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**Abstract**

This report presents an investment recommendation report for Meta Platforms. The most optimal methodology which is Discount Cash Flow (DCF) is opted to perform analysis for Meta platforms. The Dissertation also presents a fair attempt to make relative assessment of Meta’s value using valuation multiples which are used across similar industry. The DCF valuation provided an intrinsic value of Meta, whereas the relative valuation provides an extrinsic Value. Providing an overall value. historical financial data and Past Performance was analysed using the reports uploaded on the SEC filing’s Page by Meta. The Latest Report for the second Quarter of 2024 was Used to present the latest implied price for Meta. A separate Trailing Twelve-Month Period starting from 30th June of Previous Year to 30th June of Current Year was calculated Based on the reports. Value drivers, growth rates and cost of capital were analysed based on the historical Data, whereas news and Reports from reliable sources were used to analyse Financial Trend for meta. Additionally regional, geopolitical and economic outlook were considered as it is correlated with the industry performance in the region.

In the Analysis, the variables for DCF were forecasted, revealing an equity value of $ 1,218,664 and an implied share Price of $ 481.88 as of 30th June,2024. A sensitivity analysis was carried out after the DCF valuation. The sensitivity tested the enterprise value and the implied share price for different Weighted Average Cost of Capital (WACC) and Growth rate (g). WACC which was (8.53%) & growth rate (4%) were reduced and increase by 0.5 decimal points creating a sensitivity table for each variation in rates. Following this, a relative valuation was conducted using the P/E, EV/EBIT, P/S, P/B, and EV/EBITDA multiples, revealing that Meta is overvalued relative to its competitors.

The report concludes that the findings of the DCF approach and the relative valuation approach, indicate, an investment recommendation of buy.

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1. Introduction

The Main objective for this chapter is to introduce; the purpose of the report, the company being valued and the sector in which it operates.

* 1. Trajectory of the Valuation

This thesis examines the value of Meta Platforms, an American social media company. The subject will be appraised using a variety of valuation methodologies, but the emphasis will be on using the Discount Cash Flow (DCF) model, which will show the group's projected cash flow over the following five fiscal years. The weighted average cost of capital will then be used to discount the terminal value and the anticipated free cash flow. The enterprise value, which is the basis for the DCF valuation, is determined by adding the discounted free cash flow for each of the five years to the terminal value, which represents the value. A sensitivity analysis will be carried out after the DCF to show how adjustments to WACC and the price of equity shares will be impacted by the growth rate. Next, in contrast to DCF valuation, which looks for intrinsic value, a relative valuation will be carried out. An alternate method of valuing Meta will be possible using multiples in relative valuation, which standardises pricing by comparing enterprises with similar characteristics and common ratios. Investment decisions derived from either valuation methodology can then be assessed using the combination of these two distinct ways of valuation. In a similar vein, the thesis will conclude with a buy or sell recommendation for investments.

1.2 Company Overview

Meta Platforms, Inc, Based in Menlo Park, doing business as Meta and formerly known as Facebook, Inc., is an international technology company of American origin. Among other goods and services, the business owns and runs Facebook, Instagram, Threads, and WhatsApp. With Alphabet (Google), Amazon, Apple, Microsoft, and other Big Five organisations, Meta is ranked among the biggest information technology companies in the United States. The Family of Apps, owned by Meta, revolutionised social media connections. Now, Meta is going beyond two-dimensional screens, offering users immersive experiences in mixed, virtual, and augmented reality to contribute to the development of the next social technology revolution.

In terms of users and market share, Facebook and Instagram are Meta's largest production services. Together, Facebook and Instagram have almost 5 billion users.

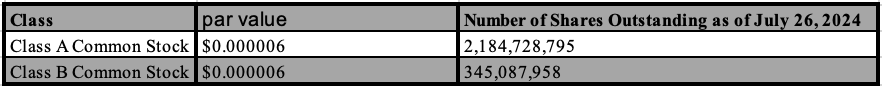
WhatsApp Messenger is the second-largest service offered by Meta platforms in terms of users. With more than two billion active users, it is among the most widely used messaging apps globally. Users can share documents, photos, and other content as well as voice and text messaging. WhatsApp users can communicate in private and group chats using end-to-end encryption.

To make the globe even more linked, Meta just made the commitment to change towards artificial intelligence. It intends to use innovation and research to develop its AI infrastructure, or generative AI. Llama 3.1, Meta's advanced AI model, is its own creation. Applications for Llama 3.1 impact grants are now being accepted, and the organisation intends to assist those wishing to explore their ideas for how Llama 3.1 might be used to further the goals of their organisations.

1.3 Capital Structure

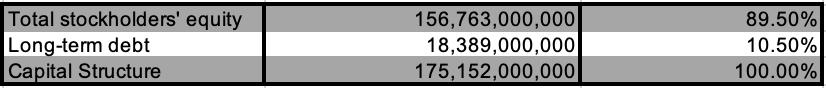
As of July 26, 2024, Meta Platforms, Inc had 2.18 billion shares of Class A common stock of Par value $0.000006 and 345 million shares of Class B common stock of Par value $0.000006 each. The class “A” Shares are traded on the NASDAQ stock exchange. The B shares are not publicly traded in the market and has 10 times more voting rights than those traded publicly.

Table 1: Capital structure of Meta (Meta, 2024)



Meta Platform has Total capital of 175 billion. Debt to Equity ratio for meta is 12:1. The Debt weightage for Meta is roughly around 10.50% while the equity weight for meta is 89.50%.

Table 2: Capital Structure for Meta (Meta,2024)



1.4 Financials

Meta platforms has observed a strong growth in the first of financial year 2024. Revenues soared to 73,965 (in million $) for six month ended June 30, FY2024 a jump of 24.10% compared to $59,599 first half of FY2023 and the TTM revenue totalled 147,888(in million $). While net income improved significantly by 91.39% growing from $ 13,498 Mn to $ 25,834 Mn. Meta has a strong balance sheet with net cash positions of 33,026(in million $). In 2024, Meta Platforms Inc increased its cash reserves by 10.81%. The company achieved a gross margin of 81.5%, indicates efficiency in cost management, operating margin 37.38% reflect solid operational efficiency and a net profit margin 32.47%.

1.5 Business Area

The company operates in two major segments Family of Apps (FOA) includes applications like Instagram, Facebook, WhatsApp and Threads. Meta boasts it’s 3.27 billion Daily Active People (DAP), FOA generates substantial amount of its revenue by displaying ad products on Facebook, Instagram & messenger, Reality Labs (RL) Segment has products that enable people to connect and share with friends and family through, virtual reality (VR) and mixed reality (MR) headsets, and wearables.

FOA Segment generate majority revenue, For the first half of 2024 revenues from advertisements were $74,734 (in million) & revenues from RL were $793 (in million).

1.6 Industry Overview

The digital advertising market has witnessed significant growth and transformation, due to advent of technologies, internet and smartphones globally. Meta Platforms, Inc. (formerly Facebook, Inc.) is a major player in the technology industry, specifically in social media, digital advertising.

**Digital Advertising**

PwC forecasts that digital advertising will grow at a 9.1% CAGR from 2024 through 2026, reaching $723 billion by 2026. It is also on track to become a $1 trillion market shortly thereafter digital advertising market, forecasted to become a $1 trillion sector. Meta will have a competitive advantage due to strategic position to capitalise on the opportunity.

**AR & VR**

According to IDC, the global AR and VR markets are projected to grow at a compound annual growth rate (CAGR) of 87.1% and 29.2% by 2028, respectively. Meta’s early and substantial investments in the metaverse position it well to capitalise on this trend.

2.0 Methodology

This chapter outlines the foundational philosophy behind valuation, along with an exploration of how different valuation approaches are applied across various frameworks to assess the value of Meta. It details the models employed to evaluate Meta Platform, followed by a concise overview of the valuation techniques used, specifically Discounted Cash Flow (DCF) and Relative Valuation. The key factors identified in this chapter are defined and subsequently applied to Meta, as discussed further in Chapter 3.

2.1 Introduction to Valuation

All assets, whether financial or physical, possess a value. The ability to invest in and manage these assets effectively hinges on understanding both their value and the factors that contribute to it. While every asset can be assessed for value, some are easier to evaluate than others, and the process can vary significantly depending on the type of asset. For example, valuing a real estate property involves different information and methods compared to valuing a publicly traded stock. Interestingly, despite these differences, the core principles of valuation remain consistent. It’s important to acknowledge the inherent uncertainty in valuation, which may arise from the asset itself or from the valuation model used (Damodaran, 2012).

2.2 Discounted Cash Flow Model (DCF)

Damodaran states DCF valuation is the foundation on which all the other valuation approaches are built. In DCF valuation, the value of an asset is the value of the expected (future) cash flows of the asset, discounted back at a rate that reflects the risk associated with achieving these cash flows (Damodaran, 2012).

The approach has a foundational present value rule, value of any asset is present of its expected future cash flow. Assets with high and predictable cash flows should have greater values than assets with low and unpredictable cash flows. According to DCF, the value of an asset is estimated using the present value of the expected cash flow associated and can be calculated using Equation 1.

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In a DCF, a firm’s free cash flows are normally forecasted for a five-year period, though it can vary amongst sectors and a stage of development.

Given the characteristically difficult nature of accurately forecasting a firm’s financial performance over a lengthy period (due to reasons such as economic cycles), a terminal value is calculated to capture the remaining value of the firm beyond the forecasted five-year period (Pearl and Rosenbaum, 2009) The forecasted free cash flows and the terminal value is discounted using the weighted average cost of capital which reflects the riskiness or the uncertainty of cash flows. The sum of the discounted present value and the terminal value establish an enterprise value which serves as the basis for the DCF valuation.

It must be emphasised that there are limitations associated with DCF valuation, in particular its sensitivity towards assumptions related to perpetual growth rate and discount rate (Pearl and Rosenbaum, 2009). The sensitivity of changes in these assumptions can be measured using a sensitivity analysis.

2.3 Relative Valuation

In contrast to a DCF valuation that looks for an intrinsic value, a relative valuation technique believes the market to be correct. When an asset is valued compared to other assets, its value is determined by standardising the prices of similar assets based on a shared variable, such as revenues, book value, cash flows, or earnings. One method for valuing a company is to utilise the industry-average price-earnings ratio. This strategy is based on the supposition that the market, on average, prices these companies accurately and that the other companies in the industry are comparable to the company being valued. The price-book and other multiples are also widely used. value ratio, with firms selling at a discount on book value relative to comparable firms being considered undervalued. (Damodaran, 2012)

Use of comparable will allow us to cross check how Meta’s value is compared to its peers in the industry. It is crucial to offer a convincing explanation if the derived multiple for the company being valued is significantly higher than that of its competitors. Understanding the underlying variable that drives the ratios is also essential because improper calculations could arise from them. Price/Earnings Ratio (P/E), Enterprise Value/EBITDA (EV/EBITDA), Enterprise Value/EBIT (EV/EBIT), and Price to Book Ratio (P/B) are the multiples that were chosen for this valuation. P/S, or price to sales.

2.4 Data sources

To perform this valuation, information from independent sources were utilised. Further, to support the analysis, historical financial data from annual reports and Bloomberg were used. Independent financial websites and news reports have been used for reference.

3.0 Empirical Analysis

The aim of this section is to perform Various valuation models introduced in Chapter 2 and present the findings. Execution of this will reveal the perceived value of Meta, allowing an investment recommendation to be made.

3.1 Historical Financial Performance

This section includes an empirical analysis of the historical performance of meta platform, it is important to analyse past performance from a valuation standpoint. Historical performance provides a track record of a company’s financial health, operational efficiency. The historical data used was for the period FY2019 to FY2023.

During this period Meta’s revenue grew at a CAGR of 13.80%. Meta has experienced a strong revenue growth for the past couple of years especially during the period of Lockdown in 2020, where the number of daily active users increased. There was a slow in year 2022 down due to combination of various factors such as the competition from TikTok, marketers demand slumped, privacy changes from apple which affected Ad targeting. Inspite of the challenges Meta seems to have recovered, with revenue soaring up to 134,9021 in 2023. The second quarter of 2024 also showed a strong revenue growth of 24.5% year on year. The Stock price peaked a year high of $ 539.91on July 5.

The average Capex as Percentage of the revenue was 20.4% and this figure has been consistently higher than depreciation, indicating expansion of operations. The days sales outstanding has however decreased overtime while the Days payable outstanding has increased overtime, which indicates Meta can collect payments from the client’s quicker and simultaneously delay the payment to its vendors indicating a good control over its short-term liquidity.

Short term liquidity risk surfaces mainly from the need to fund current operations. The current ratio and the quick ratio are frequently used measurements of short-term liquidity risk. Historic data suggests that current ratio for Meta for the past 4 years was above 2. This is a desirable outcome as a current ratio below 1 would indicate Meta has financial obligations outstanding in the following year exceeding the assets it can expect to turn into cash.

3.2 Determining Key Performance Drivers

The first step in performing a DCF is to understand the valued firm and the sector in which it operates, allowing one to identify value creating or destructing determinants. The value drivers have been analysed carefully below including some valuable inputs from analysts and experts. The below statement from Meta suggests their focus areas for the coming years

“*In 2024, we intend to focus on six key investment areas: AI, the metaverse, our discovery engine, monetization of our products and services, regulatory readiness, and enhancing developer efficiency to build, iterate, and optimize products quickly*.”

**1. Reels**

Meta's short-form video platform, which directly competes with TikTok, is expected to continue to drive significant growth in the next phase, this business segment is expected to achieve high growth in the next two years, with its contribution to the overall advertising business expected to significantly increase from about 9% in 2023 to 23% in 2025.

**2. Click to Message Ads**

Analyst from Morgan Stanley predicts that click-to-message ad growth will remain stable in 2024-2025, driven by new advertiser adoption, new ad formats, and AI-based innovation. This business segment is expected to contribute steadily to advertising revenue, accounting for around 10%.

**3. Core business**

Brian Nowak and his team believe that the core drivers of Meta's traditional business will come from increased engagement, Meta’s core business is expected to achieve at least low-to-mid single-digit growth. Meta is very active in both AI modelling and computing power. The company has not only launched multiple open-source models such as LLaMA2 but also announced the construction of its own AGI at the beginning of the year.

**4. Daily Active Users**

There are 3.24 billion on average Daily active people as of March 2024. Meta recognises its majority of revenue from the size of its current active user base, the level of engagement and be determined by their success in adding, retaining, and engaging active users of their products that deliver ad impressions, particularly for Facebook and Instagram. The rise in DAP contributes significantly to this revenue stream by increasing the number of ads delivered.

Mark Shmulik, an analyst at Bernstein, said Instagram had successfully kept existing users on its app through its push into short-form videos, meaning that for “the next batch of potential TikTok users, there’s no incentive to switch”

Meta’s monthly active users rose from 3.3 billion in Q4 2020 to 3.98 billion in Q4 2023, a rate of 5.15% per year. Should this rate stay the same or grow, then Meta could surpass 5 billion monthly active users by 2030.

**5. AI & Machine Learning**

"*In the coming years, AI will be able to generate creative for advertisers as well and will also be able to personalize it as people see it,"* Zuckerberg said.

Meta attracts a diverse range of marketers and advertisers across various industries, leveraging its broad user base and sophisticated advertising capabilities. Some common types of marketers and industry sectors that typically advertise on Meta's platforms.

According to WARC Media forecasts, Meta is expected to earn $155.6bn in 2024, only a few billion short of the $163.0bn forecast to be spent on linear TV advertising worldwide over the same period. At the current trajectory, more ad dollars will be invested with Facebook and Instagram in 2025 than in ads appearing on every single linear TV channel on the planet. 93% of social media marketers use paid Facebook ads. The second most popular social media platform, Instagram, is used by 73% of social media marketers 18 Jul 2024. 64% of social media marketers plan on increasing their Facebook ad activities next year.  (Source: [Social Media Examiner](https://www.socialmediaexaminer.com/new-facebook-advertising-research-for-marketers/)).

**6. RL & Other Revenue**

Reality Labs and Other Revenue have insignificant contribution to revenue for meta, but it is still worth considering given the ambitious efforts Meta has taken over the past years on Augmented Reality and Virtual Reality. RL includes our virtual, augmented, and mixed reality related consumer hardware, software, and content. There has been a 27% increase in the revenue from Reality Labs

3.3 Free Cash Flow Projections

Forecast for Revenue were made by considering various growth drivers internal & external factors such as the political and economic climate. which will contribute expansion of Meta’s Revenue. Family of Apps (FOA) and the digital advertising revenue has been significantly analysed to determine the growth rates. Meta Platforms Inc overall is projected to see robust financial growth between 2026 and 2030. Analysts from 24/7 Wall St expect revenue to reach approximately $240 billion by 2030, driven by a compound annual growth rate (CAGR) of 15%. Capital Expenditure and operation Expense are estimated to rise over the years of projection as Meta Plans to Invest in AI Facilities which will create tremendous improvements for Marketers looking to advertise their products using the Meta Ads. The effective taxes are assumed to stay consistent or be close to 15%.

3.3.1 Revenue Growth by Region

Meta products and services are used globally. It is important to analyse the regional trends for Revenue. Here is a detailed analysis and forecast of the revenue growth for each region based on the historical reports.

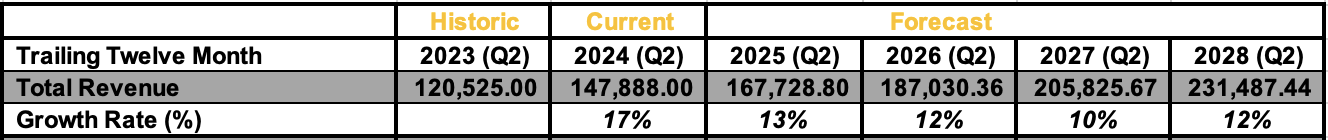
**United States and Canada:** The U.S. and Canada are the largest contributors to Meta's revenue with a stable growth from 2019 to 2023. U.S & Canada has a Strong demand due to its large & mature consumer market, alongside it has a higher monetization rate capitalising on Meta’s sophisticated targeting capabilities. Revenue’s soared 18% compared to Trailing Twelve month Ended on 30th June 2024. US & Canada region is expected to grow at a CAGR and remain the major market.

**Europe:** Revenue increased to $17.6 billion in the Second half of 2024 from $14.3 billion in 2023. The increase in DAP across Europe and the continued integration of advertising on Instagram and WhatsApp are key drivers. Despite regulatory challenges, such as GDPR compliance, Europe remains a crucial market due to its large user base​ Increased adoption of business messaging solutions and collaborations with European businesses have bolstered revenue​. Last month Facebook’s owner, Meta, began offering customers in Europe [ad-free subscriptions](https://www.economist.com/business/2023/02/22/facebook-sells-subscriptions-as-the-ad-business-stumbles) to Facebook and its sister network, Instagram, for €9.99 ($10.85) a month. Europe Due to new regulatory framework for social media could experience a fluctuation in its forecasted revenue. It is expected a CAGR of 6.91%.

**Asia-Pacific**: The Asia-Pacific region reported revenue of $21.3 billion in the second half of 2024, compared to $15.8 billion in the same period of 2023​.Asian market has demonstrated a Strong user growth in populous countries especially India and Indonesia. Expansion of domestic internet services in India and usage of smartphone contributed to higher user engagement presented monetization opportunities​ for meta. The advancement of localized content creation and advertising solutions that cater to regional languages and cultures enhances user experience and engagement​.APAC has experienced the highest growth rate among all regions, showing significant annual increases. APAC is anticipated to exhibit the most robust growth rates, indicating strong expansion at a CAGR of 8.36%.

**Rest of World (Africa, Latin America, and Middle East):** Revenue for the Rest of World category increased to $8.4 billion in the second half of 2024 from $6.7 billion in 2023​. Investment in local advertising solutions and partnerships with regional businesses help increase market penetration​ despite economic volatility in some countries, the young and tech-savvy populations in these regions present significant opportunities for growth​. Overall, Meta's revenue growth across regions is driven by a combination of expanding user bases, enhanced advertising solutions, strategic regional partnerships, and advancements in ad targeting. The company's focus on localization and adapting to regional market conditions further strengthens its growth prospects globally, this region has seen a high growth rate, with revenue consistently rising each year at a CAGR of 8.69%.

Table 3: Revenue Forecast (Meta,2024)



3.3.2 Cost of Revenue

Meta platforms cost of revenue consists of all expenses associated with its delivery and distribution of products. These primarily includes expenses related to the data centres operations and technical infrastructure. Cost of revenue also includes RL inventory costs, which includes cost of goods sold contractual commitments and content costs. Since the announcement of a new segment (Reality labs) The combined cost of revenue has seen a steady rise and is expected to surge

The number below are supported after Meta’s CEO growing interest of heavily investing on AI infrastructure. In a sign of future infrastructure demands, Zuckerberg warned that the amount of compute needed to train Llama 4, its next large language model, would “likely be almost 10 times more” than what was used to train the current Llama 3 model and that would continue to grow with future models. Costs of revenue for Meta was assumed to gradually incline as the group established company

Table 4: Cost of revenue forecast for Meta (Meta,2024)

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3.3.3 Operating Expenses

*“Next year 2025 the company would be planning the compute clusters it needs for the next several years. “*

**R&D Expenses** are assumed to grow at a rate of 28~29 % of the total revenue. Which is 3% above the average of R&D expenses from year 2019-2023. Meta Plans to invest heavily on AI & RL technology development, demand for employees such as researchers & developers of new products are likely to go up to reach the desired level of Goals in AI infrastructure.

**Marketing, sales & General administration.** Marketing and sales expenses consist mainly of marketing and promotional expenses as well as payroll and sales support, and customer service. whereas general and administrative expenses consist primarily of legal costs, which include estimated fees, settlements, or other losses in connection with legal fines. The combined expense is assumed to grow at 17% as regulatory framework regarding growing social media concerns. Meta is likely to be involved in more legal and related matters and end up with More Fines for Settlement.

**Net interest Income / expenses:** the Net interest / expense is assumed to be 0.6% of revenue whereas other operating income and expense is 1.8 % of total Revenue.

Table 5: Operating Expense Forecast (Meta,2024)

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3.3.4 TAX

Meta is liable for taxes in the United States as well as in various state and international jurisdictions. The effective tax rate in the future will depend on the relationship between certain factors and income before taxes are accounted for. In the year ending December 31, 2023, the effective tax rate stood at 17.6%. Moving forward, both the effective tax rate and cash tax payments may rise as more jurisdictions implement new tax laws. From FY2020 to FY2023, the average tax rate was calculated at 16.48%. By July 2023, nearly 140 countries had endorsed a framework mandating a minimum tax rate of 15%, among other regulations. For future projections, the tax rate is assumed to be 15%.

Table 6: Tax rate Forecast (Meta,2024)

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3.3.5 Depreciation

The historic depreciation expense for Meta averages at 8% of revenue. However, it is assumed that depreciation will increase to 12 % for the year 2024 and steady to 17% over the course of DCF analysis. Depreciation expense calculation was based on the Average Useful life that is 5 years of assets such as computers, equipment’s, machineries for RL and building.

Table 7: Deprecation forecast (Meta,2024)

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3.3.6 Capital Expenditure

After CEO of Meta Platform’s statement of “I’d rather risk building capacity before it is needed rather than too late,” it is highly anticipated that Meta’s Capital Expenditure is likely to rise in the coming Future. CapEx has been consistently higher than depreciation and indicating expansion of operations. The average capex percentage of Revenue was 20.4%. Historical CapEx data was analysed to determine the average growth rate. The growth rate is applied consistently to project the CapeEx for the trailing twelve-month forecast.

Table 8: Capital Expenditure (Meta,2024)

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These Figures are further supported after Meta confirms in its Reports “We anticipate capital expenditures of approximately $25 billion to $37 billion in 2024.”

3.3.7 Working Capital

It's common to refer to working capital as the difference between current liabilities and current assets. The term can be slightly changed depending on the valuation's goal. Operating working capital is necessary for the DCF. According to Goodhart, Koller, and Wessels (2010), operating working capital does not include any non-operating elements like excess cash or dividends payable.

One current obligation, trade account payables, was subtracted from one specific current asset, trade receivables, to construct a working capital schedule. Over the course of the prediction period, the historical numbers were averaged and flat lined. There is an increase in working capital from year 2019 to 2023 but Meta saw a dip in net working capital in 2022 but there was a Recovery in the year 2023 similarly, Change in Net working capital was Negative for 2 years consistently but saw a recovery in 2023. Calculation of Days sales outstanding (DSO) & Days payable outstanding (DPO) for the current year were made to forecast trade accounts receivables and trade accounts payable.

Equation 2: Days sales outstanding

A close-up of a sign

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The DSO has Reduced to from 49 to 44 days, it is an improvement for Meta as on an average it takes lesser days to collect payment after a sale. To forecast the trade account receivable the DSO has been assumed to be 43.

Equation 3: Days Payable Outstanding

**A close up of a sign

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Whereas DPO has Increased from 64 to 80 days which is a good sign. As Meta takes about 80 days on average to pay its suppliers. To calculate the Days Payable the DPO is on average of 85 days for the forecasted years and will vary between 80 to 87

Table 9: Capital Expenditure (Meta,2024)

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Overall, Meta shows an improvement in its working capital Schedule. Improvement in collecting cash from clients and is flexible to return the payments to its suppliers thus they use working capital more effectively.

3.4 Weighted Average Cost of Capital (WACC)

WACC is a widely accepted method used as a discount rate to calculate the present value of a firms forecasted free cash flow and its terminal value. Cost of capital is an average of the cost of equity, estimated as just described, and the after-tax cost of borrowing, based on default risk, and weighting by the proportions used of each. We argue that the weights risk, and weighting by the proportions used to each. We argue that the weights used, when valuing an ongoing business, should be based on the market values of debt equity.

Equation 4: Weighted Average Cost of Capital

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3.4.1 Cost of Debt

Cost of Debt Using default spread and adding it to the long-term Bond Rate. Meta has an Outstanding bond rating of AAA.

TTM EBIT / Interest Expense = Interest Coverage Ratio. Equation: 5

Cost Of Debt = Long Term Debt Rate + Default Spread Equation: 6

Table 10: Debt Spread (Meta,2024)

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TTM Interest Coverage Ratio = 96.87, Estimated Default Spread = 0.59%, Estimated Rating = AAA, Long Term Debt rate = 3.88%

Table 11: Cost Of Capital (Meta,2024)

A close-up of a chart

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3.4.2 Cost of Equity

The cost of equity is the rate of return investors require on an equity investment in a firm. The cost of equity is determined by three variables; the risk-free rate of return, the market risk premium and a risk adjustment that echoes Meta’s riskiness relative to the average company (Goedhart, Koller and Wessels, 2010). Cost of equity is commonly calculated using the Capital Asset Pricing Model (CAPM).

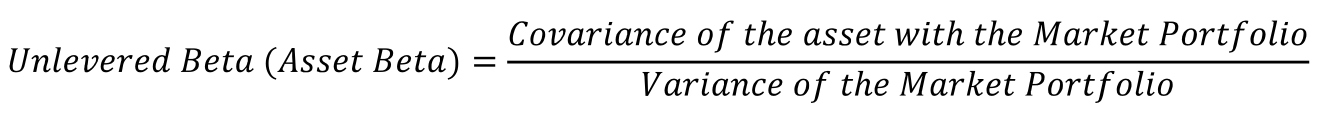
Equation 7: Cost of Equity



**Equity Beta**

Beta is a statistical measure that compares the return of a company’s stock to the overall market’s return (Systematic Risk). Companies with a beta of 1.0 are expected to have the same return as the market, while those with a beta of less than 1.0 are considered to have lower systematic risk than the market, and those with a beta more than one are expected to have higher systematic risk. The market is described as having a beta of 1.0. The NASDAQ 100 market return and Meta's returns were used to compute Meta's beta. Next, the covariance between Meta and the market was calculated. The following equation was used to determine the unlevered (Asset Beta).

Equation 8: Unlevered Beta



The unlevered beta does not consider the leverage consisting of the capital structure of Meta therefore levered beta also called the beta equity was calculated using the below equation.

Equation 9: Levered Beta

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Table 12: Levered Beta Calculation (Meta,2024)

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The levered Beta (equity beta) was calculated as 1.2 8.

**Risk Free Rate**

A Risk-Free Rate is the return that an investor would expect on an investment without bearing any risk. This Is only possible in the case where the issuer of the asset does not have any risk of defaulting. In Meta’s Case it is the US. 10 Year Treasury Bond. Another condition that an asset must fulfil to be termed as risk-free is there being no uncertainty about reinvestment rates thus indicating there are no intermediary cash flows. Also called the US. 10 Year Treasury Yield is 3.94%.

**Equity Risk Premium**

The Notion that risk maters, and the riskier investments should have a higher expected return than safer investment to be considered good investments, is intuitive. (Damodaran, 2012)

In other words, Equity risk premium is the excess return that an investor expects to receive for taking on the higher risk of investing in equities compared to safer investments, such as government bonds. Essentially it is the average return that investing in stock market provides over a risk-free rate. The implied Equity risk premium as on August 1,2024 = 4.06%

Table 13: Weighted Average Cost of Capital (Meta,2024)

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3.5 Terminal Value

The Terminal Value (TV) reflects the potential future growth of a company beyond the explicit forecast period (KPMG, 2015). The TV is calculated by taking the final cash flow predicted for the last year of the anticipated period and applying an expected continuous level of growth to it. This approach to valuing makes the assumption that an asset can increase indefinitely. The formula below can be used to calculate TV.

Equation 10: Terminal Value

A math equations and formulas

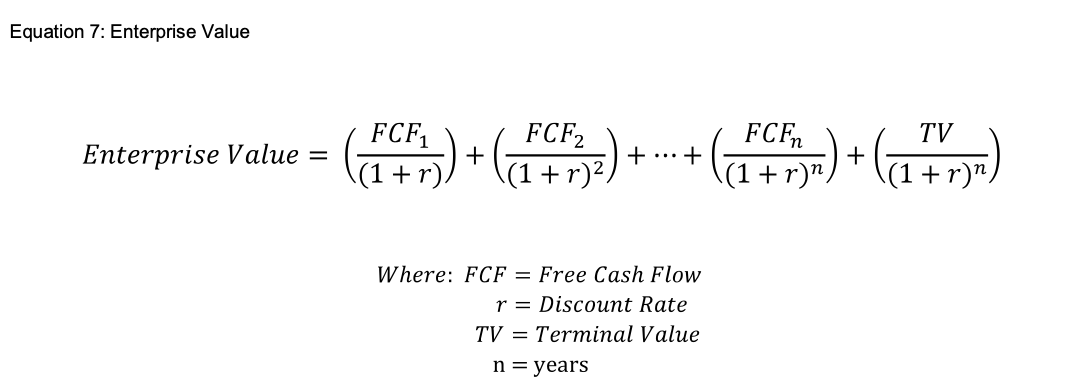
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Meta’s TV was thus computed using the formula. The final free cash flow for Meta is forecasted at 65,648 million, a modest growth rate of 4 per cent was presumed, in line with historical CAGR and WACC was determined as 8.89% per cent resulting in TV for Meta at $ 1,396,197.73.

3.6 Enterprise Value

A firm’s projected free cash flow and terminal value allow for calculation of the enterprise value. The enterprise value of Meta was calculated summing the net present value of the discounted forecasted free cash flows and the discounted terminal value, illustrated in the equation.

Equation 11: Enterprise Value



Meta’s net present value of the discounted future free cash flows in the DCF totalled $189,015 million and the discounted terminal value amounted to $ 912,025 resulting in an enterprise value of 1,101,040 million.

3.7 Equity Value

Determination of the enterprise value allows the implied equity value to be further calculated. While enterprise value embodies the value of the entire company, equity value represents the portion owned by shareholders (Goedhart, Koller and Wessels, 2010).

Equation 12: Equity Value

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Meta Platform has a total Debt of 18,389. Net debt was found by summing long-term borrowings of $ 18,389 million and subtracting the Cash & Cash Equivalents from the TTM report on June 30th ,2024 (Meta, 2024).

Using the calculations, equity value was derived at 1,127,773.49 million

**Equity Value per Share**

Equity value per share can be computed using the formula below.

Equation 13: Equity Value Per Share

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Equity value of million was divided by 2,529 shares (See section 1.2 capital structure) to find an implied share price of 481.88. A 13% overpriced compared to share price $ 504.68 as of 30th june 2024.

3.8 Sensitivity Analysis

**Enterprise sensitivity analysis**

This analysis involves changing the ranges for WACC and growth Rate for the sensitivity analysis. An enterprise value sensitivity analysis illustrates investors to determine how different rates for the WACC and Growth rates affect the enterprise value. The DCF valuation was done using a WACC of 8.53 & growth rate of 4 per cent at which enterprise value is 1,191,931.88 million. If the growth rate was to increase to 4.1 per cent and WACC remained the same enterprise value would increase to 1,216,134.67 million. If WACC increased to 9.53 per cent and growth remained at 4 per cent, enterprise value would decrease to 969,166.81 million.

Table 14: Sensitivity Table for Enterprise value (Meta,2024)

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**Equity Share Price Sensitivity Analysis**

Figure 6 demonstrates how changes in WACC and growth rates will impact equity share price. The DCF valuation was done using a WACC of 8.53% & growth rate of 4 per cent at which implied equity share price was $ 481.88 per share. If WACC was to Increase to 9.53 per cent and growth was to decrease to 3.9 per cent, the sensitivity analysis shows that implied equity share price would fall to$ 387.99. If WACC was to decrease to 7.53 per cent and growth was to increase 4.1 per cent, implied equity share price would increase to 636.74 per share.

Table 15: Sensitivity Table for implied share Price (Meta,2024)

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3.9 Relative Valuation

Relative valuation is used to objectively value asset based on the how similar Meta currently is priced in the market. Relative Valuation more likely reflects the current mood of the market, since it is an attempt to measure relative and not intrinsic value. (Damodaran, 2012)

Although Meta has its own monopoly when it comes to the social media Platform, but it can be compared to some of its peers if we value it as a software company which provides an entertainment services or companies whose majority earning’s come from digital advertising on their platforms. Some of the key competitive peer identified were Tik Tok, LinkedIn, Alphabet, Snapchat and so on. Some of the multiples used to carry out this valuation were PE multiple, EV/EBITDA, EV/EBIT, EV/REV.

Table 16: Relative Valuation Table (Meta,2024)

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All the valuation multiples for each company are based on current period. Accounting standards between few firms or countries are different so there is a possibility of a slight variation from the actual numbers, but reliable sources were used to determine the actual multiples for the companies.

**P/E ratio**

P/E ratio is a valuation multiple that compares a company’s market capitalization to its net income. It indicates the dollar amount an investor can expect to invest in a company to receive $1 of that company’s earning’s. P/ E Multiple was calculated as 26, which is 33% lesser compared to the average of the peer companies.

**EV/EBITDA**

The EV/EBITDA multiple does not consider the impact of different capital structures across companies and therefore is perceived as a primary reference for valuations (KPMG, 2015). The EV/EBITDA multiple for Meta was 18. The Average was 15.8 This means Meta is Overvalued by 12 per cent.

**EV/EBIT**

ratio is a valuation multiple that compares the value of a company, debt included, to the company’s earnings before interest and taxes (EBIT). Considered one of the most frequently used multiples for comparisons among companies, the EV/EBIT multiple relies on operating income as the core driver of valuation. The EV/EBIT multiple for Meta was 18.5, whereas the average for all the companies was 34.6. Which suggests that Meta is undervalued by 46.5.

**P/B**

Price to Book Ratio measures the market’s valuation of a company relative to its book value. Meta is a capital-Intensive Company; Meta is expected to raise CapEx to $ 37~40 billion reflecting its Investment’s in AI. It is worth understanding the book value of the asset’s Owned by Meta in comparison to Asset’s market value. P/B ratio for meta was 8.5. The average for the companies was 4.6. Meta seems to be overvalued in the market. As the ratio suggests Market has overvalue Meta’s asset than its actual book value.

**P/S**

Price to sales Ratio is a multiple that compares a Company’s Market Capitalization to its revenue. Indicates the value that financial markets have placed on each dollar of a company’s sales. P/S ratio for Meta is 8.9, the Average for the companies is 4.96. The P/S Ratio suggests that the Market price paid for meta is higher for the revenue generated by Meta per /Dollar.

4.0 Conclusion

This thesis focused on conducting an equity valuation of the social media company, Meta Platform. The valuation was carried out using both intrinsic and extrinsic methods—specifically, the discounted cash flow (DCF) model and relative valuation comparable.

The primary value drivers for Meta were identified as increasing demand from the Asia Pacific region, particularly China, online sales, and millennial consumers. After identifying these drivers, forecasts were made, and the DCF model was developed.

The DCF analysis determined that Meta has an enterprise value of $1,191,931 million, an equity value of $1,218,664 million, and an implied share price of $481.88, which is overvalued by 4.7% compared to Meta's share price as of June 30, 2024.

The analysis suggests that Meta is trading above its fundamental value based on the calculated implied share price. Considering this valuation and research from global analysts, Meta's 12-month price target falls within a certain range.

A sensitivity analysis was conducted to assess how changes in key assumptions, such as the growth rate and WACC, would impact Meta's enterprise value and equity value per share. The sensitivity analysis highlighted the influence of these factors on the valuation outcomes.

Subsequently, a relative valuation was performed using P/E, EV/EBIT, EV/EBITDA, and EV/REV multiples, indicating that Meta is undervalued compared to its competitors, which supports the findings of the DCF analysis.

Based on the results from both the DCF and relative valuation approaches, the report concluded with an investment recommendation of **sell**.

5.0 References

*Contents Cover Series Title Page Copyright Dedication Preface to the Third Edition Chapter 1: Introduction to Valuation A PHILOSOPHICAL BASIS FOR VALUATION GENERALITIES ABOUT VALUATION THE ROLE OF VALUATION CONCLUSION QUESTIONS AND SHORT PROBLEMS Chapter 2: Approaches to Valuation DISCOUNTED CASH FLOW VALUATION RELATIVE VALUATION CONTINGENT CLAIM VALUATION CONCLUSION QUESTIONS AND SHORT PROBLEMS Chapter 3: Understanding Financial Statements THE BASIC ACCOUNTING STATEMENTS ASSET MEASUREMENT AND VALUATION MEASURING FINANCING MIX. (n.d.). Available at:* [*https://suhaconsulting.com/wp-content/uploads/2018/09/investment-valuation-3rd-edition.pdf*](https://suhaconsulting.com/wp-content/uploads/2018/09/investment-valuation-3rd-edition.pdf)*.*

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6.0 Appendices

Figure: Digital Advertising Industry (source: *quartr.com)*

*See reference*

A graph of sales and marketing

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Figure 2: Social Media Marketer Using Paid Ads for Different Apps (source: Social *Media Examiner).*

A screenshot of a social media ad

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