META PLATFORMS INC

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; to comment on others' posts; to share photographs, website links, and videos; to message; and to play 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.

Analyst's Notes

Analysis by Joseph Bonner, CFA, May 2, 2025

ARGUS RATING: BUY

- Remarkable growth at scale
- The company reported that EPS rose 36% on 16% revenue growth in 1Q25 as Meta demonstrated exceptional margin expansion.
- Meta is benefiting from solid advertising revenue, improved profitability, and robust cash flow, though investments in infrastructure are indeed spiking in 2025 as management had previously warned.
- Meta is looking to GenAI to underpin several opportunities from enhanced targeted advertising to its Ray-Ban AI glasses.
- We are maintaining our 2025 GAAP EPS estimate at $25.95 and our 2026 forecast at $29.41.

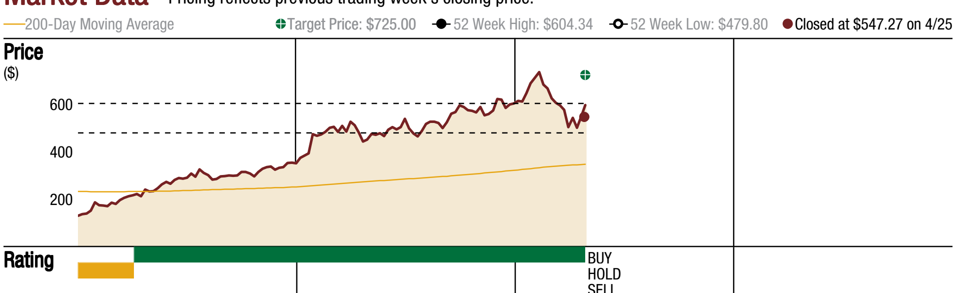
INVESTMENT THESIS

We are maintaining our BUY rating on Focus List selection Meta Platforms Inc. (NGS: META) to a target price of $725. As is the case with most companies, Meta has a variety of both opportunities and risks. Its user growth at scale is certainly striking as both monetization and engagement appear to chugging along. The company's ability to capitalize on GenAI advances in advertising targeting is a particularly relevant opportunity to drive advertising spending, which is the company's lifeblood. On the risk side of the ledger, the new U.S. tariff regime, in particular the extinguishment of the de minimis import exemption is being reflected in lower advertising spend by Chinese retailers. Further, the company is in the midst of an antitrust trial brought by the U.S. Federal Trade Commission and with a highly uncertain outcome. New Chinese competitor DeepSeek adds even more uncertainty into the mix.

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.

Market Data

Pricing reflects previous trading week's closing price.



EPS ($)

	2023 Q1	Q2	Q3	Q4	2024 Q1	Q2	Q3	Q4	2025 Q1	Q2	Q3	Q4	2026 Q1	Q2	Q3	Q4
Quarterly	2.20	2.98	4.39	5.33	4.71	5.16	6.03	8.02	6.43	5.68	6.02	7.83	6.85	6.55	7.12	8.91
Annual	14.87				23.86				25.95 (Estimate)				29.41 (Estimate)			

Revenue ($ in Bil.)

	2023 Q1	Q2	Q3	Q4	2024 Q1	Q2	Q3	Q4	2025 Q1	Q2	Q3	Q4	2026 Q1	Q2	Q3	Q4
Quarterly	28.6	32.0	34.1	40.1	36.5	39.1	40.6	48.4	42.3	45.3	46.3	54.8	46.8	50.0	52.5	59.9
Annual	134.9				164.5				188.7 (Estimate)				209.2 (Estimate)			

FY ends Dec 31

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: 73% Buy, 26% 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	$597.02
Target Price	$725.00
52 Week Price Range	$432.28 to $740.91
Shares Outstanding	2.17 Billion
Dividend	$2.10

Sector Overview

Sector	Communication Services
Sector Rating	MARKET WEIGHT
Total % of S&P 500 Market Cap.	9.20%

Financial Strength

Financial Strength Rating	HIGH
Debt/Capital Ratio	21.4%
Return on Equity	35.4%
Net Margin	39.1%
Payout Ratio	0.08
Current Ratio	2.98
Revenue	$170.36 Billion
After-Tax Income	$66.64 Billion

Valuation

Current FY P/E	23.01
Prior FY P/E	25.02
Price/Sales	7.61
Price/Book	8.14
Book Value/Share	$73.34
Market Capitalization	$1.30 Trillion

Forecasted Growth

1 Year EPS Growth Forecast	8.76%
5 Year EPS Growth Forecast	16.00%
1 Year Dividend Growth Forecast	5.00%

Risk

Beta	1.19
Institutional Ownership	77.80%

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Analyst's Notes ...Continued

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 arguably self-inflicted wounds, and Reels, a TikTok competitor. We 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 1Q25 results after the close on April 30. The company beat the consensus revenue estimate by $939 million and the consensus EPS forecast by $1.18. Revenue also beat the high end of management's guidance range by $514 million. The truly impressive thing about Meta's 1Q results is the company's continued growth at scale. On a user base of 3.35 billion, the company added another 80 million users in 1Q25, its best user growth since 1Q21, as evidenced by its Family Daily Active People metric. While other metrics including average price per ad growth are chugging along just fine, if unimpressive, Meta's user growth at this scale is unexpected.

Meta again raised its 2025 capex guidance to $64-$72 billion, up from previous guidance of $60-$65 billion and implying 82.5% increase or an incremental spend of about $31 billion at the midpoint of the new range. The company continues to make additional data center investments to support its core business and we expect generative AI opportunities. At the same time, Meta lowered its 2025 total cost guidance by $1 billion, still an increase of more than 70% from 2024.

Revenue rose 16% from the prior year, to $42.3 billion. Negative foreign-exchange movements shaved three points from revenue growth. Advertising revenues, the company's primary revenue stream, also rose 16%, to $41.4 billion. Both total revenue and advertising revenue decelerated year over year from 27% in 1Q24. The average price per ad increased 10%, while the more important ad impressions number increased 5%. 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, i.e. Asia Pacific region growth.

Meta's 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 GenAI/metaverse business. Family of Apps revenue rose 16% in 1Q, while FRL reported an inconsequential $510 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.

Growth & Valuation Analysis

GROWTH ANALYSIS

($ in Millions, except per share data)	2020	2021	2022	2023	2024
Revenue	85,965	117,929	116,609	134,902	164,501
COGS	16,692	22,649	25,249	25,959	30,161
Gross Profit	69,273	95,280	91,360	108,943	134,340
SG&A	18,155	23,872	27,078	23,709	21,087
R&D	18,447	24,655	35,338	38,483	43,873
Operating Income	32,671	46,753	28,944	46,751	69,380
Interest Expense	-638	-671	44	-1,043	-1,973
Pretax Income	33,180	47,284	28,819	47,428	70,663
Income Taxes	4,034	7,914	5,619	8,330	8,303
Tax Rate (%)	12	17	19	18	12
Net Income	29,146	39,370	23,200	39,098	62,360
Diluted Shares Outstanding	2,888	2,859	2,702	2,629	2,614
EPS	10.09	13.77	8.59	14.87	23.86
Dividend	—	—	—	—	2.00
GROWTH RATES (%)					
Revenue	21.6	37.4	-1.2	15.6	21.6
Operating Income	12.7	43.1	-38.1	61.5	48.4
Net Income	57.7	35.1	-41.1	68.5	59.5
EPS	56.9	36.5	-37.6	73.1	60.5
Dividend	—	—	—	—	—
Sustainable Growth Rate	23.9	32.1	22.4	22.3	33.6
VALUATION ANALYSIS					
Price: High	$304.67	$384.33	$343.09	$361.90	$638.40
Price: Low	$137.10	$244.61	$88.09	$122.28	$340.01
Price/Sales: High-Low	10.2 - 4.6	9.3 - 5.9	7.9 - 2.0	7.1 - 2.4	10.1 - 5.4
P/E: High-Low	30.2 - 13.6	27.9 - 17.8	39.9 - 10.3	24.3 - 8.2	26.8 - 14.3
Price/Cash Flow: High-Low	26.0 - 11.7	20.7 - 13.2	17.4 - 4.5	14.4 - 4.9	20.2 - 10.8

Financial & Risk Analysis

FINANCIAL STRENGTH	2022	2023	2024
Cash ($ in Millions)	14,681	41,862	43,889
Working Capital ($ in Millions)	32,523	53,405	66,449
Current Ratio	2.20	2.67	2.98
LT Debt/Equity Ratio (%)	20.1	23.2	25.8
Total Debt/Equity Ratio (%)	21.2	24.3	26.9
RATIOS (%)			
Gross Profit Margin	78.3	80.8	81.7
Operating Margin	24.8	34.7	42.2
Net Margin	19.9	29.0	37.9
Return On Assets	13.2	18.8	24.7
Return On Equity	18.5	28.0	37.1
RISK ANALYSIS			
Cash Cycle (days)	—	—	—
Cash Flow/Cap Ex	1.6	2.6	2.5
Oper. Income/Int. Exp. (ratio)	156.8	107.3	99.8
Payout Ratio			

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Analyst's Notes ...Continued

Family of Apps operating income rose 23% to $21.8 billion in 1Q, while the FRL operating loss was $4.2 billion. The cumulative loss on FRL is now $64 billion. These losses might be expected from a startup business; however, the average recent operating loss of around $4-5 billion per quarter is a tough load for Meta to carry. First-quarter consolidated income from operations increased 27% to $17.6 billion, while the operating margin expanded by four percentage points to 42%; the expansion was partly attributable to reduced legal costs. While Meta has lapped the extraordinary margin expansion from the late 2022/early 2023 layoffs and restructuring, 4Q's margin expansion demonstrates the company's continued operating expense cost leverage and, perhaps, the company's efforts to successfully integrate GenAI applications into its core advertising business. GAAP diluted EPS increased 36% to $6.43.

The European Commission (EC) found Meta in breach of its Digital Markets Act (DMA) on April 22 and fined the company 200 million euros or about $224 million. Meta is required to comply with the EC's ruling within 60 days or face much higher confiscatory fines despite the company appealing the ruling. Meta introduced a new version of its 'free personalized ads model' originally to comply with the DMA, but the EC is now ruling it as unacceptable. The ruling applies to a period of time before Meta introduced a second new version in November 2024 as it scrambled to comply with the DMA; the EC continues to review that new model. According to press reports, the EC has denied a linkage between its regulatory treatment of Meta and other big U.S. Tech firms and ongoing trade tensions with the new U.S. administration. In Meta's 1Q25 forward guidance, management warned that it expects that changes to its model, stemming from the EC's ruling, will have 'a significant impact to our European business and revenue as early as the third quarter of 2025.' With Meta deriving 16% 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.

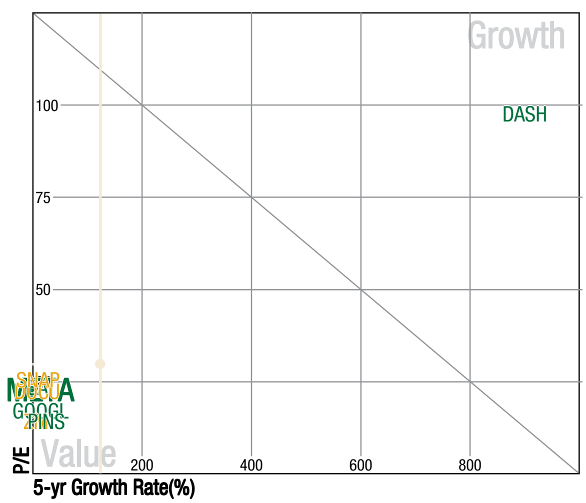
The federal antitrust trial in a case against Meta brought by the U.S. Federal Trade Commission (FTC) commenced on April 14. The FTC's lawsuit alleges that Meta (then Facebook) engaged in anti-competitive conduct through its 2012 acquisition of Instagram and its 2014 acquisition of messaging app WhatsApp, essentially acquiring potential competitors. The FTC asks the court to break up Meta by unwinding the acquisitions.

Meta made moves aimed at lobbying the new U.S. administration to head-off the trial, but to no avail. While the market's anticipation of the trial was probably a negative for META shares, prices actually have moved higher lately. Though we give our usual caveat that litigation is notoriously unpredictable, Meta has a reasonable case in our view and could possibly win at trial. In our opinion, the FTC's argument that the social networking market only encompasses Meta, Snapchat, and a heretofore relatively unknown application called wewe is simply wrong on its face. The current social networking market also

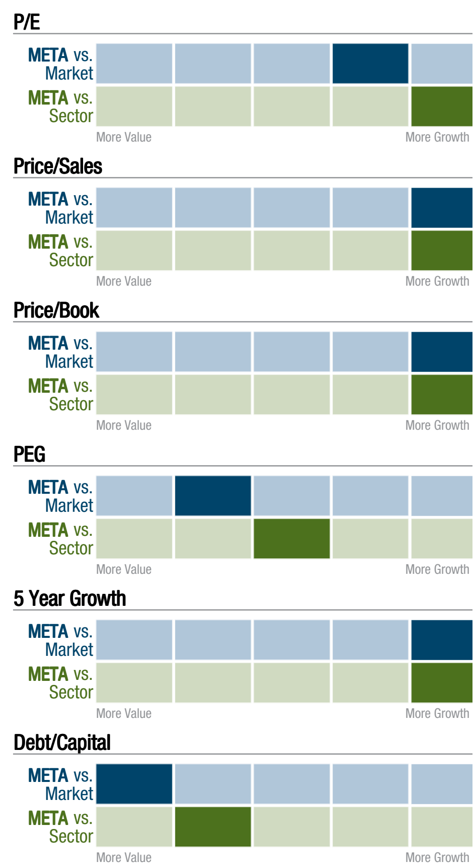
Peer & Industry Analysis

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**	**1,296,219**	**16.0**	**23.0**	**39.1**	**13.3**	**BUY**
GOOGL	Alphabet Inc	954,655	14.0	17.2	30.9	5.2	BUY
DASH	DoorDash Inc	81,765	900.0	97.7	1.1	57.1	BUY
EA	Electronic Arts, Inc.	39,379	9.0	23.6	14.3	20.6	BUY
ZM	Zoom Communications Inc	20,544	6.0	14.4	21.7	1.1	HOLD
DOCU	DocuSign Inc	16,632	8.0	22.5	35.9	8.2	HOLD
PINS	Pinterest Inc	15,953	25.0	14.3	51.1	19.7	BUY
SNAP	Snap Inc	11,974	10.0	25.6	-9.6	36.4	HOLD
Peer Average		**304,640**	**123.5**	**29.8**	**23.0**	**20.2**	



Analyst's Notes ...Continued

includes the virally popular TikTok and other stalwarts including Google/YouTube, X (Twitter), Reddit, Linkedin, and a host of smaller niche applications like Discord. We think an adverse ruling the in the case would be a negative for the META shares. While a break up would also be a clear negative, a less-draconian fine and/or consent decree outlining certain behavioral strictures would probably be acceptable for Meta. In the event of a loss by Meta, we expect the company to appeal.

Meta held is first-ever GenAI developer conference, called LlamaCon (named after the company's GenAI model), on April 29. Management made a couple of big announcements, including a standalone Meta AI application and a Llama API platform that enables developers to write code and build applications on top of the Llama model. Meta also noted a new data point that its Llama models have had 1.2 billion downloads to date. While that seems like big number, the industry view remains that Meta continues to trail leader ChatGPT and perhaps other GenAI frontier model builders. CEO Mark Zuckerberg again made clear Meta's commitment to building its own GenAI frontier models. One key differentiator that we see as a uniquely valuable asset for Meta in the GenAI race is the amount and specificity of user data the company retains on over 3 plus billion users.

In April, Meta introduced another set of restrictions for Instagram teenage user accounts. This new set expands on restrictions that were put in place in September, 2024. Those September restrictions included automatically placing teenagers into 'teen accounts' and prohibiting teenagers under 16 from changing any settings without parental consent. The new set prohibits teenagers from transmitting live on Instagram or turning off the feature that blurs images suspected of containing nudity in direct messages without parental consent. The new restrictions also extend 'teen accounts' to both the Facebook and Messenger applications. Meta has come under a raft of criticism from industry observers, government officials, and the press around its alleged pernicious effect on teenagers, including negative self-image, usage time, and other deleterious issues. This new identity technology will be in beta in the U.S. in early 2026.

EARNINGS & GROWTH ANALYSIS

We are maintaining our 2025 GAAP EPS estimate at $25.95 and our 2026 forecast at $29.41. Our EPS estimates imply 11% growth over the next two years. While Meta certainly outperformed in 1Q, which might warrant raising our estimates, we are keeping our estimates conservatively level given the currently unsettled business environment and the risk to Meta's advertising business from such an environment. Our long-term earnings growth rate forecast is 16%.

Meta's advertising revenue, its primary revenue stream, slowed to 16% growth in 1Q25 from 27% in 2023, though, as noted above, total revenue still outperformed guidance and consensus. Meta did see weakness in gaming and politics in 1Q25 as it also lapped a strong spend by China-based advertisers in 1Q24. The $1 billion downward revision of its 2025 total cost guidance continues to demonstrate the returns on its large infrastructure investments. Those investments are driving efficiency and enabling greater advertising personalization, which leads to greater ad value.

On the quarterly call, CEO Zuckerberg almost crowed that GenAI improvements to ad-targeting systems mean that Meta can now target audiences with the right creative ad content better than the advertisers themselves. Mr. Zuckerberg laid out 'five major opportunities' for Meta, including the aforementioned improved advertising, more engaging experiences, business engagement, business messaging, the Meta AI application, and AI devices. Mr. Zuckerberg expects GenAI advances to underpin all of these opportunities. GenAI is expected to enable better, more-personalized content recommendations as well as content creation that drives engagement. GenAI business agents are to power customer support and sales on both the WhatsApp and Messenger message applications. The Meta AI application likely will proliferate across Meta's social media platforms. Finally, AI devices are finding their initial form factor in the company's Ray-Ban Mea AI Glasses, which have tripled in sales over the last year, albeit from what we think is a small base.

User growth and monetization remain key performance indicators for Meta. Family average revenue per person was $12.36, up 10% from the prior year. The company's user base, called Family Daily Active People, rose 6% year over year to 3.43 billion in 1Q25. 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's original rationale for the breakout of Facebook Reality Labs was to provide investors with visibility into what it views as the metaverse, its next-generation social media communications platform. However, FRL now also houses much of the company's GenAI infrastructure. Mr. Zuckerberg arguably has had a fixation on virtual/augmented reality as the next technology platform even before Meta acquired Oculus VR in 2014. Although the metaverse virtual reality idea has somewhat receded in favor of GenAI, the company's introduction of smart Ray Ban glasses in 2024 was a hit with consumers and may become the driver of GenAI advancement into a wearable form factor. Mr. Zuckerberg noted that 2025 will be the defining year for whether smart glasses will break out into the mainstream or whether expansion will be a 'longer grind.'

In an Instagram post on January 7, Mr. Zuckerberg announced several changes to the company's content moderation policies in the name of expanding freedom of speech. In the U.S. only, for now, Meta intends to replace its fact checker content moderation system with a 'Community Notes' system, whereby users must report moderation policy violations before Meta takes any action to restrict content. Mr. Zuckerberg made explicit that the new 'Community Notes' system will be similar to the type of moderation used by Elon Musk's social media site X (formerly Twitter). Meta will remove restrictions on hot button topics like immigration and gender and change its content filters to focus on higher-level illegal and high-severity violations. Meta will also bring back political content that it has deemphasized for years.

While content moderation is inherently political, as it involves the issue of freedom of speech, we continue to look at this through the lens of an investor rather than from any political bias. We believe that Mr. Zuckerberg has a history of views closer to free-speech absolutism, though content moderation policies and fact checking at Meta grew substantially after the 2016 U.S. presidential election and the media narratives around the impact of foreign-influenced posts on social media, particularly Facebook. The question for us in this space is how these policy changes may impact Meta's social media businesses, the core driver of its

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Analyst's Notes ...Continued

revenue and profit. It seems highly questionable that copying the policies of X will be a positive for Meta. X, though private, has been often described as a struggling business, with advertisers fleeing the platform since its acquisition by Elon Musk. We do not imagine Meta's advertiser community relishes the prospect of having their advertising appearing next to conspiracy, untoward, sexual or other negative content. The next question is how popular the new policies may be with the user base. Will it attract new users, drive away current users or have no impact at all? We view this as an open question.

FINANCIAL STRENGTH & DIVIDEND

We rate Meta's financial strength as High, the top rating on our five-point scale. Total debt at the end of 2024 was $28.8 billion, all of it long term. The company raised an incremental $10.5 billion in debt in August 2024. Meta also had cash, equivalents, and marketable securities of $70.2 billion at the end of 1Q25, putting it in the rare and enviable position of being able to liquidate all of its debt any time it chooses. It generated $49.9 billion in trailing 12-month free cash in 1Q25, up 3% from 1Q24. Meta's debt gets high-grade investment-grade ratings with stable outlooks.

On February 13, Meta increased its quarterly cash dividend by 5% to $0.525 or $2.10 on an annual basis. The indicated yield is about 0.4%. In accordance with the recent increase, we raised our 2025 dividend estimate to $2.10 and our 2026 forecast to $2.21.

Meta repurchased $13.1 billion of its Class A stock in 1Q25 after buying back $30.125 billion in 2024, $19.8 billion in 2023 and $27.9 billion in 2022. The share count declined by 1.3% or 35 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; and the misuse of members' private information, among other risks. We say 'extreme regulatory backlash' above as Meta is not only being charged with huge fines for alleged transgressions, but faces a possible 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 are an existential threat to Meta. 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 and DMA are aimed at regulating practices around content moderation/disinformation and user privacy, among other issues, and Meta will be required to undergo outside audits of its practices and share algorithmic data with EU regulators. The European Commission ruled that Meta violated the DMA in April of 2025. Penalties for noncompliance to the new law are severe.

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 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 the most lucrative for Meta. 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 and niche 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, where it is currently banned. Government regulation and the possible censorship of site content could also become much more 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 National Security Agency (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 firms, Meta is identified with its founder, chairman, and CEO Mark Zuckerberg, and his possible loss would undoubtedly be a major blow to the company.

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Analyst's Notes ...Continued

On January 6, Meta announced that it had added three new directors to its board: Dana White, John Elkann, and Charlie Songhurst. Mr. Elkann and Mr. Songhurst are an industry leader and a tech investor, respectively, and therefore are what one would expect in this role. Mr. White, in addition to his position as CEO of sports media business UFC, is a close personal friend of President Trump. Also in early January, Meta replaced its global affairs chief Nick Clegg with Joel Kaplan. Mr. Kaplan has served as Meta's point of contact with Republican law makers since 2011. Meta also donated $1 million to the presidential inaugural committee. While some may decry these moves as genuflecting to the new administration, Meta faces serious antitrust and regulatory issues and we objectively note that currying favor with regulators is in the company's business interest.

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; to comment on others' posts; to share photographs, website links, and videos; to message; and to play 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.

VALUATION

META shares are up 25.5% in the last year on a total-return basis, compared to a 12.5% gain for the S&P 500, a 7% gain for the S&P Interactive Media & Services Industry Index, and a 28% gain for the NYSE Fang+ Index. The META shares were hit hard earlier this year by the launch of the Chinese DeepSeek GenAI model, which put into question Meta's (and others) huge planned investments in GenAI frontier models combined with the onset of a federal trial on antitrust charges. However META shares are recovering off the bottom and have been aided by continued strong results. The forward EV/EBITDA multiple of 13.7 is 8% below the peer average, though still above the two-year historical average discount of 19%. We are maintaining our BUY rating on Meta to a target price to $725.

On May 2, BUY-rated META closed at $597.02, up $24.81.

Please see important information about this report on page 7

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.

Argus Research Disclaimer

Morningstar Disclaimer

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