

Equity Research

WELLS
FARGO

Price Target Change — October 1, 2024

Internet

Meta Platforms, Inc. (META)
3Q:24 EPS Preview: Expect Continued Strength

Our Call

See another robust quarter and solid fwd quarter guide, but unlikely to materially alter our above-consensus '25 EPS estimate of \$27+. Stock increasingly viewed as AI winner but likely range bound until '25 OpEx/CapEx guide on 4Q:24 EPS call.

Maintain above-consensus 3Q constant fx (cc) ad growth at +21% y/y on positive checks and expect total rev near HE of guide (\$38.5-41B / WFS_e \$40.7B). Our 3Q forecast implies 2pts cc decel on 9pts tougher comp. Modestly tweak reported revenue growth by +32/38/110bps for 3Q/4Q/FY25 primarily on FX and est. -160bps FX headwind in 3Q (vs. -200bps guide). We also modestly increase FY24/25 total OpEx forecast on weaker USD to \$97.2B/\$110.5B (vs. \$97.0/\$109.6B prior), respectively.

See 4Q rev guide at \$45-47.5B (vs. WFS_e \$47.2B), implying +13% to 19% cc growth (2-8pts decel on 1pt tougher comp). Expect Meta to narrow FY24 OpEx & CapEx range to \$96-98B (vs. \$96-99B prior) & \$38-40B (vs. \$37-40B prior), respectively. Slightly reduce our 4Q CapEx ests. to \$12.7B (vs. \$13.2B prior) on [press reports](#) of delivery delay of new Nvidia AI chips (originally planned ship in late '24). Not expecting further comments on '25 CapEx on the call, but watching for clues around hiring plans.

Modestly raise our above-consensus '25 EPS by 1% to \$27.63 and expect OI margin to expand by ~170bps in '25. Key, in our view, is the scope for cont'd margin expansion in '25 despite aggressive investment in AI capabilities. See HE of expected 4Q:24 guide as strong indicator of '25 revenue growth, likely supportive of our ~17% forecast. Forecast '25 expenses rising roughly 14%, suggesting margin expansion in '25 is likely even w/ some potential modest forecasting error on revenue and OpEx.

Other 3Q Keys:

- BKNG recently highlighted positive ROI inflection on social. [Analysis](#) suggests Meta gaining share in travel vertical. Believe Advantage+ has unlocked another ad vertical for Meta.
- Looking for clues around **'25 RL losses**. While [cancellation of high-end mixed-reality headset](#) and recent remarks by CEO Mark Zuckerberg (*'With Orion, getting closer to achieving the dream of Reality Labs'*) could indicate moderation of RL dev. costs, view release of new budget Quest 3S as pot'l offset.

Estimates, Valuation & PT: Raise FY24 / 25 revenue growth to 21.1% / 17.1% (vs. 20.9% / 16.0% prior), and modestly increase FY24 / 25 OpEx by 30bps / 90bps to \$97.2B / \$110.5B (vs. \$97.0B / \$109.6B prior), respectively, primarily driven by intra-qr FX moves. Updated FY24 / 25 GAAP EPS \$22.47 / \$27.63 (vs. \$22.51 / \$27.39 prior). Reiterate OW and increase PT to \$652 (+\$5) on 20x (unch.) est. '26E EPS. Updated PT implies 15.5X P/E on '26 core EPS, when capitalizing FRL losses at 10X.

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Rating	Overweight
Ticker	META
Price Target/Prior:	\$652.00/\$647.00
Upside/(Downside) to Target	13.1%
Price (10/01/2024)	\$576.47
52 Week Range	\$279.40 - 583.04
Shares Outstanding (MM)	2,629
Market Cap (MM)	\$1,515,540
Enterprise Value (MM)	\$1,504,453
Average Daily Volume	14,006,574
Average Daily Value (MM)	\$8,074
Dividend (NTM)	\$0.00
Dividend Yield	0.0%
Net Debt (MM) - last reported	\$(17,228)
ROIC - Current year est.	26%
3 Yr EPS CAGR from current year (unless otherwise noted)	18%

\$	2023A	2024E	2024E	2025E	2025E
EPS		Curr.	Prior	Curr.	Prior
Q1 (Mar)	2.20 A	4.71 A	NC	-	NC
Q2 (Jun)	2.98 A	5.16 A	NC	-	NC
Q3 (Sep)	4.39 A	5.64 E	NC	-	NC
Q4 (Dec)	5.33 A	7.00 E	7.04E	-	NC
FY	14.47 A	22.47 E	22.51E	27.63 E	27.39E
P/E	39.8x	25.7x		20.9x	

Source: Company Data, Wells Fargo Securities estimates, and Factset.
NA = Not Available, NC = No Change, NE = No Estimate

Wells Fargo Express Takeaways

Meta Platforms, Inc. (META) | Rating: Overweight | Price Target: \$652.00

Analyst: Ken Gawrelski

Financials

FY (Dec)	2023A	2024E	2025E
\$			
ESTIMATES			
EPS			
Q1	2.20 A	4.71 A	-
Q2	2.98 A	5.16 A	-
Q3	4.39 A	5.64 E	-
Q4	5.33 A	7.00 E	-
AN	14.47 A	22.47 E	27.63 E
Rev. (MM)	134,901.0 A	163,418.0 E	191,300.0 E
EBIT (MM)	46,751.0 A	66,175.0 E	80,776.0 E

WELLS FARGO vs. CONSENSUS

Consensus Estimate	14.47 A	21.34 E	24.34 E
Difference from Consensus		5.3%	13.5%

VALUATION

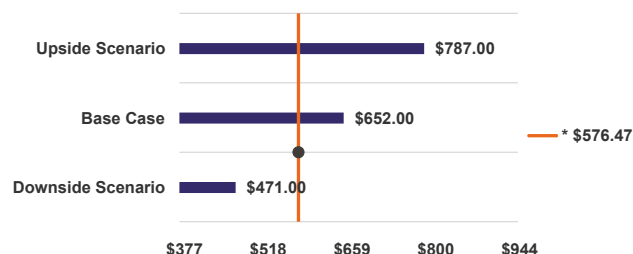
P/E	39.8x	25.7x	20.9x
EV/Revenue	11.2x	9.2x	7.9x
EV/EBIT	32.2x	22.7x	18.6x

Consensus Estimate: EPS; Source: VisibleAlpha
Source: Company Data, Wells Fargo Securities estimates, and Factset.
NA = Not Available, NE = No Estimate

Investment Thesis

We rate META Overweight. We see META as an accelerating growth story with emerging upside AI options in messaging, ad tools and new consumer applications. Combined with a newfound appetite for efficiency, we believe META should be a steady earnings compounder at a reasonable multiple.

Risk vs. Reward – Upside/Downside Price Target Scenarios



*As of 10/01/24
Source: Wells Fargo Securities, LLC estimates and Factset.

Base Case | \$652.00

- Our PT of \$652 is based on 20x multiple on our '26 EPS estimate.
- PT reflects a modest premium to recent historical multiples to reflect growing revenue momentum as well as improved cost discipline and capital allocation at the company.

Upside Scenario | \$787.00

- Upside price target is \$787, which implies a 23x multiple on higher 2026 EPS estimate of \$34.28.
- Upside to our PT could be driven by continued strong contribution from Reels, Advantage+ and China x-border ad spend, and;
- Further acceleration of Asia/Rest of World ad revenue growth.

Downside Scenario | \$471.00

- Downside price target is \$471, which implies a 17x multiple to a lower 2026 EPS estimate of \$27.75.
- Downside to our PT could be driven by faster-than-expected CapEx growth and regulatory uncertainty.

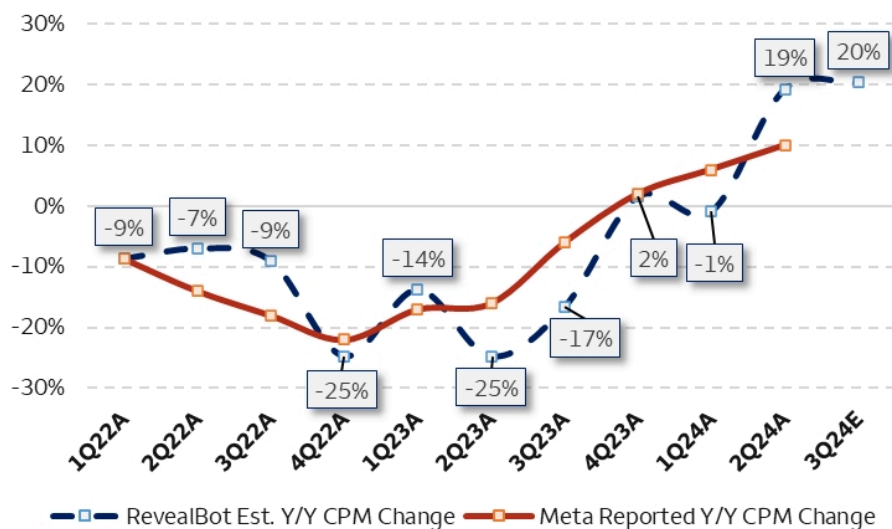
Upcoming Catalysts

- 3Q24 Earnings Release

Company Description

Meta Platforms, Inc. engages in the development of products that enable people to connect and share with friends and family through mobile devices, PCs, VR headsets, and wearables worldwide. It operates in two segments, Family of Apps and Reality Labs. The Family of Apps segment offers Facebook, Instagram, Messenger, and WhatsApp. The Reality Labs segment provides augmented and VR-related products. The company was incorporated in 2004 and is headquartered in Menlo Park, California.

Exhibit 1 - Meta CPM Y/Y Change - Reported vs. RevealBot Data



Source: Wells Fargo Securities, LLC Estimates, Company Reports, RevealBot

Exhibit 2 - Meta CPM % Y/Y Data (RevealBot)

	1Q22A	2Q22A	3Q22A	4Q22A	1Q23A	2Q23A	3Q23A	4Q23A	1Q24A	2Q24A	3Q24E
RevealBot Est. Y/Y CPM Change	-9%	-7%	-9%	-25%	-14%	-25%	-17%	2%	-1%	19%	20%
Meta Reported Y/Y CPM Change	-9%	-14%	-18%	-22%	-17%	-16%	-6%	2%	6%	10%	--

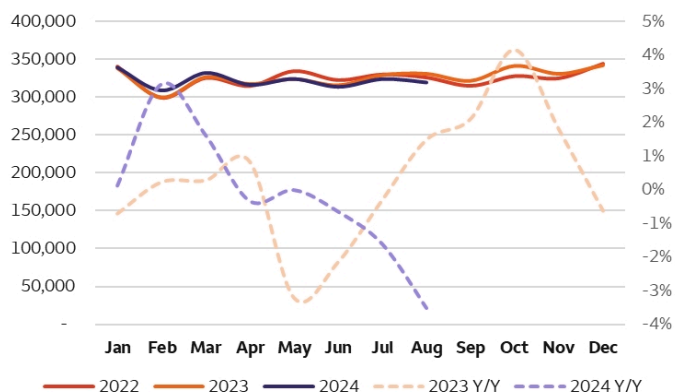
Source: Wells Fargo Securities, LLC Estimates, Company Reports, RevealBot

Exhibit 3 - Intra-Quarter FX Impact on Meta 3Q24 Revenue Guide

	Low-End	High-End
3Q24 Revenue Guide (As of 2Q EPS)	38,500	41,000
% Y/Y	12.8%	20.1%
% Y/Y - Constant Currency	14.8%	22.1%
% - FX Impact (Guide)	200bps headwind	
3Q24 Revenue Guide (As of 9/25/24)	38,637	41,137
% Y/Y (Implied)	13.2%	20.5%
% Y/Y - Constant Currency	14.8%	22.1%
% - FX Impact (WFS Actual)	160bps headwind	

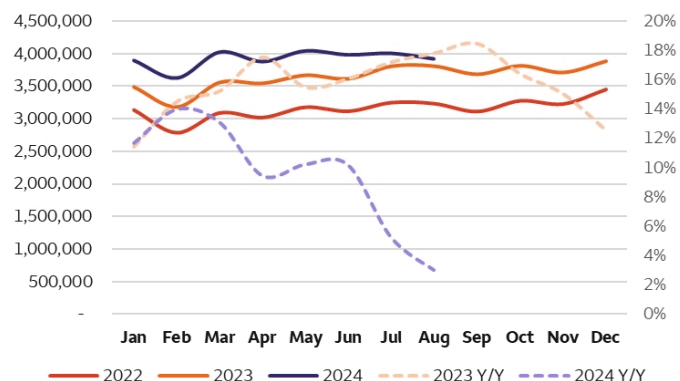
Source: Wells Fargo Securities, LLC Estimates, Company Reports

Exhibit 4 - Meta UCAN Engagement Minutes Growth (MM Minutes)



Source: Wells Fargo Securities, LLC Estimates, SensorTower

Exhibit 5 - Meta Int'l Engagement Minutes Growth (MM Minutes)



Source: Wells Fargo Securities, LLC Estimates, SensorTower

Exhibit 6 - META 3Q24 Preview Summary

(USD MM)		WFS View	VA Consensus	WFS vs. Consensus	Guide / Expectations
Revenue	3Q24E	19.2%	17.6%	166 bps	+12.8% to 20.1%
	4Q24E	17.6%	15.2%	243 bps	+12.2% to 18.4%
	2024E	21.1%	20.0%	119 bps	--
	2025E	17.1%	13.8%	330 bps	--
GAAP OpEx	3Q24E	(23,948)	(24,342)	-1.6%	--
	4Q24E	(26,434)	(26,934)	-1.9%	--
	2024E	(97,243)	(98,105)	-0.9%	\$96-99B
	2025E	(110,524)	(109,946)	0.5%	--
CapEx	3Q24E	(10,992)	(10,907)	0.8%	--
	4Q24E	(12,738)	(12,372)	3.0%	--
	2024E	(38,304)	(37,965)	0.9%	\$37-40B
	2025E	(51,651)	(46,291)	11.6%	--
GAAP EPS	3Q24E	\$5.64	\$5.18	8.9%	--
	4Q24E	\$7.00	\$6.32	10.9%	--
	2024E	\$22.47	\$21.34	5.3%	--
	2025E	\$27.63	\$24.34	13.5%	--

Source: Wells Fargo Securities, LLC Estimates, Company Reports, VisibleAlpha

Exhibit 7 - Estimate Revisions

\$MM

Estimate Revisions	New WFS Est. 3Q24	Old WFS Est. 3Q24	% - Change	New WFS Est. 4Q24	Old WFS Est. 4Q24	% - Change	New WFS Est. FY24	Old WFS Est. FY24	% - Change	New WFS Est. FY25	Old WFS Est. FY25	% - Change
Total Revenue	40,713	40,585	0.3%	47,179	47,007	0.4%	163,418	163,118	0.2%	191,300	189,280	1.1%
Operating Income	16,765	16,691	0.4%	20,745	20,811	-0.3%	66,175	66,167	0.0%	80,776	79,693	1.4%
<i>Op. Income Margin</i>	<i>41.2%</i>	<i>41.1%</i>	<i>5 bps</i>	<i>44.0%</i>	<i>44.3%</i>	<i>(30 bps)</i>	<i>40.5%</i>	<i>40.6%</i>	<i>(7 bps)</i>	<i>42.2%</i>	<i>42.1%</i>	<i>12 bps</i>
FCF (Company Defined)	11,770	11,875	-0.9%	12,256	11,862	3.3%	47,455	47,166	0.6%	59,666	59,894	-0.4%
CapEx	(10,992)	(10,958)	0.3%	(12,738)	(13,162)	-3.2%	(38,304)	(38,693)	-1.0%	(51,651)	(51,106)	1.1%
Total OpEx	(23,948)	(23,894)	0.2%	(26,434)	(26,196)	0.9%	(97,243)	(96,951)	0.3%	(110,524)	(109,587)	0.9%
Employee Net Adds	1,770	1,770	0.0%	798	798	0.0%	6,050	6,050	0.0%	3,660	3,660	0.0%
EPS	\$5.64	\$5.64	0.0%	\$7.00	\$7.04	-0.5%	\$22.47	\$22.51	-0.2%	\$27.63	\$27.39	0.9%
Segment Results												
Family of Apps Revenue	40,419	40,291	0.3%	46,408	46,236	0.4%	161,560	161,260	0.2%	188,333	186,314	1.1%
Family of Apps OI	21,515	21,441	0.3%	25,495	25,561	-0.3%	84,009	84,001	0.0%	99,276	98,193	1.1%
<i>FoA OI Margin</i>	<i>53.2%</i>	<i>53.2%</i>	<i>1 bps</i>	<i>54.9%</i>	<i>55.3%</i>	<i>(35 bps)</i>	<i>52.0%</i>	<i>52.1%</i>	<i>(9 bps)</i>	<i>52.7%</i>	<i>52.7%</i>	<i>1 bps</i>
Reality Labs OI	(4,750)	(4,750)	0.0%	(4,750)	(4,750)	0.0%	(17,834)	(17,834)	0.0%	(18,500)	(18,500)	0.0%
Advertising Revenue												
Global	40,009	39,881	0.3%	45,957	45,785	0.4%	159,930	159,630	0.2%	186,462	184,443	1.1%
<i>Cons. Currency Y/Y %</i>	<i>20.5%</i>	<i>20.5%</i>	<i>--</i>	<i>19.0%</i>	<i>19.5%</i>	<i>(50 bps)</i>	<i>21.9%</i>	<i>22.0%</i>	<i>(15 bps)</i>	<i>16.2%</i>	<i>16.2%</i>	<i>(0 bps)</i>

Source: Wells Fargo Securities, LLC Estimates, Company Reports

Financials

Exhibit 8 - Income Statement

USD Millions, Except Per Share	2021A	2022A	2023A	1Q24A	2Q24A	3Q24E	4Q24E	2024E	2025E	2026E	2027E
Income Statement											
Revenue	117,929	116,609	134,901	36,455	39,071	40,713	47,179	163,418	191,300	219,038	246,913
Cost of Revenue	(22,649)	(25,249)	(25,958)	(6,640)	(7,308)	(7,575)	(9,061)	(30,584)	(39,311)	(48,020)	(57,108)
Research and Development	(24,655)	(35,338)	(38,483)	(9,978)	(10,537)	(10,505)	(11,138)	(42,158)	(48,104)	(53,153)	(57,969)
Sales and Marketing	(14,043)	(15,261)	(12,301)	(2,564)	(2,721)	(2,929)	(3,326)	(11,540)	(12,204)	(13,084)	(13,909)
General and Administrative	(9,829)	(11,816)	(11,408)	(3,455)	(3,658)	(2,939)	(2,909)	(12,961)	(10,905)	(11,356)	(11,736)
Total Costs and Expenses	(71,176)	(87,664)	(88,150)	(22,637)	(24,224)	(23,948)	(26,434)	(97,243)	(110,524)	(125,613)	(140,721)
EBIT	46,753	28,945	46,751	13,818	14,847	16,765	20,745	66,175	80,776	93,425	106,192
Interest and Other Income (Expense), net	530	(126)	677	365	259	146	161	931	322	241	353
Pre-Tax Income	47,283	28,819	47,428	14,183	15,106	16,911	20,905	67,105	81,097	93,667	106,545
Provision for Income Taxes	(7,913)	(5,620)	(8,331)	(1,814)	(1,641)	(2,537)	(3,136)	(9,127)	(12,165)	(14,050)	(15,982)
% Tax Rate	16.7%	19.5%	17.6%	12.8%	10.9%	15.0%	15.0%	13.6%	15.0%	15.0%	15.0%
Net Income	39,370	23,199	39,097	12,369	13,465	14,374	17,770	57,978	68,933	79,617	90,563
Diluted Shares Outstanding	2,859	2,702	2,702	2,625	2,610	2,547	2,538	2,580	2,495	2,443	2,388
Diluted EPS	\$13.77	\$8.59	\$14.47	\$4.71	\$5.16	\$5.64	\$7.00	\$22.47	\$27.63	\$32.60	\$37.93
Dividend Per Share	\$0.00	\$0.00	\$0.00	\$0.50	\$0.50	\$0.50	\$0.50	\$2.00	\$2.30	\$2.65	\$3.04
% Y/Y - Dividend Per Share	--	--	--	--	--	--	--	--	15.0%	15.0%	15.0%
EBITDA Including SBC	54,719	37,631	57,928	17,192	18,484	20,642	25,066	81,384	102,015	121,847	141,733
EBITDA Excluding SBC	63,882	49,622	71,955	20,754	23,100	24,533	29,071	97,458	119,978	141,490	163,183

Source: Wells Fargo Securities, LLC Estimates, Company Reports

Investment Thesis, Valuation and Risks

Meta Platforms, Inc. (META)

Investment Thesis

We rate META Overweight. We see META as an accelerating growth story with emerging upside AI options in messaging, ad tools and new consumer applications. Combined with a newfound appetite for efficiency, we believe META should be a steady earnings compounder at a reasonable multiple.

Target Price Valuation for META: \$652.00 from \$647.00

- Our PT of \$652 is based on 20x multiple on our '26 EPS estimate.
- PT reflects a modest premium to recent historical multiples to reflect growing revenue momentum as well as improved cost discipline and capital allocation at the company.

Risks to Our Price Target and Rating for META

Downside risks include slowing user growth, competition, macroeconomic risk, ad platform risk, and limited shareholder rights, among other factors.

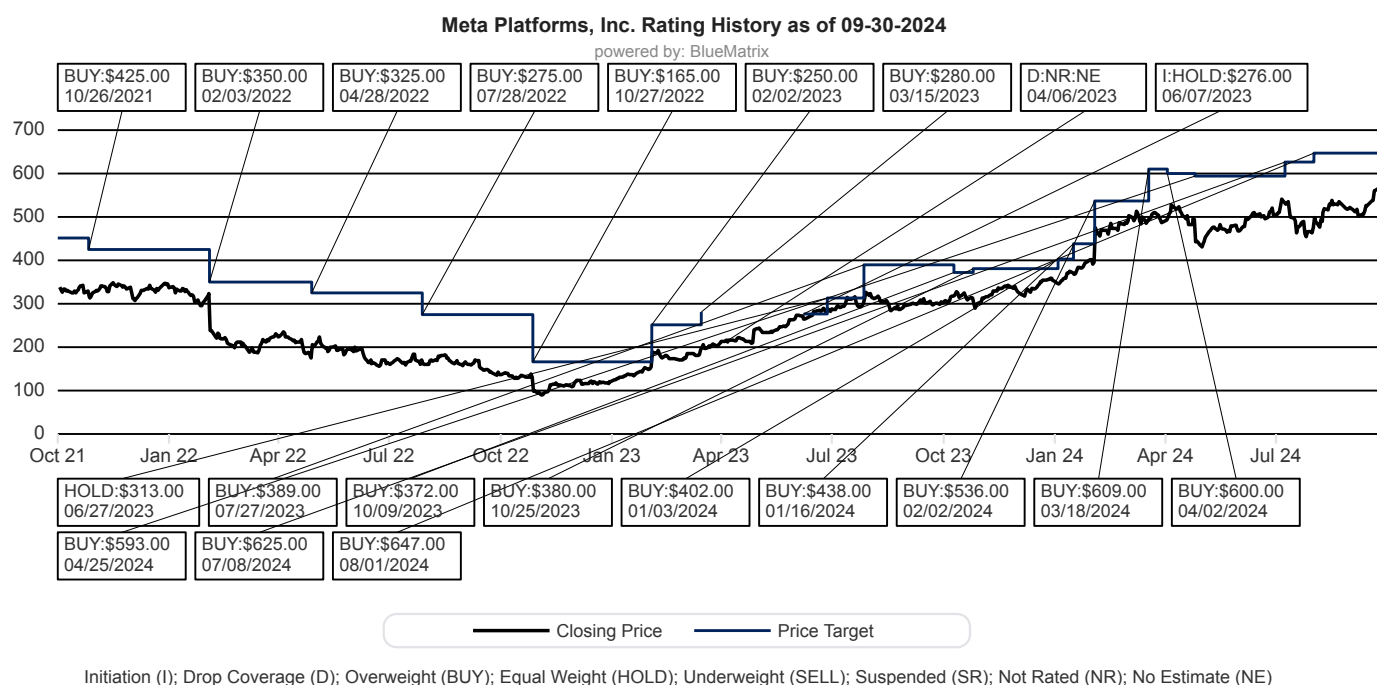
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