

Meta Platforms Inc

Solid 4Q, even better outlook; AI capabilities driving ad improvements

Reiterate Rating: BUY | PO: 510.00 USD | Price: 394.78 USD

Strong 4Q Rev/EPS beat; 1Q outlook positive surprise

4Q revenue at \$40.1bn (+25%) was above Street at \$39bn, driven by Reels (video), Messaging, AI products/tools and the Quest 3 launch. Revenue beat flowed through, 4Q GAAP OI was \$16.4bn (vs \$15.7bn), with GAAP EPS at \$5.33 well above Street at \$4.92. MAUs at 3.1bn (+3% y/y) were slightly above Street. Big surprise was 1Q revenue guide at \$34.5-\$37bn, well above Street at \$33.4bn, suggesting acceleration on tougher comps and that the Reels, Messaging, & AI driven rev. cycle is stronger than expected.

Growing AI focus could drive positive product surprises

The call had an important focus on laying out Meta's AI goals and strategy. CEO noted plans to build: 1) advanced AI products and services for users, creators, and businesses, 2) custom in house developed AI chips, 3) new category of personal computing devices that allows frictionlessly interactions with AIs, & 4) focus on building general intelligence & open-source products to drive Meta ecosystem adoption. We believe Meta's growing AI focus could lead to positive product surprises in coming quarters & drive multiple expansion if the company can evolve into a content and business services platform (such as for content creation, branding and marketing, customer service via messaging).

Raising 2024 revenue by 6% and EPS by 16%

We are increasing our above Street estimates to reflect higher ARPU (improving ad demand & AI integrations boosting ROI) with very modest increases in costs. For 1Q'23, we raise revenue by 8% to \$36.2bn & GAAP EPS by 22% to \$4.45. For 2024, we increase revenue by 6% to \$162bn, expenses by 1% to \$97bn and EPS by 16% to \$20.99. For 2025, we raise revenue by 7% to \$182bn, expenses by 2% to \$109bn and GAAP EPS by 18% to \$24.06 from \$20.43. We are increasing 2024 capex by \$3.2bn to \$35.5bn.

Reels, Messaging & AI still early in monetization cycle

We believe Reels, Messaging, and AI driven ad improvements (content creation, measurement, etc.) are still early, and could drive further upside in 2024. Moreover, with a large capex budget, internal AI supercomputer, inhouse LLM & custom AI chips, we think Meta's AI assets are underappreciated in the stock price. We are raising our PO to \$510 (from \$425) based on higher 2025 GAAP EPS of \$24.06 (vs \$20.43 previously) and unchanged 21x multiple, plus net cash. Risks include potential disruptions from DMA & Cookie depreciation, tougher growth comps & potential slowdown in Chinese ad spend. We have increased our income rating from 9 (pays no dividend) to 7 (same/higher).

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	12.79	19.65	26.53	30.29	34.56
GAAP EPS	8.61	14.92	20.99	24.06	27.54
EPS Change (YoY)	-22.6%	53.6%	35.0%	14.2%	14.1%
Consensus EPS (Bloomberg)			17.86	20.25	23.20
DPS	0	0	(2.00)	(2.20)	(2.40)
Valuation (Dec)					
P/E	30.9x	20.1x	14.9x	13.0x	11.4x
GAAP P/E	45.9x	26.5x	18.8x	16.4x	14.3x
Dividend Yield	0%	0%	-0.5%	-0.6%	-0.6%
EV / EBITDA*	20.5x	14.2x	10.6x	9.3x	8.2x
Free Cash Flow Yield*	1.8%	4.2%	4.7%	5.5%	6.4%

* For full definitions of *IQmethod*SM measures, see page 11.

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02 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Inv. Opinion	C-1-9	C-1-7
Price Obj.	425.00	510.00
2024E Rev (m)	152,393.6	161,723.9
2025E Rev (m)	170,314.3	181,923.1
2026E Rev (m)	NA	205,132.5
2024E EPS	23.29	26.53
2025E EPS	26.30	30.29
2026E EPS	NA	34.56
2024E DPS	0	-2.00

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Stock Data

Price	394.78 USD
Price Objective	510.00 USD
Date Established	2-Feb-2024
Investment Opinion	C-1-7
52-Week Range	167.66 USD - 406.36 USD
Mkt Val (mn) / Shares Out (mn)	1,038,271 USD / 2,630.0
Free Float	99.9%
Average Daily Value (mn)	6418.44 USD
BofA Ticker / Exchange	META / NAS
Bloomberg / Reuters	META US / META.OQ
ROE (2024E)	40.4%
Net Dbt to Eqty (Dec-2023A)	-3.0%
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

DAU: Daily Active User
MAU: Monthly Active User
ARPU: Average Revenue per User
AH: After Hours

GPU: Graphic Processing Unit
OCF: Operating Cash Flows
LLaMA: Large Language Model Meta AI

iQprofileSM Meta Platforms Inc

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	22.2%	28.5%	31.4%	29.8%	28.3%
Return on Equity	27.5%	36.9%	40.4%	36.8%	33.8%
Operating Margin	36.2%	46.0%	50.8%	50.6%	50.4%
Free Cash Flow	19,119	44,068	48,856	57,511	66,501

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.5x	1.4x	1.2x	1.3x	1.3x
Asset Replacement Ratio	3.6x	2.4x	2.3x	2.1x	1.9x
Tax Rate	19.5%	17.6%	17.1%	17.1%	17.1%
Net Debt-to-Equity Ratio	9.5%	-3.0%	-11.8%	-19.9%	-26.9%
Interest Cover	NA	NA	NA	NA	NA

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	116,609	134,901	161,724	181,923	205,132
% Change	-1.1%	15.7%	19.9%	12.5%	12.8%
Gross Profit	92,128	109,840	130,799	145,681	162,830
% Change	-3.9%	19.2%	19.1%	11.4%	11.8%
EBITDA	49,982	72,376	96,851	110,459	125,538
% Change	-22.1%	44.8%	33.8%	14.1%	13.7%
Net Interest & Other Income	(126)	677	830	890	950
Net Income (Adjusted)	34,469	51,488	68,902	77,191	86,575
% Change	-26.9%	49.4%	33.8%	12.0%	12.2%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	23,199	39,097	54,522	61,293	68,987
Depreciation & Amortization	8,686	11,177	15,628	19,358	23,238
Change in Working Capital	5,682	2,437	394	1,730	1,830
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	12,908	18,402	13,806	15,526	17,446
Capital Expenditure	(31,356)	(27,045)	(35,494)	(40,396)	(45,000)
Free Cash Flow	19,119	44,068	48,856	57,511	66,501
% Change	-51.1%	130.5%	10.9%	17.7%	15.6%
Share / Issue Repurchase	0	0	0	0	0
Cost of Dividends Paid	0	0	(5,047)	(5,413)	(5,773)
Change in Debt	9,921	8,455	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	14,681	41,862	59,369	83,207	112,675
Trade Receivables	13,466	16,169	18,957	21,259	23,903
Other Current Assets	31,402	27,334	25,790	26,337	26,940
Property, Plant & Equipment	79,518	96,587	116,453	137,491	159,254
Other Non-Current Assets	46,660	47,671	47,731	47,791	47,851
Total Assets	185,727	229,623	268,300	316,085	370,622
Short-Term Debt	1,367	1,623	1,623	1,623	1,623
Other Current Liabilities	25,659	30,337	33,835	38,274	43,211
Long-Term Debt	25,224	35,611	35,611	35,611	35,611
Other Non-Current Liabilities	7,764	8,884	9,084	9,284	9,484
Total Liabilities	60,014	76,455	80,153	84,792	89,929
Total Equity	125,713	153,168	188,147	231,293	280,693
Total Equity & Liabilities	185,727	229,623	268,300	316,085	370,622

* For full definitions of iQmethodSM measures, see page 11.

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 16,258,261

Quarterly Earnings Estimates

	2023	2024
Q1	3.37A	5.63E
Q2	4.30A	6.47E
Q3	5.54A	6.64E
Q4	6.41A	7.81E

4Q'23 Summary

Meta reported 4Q total revenue of \$40.1bn (up 25% y/y, 22% ex-FX), above Street \$39.0bn with headline growth accelerating 2pts vs 3Q. Ad revenue was up 24% y/y (up 21% y/y ex-FX, unchanged vs 3Q). 4Q beat was driven by strength in eCommerce, CPG and gaming vertical, ramping Reels & messaging revenues, and FX. In 4Q, US revenue increased 19% y/y, Europe was up 34% y/y, Asia up 24% y/y and ROW was up 33% y/y. 4Q GAAP Operating Income at \$16.4bn (41% margin) was above Street estimates at \$15.7bn (40% margin) driven by flow-through of higher revenues, with GAAP EPS at \$5.33, well above Street estimates at \$4.92.

Sentiment positives from 4Q include: 1) Solid 4Q Rev/EPS beat, 2) 1Q outlook above street and suggests ex-FX acceleration, 3) Strong focus on building advanced AI products and services, 4) Rapidly growing video usage on Meta surfaces and Reels becoming tailwind to ad revenues, 4) Ad pricing inflecting to positive growth after two years of decline, 5) Strong advertiser adoption and revenue growth for Shops ads, 6) Increasing monetization of messaging assets, 7) New Stock repurchase authorization and dividend initiation, 8) 4Q RL revenues above Street driven by strong Quest 3 holiday sales. **Negatives include:** 1) Outlook for higher Capex in 2024 and future years, 2) Potential for expenses on high end of the 2024 guide with increasing infrastructure and R&D costs, 3) Growing RL losses and unchanged commentary suggesting increasing RL losses in 2024, and 4) Commentary on FTC risk.

4Q summary

In 4Q, average price per ad increased 2% y/y (vs down 6% in 3Q) driven by stronger advertiser demand, AI driven ad improvements and FX tailwinds, offset by strong impressions growth from lower monetizing surfaces. 4Q ad impressions increased 21% y/y (vs up 31% y/y in 3Q), driven mainly by Asia pacific and Rest of the world. Global ARPU increased 21% y/y (vs up 19% in 3Q) to \$13.12, above Street at \$12.70. North America ARPU was up 16% y/y (vs up 14% y/y in 3Q) and Meta generated \$227 per US user in 2023. Total MAUs at 3,065mn (up 3% y/y) were slightly above Street estimates at 3,062mn. In 4Q, US MAUs increased 1mn q/q to 272mn, Europe MAUs were flat q/q at 408mn, Asia MAUs increased 10mn q/q to 1,367mn and ROW MAUs increased 5mn q/q to 1,018mn. 4Q Daily active users (DAUs) at 2,110mn (up 5% y/y) were above Street at 2,079mn with DAU/MAU ratio improving to 69% from 68% in 3Q'23.

For 4Q, management noted continued strong advertiser demand in key segments (online commerce, CPG, & gaming) and noted online commerce and gaming verticals benefited from strong demand by Chinese advertisers to reach users in other markets. Meta also noted that Reels is now a tailwind to overall company ad revenue and highlighted healthy video usage trends on the platform. Management highlighted that sustained growth in reels and overall video category as daily watch time across all video types grew over 25% y/y in 4Q'23 driven by AI ranking improvements in feed recommendations.

Meta also highlighted that business messaging continues to grow at a healthy pace and will be a major pillar for growth in coming quarters. For 2024, Meta is focused on broadening adoption of the business messaging service by making it easier for businesses to buy marketing messages. The company is also in early testing on WhatsApp and messenger to have AI's for businesses that can provide conversational support and chat.

4Q earnings call also had an important focus on highlighting Meta's AI goals and strategy. CEO noted plans to build: 1) advanced AI products and services for users, creators and businesses, 3) custom in house chips to power AI projects, 2) new category of personal computing devices that allows frictionlessly interactions with AIs, & 4) focus on building general intelligence & open-source products to improve existing AI product and drive Meta ecosystem adoption. For 2024, Meta plans to launch of Llama 3, expand usage and adoption of Meta AI assistant and improve its AI studio to make it easier for developers to create AIs. We believe Meta's growing AI focus could lead to positive



product surprises in coming quarters and drive multiple expansion if the company can evolve into a content and business services (ad creative, messaging customer service) platform.

Meta highlighted Chinese ad spend accounted for 10% of company's overall revenue in 2023 and added 5pts of growth (~30% of Meta total growth). 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.

4Q free cash flow was \$11.8bn (\$4.5/share) and the company repurchased \$6bn of common stock, total \$20bn in 2023. Total diluted share count was down 5% y/y in 4Q (and down 4% y/y in 2023). As of Dec 31, Meta had \$31bn available for repurchases and the company announced a new \$50bn share repurchase program. Meta also initiated a quarterly dividend of \$0.5/share. Per BofA Portfolio Strategist Savita Subramanian, initiating a dividend significantly broadens a company's investor base given that equity income funds make up 40% of actively managed US equity assets under management.

Outlook Surprise

The positive surprise for the call was 1Q revenue guidance, which suggested acceleration on tougher comps and that the Reels, Messaging and AI revenue cycle could still be early. Midpoint of 4Q revenue guide at \$35.8bn (\$34.5-\$37bn range or 20-29% growth) was well above Street at \$33.7bn and suggests accelerating ex-FX growth vs 4Q despite 7pts tougher y/y comp.

Meta's 2024 expense guide was unchanged at \$94-\$99bn but with increasing AI workloads, Meta expects higher infrastructure costs in 2024 and expects payroll expenses to grow as the company resumes hiring (higher percentage of technical talent). For Capex, the company increased higher end of the guide by \$2bn to \$30bn-\$37bn (vs prior guide of \$30-\$35bn). Meta noted 2024 capex growth will be driven by investments and servers, including both non-AI and AI hardware and data centers as the company ramps up construction on sites with the new data center architecture.

Raising Estimates

We are increasing our above Street estimates to reflect higher ARPU (improving ad demand and AI integrations boosting advertiser ROI) and slightly higher expenses (growing infrastructure and R&D costs). For 1Q'23, we raise revenue estimates by 8% to \$36.2bn and GAAP EPS by 22% to \$4.45. For 2024, we increase revenue by 6% (\$9.3bn) to \$162bn, expenses by 1% (\$1bn) to \$96.8bn and increase EPS by 16% to \$20.99. For 2025, we raise revenue by 7% (\$11.6bn) to \$182bn, GAAP expenses by 2% (\$1.8bn) to \$109bn and GAAP EPS by 18% to \$24.06. We are increasing our 2024 capex estimates by \$3.2bn to \$35.5bn.

We remain positive on Meta and believe Reels, Messaging and AI revenue cycle is still in early monetization stages and could drive further upside in 2024. Moreover, with massive capex budget, internal AI supercomputer, inhouse LLM & custom AI chips, we think Meta's AI assets are underappreciated in the stock price. We are increasing our PO to \$510 (from \$425) based on higher 2025 GAAP EPS of \$24.06 (vs \$20.43 previously) and unchanged 21x multiple, plus net cash.

Risks include 1) Decelerating growth in 2H'24 could impact sentiment and limit multiple expansion, 2) Targeting loss from cookie depreciation and Android privacy changes, 3) Increasing regulatory headwinds (with potential disruption in EU operations from DMA enforcement and proposed changes by FTC to Meta's existing consent order in the US), 4) Slowing growth in Chinese ecommerce ad spend could affect growth outlook, and 5) Increased competition from eCommerce platforms.

4Q Positives:

- **4Q revenue/EPS beat:** 4Q total revenue of \$40.1bn (up 25% y/y, 22% ex-FX), was above Street at \$39.0bn with growth accelerating 2pts vs 3Q. Ad revenue was up 24% y/y (up 21% y/y ex-FX stable with 3Q). 4Q beat was driven by strength in eCommerce, CPG and gaming vertical, ramping Reels & messaging revenues, and FX. GAAP EPS at \$5.33 was also above Street estimates at \$4.92.
- **4Q Users above Street and improving retention:** 4Q daily active users (DAUs) at 2,110mn (up 5% y/y) were above Street at 2,079mn with DAU/MAU ratio improving to 69% from 68% in 3Q'23. In 4Q, US MAUs increased 1mn q/q to 272mn, Europe MAUs were flat q/q at 408mn, Asia MAUs increased 10mn q/q to 1,367mn and ROW MAUs increased 5mn q/q to 1,018mn.
- **1Q revenue outlook above Street:** Midpoint of 4Q revenue guide at \$35.8bn (\$34.5-\$37bn range or 20-29% growth) was well above Street at \$33.7bn and suggests accelerating ex-FX growth vs 4Q despite a 7pt tougher y/y comp.
- **CPMs inflect to positive growth:** In 4Q, average price per ad increased 2% y/y (vs down 6% in 3Q) driven stronger advertiser demand and FX tailwinds offset by strong impressions growth from lower monetizing surfaces. 4Q ad impressions increased 21% y/y (vs up 31% y/y in 3Q), driven mainly by Asia pacific and Rest of the world. CPMs inflected to growth after 7 consecutive quarters of decline and suggest improving advertising demand and targeting.
- **Reels and video usage growing rapidly:** Meta highlighted that Reels is now a tailwind to overall company ad revenues and advertiser adoption of the format continues to grow rapidly. Management highlighted that daily watch time across all video types grew over 25% y/y in 4Q'23 driven by AI ranking improvements in feed recommendations.
- **Growing AI products and services capabilities:** CEO noted plans to build: 1) advanced AI products and services for users, creators and businesses, 3) custom in house chips to power Meta's AI projects, 2) new category of personal computing devices that allows frictionlessly interactions with AIs, & 4) focus on building general intelligence & open-source products to improve existing AI product and drive Meta ecosystem adoption. For 2024, Meta plans to launch of Llama 3, expand usage and adoption of Meta AI assistant and improve its AI studio to make it easier for developers to create AIs.
- **Growing monetization of messaging solutions:** Management highlighted that business messaging continues to grow at a healthy pace and will be a major pillar for Meta's growth in coming quarters. The company noted that Click-to-WhatsApp ad revenue and business messaging continues to grow very rapidly and already at a multibillion-dollar annual run rate. For 2024, Meta is focused on broadening adoption of the business messaging service by making it easier for businesses to buy marketing messages. The company is also in early testing on WhatsApp and messenger to have AI for businesses that can provide conversational support and chat.
- **New Stock repurchase authorization and initiates dividend:** Meta repurchased \$6bn of common stock in 4Q, total \$20bn in 2023 and announced a new \$50bn share repurchase program. As of Dec 31, Meta had \$31bn available for repurchases and the company. The company also initiated a quarterly dividend of \$0.50/share. Per BofA Portfolio Strategist Savita Subramanian, initiating a dividend significantly broadens a company's investor base given that equity income funds make up 40% of actively managed US equity assets under management.
- **Shops Ads growing rapidly:** Meta highlighted strong advertiser traction of Shops Ads and noted the format crossed \$2bn annual run rate in 4Q'23.



- **New features gaining traction:** Management noted strong traction of Channels feature on WhatsApp, with MAUs growing to 500mn since the feature was rolled out in Sep'23. Meta also plans to introduce new features for Threads and highlighted strong engagement growth on the platform.

4Q Negatives:

- **Growing capex requirements for AI:** Meta increased high end of the 2024 capex guide by \$2bn to \$30bn-\$37bn (vs prior guide of \$30-35bn). While Meta did not provide Capex guide for future years, the company noted long term AI research and product development efforts will require growing infrastructure investments beyond 2024.
- **Potentially higher expenses:** Given increasing AI workloads, Meta expects higher infrastructure costs in 2024 and payroll expenses to grow (higher percentage of technical talent). 2024 expense guide was unchanged at \$94-\$99bn and with revenue strength expenses could end up on the high end of the guide.
- **Growing RL losses:** 4Q Reality Labs revenue at \$1,071mn (up 47% y/y) was above Street at \$812mn driven by Quest 3 holiday sales but RL losses increased to \$4.6bn with RL expenses up 14% y/y in 4Q (vs Family of Apps down 13% y/y). 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.
- **Reiterated regulatory headwinds:** Meta noted increasing legal and regulatory headwinds in the EU and the US that could significantly impact company's business model. Management highlighted that FTC is seeking to substantially modify its existing consent order and might impose additional restrictions on Meta's ability to operate. The company is contesting the matter, but if unsuccessful, it would have an adverse impact on Meta's business model.
- **Growing percentage of Chinese ad spend:** Meta highlighted Chinese ad spend accounted for 10% of company's overall revenue in 2023 and added 5pts of growth (~30% of Meta total growth). Comps on the ad ramp get increasingly tougher, starting in 2Q'24, which could slow Meta's overall ad ramp. This revenue also has risk of disruption from changes in US Tariff laws.

Actual vs Expected Results

Exhibit 1: Actual vs Street Estimates

4Q Revenue/EPS at \$40.1bn/\$5.33 was above Street at \$39.0bn/\$4.92.

	4Q'23 Actual vs Street			Actual - Street
	BofA Ests	Street Ests	Actual	
Revenues				
Ad revenue	38,036	37,978	38,706	728
Y/Y	21.7%	21.5%	23.8%	2%
Q/Q	13%	13%	15%	2%
Reality Labs revenue	928	812	1,071	259
Y/Y	27.7%	11.7%	47.3%	36%
Q/Q	342%	287%	410%	123%
Total Revenue	\$39,250	\$39,024	\$40,111	\$1,087
Y/Y	22.0%	21.3%	24.7%	3%
Q/Q	15%	14%	17%	3%
Cost of revenue	6,829	7,525	7,478	(48)
As a % of revenue	17.4%	19.3%	18.6%	(0.6%)
Gross Profit	32,420	31,581	32,633	1,053
Gross Margin	82.6%	80.9%	81.4%	0.4%
M&S	3,454	3,449	2,945	(504)
R&D	6,869	6,901	7,837	936
G&A	2,355	2,448	2,044	(404)
SBC	3,487	3,347	3,424	77
Oper. Income - GAAP	\$16,256	\$15,665	\$16,384	\$719
Margin	41.4%	40.1%	40.8%	0.7%
Oper. Income non-GAAP	20,080	19,062	20,144	1,082
Margin	51.2%	48.8%	50.2%	1.4%
GAAP EPS (Diluted)	\$5.18	\$4.92	\$5.33	\$0.41
non-GAAP EPS	\$6.31	\$6.21	\$6.41	\$0.20
EBITDA	\$22,821	\$22,131	\$22,980	\$849
Margin	58.1%	56.7%	57.3%	0.6%
Free Cash Flow	5,314	8,757	11,812	3,055
Capital expenditures	8,046	8,335	7,592	(743)
MAUs (bn)	3.06	3.06	3.07	0.00
DAUs (bn)	2.09	2.08	2.11	0.03
Total ARPU	\$12.86	\$12.74	\$13.12	\$0.38
Total ad impressions (bn)	15,554	-	15,160	
Ad pricing per 1,000 ads (est.)	\$2.45	-	\$2.58	
Headcount	68,385	66,980	67,317	337

Source: BofA Global Research estimates, company filings

Note: M&S, R&S, G&A and Cost of Revenue actual numbers are excluding estimated SBC.

BofA GLOBAL RESEARCH



Estimate Changes

We are raising our above-Street estimates to reflect higher ARPU (improving ad demand and AI integrations boosting advertiser ROI) and slightly higher expenses (we raised infrastructure and R&D costs). For 1Q'23, we raise revenue estimates by 8% to \$36.2bn and GAAP EPS by 22% to \$4.45. For 2024, we increase revenue by 6% (\$9.3bn) to \$162bn, expenses by 1% (\$1bn) to \$96.8bn and increase EPS by 16% to \$20.99. For 2025, we raise revenue by 7% (\$11.6bn) to \$182bn, GAAP expenses by 2% (\$1.8bn) to \$109bn and GAAP EPS by 18% to \$24.06. We are increasing our 2024 capex estimates by \$3.2bn to \$35.5bn.

Exhibit 2: Meta Platforms Estimate Changes (\$mn except per share data)

We are increasing our above Street 2025 GAAP EPS estimates by 18% to \$24.06 from \$20.43

	1Q'24 Estimates			2024 Estimates			2025 Estimates		
	Old	New	Change	Old	New	Change	Old	New	Change
Revenues									
Advertising revenue	32,699	35,224	2,525	148,994	157,654	8,660	166,822	177,501	10,679
Y/Y	16%	25%	9%	13%	19%	6%	12%	13%	1%
Reality Labs revenue	455	618	163	2,235	2,531	296	2,351	2,626	276
Y/Y	34%	82%	48%	27%	33%	6%	5%	4%	-1%
Total Revenue	\$33,431	\$36,212	\$2,781	\$152,394	\$161,724	\$9,330	\$170,314	\$181,923	\$11,609
Y/Y	17%	26%	10%	14%	20%	6%	12%	12%	1%
Cost of revenue	6,519	7,242	723	28,907	30,924	2,017	33,673	36,243	2,570
As a % of revenue	19.5%	20.0%	0.5%	19.0%	19.1%	0.2%	19.8%	19.9%	0.2%
Gross Profit	26,912	28,969	2,057	123,487	130,799	7,313	136,641	145,681	9,039
Gross Margin	80.5%	80.0%	-0.5%	81.0%	80.9%	-0.2%	80.2%	80.1%	-0.2%
Marketing and Sales	2,708	2,499	(209)	12,319	11,033	(1,286)	13,547	11,866	(1,681)
Research and Development	6,853	7,097	244	28,600	29,537	937	31,192	32,938	1,746
General and Administrative	2,440	2,173	(268)	10,326	9,480	(846)	11,209	10,301	(907)
SBC	3,507	3,544	37	15,588	15,806	218	17,498	17,526	28
GAAP Total Expenses incl. COGS	22,028	22,555	527	95,740	96,782	1,041	107,118	108,874	1,755
Operating Income - GAAP	\$11,403	\$13,656	\$2,253	\$56,653	\$64,942	\$8,289	\$63,196	\$73,049	\$9,853
Margin	34%	38%	4%	37%	40%	3%	37%	40%	3.0%
Operating Income non-GAAP	15,251	17,543	2,291	73,671	82,185	8,514	82,229	92,111	9,882
Margin	46%	48%	3%	48%	51%	2%	48%	51%	2%
GAAP EPS (Diluted)	\$3.64	\$4.45	\$0.81	\$18.11	\$20.99	\$2.88	\$20.43	\$24.06	\$3.63
non-GAAP EPS	\$4.81	\$5.63	\$0.82	\$23.29	\$26.53	\$3.23	\$26.30	\$30.29	\$3.99
EBITDA	\$18,218	\$20,772	\$2,554	\$86,813	\$96,376	\$9,563	\$98,996	\$109,933	\$10,937
Margin	54.5%	57.4%	2.9%	57.0%	59.6%	2.6%	58.1%	60.4%	2.3%
FCF	7,226	6,635	(591)	43,026	48,856	5,829	50,408	57,511	7,103
Capital Expenditures	8,023	8,510	486	32,222	35,494	3,272	35,714	40,396	4,682
Headcount	70,885	68,717	(2,168)	78,585	73,417	(5,168)	87,085	80,217	(6,868)
Diluted Shares	2,635	2,617	(18)	2,623	2,598	(26)	2,591	2,548	(43)
MAUs	3,076	3,080	4	3,127	3,132	5	3,185	3,193	8
DAUs	2,095	2,120	26	2,129	2,156	27	2,159	2,198	39
Total ARPU (ads and games)	\$10.91	\$11.79	\$0.88	\$49.30	\$52.19	\$2.89	\$53.97	\$57.53	\$3.56
Advertising ARPU	\$10.67	\$11.46	\$0.80	\$48.20	\$50.88	\$2.68	\$52.86	\$56.13	\$3.27
Ad Impressions	1,685	1,639	(46)	1,925	1,839	(86)	2,100	2,014	(86)
Ad pricing per thousand ads	\$2.11	\$2.33	\$0.22	\$2.13	\$2.31	\$0.18	\$2.10	\$2.32	\$0.23

Source: BofA Global Research Estimates

BofA GLOBAL RESEARCH

Valuation

We are increasing our PO to \$510 (from \$425) based on higher 2025 GAAP EPS of \$24.06 (vs \$20.43 previously) and unchanged 21x multiple, plus net cash. Using AH stock price of ~\$456, Meta is currently trading at 19x our revised 2025 GAAP EPS estimate (18x ex-cash). On a Price/FCF basis, the stock is trading at 21x our 2025 estimate. Finally, excluding Metaverse investments the stock is trading at 15x P/E (vs S&P at 18x).

Exhibit 3: Meta Sum of the Parts Analysis

Using AH stock price of ~\$456, Meta is currently trading at 19x our revised 2025 GAAP EPS estimate (or 18x ex-cash).

2025E Sum of Parts P/E

\$mn, except per share data

		Comments
After Hours Stock Price	\$456.00	
+ Net Cash (YE'23)	\$47,018	
+ Facebook Reality Labs	\$0	Taking a conservative view, we assume no value for Reality Labs
Total Adjustments	\$47,018	
Diluted shares	2,641	
Total Adjustments per share	\$17.80	
Adjusted stock price for cash	\$438.20	
2025E non-GAAP EPS	\$30.29	
FB core Adjusted non-GAAP EPS (ex-Facebook Reality Labs)	\$36.35	Adding back \$18bn in losses and assuming a 18% tax rate
2025E GAAP EPS	\$24.06	
FB core Adjusted GAAP EPS (ex-Facebook Reality Labs)	\$30.11	Adding back \$18bn in losses and assuming a 18% tax rate
2025 FCF/Share	\$21.78	
Current GAAP 2025E P/E	19x	
Core FB Adjusted GAAP 2025E P/E	15x	
Current GAAP 2025E ex-cash P/E	18x	
Price/FCF	21x	

Source: BofA Global Research estimates

BofA GLOBAL RESEARCH



Price objective basis & risk

Meta Platforms Inc (META)

Our \$510 price objective is based on 21x 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 data 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

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
EV = Current Share Price × Current Shares + Minority Equity + Net Debt +
Other LT Liabilities
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales

Basic EBIT + Depreciation + Amortization

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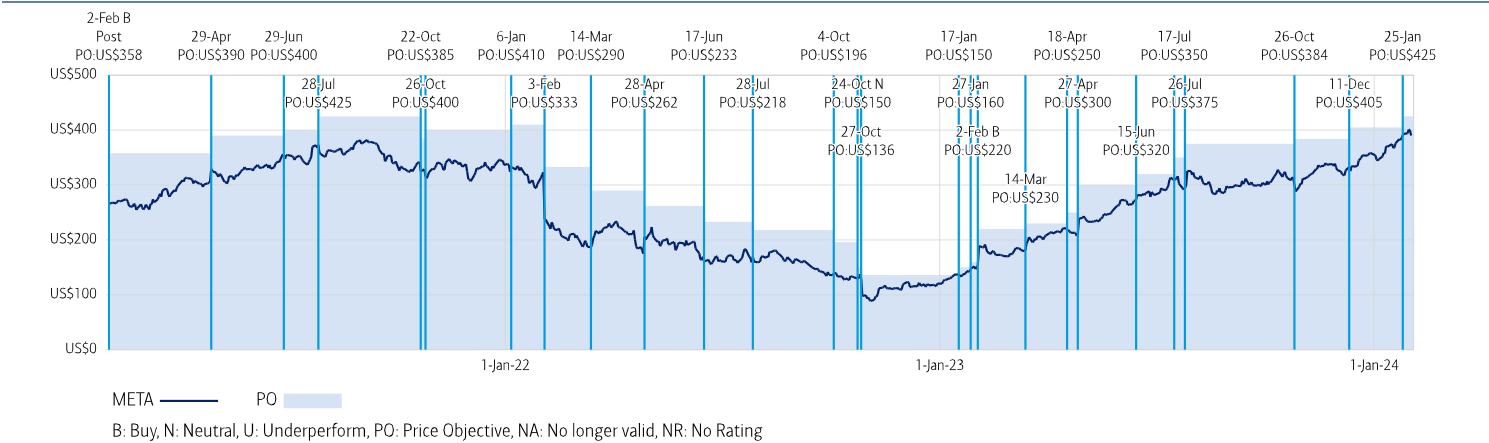
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Important Disclosures

Meta Platforms (META) Price Chart



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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.

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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%

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