

Meta Platforms operates the world's largest family of social networking websites, including the flagship Facebook site, Instagram, Facebook Messenger, WhatsApp, Reels and Threads. The sites enable users to communicate with friends and family by posting to the site; commenting on others' posts; sharing photographs, website links, and videos; and messaging and playing games. The company also partners with application developers to add functionality to the sites, and allows users to pay for virtual goods and services through its Payments function. Meta derives about 55% of its revenue from outside the U.S. and Canada. Facebook/Meta went public on May 18, 2012. Meta Platforms changed its ticker from FB to META on June 9, 2022.

Analyst's Notes

Analysis by Joseph Bonner, CFA, November 1, 2024

ARGUS RATING: BUY

- Strong 3Q, but concerns over GenAI costs
- EPS rose 28% on 19% revenue growth in 3Q24.
- Meta is benefiting from solid advertising revenue, improved profitability, and robust cash flow, though management continues to warn of higher expenses.
- At its recent developer conference, Meta outlined its product roadmap toward developing a fashionable wearable pair of glasses powered by GenAI.
- We are raising our 2024 GAAP EPS estimate to \$22.47 from \$20.89 and our 2025 forecast to \$24.78 from \$23.01. Our EPS estimates imply 31% growth over the next two years.

INVESTMENT THESIS

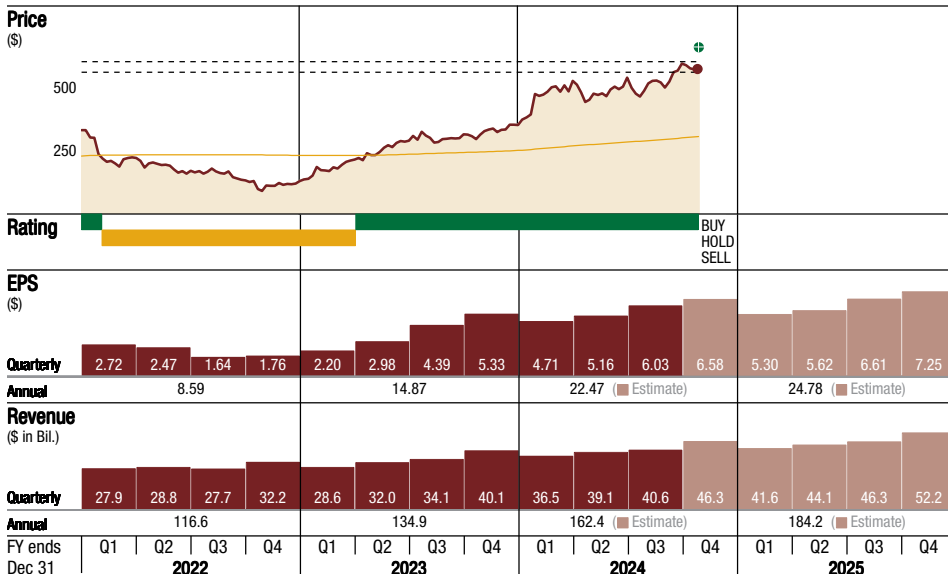
We are maintaining our BUY rating on Focus List selection Meta Platforms Inc. (NGS: META) with a target price of \$660. Meta is benefiting from a reacceleration in advertising revenue, significant margin expansion as a result of deep cost cuts, and robust cash flow. The market may well be spooked by the company's ramping investments in GenAI at it races with Microsoft, Alphabet and others to develop models and actual applications prior to monetization, though we note that Meta is already leaning on GenAI to improve targeted advertising, one of its critical monetization features. Meta typically builds an audience for new products before moving to monetization, and we think this is once again Mr. Zuckerberg's clearly-stated strategy around generative AI applications to Reality Labs hardware products. We also expect GenAI to pervade Meta's applications to provide another means of optimizing company performance and efficiency. We also note that Reality Labs losses continue to mount.

We give management kudos for rapidly delivering Threads, a Twitter/X competitor, as it looks to take share amid that company's self-inflicted wounds. Threads continues to gain

Market Data

Pricing reflects previous trading week's closing price.

— 200-Day Moving Average + Target Price: \$660.00 ● 52 Week High: \$602.95 ○ 52 Week Low: \$561.52 ● Closed at \$573.25 on 10/25



Argus Recommendations

Twelve Month Rating	SELL	HOLD	BUY
Five Year Rating	SELL	HOLD	BUY
Sector Rating	Under Weight	Market Weight	Over Weight

Argus assigns a 12-month BUY, HOLD, or SELL rating to each stock under coverage.

- BUY-rated stocks are expected to outperform the market (the benchmark S&P 500 Index) on a risk-adjusted basis over the next year.
- HOLD-rated stocks are expected to perform in line with the market.
- SELL-rated stocks are expected to underperform the market on a risk-adjusted basis.

The distribution of ratings across Argus' entire company universe is: 72% Buy, 28% Hold, 0% Sell.

Key Statistics

Key Statistics pricing data reflects previous trading day's closing price. Other applicable data are trailing 12-months unless otherwise specified

Market Overview

Price	\$567.16
Target Price	\$660.00
52 Week Price Range	\$301.85 to \$602.95
Shares Outstanding	2.18 Billion
Dividend	\$2.00

Sector Overview

Sector	Communication Services
Sector Rating	OVER WEIGHT
Total % of S&P 500 Market Cap.	8.90%

Financial Strength

Financial Strength Rating	HIGH
Debt/Capital Ratio	19.9%
Return on Equity	32.0%
Net Margin	35.6%
Payout Ratio	0.09
Current Ratio	2.67
Revenue	\$156.23 Billion
After-Tax Income	\$55.54 Billion

Valuation

Current FY P/E	25.24
Prior FY P/E	38.14
Price/Sales	7.91
Price/Book	8.70
Book Value/Share	\$65.19
Market Capitalization	\$1.24 Trillion

Forecasted Growth

1 Year EPS Growth Forecast	51.11%
5 Year EPS Growth Forecast	16.00%
1 Year Dividend Growth Forecast	N/A

Risk

Beta	1.38
Institutional Ownership	75.83%

Analyst's Notes ...Continued

demonstrable traction with users. Meta has developed new ad-targeting and measurement tools, as well as new social media platforms in Reels and now Threads. We need to caution investors that the regulatory threats against Meta in the U.S. and Europe are a material risk. Though the outcomes of myriad regulatory and legal challenges to Meta remain unclear, they have already led to large fines/settlements, and could eventually lead to more material fines and/or onerous regulatory actions including the possibility - remote, in our opinion - of breakup. Our long-term rating on META remains BUY.

RECENT DEVELOPMENTS

Meta posted 3Q24 results after the close on October 30. The company beat the consensus revenue estimate by \$334 million and the consensus EPS forecast by \$0.73. Revenue also beat the midpoint of management's rather wide guidance range by \$839 million. With 3Q results, Meta lowered its 2024 total expense guidance by \$500 million to \$97 million at the midpoint of the new narrowed range. However, what Meta giveth with one hand it taketh away with the other, as the company increased its 2024 capital expenditure guidance by \$500 million to \$39 billion at the midpoint of the new range. Meta's new 2024 capex guidance implies and incremental \$3 billion, or 39% increase over 2023. Management further expects 'significant acceleration in infrastructure expense growth' in 2025. CEO Mark Zuckerberg has been consistently clear over the last few quarters that capex

will ramp in support of generative AI opportunities. While current AI advancement may be more practical, particularly around improved advertising targeting, Mr. Zuckerberg has not given up on the metaverse concept, but rather sees GenAI and the metaverse converging at some point. META shares fell 3% on October 31.

Revenue rose 19% from the prior year, to \$40.6 billion. Advertising revenues, the company's primary revenue stream, rose 19% to \$39.9 billion. Both total revenue and advertising revenue decelerated year over year from 24% in 3Q23. The average price per ad increased a healthy 11%, while the more important ad impressions number increased 7%. Pricing growth was driven by increased advertiser demand, partially due to improved ad performance and partially offset by impression growth from lower-monetizing regions and platforms.

Meta reporting structure now separates its 'Family of Apps' (Facebook Blue, Instagram, Messenger, WhatsApp, and other services) from its emerging 'Facebook Reality Labs' segment (FRL), which is focused on the metaverse business. Family of Apps revenue rose 19% in 3Q, while FRL reported an inconsequential \$434 million in revenue. While Family of Apps revenue is generated by advertising, FRL revenue comes from the sale of hardware; the Quest 3 virtual reality headset and Ray-Ban Meta augmented reality glasses.

Family of Apps operating income rose 24.5% to \$21.8 billion in 3Q, while the FRL operating loss was \$4.4 billion. The cumulative loss on FRL is now \$555 billion. These losses might be expected

Growth & Valuation Analysis

GROWTH ANALYSIS

(\$ in Millions, except per share data)

	2019	2020	2021	2022	2023
Revenue	70,697	85,965	117,929	116,609	134,902
COGS	12,770	16,692	22,649	25,249	25,959
Gross Profit	57,927	69,273	95,280	91,360	108,943
SG&A	20,341	18,155	23,872	27,078	23,709
R&D	13,600	18,447	24,655	35,338	38,483
Operating Income	23,986	32,671	46,753	28,944	46,751
Interest Expense	-931	-638	-671	44	-1,043
Pretax Income	24,812	33,180	47,284	28,819	47,428
Income Taxes	6,327	4,034	7,914	5,619	8,330
Tax Rate (%)	25	12	17	19	18
Net Income	18,485	29,146	39,370	23,200	39,098
Diluted Shares Outstanding	2,876	2,888	2,859	2,702	2,629
EPS	6.43	10.09	13.77	8.59	14.87
Dividend	—	—	—	—	—

GROWTH RATES (%)

Revenue	27.5	21.6	37.4	-1.2	15.6
Operating Income	-3.7	36.2	43.1	-38.1	61.5
Net Income	-16.4	57.7	35.1	-41.1	68.5
EPS	-15.1	56.9	36.5	-37.6	73.1
Dividend	—	—	—	—	—
Sustainable Growth Rate	20.7	23.9	32.1	22.4	22.3

VALUATION ANALYSIS

Price: High	\$208.93	\$304.67	\$384.33	\$343.09	\$361.90
Price: Low	\$128.56	\$137.10	\$244.61	\$88.09	\$122.28
Price/Sales: High-Low	8.5 - 5.2	10.2 - 4.6	9.3 - 5.9	7.9 - 2.0	7.1 - 2.4
P/E: High-Low	32.5 - 20.0	30.2 - 13.6	27.9 - 17.8	39.9 - 10.3	24.3 - 8.2
Price/Cash Flow: High-Low	17.3 - 10.6	26.0 - 11.7	20.7 - 13.2	17.4 - 4.5	14.4 - 4.9

Financial & Risk Analysis

FINANCIAL STRENGTH

	2021	2022	2023
Cash (\$ in Millions)	16,601	14,681	41,862
Working Capital (\$ in Millions)	45,531	32,523	53,405
Current Ratio	3.15	2.20	2.67
LT Debt/Equity Ratio (%)	10.2	20.1	23.2
Total Debt/Equity Ratio (%)	11.1	21.2	24.3

RATIOS (%)

Gross Profit Margin	80.8	78.3	80.8
Operating Margin	39.6	24.8	34.7
Net Margin	33.4	19.9	29.0
Return On Assets	24.2	13.2	18.8
Return On Equity	31.1	18.5	28.0

RISK ANALYSIS

Cash Cycle (days)	—	—	—
Cash Flow/Cap Ex	3.1	1.6	2.6
Oper. Income/Int. Exp. (ratio)	2,056.8	156.8	107.3
Payout Ratio			

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Analyst's Notes ...Continued

from a startup business; however, the average recent operating loss of around \$4 billion per quarter is a tough load for Meta to carry. Third-quarter consolidated income from operations increased 26% to \$17.35 billion, while the operating margin increased by 250 basis points to 43%. While Meta has lapped the extraordinary margin expansion from the late 2022/early 2023 layoffs and restructuring, 3Q's margin expansion demonstrates the company's continued operating expense cost leverage. GAAP diluted EPS increased 28% to \$6.03.

Meta held its Connect annual developer conference on September 25-26, 2024. As usual, the company announced a number of new products. CEO Mark Zuckerberg led off his keynote address with the latest iteration of the company's Quest mixed reality headset, the Meta Quest 3S. Perhaps the biggest improvement with the 3S is that it sells for more than \$100 less than the Meta Quest 3, the previous version. In addition to the typical technological improvements around display resolution and field of view, the 3S includes a Microsoft Windows 11 PC extension, YouTube co-watching and takes another stab as the Horizon virtual reality experience. About as impressive as the technology is the number of application partners Meta has been able to enlist for the Meta Quest. While the market growth for mixed reality headsets may be limited to a small group of videogamers and very early adopters and is, therefore, disappointing for now, with the Apple Vision Pro headset listing at \$3,500, the Meta Quest has no real competition. The base model

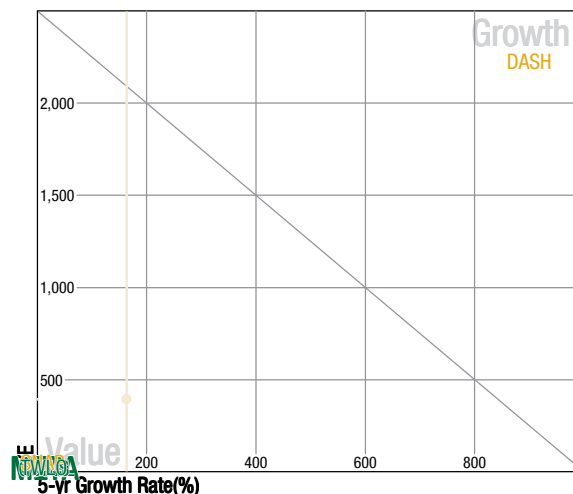
3S lists at \$300 and ships October 15.

No technology conference would be complete without a bow to generative AI, and so Mr. Zuckerberg announced the new version of Meta's large language model Llama 3.2, which has multi-modal image capability in addition to text. While image and, presumably, video capabilities are or will indeed be important for Meta AI, we think Mr. Zuckerberg is more intently interested in natural voice. The company has hired a stable of actors to provide their voices and, even more impressive, Mr. Zuckerberg demonstrated real-time language translation using the company's Ray Ban style smart glasses. The Ray Ban smart glasses are another consumer-friendly product from Meta, listing at \$300. We see a fairly clear product roadmap emerging. We think Meta plans to integrate its substantial generative AI capabilities into a wearable device, i.e. glasses, that also look fashionably cool - hence the Ray Ban license and ten-year partnership deal with eye-glass giant Luxottica - and have a wide consumer appeal. Toward this end, Mr. Zuckerberg also showed off the company's functioning prototype for true holographic glasses dubbed Orion. Meta noted that a pair of Orion glasses cost \$10,000, so the project is not exactly close to becoming commercial yet, though Meta promises to continue to work on the cost issue. One could criticize Orion as vaporware, i.e., technology that may not end up in an actual product, though it does again demonstrate Meta's continued commitment to virtual- and mixed-reality applications - applications in a wearable device which will undoubtedly be powered by the company's advances in GenAI.

Peer & Industry Analysis

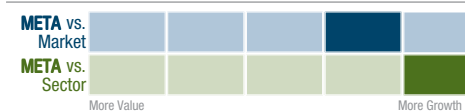
The graphics in this section are designed to allow investors to compare META versus its industry peers, the broader sector, and the market as a whole, as defined by the Argus Universe of Coverage.

- The scatterplot shows how META stacks up versus its peers on two key characteristics: long-term growth and value. In general, companies in the lower left-hand corner are more value-oriented, while those in the upper right-hand corner are more growth-oriented.
- The table builds on the scatterplot by displaying more financial information.
- The bar charts on the right take the analysis two steps further, by broadening the comparison groups into the sector level and the market as a whole. This tool is designed to help investors understand how META might fit into or modify a diversified portfolio.

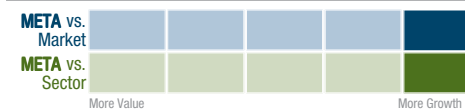


Ticker	Company	Market Cap (\$ in Millions)	5-yr Growth Rate (%)	Current FY P/E	Net Margin (%)	1-yr EPS Growth (%)	Argus Rating
META	Meta Platforms Inc	1,236,409	16.0	25.2	35.6	10.3	BUY
GOOGL	Alphabet Inc	1,000,847	17.0	21.4	27.7	8.9	BUY
DASH	DoorDash Inc	59,871	900.0	2,223.7	-1.7	1,328.6	HOLD
PINS	Pinterest Inc	19,326	25.0	20.8	5.8	16.9	BUY
SNAP	Snap Inc	17,831	10.0	52.2	-18.5	50.0	HOLD
TWLO	Twilio Inc	13,013	12.0	25.1	-10.7	14.5	BUY
Peer Average		391,216	163.3	394.7	6.4	238.2	

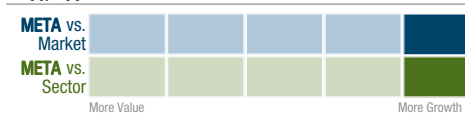
P/E



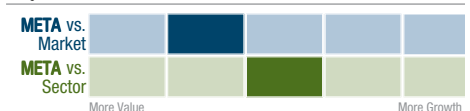
Price/Sales



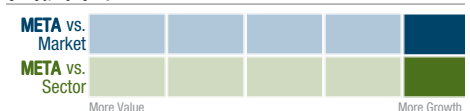
Price/Book



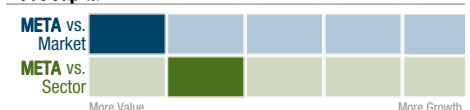
PEG



5 Year Growth



Debt/Capital



Analyst's Notes ...Continued

Whether a Meta wearable will ever be able to compete with a smartphone and, in particular, an Apple iPhone, thereby freeing Meta from its dependence on Apple for distribution, remains an open question.

On September 17, Meta announced Instagram Teen Accounts. All teenagers on Instagram were immediately placed into Teen Accounts. Teen Accounts include privacy restrictions around who can contact a teen, what kind of content a teen can view, reminders around the time a teen spends on the platform, and more parental controls. Perhaps the biggest change is an age gate at 16, meaning that any teen under 16 will need parental permission to use less restrictive settings. Coupled with the age gate, Meta is developing technology to proactively identify teens under 16 who have lied about their identity and age in setting up an Instagram account, automatically placing them into Teen Accounts. This new identity technology will be in beta in the U.S. in early 2026.

Meta has been under attack for some years from government regulators, the media, academics, and Congress for the alleged harm that it may cause teenagers. In October 2023, a coalition of 42 U.S. states and territories sued Meta, alleging that its social network platforms caused psychological and physical harm to 'young people', and that it misled consumers on the extent of such harm. The suit followed an expose in the Wall Street Journal. CEO Mark Zuckerberg has also been hauled before a U.S. Congress and excoriated around this issue. We see Teen Accounts as certainly a positive, if much belated, step to ameliorate the barrage of the criticism. However, Meta may need to do more to address the issue than continue to point out inconsistencies in the data and research.

EARNINGS & GROWTH ANALYSIS

We are raising our 2024 GAAP EPS estimate to \$22.47 from \$20.89 and our 2025 forecast to \$24.78 from \$23.01. Our EPS estimates imply 31% growth over the next two years. Our long-term earnings growth rate forecast is 16%.

While advertising revenue decelerated year-over-year in 3Q24, 19% growth, strong profitability and robust cash flow are hardly anything to sniff at. However, investors also need to consider the company's continued ramp-up of expenses and investments in generative AI and the metaverse. Meta has gained traction on advertising sales through improved ad targeting and measurement, aided by its GenAI work. Management also noted that boosting monetization on Reels (a TikTok-like short-form streaming service) and user engagement with the new Threads application may also be key to company growth in the near term. On the 3Q call, management noted that Threads had about 200 million monthly active users, adding a remarkable 75 million users incrementally in 3Q24 at a pace of 1 million sign-ups per day. While CEO Zuckerberg continues to stick with the metaverse concept (and the costs that this initiative entails), GenAI technology has become management's chief focus. The company expects to integrate GenAI throughout its product set, including helping advertisers plan, launch, and measure campaigns while also using the technology to boost internal productivity and efficiency.

User growth and monetization remain key performance indicators for Meta. The company added 20 million Family Daily Active People in 3Q24, bringing its total base to 3.29 billion. The user base grew 4.8% year-over-year in 3Q, down from 7% in 3Q23, still a remarkable growth rate as Meta confronts the law of large numbers. Family average revenue per person was \$12.29, up 12% from the prior year. A 'Daily Active Person' is defined as a

registered and logged-in user of one or more of the company's Family products (Facebook, Instagram, Messenger, and WhatsApp) on a given day. Of course, monetization is not just dependent on adding users but also user engagement. Management flagged that it is seeing year-over-year daily usage growing across Facebook and Instagram, the company's two most mature social media services, both globally and in the U.S.

Management's rationale for the breakout of Facebook Reality Labs is to provide investors with visibility into what it views as its next-generation social media communications platform. Mr. Zuckerberg has had a fixation on virtual/augmented reality as the next technology platform even before Meta acquired Oculus VR in 2014. He sees AR/VR 'presence,' commonly referred to as the metaverse, as the successor technology platform to the mobile web. Although Meta's initial iteration of the metaverse, Horizon Worlds, was met with critical derision, we expect the company to continue to invest heavily in the metaverse concept.

Meta continues to rapidly iterate on its proprietary GenAI large language model, Llama 3. Llama 3 powers the company's Meta AI chatbot and will be used to power search functions across its social media platforms. The company has previously made its Llama large-language model available on both the Microsoft Azure and Google Cloud platforms. Llama is open source - meaning that the software source code is available without charge to be redistributed and modified by outside developers. We note that both Microsoft, though its partnership with OpenAI, the purported leader in generative AI technology, and Google, with its Deep Mind division and partnership with Anthropic, are also in the race to develop GenAI technologies. Meta appears to be at least keeping pace with major generative AI competitors OpenAI, Microsoft, Alphabet, and Anthropic. However, most AI applications have remained proprietary rather than open source; Llama's use of open source could thus become a point of differentiation and help speed development. Meta originally introduced its Llama technology on February 24, 2023.

On July 5, 2023, Meta social media site Instagram launched a new Twitter-like 'micro-blogging' application called Threads. Posts on Threads can be up to 500 characters long, and may include links, photos, and videos up to five minutes in length. In a radical change from Meta's typical operating procedure, i.e., essentially keeping its applications within a 'walled garden,' management expects Threads to be open and interoperable with other social media networks. Threads was obviously designed to compete with Twitter, which has undergone massive layoffs, radical policy changes, and a massive loss of its advertiser base since Elon Musk's takeover in October 2022. We give Meta management credit for seizing the opportunity to take share from an ailing competitor. Instagram chief Adam Mosseri has indicated that Threads will focus first on the user experience as it builds its user base. However, given Meta's deep knowledge of advertising, we think that advertising will be the likely path to monetization for Threads at some point. Threads will have an advantage as it starts from the large Instagram user base, and will have access to Instagram data. Instagram has launched Threads in 100 countries on both iOS and Android.

FINANCIAL STRENGTH & DIVIDEND

We rate Meta's financial strength as High, the highest rating on our five-point scale. Total debt at the end of 3Q24 was \$28.8 billion, all of it long term. The company raised an incremental

Analyst's Notes ...Continued

\$10.5 billion in August 2024. Meta also had cash, equivalents, and marketable securities of \$70.9 billion at the end of 3Q24, putting it in the rare and enviable position of being able to liquidate its debt any time it chooses. It generated \$50.5 billion in trailing 12-month free cash in 3Q24, an incremental \$13.6 billion, up 37% from 3Q23. Meta's debt gets high-grade investment-grade ratings.

In March, Meta began paying a quarterly cash dividend of \$0.50, or \$2.00 on an annual basis. Our dividend estimates are \$2.00 for 2024 and 2025. The forward dividend yield is just 0.35%, but it is a start - and rather remarkable for a Tech company. The company repurchased \$30.125 billion of its Class A stock in the first nine months of 2024, more than doubling its pace during the same period in 2023, after buying back \$19.8 billion in 2023 and \$27.9 billion in 2022. It company repurchased \$44.5 billion in 2021, \$6.3 billion in 2020, and \$4.2 billion in 2019. The share count declined by 1.6% or 41 million shares over the last year.

MANAGEMENT & RISKS

Meta is vulnerable to extreme regulatory backlash in the U.S. and globally related to antitrust; the spread of misinformation, including election interference; the spread of unlawful content in private groups and encrypted communications, e.g., child pornography, hate speech; illegal drug distribution, and the misuse of members' private information, among others. We say 'extreme regulatory backlash' since Meta is not only being charged with huge fines for alleged transgressions but faces the specter of a forced break-up of the company, given its social media market power.

Meta is appealing a decision and a record 1.2 billion-euro (\$1.3 billion) fine levied by the European Data Protection Board in May 2023. The U.S. Federal Trade Commission antitrust lawsuits where break-up is a possible remedy have at a minimum increased headline risk for Meta, and will likely take substantial time to move through the courts.

Management distraction is another risk arising from the FTC suit, and from other regulatory litigation and investigations, particularly in the European Union.

In late 2022, the EU passed the Digital Services Act (DSA) and the Digital Markets Act (DMA), both aimed at severely regulating large online businesses, i.e., Meta and other large American tech companies. The DSA is aimed at regulating Meta's practices around content moderation/disinformation and user privacy, among other issues, and the company will be required to undergo outside audits of its practices and share algorithmic data with EU regulators. Penalties for noncompliance to the new law are severe.

In another regulatory salvo from the European Commission, the EC informed Meta of the EC's preliminary finding that Meta's advertising model fails to comply with the DMA. In response to the enactment of the DMA, Meta launched a revised advertising model in November 2023 giving European users the option of paying a monthly subscription fee for an advertising-free version of its social networks or, alternatively, access to an advertising-supported version that allows Meta to use personal data for advertising targeting. The EC's preliminary view, issued on July 1, is that Meta's new 'pay or consent' advertising model still does not comply with the DMA as it presents users with a 'binary choice' that 'forces users to consent to the combination of their personal data and fails to provide them with a less personalized but equivalent version of Meta's social networks.' The crux of the

matter appears to be Meta not offering equivalent free versions of its social networks without personalized advertising targeting. If Meta is eventually found to be in violation of the DMA, the fines could be confiscatory: 10% of worldwide revenue for a first offense; 20% of worldwide revenue for repeated offenses; and, for 'systemic noncompliance,' a forced break-up, sale of the business, or banning of acquisitions. With Meta deriving 23% of its advertising revenue from Europe (with advertising making up almost all of the company's total revenue), pulling out of the region is not an option. The EC expects to conclude its investigation in March 2026.

On October 24, 2023, Meta was hit with a flurry of joint lawsuits brought by 41 states in federal court. Some state Attorneys General have also filed similar suits in their own state courts. The lawsuits allege that Meta has harmed the psychological health of children and adolescents by knowingly designing psychologically manipulative 'technologies to entice, engage, and ultimately ensnare youth and teens.' The suits allege that Meta lied to the public by minimizing the damaging impact of these technologies and violated the Children's Online Privacy Protection Act (COPPA) by unlawfully collecting 'the personal data of its youngest users' without their parents' permission. The lawsuits seek injunctions to stop the alleged actions as well as monetary damages.

Like all advertising-dependent companies, Meta could be severely hurt by a decline in advertising. This risk is heightened by the uncertainty surrounding macroeconomic growth, which closely correlates with advertising growth. Meta may also be more resilient than other ad-reliant companies due to the secular trend of advertisers moving to digital from other channels and to its sophisticated ad audience targeting tools.

While user growth has migrated toward developing markets, the U.S., Meta's home market, is still its most lucrative. As such, a meaningful defection of U.S. users from the flagship Facebook site (other than to Facebook's own sister applications Instagram, WhatsApp, Reels, and Threads) could materially impact the company's performance and business model. A significant loss of advertisers would also be a material problem.

Meta is almost entirely dependent on advertising revenue, which has grown to about 98% of total revenue. The secular trend of advertisers devoting more and more of their advertising dollars to internet-based advertising has generally softened the effect of cyclical swings in the online advertising market. The flagship Facebook platform is at saturation in the U.S., meaning that growth in that platform will likely slow over time. Meta's emerging platforms, Instagram, Messenger, WhatsApp, Reels, and Threads have been building their respective user bases nicely, and are in various stages of monetization. Management has also warned that it is willing to sacrifice short-term margin expansion for long-term membership growth and increased member engagement.

Competition in the internet space is intense, and Meta is up against a number of larger companies with greater resources, including Google, Microsoft, and Apple. The company also competes with smaller virally popular social media companies like TikTok, Twitter, Snapchat, Reddit, and Discord. As Meta expands internationally, it must manage its entry into new markets, where it may have limited understanding of the local culture. It also faces pressure from 'national champion' competitors, especially in China, from which it is currently banned. Government regulation and the possible censorship of site content could also become much more

Analyst's Notes ...Continued

burdensome in the coming years, both in the U.S. and in international markets. The Snowden revelations involving the use of American internet company data by the NSA could make Meta's penetration of foreign markets much more difficult, and result in restrictions or outright bans by foreign governments.

Like any fast-growing tech company, Meta must successfully manage its growth trajectory. It must also ensure 24/7 system reliability in the face of increasingly toxic computer network attacks from malicious governments, organizations or individuals attempting to steal user information.

More than most internet start-ups, Meta is identified with its founder, chairman and CEO Mark Zuckerberg, and his possible loss would undoubtedly be a major blow to the company.

COMPANY DESCRIPTION

Meta Platforms operates the world's largest family of social networking websites, including the flagship Facebook site, Instagram, Facebook Messenger, WhatsApp, Reels and Threads. The sites enable users to communicate with friends and family by posting to the site; commenting on others' posts; sharing photographs, website links, and videos; and messaging and playing games. The company also partners with application developers to add functionality to the sites, and allows users to pay for virtual goods and services through its Payments function. Meta derives about 55% of its revenue from outside the U.S. and Canada. Facebook/Meta went public on May 18, 2012. Meta Platforms changed its ticker from FB to META on June 9, 2022.

VALUATION

META shares are up 68% year to date on a total return basis, compared to a 23% gain for the S&P 500, a 40% gain for the S&P Interactive Media & Services Industry Index, and a 38% gain for the NYSE Fang+ Index. Meta shares have rallied on a reacceleration in advertising revenue, substantial cost cuts, robust cash flow, and possible AI and other opportunities. The forward EV/EBITDA multiple of 16 is 6% below the peer average. We are maintaining our BUY rating on Meta to a target price of \$660.

On November 1, BUY-rated META closed at \$567.16, down \$0.42.

About Argus

Argus Research, founded by Economist Harold Dorsey in 1934, has built a top-down, fundamental system that is used by Argus analysts. This six-point system includes Industry Analysis, Growth Analysis, Financial Strength Analysis, Management Assessment, Risk Analysis and Valuation Analysis.

Utilizing forecasts from Argus' Economist, the Industry Analysis identifies industries expected to perform well over the next one-to-two years.

The Growth Analysis generates proprietary estimates for companies under coverage.

In the Financial Strength Analysis, analysts study ratios to understand profitability, liquidity and capital structure.

During the Management Assessment, analysts meet with and familiarize themselves with the processes of corporate management teams.

Quantitative trends and qualitative threats are assessed under the Risk Analysis.

And finally, Argus' Valuation Analysis model integrates a historical ratio matrix, discounted cash flow modeling, and peer comparison.

THE ARGUS RESEARCH RATING SYSTEM

Argus uses three ratings for stocks: BUY, HOLD, and SELL. Stocks are rated relative to a benchmark, the S&P 500.

- A BUY-rated stock is expected to outperform the S&P 500 on a risk-adjusted basis over a 12-month period. To make this determination, Argus Analysts set target prices, use beta as the measure of risk, and compare expected risk-adjusted stock returns to the S&P 500 forecasts set by the Argus Market Strategist.
- A HOLD-rated stock is expected to perform in line with the S&P 500.
- A SELL-rated stock is expected to underperform the S&P 500.

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