

Meta Platforms Inc

4Q quick preview post Alphabet results

Maintain Rating: BUY | PO: 425.00 USD | Price: 400.06 USD

Still see potential for 4Q upside on Reels & AI momentum

Reports on 2/1. We estimate 4Q revenue at \$39.3bn (up 22% y/y), above Street at \$39.0bn and think 24% growth (towards high end of revenue guide) is possible. We estimate EBITDA of \$22.8bn (vs Street at \$22.1bn) & EPS at \$5.18 (vs Street \$4.89). Ad checks have been positive on Reels momentum and AI benefits, and YouTube reported a 4pt q/q headline acceleration in y/y growth (3pts q/q unrounded), which supports our view that Street estimates for modest q/q rev. deceleration have upside. For Global DAUs, we expect 2,089mn vs Street at 2,079mn. Recent Instagram traffic data has been strong while Facebook has been soft, and we see modest risk that US MAUs are flat q/q based on traffic data (family of apps data could be more positive). FX has been positive since Meta reported on 10/25, with Euro/Pound up 2-3% (on avg) vs the US\$. For more on our 2024 Meta stock outlook and thesis, see our report [2024 Meta PM Outlook](#).

Potential call positives and negatives

Assuming Meta adds some conservatism in 1Q outlook given still evolving macro & geopolitical landscape, we expect revenue guide of \$32.0-\$34.5bn (vs Street \$33.6bn), and unchanged expense outlook at \$94-99bn for 2024. 4Q positives could include: 1) Upside to Street at high end of Meta's 1Q revenue outlook, 2) Evidence of accelerating Reels and messaging monetization ramp (which are still early), 3) Strong Instagram usage aided by AI, and 4) commentary suggesting new AI opportunities in 2024. Call risks include: 1) high Street expectations for 1Q revenue and 2024 EPS upside, 2) Caution on potential disruption from DMA or Google Cookie changes, 3) commentary suggesting revenue deceleration in 2H, 4) higher AI-related capex investments, and 5) Modest Quest 3 sales suggested in RL revenues, driving more Metaverse questions.

Remain positive with multiple tailwinds in 2024; Buy

For 2024, we remain constructive on Meta and see multiple tailwinds aiding stock, including: 1) Reels and messaging still early in monetization cycle with upside potential, 2) New AI/ML integrations likely to boost usage and ad spend, 3) greater visibility on new products built on Meta's AI assets (bots, enterprise services, etc.) and 4) Attractive core valuation at 14x P/E excluding Metaverse losses (vs S&P 18x). We think Meta's strong AI assets could lead to positive product surprises and revenue momentum in 2024. Maintain Buy.

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)			14.90	17.85	20.25
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	24.2x	31.3x	20.5x	17.2x	15.2x
GAAP P/E	29.0x	46.5x	27.1x	22.1x	19.6x
EV / EBITDA*	16.6x	21.3x	14.7x	12.2x	10.7x
Free Cash Flow Yield*	3.7%	1.8%	3.6%	4.1%	4.8%

* For full definitions of *IQmethod*SM measures, see page 12.

31 January 2024

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Stock Data

Price	400.06 USD
Price Objective	425.00 USD
Date Established	25-Jan-2024
Investment Opinion	C-1-9
52-Week Range	147.06 USD - 406.36 USD
Mrkt Val (mn) / Shares Out (mn)	1,056,558 USD / 2,641.0
Free Float	99.9%
Average Daily Value (mn)	6529.02 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 TM	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
DMA: Digital Markets Act
CAGR: Compound Annual Growth Rate
DAU: Daily Active User
MAU: Monthly Active User
ARPU: Average Revenue per User
RL: Reality Labs
IG: Instagram
HC: Headcount
NT: Near-term
FB: Facebook
FX: Foreign Exchange
AI: Artificial Intelligence
ML: Machine Learning
Gen-AI: Generative AI
FCF: Free cash flow
RL: Reality Labs

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Timestamp: 31 January 2024 01:56AM EST

iQprofileSM Meta Platforms Inc

iQmethodSM – 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

iQmethodSM – 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 iQmethodSM measures, see page 12.

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

16,287,023

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

4Q'23 Preview Summary

Meta reports on 2/1. We estimate 4Q revenue at \$39.3bn (up 22% y/y) above Street at \$38.9bn, with 2pts FX tailwind (vs 2.3pt tailwind in 3Q). We expect advertising revenue to grow 22% y/y (up 13% q/q) to \$38.0bn (vs Street at \$37.9bn), decelerating 2pts q/q on 1pts tough y/y comp. For 4Q, we estimate EBITDA at \$22.8bn and EPS at \$5.18, above Street at \$21.9bn and \$4.89 respectively. Our FY23 GAAP expense estimate at \$95.7bn is at the lower end of the full year guidance of \$94-\$99bn (mid \$96.5bn).

Post Alphabet results, we continue to think Meta will likely to report total revenue at the upper end of its 4Q revenue guidance range (\$36.5-\$40.0bn) and meet/beat Street estimates. We think YouTube is a better read for Meta's ad revenues than Google search, and the 4pt acceleration in YouTube y/y ad growth in 4Q is a slightly positive read for Meta (Street estimates Meta's ad growth at 21% in 4Q, a 3pt deceleration vs 3Q at 24%). Alphabet management highlighted that strong YouTube growth in 4Q was driven by both direct response and brand.

For 1Q'24, we estimate revenue growth of 17% y/y to \$33.4bn (slightly below Street at \$33.6bn), 5pt q/q deceleration on 7pt tougher y/y comp. We assume 1pts FX headwind in 1Q'24 vs 2pts tailwind in 4Q'23 and think FX could be neutral to positive. We estimate 1Q'23 EBITDA at \$18.2bn and EPS at \$3.64, above Street at \$18.0bn and \$3.56 respectively. Assuming Meta adds some conservatism in 1Q outlook given still evolving macro and geopolitical landscape, we expect 1Q revenue guidance in the range of \$32.0-\$34.5bn (vs Street at \$33.6bn).

Our recent channel checks suggest that overall digital ad spending in 4Q'23 was slightly better than initial expectations and early 1Q'24 trends are encouraging as clients have been more proactive in deploying budgets in early Jan compared to hesitancy and delays last year. For Meta, Reels, Click-to-messaging, Shops in eCommerce and AI integrations continue to be major driver of growth, and auto creation of video advertising could open Reels ad format to more advertisers in 2024. New AI features such as auto creation of copy writing and advertising videos are driving higher ROI and opening new platforms for SMB advertisers, driving incremental ad spend on Meta.

For users, Sensor Tower data suggests stable user and healthy time spent trends for Instagram and stable trends for Facebook, likely reflecting continued Reels traction. Per Sensor Tower, FB's global DAUs were up 2% y/y in 4Q'23 with US DAUs down 1% y/y and Int'l DAUs up 3% y/y. Instagram's global DAUs were up 8% y/y in 4Q23 with US DAUs down 2% y/y and Int'l DAUs up 9% y/y. For 4Q'23, we estimate Meta total MAUs to grow 3% y/y (up 0.2% q/q) to 3,055mn (vs Street at 3,062mn), and daily active users to grow 4% y/y to 2,089mn, slightly above Street estimates at 2,079mn.

We think positives from the quarter could include better-than-expected 1Q'24 outlook, suggesting improving advertiser sentiment, strong usage traction for Reels, an accelerating Reels and messaging monetization ramp, Advantage+ products (and AI/ML integrations) driving higher advertiser ROI and incremental ad spend, and strong traction of new generative AI integrations and features. Risks include warnings on potential disruption in EU operations from DMA gatekeeper obligations, commentary indicating potential signal loss from Chrome cookies phase out, new generative AI capex investments weighing on FCF outlook, RL revenues suggesting limited Metaverse traction (and growing anticipation of the Apple Vision Pro).

On the 4Q earnings call, we expect questions on:

- 1) Key drivers of 1Q revenue outlook, including Reels and Advantage + adoption
- 2) Initial traction and topline impact from ad free offering in the EU,
- 3) Potential impact of Digital Markets Act on ad targeting,
- 4) Early thoughts on the impact from 1% cookies phase out,



- 5) Progress on messaging monetization,
- 6) Possible impact from Generative AI and advertiser agents,
- 7) Outlook for Generative AI capex spending,
- 8) Revenue benefit in 4Q from Chinese eCommerce advertisers,
- 9) Threads usage trends and monetization timeline & potential, and
- 10) Quest 3 headset sales since launch

4Q'23 Key Metrics and Data Update

Exhibit 1: 4Q'23 Key Metrics (\$mn except per share basis)

We are above Street for 4Q'23 Revenue and EPS estimates.

Metric	BofA Ests.	Consensus	Comments
Total Revenue	\$39,250	\$38,875	We estimate 22% y/y growth (or 15% q/q increase) and are above Street estimates
Advertising revenue	\$38,036	\$37,860	Our estimate represents 22% y/y growth or 20% y/y growth ex-FX vs +21% y/y growth ex-FX in 3Q'23
Reality Labs revenue	\$928	\$810	We expect 28% y/y growth and are above Street estimates
MAUs (mn)	3,055	3,062	Expecting 6mn adds in 4Q (vs. 19mn add in 3Q'23), and total MAUs up 3% y/y
DAUs (mn)	2,089	2,079	Our DAUs estimates represent 68% of MAUs, a ratio similar to 3Q'23
Total ARPU	\$12.86	\$12.70	Expecting 18% y/y growth or 14% q/q increase
Ad impressions growth	24%	-	Ad impressions were up 31% y/y (down 3% q/q) in 3Q, and we estimate +24% y/y growth (down 1% q/q) in 4Q'23
Avg. price per thousand ad	\$2.45	-	Our estimate is down 3% y/y (or up 15% q/q) in 4Q'23 vs down 6% y/y (up 10% q/q) in 3Q'23
GAAP Opex	\$16,165	-	We estimate GAAP Opex to be up 12% q/q (vs up 6% in 4Q'22); We assume Opex down \$1.8bn q/q
EBITDA (ex. SBC)	\$22,821	\$21,907	We estimate EBITDA margins at 58.4% vs 59.2% in 3Q'23 and 36.9% in 4Q'22
GAAP EPS	\$5.18	\$4.89	We are above Street for GAAP EPS estimates
Capital expenditures	\$8,046	\$8,275	Represents 21% of revenue vs 19% in 3Q'23 and 28% in 4Q'22
Free cash flow (mn)	\$5,314	\$8,304	We are below Street for 4Q'23 FCF estimates

Source: BofA Global Research, Visible Alpha

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Estimates vs Consensus

We estimate 4Q'23 Rev/EBITDA of \$39.3bn/\$22.8bn vs Street at \$38.9bn/\$21.9bn. We estimate \$5.18 in 4Q GAAP EPS, above Street at \$4.89. For 1Q'24, we estimate Rev/EBITDA of \$33.4bn/\$18.2bn vs Street at \$33.6bn/\$18.0bn and EPS of \$3.64 vs Street at \$3.56. In 1Q'24, we estimate ad revenue up 16% y/y (up 17% y/y ex-FX), a 5pts deceleration vs 4Q'23 on 8pts tougher y/y comp.

Exhibit 2: Meta Platforms Estimate Summary

We are above Street for 2024 revenue and EPS estimates.

	4Q23	1Q24	2024	2025
Total Revenue				
BofA Ests.	\$39,250	\$33,431	\$152,394	\$170,314
Y/Y (%)	22.0%	16.7%	13.7%	11.8%
Street Ests.	\$38,875	\$33,604	\$150,978	\$167,551
Y/Y (%)	20.9%	17.3%	12.6%	9.9%
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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Social media engagement 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%)

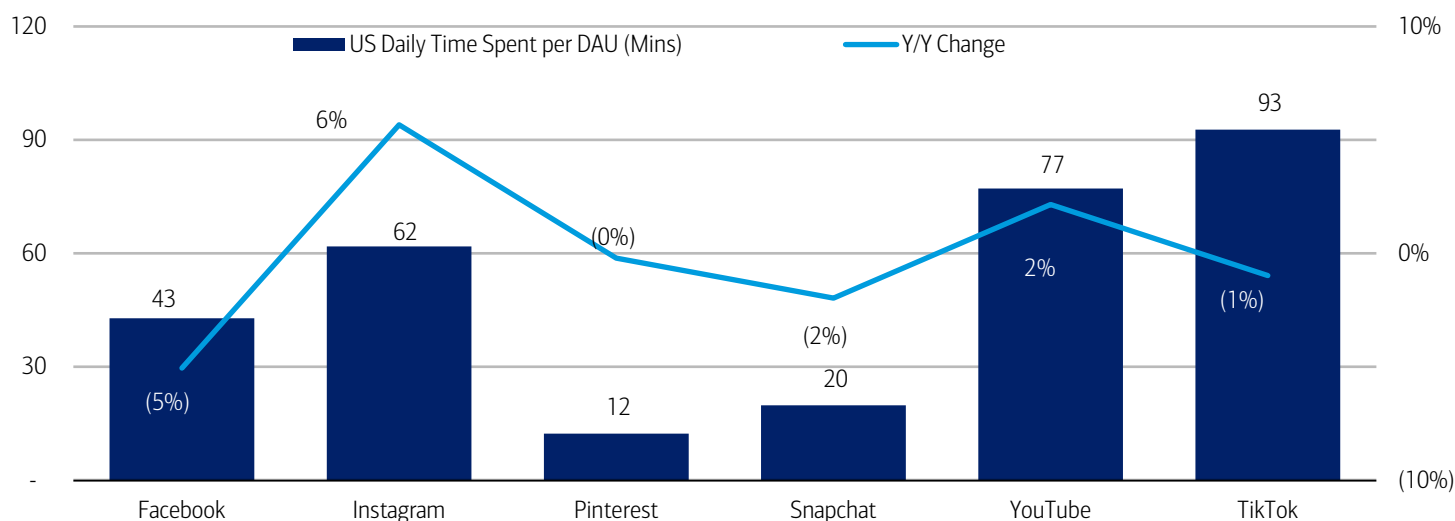
Source: Sensor Tower and BofA Global Research

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%

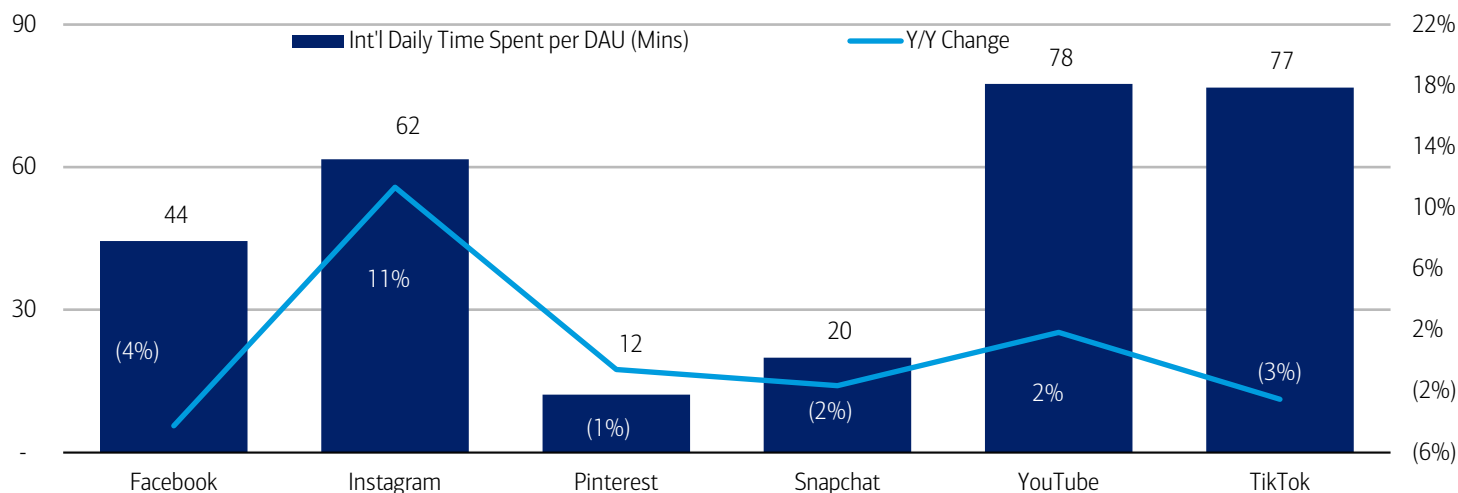
Source: Sensor Tower and BofA Global Research

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.

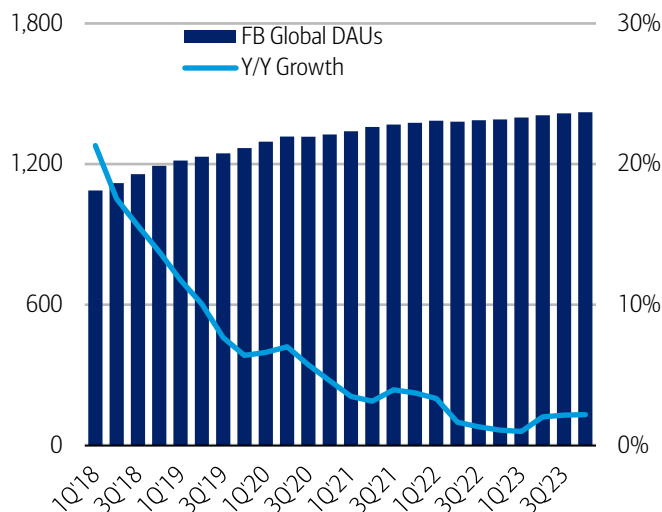
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User Trends

Per Sensor Tower, FB's global DAUs were up 2% y/y (up 0.3% q/q) in 4Q23. US DAUs were down 1% y/y (down 0.1% q/q) and Int'l DAUs were up 3% y/y (up 0.4% q/q). Instagram's global DAUs were up 8% y/y (up 1% q/q) in 4Q23. US DAUs were down 2% y/y (down 1% q/q) and Int'l DAUs were up 9% y/y (up 1% q/q).

Exhibit 3: Facebook Global DAU Trend (mn, %)

Facebook global DAUs were up 2% y/y in 4Q'23.

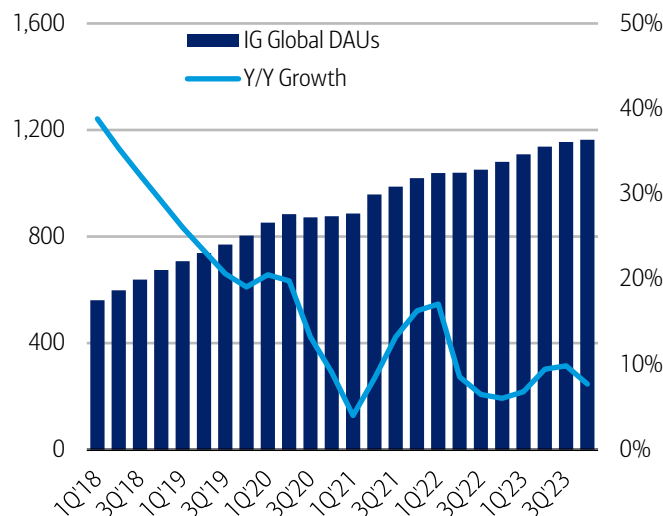


Source: Sensor Tower

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Exhibit 4: Instagram Global DAU Trend (mn, %)

Instagram global DAUs were up 8% y/y in 4Q'23.



Source: Sensor Tower

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Currency Update

In 3Q'23, Meta generated 44% of revenue in US/Canada, 23% in Europe, 20% in Asia, and 12% in RoW, and has exposure to the Euro, GBP, Yen, and Australian dollar, among others. Since Meta reported 3Q on 10/25, the Euro/US\$ rate has moved from \$1.06 to \$1.08, the UK Pound/US\$ rate has moved from \$1.22 to \$1.27, and the Yen has moved from \$0.0067 to \$0.0068. On a Y/Y basis, for 4Q23, the Euro was up 5% vs the US\$, the GBP was up 6%, the Yen was down 4%, and other currencies in the basket we track were up 2%. For total revenue, our model assumes a 2pt FX tailwind in 4Q23 & 1pt headwind in 1Q24, and we think our 4Q estimate is consistent with y/y changes in FX below. However, our 1Q model could have upside given US\$ depreciation vs the Euro and Pound since late October.

Exhibit 5: Expected Y/Y % change in spot rates based on current rates

For 4Q, we estimate 2pts FX tailwind.

	Y/Y Change			
	<u>Euro</u>	<u>GBP</u>	<u>Yen</u>	<u>Other</u>
3Q22	(14%)	(13%)	(19%)	(4%)
4Q22	(11%)	(13%)	(20%)	(6%)
1Q23	(4%)	(9%)	(12%)	(4%)
2Q23	2%	(1%)	(6%)	(1%)
3Q23	7%	5%	(6%)	0%
4Q23	5%	6%	(4%)	2%
1Q24E	2%	5%	(9%)	2%
2Q24E	0%	2%	(6%)	1%
3Q24E	0%	0%	(1%)	2%

Source: Bloomberg; *Other includes the following: Asian (KRW, AUD, HKD, INR, CNY), Europe (SEK, CHF)

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Valuation

Using the current stock price of ~\$400, Meta is currently trading at 20x our 2025 GAAP EPS estimate (or 19x ex-cash). On Price/FCF basis, the stock is trading at 21x. However, if we back out \$18bn in estimated 2025 Metaverse losses, we get to an adjusted valuation at 15x 2025 GAAP earnings (vs S&P at 18x).

Exhibit 6: Meta sum-of-the-parts analysis

Meta is currently trading at 20x our 2024 GAAP EPS estimate (19x ex-cash).

2025E Sum of Parts P/E

\$mn, except per share data

Stock Price	\$400.00	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	\$383.53	
2025E non-GAAP EPS	\$26.30	
FB core Adjusted non-GAAP EPS (ex-Facebook Reality Labs)	\$31.97	Adding back \$18bn 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 \$18bn in losses and assuming a 18% tax rate
2025 FCF/Share	\$19.09	
Current GAAP 2025E P/E	20x	
Core FB Adjusted GAAP 2025E P/E	15x	
Current GAAP 2025E ex-cash P/E	19x	
Price/FCF	21x	

Source: BofA Global Research

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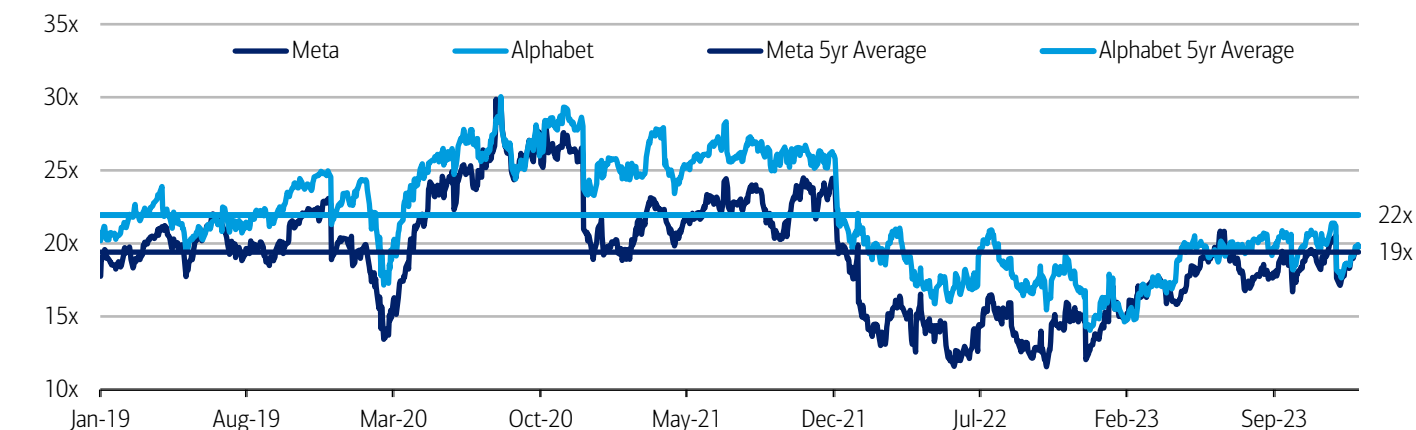
Current vs historical averages

2yr Forward GAAP P/E Multiple

On 2yr forward GAAP PE basis, Meta and Alphabet are currently trading at 20x Street estimates. Meta's is trading in line with its 5yr historical average of 19x while Alphabet's is trading at 10% below its 5yr average of 22x.

Exhibit 7: 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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4Q'23 Product News

Mark Zuckerberg provides commentary on AI plans for Meta

In January, CEO Mark Zuckerberg provided an overview of his AI plans for Meta in a post on Threads. He highlighted that Meta will be increasing its investment in hardware, which will include building a massive tech stack, arguably larger than any other individual company. Meta is also training a more advanced LLM, Llama 3 that will have code-generating capabilities. He said, "With Llama 3 and beyond, our ambition is to build things that are at the state of the art and eventually the leading models in the industry." He highlighted that the next stage of AI development for Meta would involve increased creative capacity through AI interaction, including, potentially, the ability to create whole new VR environments, by simply speaking to them into existence. He mentioned that he sees a future in which virtual worlds are generated by AI and filled with AI characters that accompany real people. He also suggested a new platform is coming this year to let anyone create their own AI characters and distribute them across Meta's social apps. *Our Take: Commentary suggests potential for higher capex guide on 4Q call.*

Ad-free subscription service for EU users

In Nov'23, Meta launched a monthly ad-free plan for Facebook and Instagram users in the EU. The company is charging €10/month (~\$10.5) on desktop for Facebook or Instagram account. On mobile devices, the company charges €13/month (~\$13.6), factoring in the commission charged by app stores. The subscription fee initially covers all linked accounts in a user's Account Center but Meta plans to charge an additional €6/month for each additional account starting March 1, 2024. Meta's proposal follows a July ruling by Court of Justice of the European Union (CJEU) requiring the company to obtain user consent for personal data access. Subscription rollout could also have been influenced by impending DMA, which is set to take effect in March 2024 and imposes new legal obligations on companies on the collection and use of personal data for advertising purposes. See our note: [Proposes ad-free subscription service for EU users](#).

Testing new Gen-AI features

In Dec, Meta announced it is testing more than 20 new Gen-AI features related to search, chat and messaging to enhance user experience and enable deeper AI integration across its apps. A large number of new features will make Meta AI personal assistant and text-to-image generating capabilities more embedded within the Meta ecosystem. Meta is also adding real-time search capability to more of its My AI chatbots. At the time of launch, only 2 of the AIs (Bru and Perry), had functionality to serve real-time search responses (powered through Bing). Meta has added this functionality to six other chatbots (Luiz, Coco, Lorena, Tamika, Izzy and Jade). In addition, Meta is experimenting a long-term memory feature, so that AIs can include context from a user's previous conversations. To improve search results with video suggestions, Meta is also rolling out Reels in Meta AI chats. For example, if a user is planning a trip to San Francisco, they can ask Meta AI to recommend the best places to visit and share Reels of the top sites to help decide which attractions are must-sees.

New features on Messenger and end-to end encryption

In Dec'23, Meta announced that it will roll out default end-to-end encryption for personal messages and calls on Messenger and Facebook. The end-to-end encryption feature has been available on Messenger since 2016, but now the company is setting this feature by default. Meanwhile, Meta released several new features on Messenger: 1) users now can edit sent messages for up to 15 minutes after the messages were sent, 2) Users can turn on Disappearing messages, where the messages will be deleted 24 hours after being sent, 3) users can now decide whether others to see when users have read their messages, 4) Meta upgraded the image quality, and released more controls that users can reply or react to photo or video, and 5) users now can play voice messages at 1.5x or 2x speeds.



New ways for creators to monetize on Instagram and Facebook

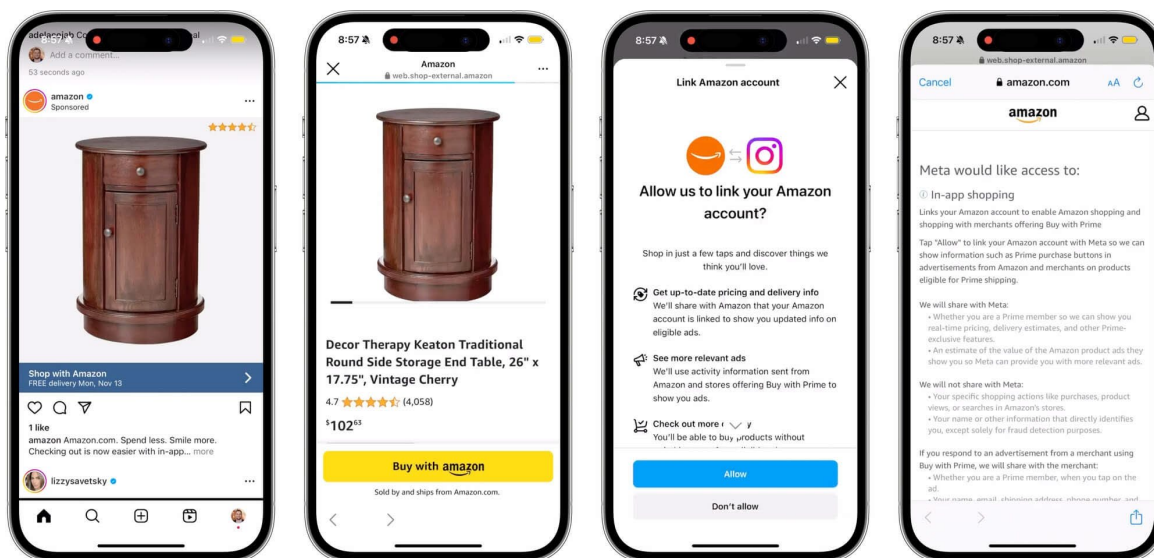
In Nov, Meta introduced new ways for the creators on IG and FB monetize content. The company was testing an invite-only holiday bonus that rewards creators for Reels play and photo views, which lasted until the end of 2023. Meanwhile, the company introduced new promotional tools including surfacing and Subscribe button when followers see contents in Feed, which will make it easier for the creators to receive more subscriptions. Meta also added a new feature, “Instagram Gifts”, where users can now send Stars and share virtual gifts directly in IG app to the creators. The company also made it easier for creators to participate in ads through the “Allow brand partner to boost” feature.

Meta partners with Amazon for social commerce

In Nov'23, Amazon and Meta announced partnership partnering to give users on Facebook and Instagram the ability to link their Amazon accounts and shop from promoted Amazon ads without leaving the respective apps. With the new partnership, US users will be able to see real-time pricing, Prime eligibility, delivery time estimates, and product details on FB & IG. Meta and Amazon did not share revenue sharing details on the partnership. The collaboration could be important for Meta for two reasons: 1) will add more ad volumes from the leading Online retailer and 2) will accelerate Meta's on-platform shopping capabilities, tapping into a large social commerce TAM.

Exhibit 9: Amazon – Meta Partnership

Facebook and Instagram users can link their Amazon accounts and shop from promoted Amazon ads without leaving Meta apps.



Source: Company Website

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Introduced Broadcast Channels on Facebook and Messenger

In Oct, Meta announced a new feature, broadcast channels for Facebook and messenger. Broadcast channels are a public, one-to-many messaging tool for Pages on Facebook where the Page admins such as creators can use to directly reach and engage with communities. Admins of Pages can also use broadcast channel features like polls to get feedback from communities. The users now can join the broadcast channels to follow their preferred pages.

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 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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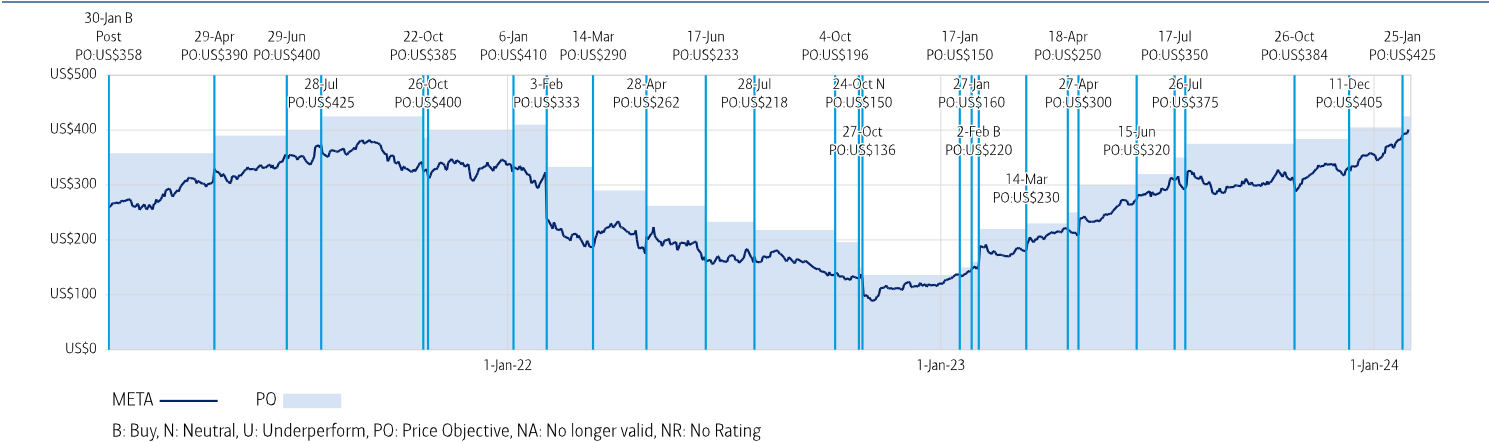
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Important Disclosures

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%

^{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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