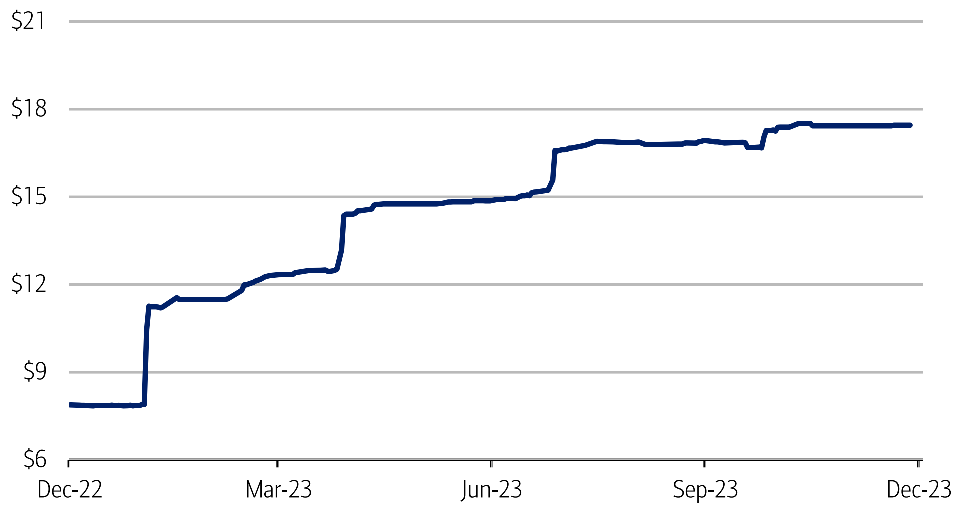
- **Downside scenario - $293.** Our downside scenario valuation of $310 is based on 10% lower 2025 GAAP EPS of $18.30 and multiple contraction to 16x P/E. EPS downside and multiple contraction could be driven by deceleration in revenue growth on tougher comps and disruption in Chinese advertiser spend, adverse effects of Google platform changes, new regulatory uncertainties, slowing usage growth as the Reels benefit cycle plays out, and negative Metaverse spending sentiment.

Appendix

Meta EPS estimates & GAAP PE Multiple

In 2023, Meta consensus 2yr forward GAAP EPS estimate increased 121% from $7.9 on Dec 30, 2022 to $17.5 on Dec 29, 2023.

Exhibit 31: Meta Consensus 2yr Forward GAAP EPS Estimates ($)
In 2023, Meta consensus 2yr forward GAAP EPS estimate increased 121%.



Source: Bloomberg

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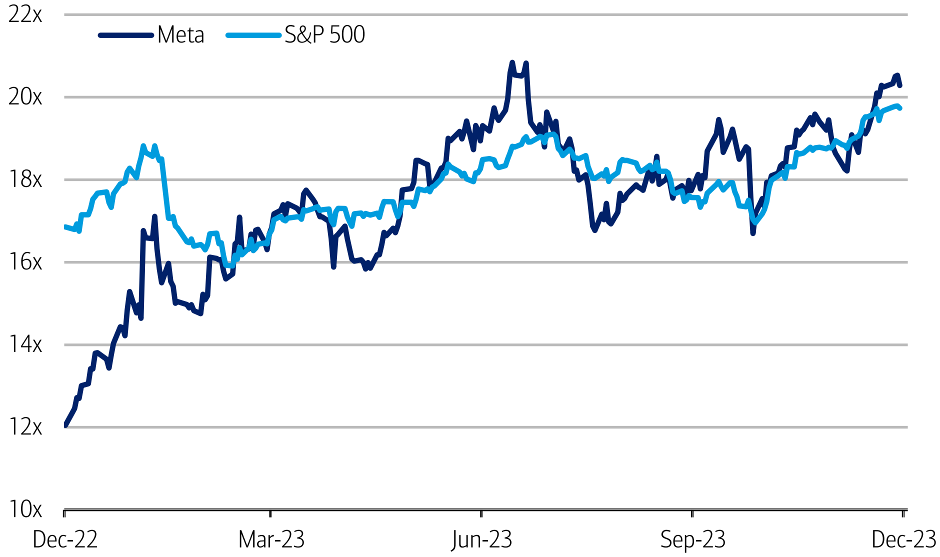
In 2023, S&P 500 2yr GAAP PE multiple increased 17% from 17x on Dec 30, 2022 to 20x on Dec 29, 2023 while during the same time frame, Meta GAAP PE multiple increased 68% from 12x to 20x.

Exhibit 32: Meta and S&P 500 2yr Forward GAAP PE Multiple ($)

In 2023, Meta GAAP PE multiple expanded 68% vs that of S&P 500 expanded 17%.



Source: Bloomberg

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Time Spent Trends

US/North America

In December, Instagram had the highest y/y growth in US average daily time spent per DAU (62mins, up 6% y/y), followed by YouTube (77mins, up 2% y/y). Pinterest was flat at 12 mins y/y, while Facebook declined (43mins, down 5% y/y), followed by Snapchat (20mins, down 2% y/y), and TikTok (93mins, down 1% y/y).

Exhibit 5: US Average Daily Time Spent per DAU Estimates (Minutes)

In December, Instagram had the highest y/y growth in US average daily time spent per DAU (62mins, up 6% y/y).

Company	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23
Facebook	44.7	45.1	45.5	45.9	44.6	45.2	44.9	45.5	46.5	46.6	46.5	45.4	45.4	42.8
y/y %	*7%*	*8%*	*5%*	*6%*	*4%*	*6%*	*2%*	*2%*	*2%*	*2%*	*3%*	*2%*	*2%*	*(5%)*
m/m %	*0%*	*1%*	*1%*	*1%*	*(3%)*	*1%*	*(1%)*	*2%*	*2%*	*0%*	*(0%)*	*(2%)*	*(0%)*	*(6%)*
Instagram	55.7	58.5	59.4	59.6	59.9	59.2	58.7	59.5	59.2	59.3	58.8	59.8	60.0	61.8
y/y %	*6%*	*10%*	*9%*	*13%*	*17%*	*14%*	*13%*	*14%*	*13%*	*14%*	*14%*	*12%*	*8%*	*6%*
m/m %	*4%*	*5%*	*2%*	*0%*	*1%*	*(1%)*	*(1%)*	*1%*	*(1%)*	*0%*	*(1%)*	*2%*	*0%*	*3%*
Pinterest	12.1	12.4	12.5	12.5	12.1	12.0	12.1	12.3	12.5	12.7	11.9	11.9	11.9	12.3
y/y %	*19%*	*16%*	*12%*	*15%*	*15%*	*10%*	*11%*	*10%*	*6%*	*3%*	*(0%)*	*(2%)*	*(2%)*	*(0%)*
m/m %	*(0%)*	*2%*	*1%*	*(0%)*	*(3%)*	*(1%)*	*0%*	*2%*	*1%*	*2%*	*(6%)*	*0%*	*(0%)*	*3%*
Snapchat	19.9	20.2	19.6	19.7	19.9	20.4	20.5	20.4	19.8	19.6	19.6	19.7	19.7	19.8
y/y %	*(7%)*	*(8%)*	*(9%)*	*(8%)*	*(7%)*	*(4%)*	*(5%)*	*(5%)*	*(3%)*	*(4%)*	*(3%)*	*(3%)*	*(1%)*	*(2%)*
m/m %	*(2%)*	*2%*	*(3%)*	*1%*	*1%*	*2%*	*1%*	*(1%)*	*(3%)*	*(1%)*	*(0%)*	*1%*	*(0%)*	*0%*
YouTube	73.7	75.5	77.0	76.3	75.7	74.6	74.5	75.8	76.1	76.0	74.5	74.5	74.5	77.1
y/y %	*6%*	*7%*	*4%*	*7%*	*6%*	*2%*	*1%*	*5%*	*2%*	*9%*	*5%*	*2%*	*1%*	*2%*
m/m %	*1%*	*3%*	*2%*	*(1%)*	*(1%)*	*(1%)*	*(0%)*	*2%*	*0%*	*(0%)*	*(2%)*	*0%*	*(0%)*	*4%*
TikTok	91.0	93.6	92.0	91.5	92.1	97.2	97.0	100.7	104.2	102.3	94.6	94.3	94.4	92.7
y/y %	*2%*	*3%*	*(4%)*	*(1%)*	*2%*	*6%*	*8%*	*9%*	*11%*	*8%*	*3%*	*2%*	*4%*	*(1%)*
m/m %	*(2%)*	*3%*	*(2%)*	*(0%)*	*1%*	*6%*	*(0%)*	*4%*	*3%*	*(2%)*	*(7%)*	*(0%)*	*0%*	*(2%)*

Source: Sensor Tower and BofA Global Research

Note: Daily time spent per DAU calculated using Sensor Tower total time spent in a month estimates and monthly average DAUs estimates.

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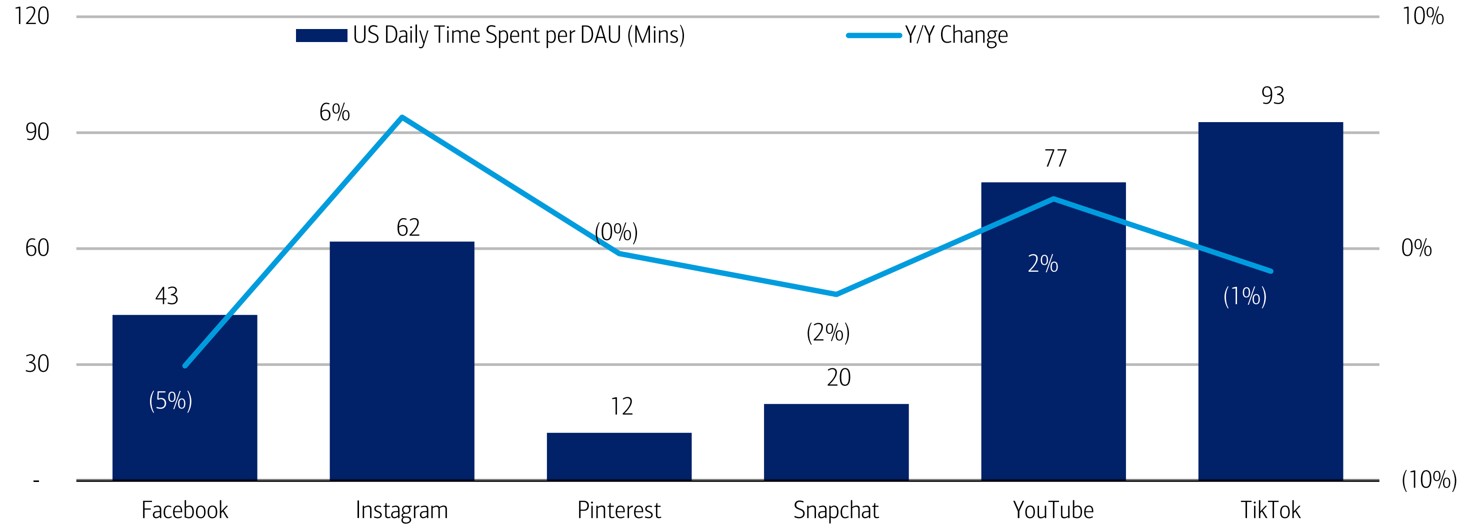
Exhibit 6: Sensor Tower US Average Daily Time per DAU Estimates (Minutes) – December 2023

Per Sensor Tower, TikTok had the highest US average daily time per active user (~93 mins), down 1% y/y in December.



Source: Sensor Tower and BofA Global Research

Note: Daily time spent per DAU calculated using Sensor Tower total time spent in a month estimates and monthly average DAUs estimates.

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International

In December, Instagram had the highest y/y growth in International average daily time spent per DAU (62mins, up 11% y/y), followed by YouTube (78mins, up 2% y/y). Facebook declined 4% y/y (44mins), followed by TikTok (77mins, down 3% y/y), Snapchat (20mins, down 2% y/y), and Pinterest (12mins, down 1% y/y).

Exhibit 7: International Average Daily Time Spent per DAU Estimates (Minutes)

In December, Instagram had the highest growth (up 11% y/y) in international daily average time spent per active user.

Company	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23
Facebook	46.0	46.4	47.0	47.3	46.1	46.9	46.5	47.2	48.1	48.2	48.1	47.0	47.0	44.4
y/y %	*8%*	*9%*	*6%*	*7%*	*5%*	*7%*	*2%*	*3%*	*3%*	*3%*	*3%*	*2%*	*2%*	*(4%)*
m/m %	*0%*	*1%*	*1%*	*1%*	*(3%)*	*2%*	*(1%)*	*1%*	*2%*	*0%*	*(0%)*	*(2%)*	*(0%)*	*(5%)*
Instagram	52.7	55.4	56.4	56.4	56.7	56.9	56.4	57.2	57.2	57.3	55.7	56.7	59.9	61.7
y/y %	*6%*	*10%*	*8%*	*13%*	*16%*	*15%*	*14%*	*15%*	*15%*	*16%*	*14%*	*12%*	*14%*	*11%*
m/m %	*4%*	*5%*	*2%*	*0%*	*1%*	*0%*	*(1%)*	*1%*	*0%*	*0%*	*(3%)*	*2%*	*6%*	*3%*
Pinterest	12.0	12.2	12.4	12.3	12.0	11.9	11.9	12.2	12.3	12.5	11.7	11.7	11.7	12.1
y/y %	*19%*	*16%*	*12%*	*15%*	*14%*	*10%*	*10%*	*10%*	*6%*	*3%*	*(0%)*	*(2%)*	*(2%)*	*(1%)*
m/m %	*(0%)*	*2%*	*1%*	*(0%)*	*(3%)*	*(1%)*	*0%*	*2%*	*1%*	*2%*	*(6%)*	*0%*	*(0%)*	*3%*
Snapchat	19.8	20.2	19.3	19.7	19.9	20.5	20.6	20.5	19.9	19.6	19.4	19.8	19.7	19.9
y/y %	*(8%)*	*(8%)*	*(12%)*	*(9%)*	*(7%)*	*(3%)*	*(4%)*	*(4%)*	*(3%)*	*(4%)*	*(3%)*	*(2%)*	*(0%)*	*(2%)*
m/m %	*(2%)*	*2%*	*(5%)*	*2%*	*1%*	*3%*	*1%*	*(0%)*	*(3%)*	*(1%)*	*(1%)*	*2%*	*(0%)*	*1%*
YouTube	74.2	76.1	77.5	76.8	76.3	75.1	75.0	76.3	76.6	76.5	75.0	75.0	75.1	77.5
y/y %	*6%*	*8%*	*4%*	*9%*	*7%*	*2%*	*1%*	*5%*	*2%*	*9%*	*5%*	*2%*	*1%*	*2%*
m/m %	*1%*	*3%*	*2%*	*(1%)*	*(1%)*	*(2%)*	*(0%)*	*2%*	*0%*	*(0%)*	*(2%)*	*0%*	*0%*	*3%*
TikTok	75.8	78.7	75.6	74.4	77.3	81.7	81.0	84.3	86.0	83.1	77.2	76.0	76.4	76.7
y/y %	*(1%)*	*(0%)*	*(6%)*	*(5%)*	*(0%)*	*4%*	*6%*	*9%*	*11%*	*6%*	*3%*	*0%*	*1%*	*(3%)*
m/m %	*(0%)*	*4%*	*(4%)*	*(2%)*	*4%*	*6%*	*(1%)*	*4%*	*2%*	*(3%)*	*(7%)*	*(2%)*	*0%*	*0%*

Source: Sensor Tower and BofA Global Research

Note: Daily time spent per DAU calculated using Sensor Tower total time spent in a month estimates and monthly average DAUs estimates.

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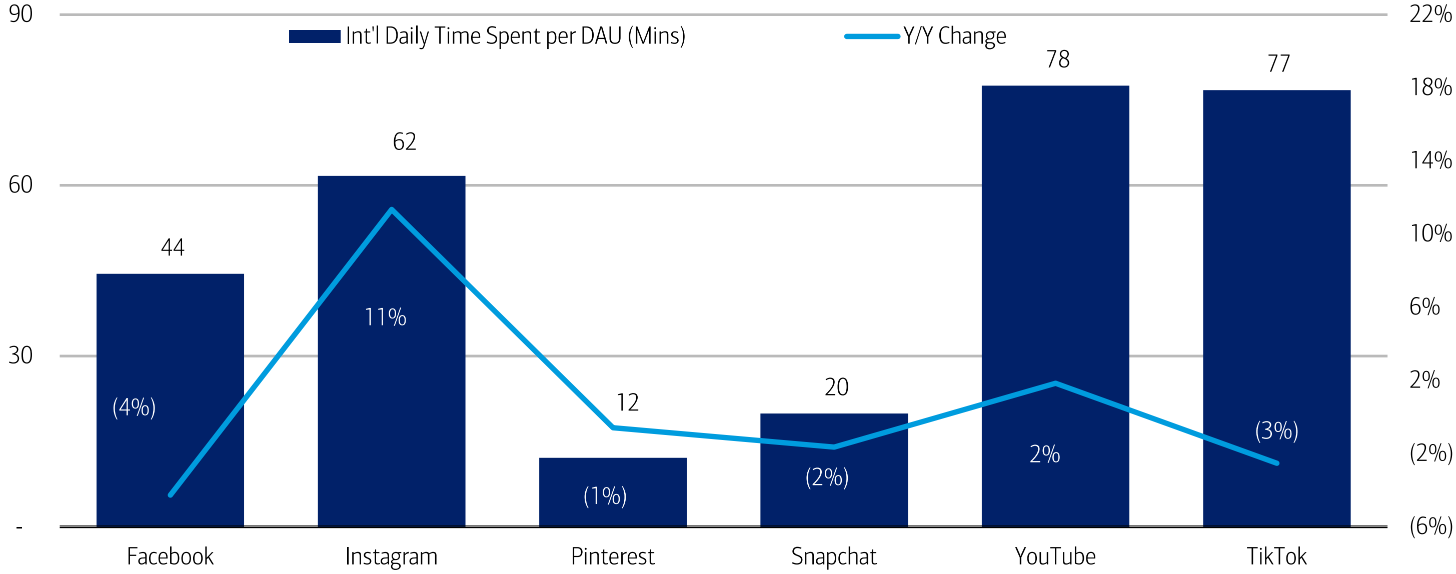
Exhibit 8: International Average Daily Time Spent per DAU Estimates (Minutes) – December 2023

TikTok remains the leader in international markets with average daily time spent per active user at 77mins (down 3% y/y).



Source: Sensor Tower and BofA Global Research

Note: Daily time spent per DAU calculated using Sensor Tower total time spent in a month estimates and monthly average DAUs estimates.

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Price objective basis & risk

Meta Platforms Inc (META)

Our $425 price objective is based on 20x 2025E GAAP EPS, plus net cash. On a total company basis, including Metaverse investments, our valuation is largely in line with S&P 500 (over the past five years Meta has had a 2pt average premium to S&P). We think accelerating revenue growth and conservative expense management can lead to 3-year EPS growth above the S&P 500.

Downside risks are decline in user activity from competition, privacy or date issues impact revenue generation, potential for Street to assign a negative value to Metaverse (Reality Labs) given significant investments, and new regulations that impact monetization.

Analyst Certification

I, Justin Post, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Internet Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Alphabet	GOOGL	GOOGL US	Justin Post
	Alphabet	GOOG	GOOG US	Justin Post
	Amazon.com	AMZN	AMZN US	Justin Post
	AppLovin	APP	APP US	Omar Dessouky, CFA
	DoorDash	DASH	DASH US	Michael McGovern
	DoubleVerify Holdings, Inc.	DV	DV US	Omar Dessouky, CFA
	Electronic Arts	EA	EA US	Omar Dessouky, CFA
	Expedia	EXPE	EXPE US	Justin Post
	Integral Ad Science Holding Corp.	IAS	IAS US	Omar Dessouky, CFA
	LegalZoom	LZ	LZ US	Michael McGovern
	Match Group	MTCH	MTCH US	Curtis Nagle, CFA
	Meta Platforms Inc	META	META US	Justin Post
	Pinterest	PINS	PINS US	Justin Post
	RH	RH	RH US	Curtis Nagle, CFA
	Roblox Corp. Class A	RBLX	RBLX US	Omar Dessouky, CFA
	Squarespace, Inc.	SQSP	SQSP US	Michael McGovern
	Uber	UBER	UBER US	Justin Post
	Udemy Inc	UDMY	UDMY US	Curtis Nagle, CFA
	Vivid Seats	SEAT	SEAT US	Curtis Nagle, CFA
	Wayfair	W	W US	Curtis Nagle, CFA
	Wix.com	WIX	WIX US	Michael McGovern
NEUTRAL				
	ACV Auctions	ACVA	ACVA US	Curtis Nagle, CFA
	Airbnb	ABNB	ABNB US	Justin Post
	Beyond Inc	BYON	BYON US	Curtis Nagle, CFA
	Booking Holdings Inc	BKNG	BKNG US	Justin Post
	Bumble	BMBL	BMBL US	Curtis Nagle, CFA
	Digital Turbine, Inc	APPS	APPS US	Omar Dessouky, CFA
	Duolingo	DUOL	DUOL US	Curtis Nagle, CFA
	eBay	EBAY	EBAY US	Justin Post
	Etsy, Inc.	ETSY	ETSY US	Curtis Nagle, CFA
	Instacart	CART	CART US	Justin Post
	Magnite, Inc.	MGNI	MGNI US	Omar Dessouky, CFA
	Snap	SNAP	SNAP US	Justin Post
	Take-Two Interactive	TTWO	TTWO US	Omar Dessouky, CFA
	Zillow	ZG	ZG US	Curtis Nagle, CFA
	Zillow	Z	Z US	Curtis Nagle, CFA

US - Internet Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
UNDERPERFORM				
	Chewy Inc	CHWY	CHWY US	Curtis Nagle, CFA
	Lyft, Inc.	LYFT	LYFT US	Michael McGovern
	Opendoor Technologies	OPEN	OPEN US	Curtis Nagle, CFA
	Peloton	PTON	PTON US	Curtis Nagle, CFA
	Playtika	PLTK	PLTK US	Omar Dessouky, CFA
	Redfin Corp	RDFN	RDFN US	Curtis Nagle, CFA
	Shutterstock	SSTK	SSTK US	Curtis Nagle, CFA

*iQ*method℠ Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5 Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A

Quality of Earnings	Numerator	Denominator
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt – Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense

Valuation Toolkit	Numerator	Denominator
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap = Current Share Price × Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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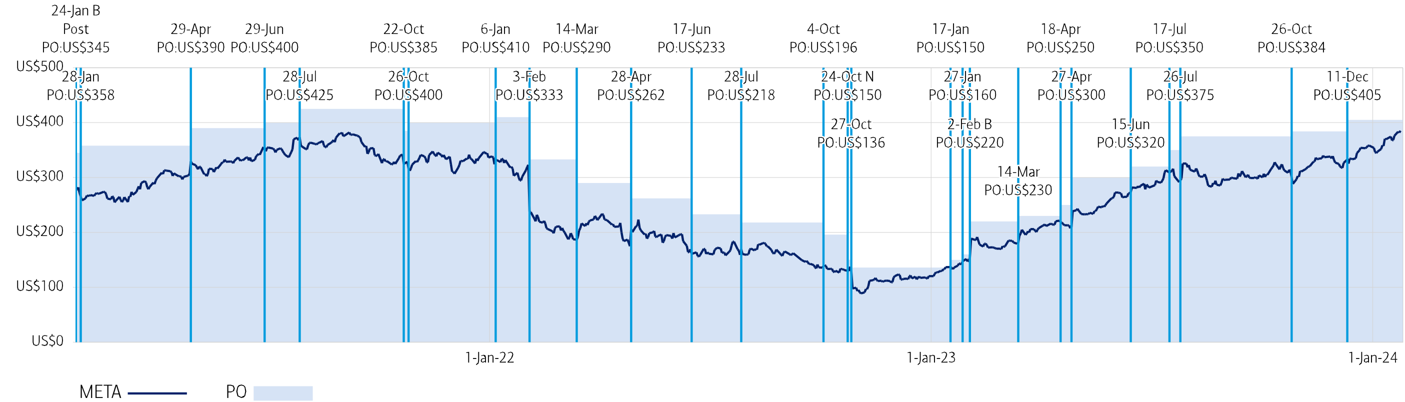
iQdatabase® is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BofA Global Research.

Disclosures

Important Disclosures

Meta Platforms (META) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Technology Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships R1	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships R1	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

[R1] Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. VOLATILITY RISK RATINGS, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. INVESTMENT RATINGS reflect the analyst's assessment of both a stock's absolute total return potential as well as its attractiveness for investment relative to other stocks within its Coverage Cluster (defined below). Our investment ratings are: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. An investment rating of 6 (No Rating) indicates that a stock is no longer trading on the basis of fundamentals. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster[R2]
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

[R2]Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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BofAS or an affiliate has received compensation from the issuer for non-investment banking services or products within the past 12 months: Meta Platforms.
The issuer is or was, within the last 12 months, a non-securities business client of BofAS and/or one or more of its affiliates: Meta Platforms.
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